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From:	The Social Protection Committee
To:	Permanent Representatives Committee/Council
Subject:	The 2024 Pension Adequacy Report: current and future income adequacy in old age in the EU - *Country profiles*

Delegations will find attached the Country profiles (Volume II) of the 2024 Pension Adequacy Report as finalised by the Social Protection Committee on 16 May 2024, with a view to the EPSCO Council on 20 June 2024.

The key conclusions which are drawn from this Report are contained in doc. 10251/24.

The 2024 Pension Adequacy Report: current and future income adequacy in old age in the EU

Country profiles - Volume II

Joint Report prepared by the Social Protection Committee (SPC)
and the European Commission (DG EMPL)

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Social Protection Committee

The 2024 Pension Adequacy Report: current and future income adequacy in old age in the EU

Country profiles

Volume II

Joint Report prepared by the Social Protection Committee (SPC) and the European Commission (DG EMPL)

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AUSTRIA

Highlights

- According to indicators on the average relative income of people aged 65+, the Austrian statutory pension scheme provides rather generous benefits from an international comparative point of view.
- However, the Austrian statutory pension scheme faces enduring challenges of substantial income inequality. People with interrupted careers and low work income will face an even higher risk of receiving low pensions in the future.
- A series of one-off measures were taken in response to the COVID-19 crisis and to the recent inflation and energy price spike, which, however, did not address the problem of income inequality within public pensions in a comprehensive and structural manner.
- There has been no comprehensive political debate on the distributional impact of pensions over recent years, and no attempts have been made at structural reform dealing with this issue.

1 GENERAL DESCRIPTION OF THE NATIONAL PENSION SYSTEM

By far the most important source of retirement income in Austria is the statutory pension scheme (*Gesetzliche Pensionsversicherung*). It provides statutory pay-as-you-go (PAYG) old-age pensions, survivor pensions, and invalidity pensions. The statutory pension system covers, in principle, all people in gainful employment[1] (including most categories of self-employed people[2]), except for some civil servants, who have traditionally been covered by their own systems[3]. It is at first instance financed by insurance contributions, which however only have to be paid on earned income up to a specific ceiling – the maximum contributions basis (*Höchstbeitragsgrundlage*), which in 2023 amounted to monthly gross earnings of EUR 5,850.

The Austrian statutory pension system is a defined-benefit scheme. To be eligible for a statutory old-age pension benefit, the minimum insurance period according to the General Pensions Act (*Allgemeines Pensionsgesetz*) is 180 insurance months. Of these, at least 84 must have been based on employment. The remaining months can come from other insured periods, such as unemployment, sick leave, military service, or child-rearing.

[1] Employees with wages below the marginal earnings threshold (*Geringfügigkeitsgrenze*) (in 2023, EUR 500.91 per month gross) may opt in to the old-age insurance scheme on a voluntary basis.
[2] Civil law notaries and lawyers have their own professional pension schemes and are not covered by the general statutory pension scheme.
[3] However, under the Act on the Harmonisation of Austrian Pension Systems, which took effect on 1 January 2005, uniform pension laws were envisaged for all gainfully employed people, including federal civil servants. Civil servants of the federal provinces (*Bundesländer*) have different regulations.

The formula for the calculation of benefits underwent substantial reforms in the early 2000s, however, and is subject to several different transitional arrangements[4]. From a mid-term perspective, the effect will be a largely linear benefit formula, whereby the contribution base on which the replacement rate is applied is expanded from the best 15 years (180 months) with the highest earnings to lifetime earnings. Apart from that, the accrual rate was reduced from 2 % to 1.78 % per year.

The Austrian statutory pension system does not provide an unconditional minimum pension. However, the equalisation supplement (*Ausgleichszulage*) may apply to people who are, in principle, eligible for a pension entitlement. This means that pensions at low levels may be raised to the equalisation supplement reference rate[5] (ESRR – *Ausgleichszulagenrichtsatz*) in cases of financial indigence[6]. In the case of long insurance records, the equalisation supplement may be granted at a higher rate due to a ‘bonus’, which became effective from 1 January 2020[7].

As a basic principle, pensions in Austria are supposed to be indexed yearly according to price inflation. However, price indexation often gets modified during the decision-making process by related legislative decisions (see Section 2).

The pensionable age is currently 65 for men and 60 for women. The latter will be gradually raised from 2024, also reaching 65 in 2033. For recipients of regular old-age pensions (i.e. who have reached pensionable age), it is possible to combine a pension and earned income from work without a reduction of the pension benefit. On the other hand, by not claiming a pension and working beyond the pensionable age, it is possible to increase the pension benefit further. For every year of further employment, the replacement rate increases by 1.78 percentage points (pp), and only 50 % of the usual insurance contributions have to be paid (although they are taken into account at the usual level within the pension account). Furthermore, a pension bonus is granted, increasing the pension originally calculated at pensionable age by 4.2 % per year of ongoing employment (up to a maximum of 12.6 %).

Different schemes of early retirement exist in Austria.

Within the ‘pension in case of long-term insurance’ (*Langzeitversichertenpension*) scheme, men can retire at 62 if they have 540 insurance months (45 insurance years). For every year of early retirement, a deduction of 4.2 % applies. For women, this form of early retirement is

[4] For a more detailed assessment see e.g. Knell, M. et al. (2006), ‘The Austrian pension system – how recent reforms have changed fiscal sustainability and pension benefits', in: Austrian National Bank, *Monetary Policy & the Economy Q2/06*, pp. 69-93; Wöss, J. (2020), ‘Das österreichische Pensionssystem’, in: Blank, F., Hofmann, M. and Buntenbach, A. (eds), *Neustart in der Rentenpolitik*, Baden-Baden: Nomos, pp. 235-257.

[5] In 2023 the gross ESRR for a single person amounted to EUR 1,110.65 per month, and for a couple to EUR 1,751.56 per month. When calculating the monthly net benefit in pensions according to the ESRR, it has to be taken into account that pensions are granted 14 times per year and that gross pensions are subject to insurance contributions for health insurance amounting to 5.1 %. When calculating the net minimum pension according to a monthly average (12 months per year), this results in a minimum net benefit of EUR 1229.24 for a single person, and EUR 1,939.27 for a couple. For every dependent child in the household the ESRR is increased by a net EUR 189.67 (12 months per year).

[6] Older people who have no pension rights can apply for minimum income benefits from the social assistance schemes of the federal provinces. Social assistance provides a lower benefit level than the means-tested equalisation supplement of the pension system and means-testing against income and also assets take place.

[7] The gross monthly ESRR (granted 14 times per year) currently (2023) gets increased to EUR 1,208.06 (but by a maximum of EUR 164.37) for single people with an insurance record of at least 30 years, to EUR 1,443.23 (but by a maximum of EUR 419.19) for single people with an insurance record of at least 40 years, and to EUR 1,948.08 (but by a maximum of EUR 418.74) for couples where one person has an insurance record of at least 40 years.

currently irrelevant, because for those born between 1 January 1962 and 31 December 1965 the minimum age for the scheme equals the pensionable age for statutory old-age pensions. Together with the rising pensionable age for statutory old-age pensions (see above), this form of early retirement will become relevant (again) for women as of 2028.

Early retirement in the form of the ‘heavy labour pension’ (*Schwerarbeiterpension*) is specifically targeted at workers in arduous or hazardous jobs. To qualify for this scheme, 540 insurance months (45 insurance years) are normally required, and within the last 20 years there must have been at least 10 years of physically hard work. As the minimum retirement age in this scheme is 60, it will normally only be relevant for women from 2024, when the pensionable age for women will start to rise step-wise (see above). However, women born between 1 January 1959 and 1 January 1964 can retire at 55 in this scheme if they have a minimum of 40 insurance years (480 insurance months). Within the heavy labour pension, the yearly benefit deduction is 1.8 %.

Another pathway to early retirement is the ‘corridor-pension’ (*Korridorpension*). Within this scheme, the minimum retirement age is 62, and 40 insurance years (480 insurance months) are required. The yearly benefit deduction amounts to 5.1 % (summing to a maximum of 15.3 % when retiring at 62). For women, this form of early retirement will only be relevant from 2028 onwards, when the pensionable age for this group will exceed 62. Under any of the above-mentioned forms of early retirement, working is only possible up to the marginal earnings threshold. Receiving an income from employment above this threshold entails mandatory insurance and a complete loss of the early-retirement pension.

Apart from these options for early retirement, invalidity pensions also used to play a role as an option for early exit from the labour market in Austria. However, access to invalidity pensions has been considerably tightened over recent years. The ‘new invalidity pension’ centres on the principle of ‘rehabilitation before pension’. This means that a disability or occupational disability pension is only granted in the event of permanent disability or occupational disability. Temporary disability pensions have been completely abolished for all people born after 31 December 1963. For people born before this date, the previous regulation has not changed.

In addition to the traditional PAYG statutory pension scheme, a statutory funded scheme was introduced in 2003 in the form of the ‘new severance pay scheme’ (*Abfertigung neu*). Employers are obliged to pay 1.53 % of the monthly gross salary to a staff provision fund set up especially for this purpose. Employees have the option of withdrawing their savings in the case of termination of a work contract (if specific preconditions are fulfilled) or keeping them until pensionable age and having them transferred into a pension benefit. Reportedly, only about 50 % of all people who meet the conditions for early withdrawal do not withdraw their savings before retirement age.

Occupational schemes are of rather limited importance in Austria, although coverage and the accumulated funds have increased over time. In the last quarter of 2022 about 905,000 people (or around 23.2 % of employees) were entitled to receive an additional pension from an occupational scheme in the future, and about 137,000 people (about 7.8 % of the population aged 65+) were already beneficiaries[8].

Regarding personal pension schemes, public subsidies have been available within the 'premium-aided pension savings scheme' (*Prämienbegünstigte Zukunftsvorsorge*) since 2003. However, the impact of this scheme on the level of future pensions is likely to be limited. The number of related contracts has even declined in recent years, and the average annual insurance premium is very low[9].

2 REFORM TRENDS

The most significant reforms to the Austrian pension system took place in 2001, 2003, 2004, and 2014, aimed at the primary goal of increasing future financial sustainability.

Other essential reforms legislated before 2020 dealt with the different schemes of early-retirement and invalidity pensions, most of which were aimed at tightening access to these schemes and increasing the effective retirement age[10]. However, in September 2019, in an ad hoc parliamentary decision just before the national elections, it was decided that deductions would no longer apply to several different types of early-retirement and invalidity pensions from January 2020 under specific conditions. However, in November 2020 it was decided by the government to abolish these options again, effective from 1 January 2022. To compensate people who have been employed from a relatively early age, at the same time an 'early starter bonus' (*Frühstarterbonus*) has been introduced. The early starter bonus is granted to people retiring as from 1 January 2022, who have worked between their 15th and 20th birthday and who at this age collected at least 12 months of insurance due to employment. Furthermore, to qualify for this scheme, 300 insurance months (25 insurance years) due to work are required. The early starter bonus amounts to EUR 1.03 (2023) for each insurance month due to employment before age 20 and is therefore limited to EUR 61.80 (2023). The amount of the bonus will be indexed annually.

Measures specifically targeted at pensioners in response to the COVID-19 crisis, and to the inflation and energy price spike following Russia's war of aggression against Ukraine, were limited to a series of one-off payments. Recipients of a 'minimum pension' in the form of an equalisation supplement were given additional one-off payments in February 2022 (EUR 150), in April 2022 (EUR 150), and in September 2022 (EUR 300). Furthermore, all pensioners were granted an additional one-off payment of up to EUR 500 in September 2022, with the concrete amount depending on the level of the pension benefit[11]. Regarding the

[8] FMA / Österreichische Finanzmarktaufsicht (2023), *Quartalsbericht Q4 2022*: *Pensionskassen*, Vienna (https://www.fma.gv.at/wp-content/plugins/dw-fma/download.php?d=6246 – accessed 13 June 2022) and own calculations.
[9] 967,000 of such contracts on savings plans existed at the end of 2021, covering only about 14.6 % of the population under 60. Furthermore, the level of premiums paid to such schemes typically appears to be low. In 2021 the average premium was about EUR 750 per year. FMA/Österreichische Finanzmarktaufsicht (2022), *Der Markt für die prämiengebünstigte Zukunftsversorgung 2021*, Vienna (https://www.fma.gv.at/wp-content/plugins/dw-fma/download.php?d=5817 – accessed 13 June 2023) and own calculations.
[10] For details see: Knell, M. et al. (2006), 'The Austrian pension system – how recent reforms have changed fiscal sustainability and pension benefits', in: Austrian National Bank, *Monetary Policy & the Economy Q2/06*; and Blank, F., Logeay, C., Türk, E., Wöss, J. and Zwiener, R., *Alterssicherung in Deutschland und Österreich: Vom Nachbarn lernen?*, WSI-Report No 27, 1/2016 (https://www.boeckler.de/pdf/p_wsi_report_27_2016.pdf – accessed 12 June 2023).
[11] For details, see: https://www.pv.at/cdscontent/?contentid=10007.887870&portal=pvaportal (accessed 12 June 2023).

'corona short-term work' scheme, which was widely used during the pandemic, it is worth noting that within this scheme social insurance contributions were calculated and had to be paid according to the income preceding the reduction of working time. This meant that short-term work, when compared with usual working time, had no negative impact on future pensions. Concerning financial aid made available to the self-employed during the COVID-19 crisis, the picture is mixed. Some of these instruments are subject to tax and social insurance, but others are not[12].

Although there has been no comprehensive debate on the distributional impact of pensions over recent years, some measures have been taken to raise the lowest pensions. Low benefits were repeatedly (in 2013, 2014, 2018, 2019, 2020, 2021, and 2022[13]) indexed at an above-standard rate. In 2023, pensions were indexed according to the inflation rate between August 2021 and August 2022 (5.8 %). An additional one-off payment was granted against the background of persistent high price inflation. It amounted to 30 % of the monthly pension benefit for pensions up to EUR 1,666.66, EUR 500 for pensions of EUR 1,666.67-2,000, and EUR 0 for pensions of EUR 2,000-2,500, according to a linear formula.

Since 1 January 2022 the first pension adjustment has been made on a pro rata basis. This means that an aliquot share of the adjustment is due depending on the month in which the pension is drawn. For each subsequent month, the initial pension adjustment is reduced by 10 pp. The full amount of the pension adjustment in the first year after retirement is only paid to pension recipients who started their pension on 1 January.

The 2023 pension adjustment provided at least a 50 % increase to those whose pension reference date fell in the second half of 2022, equating to a 2.9 % increase.

3 ASSESSMENT OF ADEQUACY

3.1 Current adequacy

Compared with other EU Member States, the Austrian pension system produces a relatively high degree of income maintenance. The ratio of the median income of older people (65+) to the income level of the population aged 18-64 amounted to 95 % in 2022 (EU[14] average 90 %), and the aggregate replacement ratio (ARR) to 59 % (EU average 58 %). Both indicators showed some volatility over the last 10 years, with the relative median income ratio varying between 95 % and 98 % and the ARR between 59 % and 64 %, but without a clear general upward or downward trend. The Austrian pension system, by international standards, also shows a relatively long average pension payment duration and retirement duration, combined with comparatively high theoretical replacement rates (TRRs) for continuous employment careers.

[12] For an overview, see: https://www.wko.at/service/steuern/steuerliche-behandlung-covid-19-foerderungen.html.
[13] See: https://www.oesterreich.gv.at/themen/arbeit_und_pension/pension/1/Seite.270300.html (accessed 12 June 2023) and, for earlier years, data provided by the OPIS database of the Federal Ministry for Social Affairs (https://www.dnet.at/opis/Tabellen/pen_02_04.pdf – accessed 12 June 2023).
[14] EU refers to the current 27 Member States of the European Union.

Regarding poverty-prevention and other dimensions of social inclusion, results appear to be mixed, with some indicators pointing towards a rather favourable situation, while others indicate specific problems and challenges.

On the positive side, the rate of severe material and social deprivation of people aged 65+, at 1.2 % in 2022, was substantially lower than the EU average (5.5 %). A related situation holds for material and social deprivation, with 3 % of people aged 65+ being affected in Austria in 2022, against 11.1 % in the EU. Housing situations were also relatively favourable, with a housing cost overburden rate of 6.9 % in 2022, which was substantially lower than the EU average (10.7 %). Furthermore, self-reported unmet need for medical examination, at 1 % in 2022, was very rare in Austria when compared with the EU average (5.4 %). However, a comparatively low number of healthy life years at age 65 (around 9.5 years both for men and women) points to some problems in ill-health prevention.

More considerable challenges are evident when looking at relative income poverty. The at-risk-of-poverty (AROP) rate[15] for people aged 65+ was 14.9 % in 2022, which was somewhat lower than the EU average (17.3 %). This rate has not fallen significantly in Austria over the last 10 years: between 2013 and 2017, it fell from 15.4 % to 12.9 %, but it rose after that, with the biggest increase in 2021-2022 (of 1.1 pp). For those aged 75+, the AROP rate was 14.3 % in 2022 (EU average: 18.9 %). This indicator shows some volatility over time, varying between 14 % and 17.1 % since 2013, without clear downward or upward trends. The relative median AROP gap for older people (65+) increased from 16.1 % in 2016 to 20.6 % in 2020 and then remained at about the same level (2022: 20.4 %). Austrian numbers for this indicator regularly exceed the EU average, which amounted to 18.1 % in 2022.

Problems in preventing relative income poverty become especially evident when looking at AROP rates for women and men. The AROP rate of women aged 65+ was 17.5 % in Austria in 2022 (EU average: 19.8 %), and that of men 11.5 % (EU average: 14.2 %). This means that the AROP rate of women exceeded that of men by 52 % in 2022. This gap was relatively high by international standards (EU average in 2022: 39 %), although it had fallen since 2018, when it was 91 %. However, this development was not caused by a falling AROP rate among women (varying between 16.9 % and 17.9 % since 2018) but by the AROP rate of men constantly increasing since 2018, when it stood at 9.2 %. These challenges regarding relative income poverty apply even though the Austrian pension system is one of the costliest in all EU Member States, with spending on gross public pensions amounting to 15.4 % of GDP in 2022 (EU average: 13 %).

Through the ‘principle of equivalence’[16] (of contributions and benefits), the Austrian statutory pension system substantially reproduces inequalities of earned income in public old-age pensions. At the same time, the quasi-minimum pension (in the form of the means-tested equalisation supplement) provides benefits below the AROP threshold[17]. However, it has a

[15] Cut-off point: 60 % of median equivalised income after social transfers.
[16] The notion that the level of benefits should in the first instance reflect the level and duration of earlier insurance contributions.
[17] In 2022 the yearly minimum net benefit according to the equalisation supplement for a single person was EUR 13,691.10. The yearly AROP threshold for a single person (cut-off point: 60 % of median equivalised income after social transfers) was EUR 16,706.

positive effect in considerably reducing the AROP gap of older people, which anyhow – as shown above – still tends to be higher in Austria than the EU average.

3.2 Future adequacy

According to projections, TRRs will remain high from an international comparative perspective. For women, when considering projected career lengths, TRRs are expected to increase due to their rising standard pensionable age. TRRs will also remain high for people whose careers are interrupted for short periods due to childcare, unemployment or family care. However, high-income earners will see their TRRs fall, whereas TRRs for average-income earners will stay at about the same level as those for low-income earners. This means that the full implementation of pension reforms decided in the past will only have a modest effect in terms of making the pension system more progressive.

3.3 Developments in (in)equalities

Despite the – by international standards – high average incomes of people of pensionable age, the Austrian pension system also produces a substantial degree of old-age income inequality.

The S80:S20 income quintile share ratio for people aged 65+ was 4.28 in 2022. This was somewhat higher than the EU average (4.10) and substantially higher than in the Member States with the lowest income inequality among older people. During 2013-2016 this indicator showed a slight downward trend (from 4.06 to 3.71), but then rose again, with the most substantial yearly increase between 2021 (4.02) and 2022.

Problems related to income inequality become especially visible when looking at different indicators regarding gender (in)equalities. First, the gender gap in the non-coverage rate of pensions (for those aged 65-79), of 7.1 pp in 2022, remained wider than the EU average of 5.3 pp[18]. The widest gap during the last 10 years occurred in 2017, at 12.6 pp, and it narrowed after that to an all-time low of 6.2 pp in 2021. However, it should be noted that this was not only caused by a reduction in non-coverage among women (from 13.4 % in 2017 to 9.5 % in 2021), but also by an increase in non-coverage among men (from 0.7 % to 3.3 % over the same period). No institutional reform can be directly and easily linked to this development. More detailed data analysis would be necessary to (eventually) provide an evidence-based explanation. Substantial gender-specific differentiation also exists regarding income levels from pension benefits. The gender gap in pension income (for those aged 65-79) amounted to 32.8 % in Austria in 2022 (EU average: 26.1 %), which was 3.5 pp lower than in 2019. Here, also from a mid-term perspective, a somewhat positive development is evident. In 2017 the gender pension gap was 41.4 %, but after that has constantly narrowed.

Nonetheless, it may not be expected that the gender gap in pension income will quickly vanish in future. According to registry data from pension insurance providers, the median gross monthly direct old-age pension of women (excluding survivor pensions) amounted to

[18] This indicator addresses not only direct old-age pensions from the public system but also survivor pensions, disability pensions and pensions from private systems.

52 % of the median direct old-age pension of men in 2021, indicating a gap of 48 %[19]. Regarding newly granted old-age pensions, the situation is not much more favourable. Here, the gap between men's and women's median monthly gross direct old-age pensions amounted to 46 % in 2021. An earlier, more detailed, assessment[20] dealing with the gender gap of newly granted median monthly direct gross pensions in 2017 (then amounting to 48.1 %) concluded that gender-specific differentiation of working time and income levels from gainful employment explained 55 % of the difference. Women's lower number of insurance years explained 41 % of the gap. And the different positions and levels of partial insurance and contribution periods (at first instance regarding times of child-raising and periods of unemployment benefit) explained around 4 % of the gender gap in pensions. As described above (Section 1), the pensionable age for women will be gradually raised from 2024, also reaching 65 in 2033. This can be expected to contribute to reducing the gender gap in pensions. However, it will only partly reduce the gender-specific differences in insurance periods from gainful employment (currently amounting to more than seven years regarding old-age pensions). Furthermore, differences in working time and earned income from gainful employment are, as shown above, the more critical explanatory factor for gender-related differentiations of pension income.

4 KEY CHALLENGES AND OPPORTUNITIES

The Austrian pension system produces a high degree of income maintenance but also a substantial differentiation of pension income levels according to the length and continuity of employment careers and the level of earlier earned income from gainful employment. At the same time, outcomes regarding poverty prevention in old age are only mediocre, irrespective of the, by international standards, comparatively high financial costs of the public pension system. From a social inclusion perspective, continuing trends towards a de-standardisation of employment careers[21] are likely to cause growing challenges for the public pension system in future, especially regarding poverty prevention among older people. However, a detailed assessment of the future distributional impact of the statutory pension, taking into account different scenarios of labour market development, is currently lacking. Results from any such research could interlink with (to a large degree already available) research results on the pension system's current and likely future financial sustainability, thereby allowing for policy recommendations that would promote both social adequacy and financial sustainability.

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[19] Dachverband der Sozialversicherungsträger (2022), *Statistisches Handbuch der österreichischen Sozialversicherung 2022*, Vienna (https://www.sozialversicherung.at/cdscontent/load?contentid=10008.771324&version=1665654602 – accessed 8 September 2023) and own calculations.

[20] Mairhuber, I. and Mayrhuber, C., *Trapez.Analysis – Gender Gaps in Pensions in Austria: Quantitative and Qualitative Analysis*, Austrian Federal Chancellery (https://www.trapez-frauen-pensionen.at/dam/jcr:9abe59d5-7a7f-4cc4-ba85-87ee07f8ee8f/trapez_analyse_bericht_2020_en.pdf – accessed 8 September 2023).

[21] See: Mayrhuber, C., Eppel, R., Horvath, T. and Mahringer, H., *Destandardisierung von Erwerbsverläufen und Rückwirkungen auf die Alterssicherung*, WIFO, Vienna (https://www.wifo.ac.at/jart/prj3/wifo/resources/person_dokument/person_dokument.jart?publikationsid=66001&mime_type=application/pdf).

5 BACKGROUND STATISTICS

	2022			Change 2019-2022		
5.1. Relative income	Total	Men	Women	Total	Men	Women
Relative median income ratio (65+)	0.95	0.99	0.92	-0.03	-0.03	-0.03
Income quintile share ratio (S80/S20) (65+)	4.28	4.38	4.07	0.34	0.54	0.20
Aggregate replacement ratio (ARR) (65-74) (%; change in pp)	59.0	64.0	60.0	-6.0	-1.0	1.0
	2022			Change 2019-2022 (pp)		
5.2. Poverty and material deprivation	Total	Men	Women	Total	Men	Women
At-risk-of-poverty or social exclusion (AROPE) (65+) (%)	15.4	12.0	18.2	0.9	1.9	0.3
At-risk-of-poverty (AROP) rate (65+) (%)	14.9	11.5	17.5	1.0	1.9	0.3
Severe material and social deprivation (SMSD) rate (65+) (%)	1.2	0.8	1.5	0.0	0.2	-0.2
At-risk-of-poverty or social exclusion (AROPE) rate (75+) (%)	14.7	11.1	17.2	-0.4	1.9	-1.8
At-risk-of-poverty (AROP) rate (75+) (%)	14.3	10.7	16.9	-0.3	2.0	-1.6
Severe material and social deprivation (SMSD) rate (75+) (%)	1.2	0.9	1.4	0.3	0.3	0.3
Relative median at-risk-of-poverty gap (65+) (%)	20.4	26.1	20.1	0.8	1.9	2.0
At-risk-of-poverty (AROP) rate, 65+: 50 % threshold (%)	8.7	7.5	9.7	0.5	0.8	0.4
At-risk-of-poverty (AROP) rate, 65+: 70 % threshold (%)	22.0	17.0	25.9	0.7	1.9	-0.2
Material and social deprivation (MSD) rate (65+) (%)	3.0	1.9	3.9	-0.3	-0.4	-0.1
5.3. Gender difference	2022			Change 2019-2022 (pp)		
Gender gap in pension income (65-79) (%)	32.8			-3.5		
Gender gap in non-coverage rate (65-79) (pp)	7.1			-3.4		
	2022			Change 2019-2022		
5.4. Housing and health situation	Total	Men	Women	Total	Men	Women
Housing cost overburden rate (65+) (%; change in pp)	6.9	5.7	7.8	1.3	1.5	1.1
Self-reported unmet need for medical exam 65+ (%; change in pp)	1.0	0.7	1.2	0.4	0.3	0.4
Healthy life expectancy (at age 65) (years) (1)	9.5	9.3	9.7	1.8	1.6	2.0
Life expectancy (at age 65) (years)	19.4	17.8	20.9	-0.9	-0.9	-0.8
	2022			2062		
Receiving long-term care cash benefits (65+) (%)	19.8			24.2		
Receiving long-term care in-kind benefits (65+) (%)	8.0			10.1		
	2022			Change 2019-2022		
5.5 Sustainability and context	Total	Men	Women	Total	Men	Women
Employment rate (55-64) (%; change in pp)	56.4	63.9	49.0	1.9	0.8	3.0
Pension expenditure (% GDP; change in pp) (1)	15.4			1.0		
Retirement duration from first pension (years)	22.6	19.5	25.2	-0.5	-0.4	-0.5
Retirement duration from end employment (years) (2)	22.2	19.8	24.5	-0.4	-0.3	-0.4
Projections (3)	2022			2062		
Old-age dependency ratio (20-64) (%)	31.7	27.5	36.0	54.5	48.5	60.6
Economic old-age dependency ratio (20-64) (%)	39.5	36.8	42.1	65.3	61.4	69.0
Gross public pensions (% GDP)	13.7			14.0		
Benefit ratio (%)	57.1			46.8		
Coverage ratio (65+) (%)	144.7			109.7		
Gross pension ratio high/low earner		2.5	2.5		2.2	2.2

(1) 2021 instead of 2022

(2) Based on the assumptions of the 2024 Ageing Report for the 2023 average exit ages

(3) For the source of each of these six indicators providing projections by 2062, please see 'Indicators, definitions and abbreviations'.

5.6 Theoretical replacement rates

	Net (%)				Gross (%)			
	2022		2062		2022		2062	
	Men	Women	Men	Women	Men	Women	Men	Women
Standard pensionable age (SPA)	**65.0**	**60.0**	**65.0**	**65.0**				
AWG career duration (years)	**42.7**	**40.3**	**43.0**	**42.0**				
Average Earning (100 %)								
Base case: 40 years up to SPA	82.9	82.5	81.8	81.8	69.2	68.7	69.1	69.1
Increased SPA: from age 25 to SPA	82.9	75.8	81.8	81.8	69.2	60.2	69.1	69.1
AWG career length case	81.1	86.8	83.9	91.3	66.9	74.0	70.3	79.0
Longer career: 42 years to SPA			85.1	85.1			72.6	72.6
Shorter career: 38 years to SPA			78.9	78.9			65.6	65.6
Deferred exit: 42 years to SPA +2			91.0	91.0			78.6	78.6
Earlier exit: 38 years to SPA -2								
Career break – unemployment: 3 years	81.7	81.6	80.2	80.2	67.7	67.6	67.2	67.2
Career break – childcare: 3 years	83.3	83.3	82.3	82.3	69.7	69.7	69.6	69.6
Career break – care for family dependant: 3 years	78.4	81.6	79.5	79.5	63.5	67.5	66.0	66.0
Short career (20-year career)	45.1	45.4	47.0	47.0	32.6	32.8	34.6	34.6
Work 35 years, disabled 5 years prior to SPA			66.7	66.7			51.4	51.4
Early entry in the labour market: from age 20 to SPA			90.2	90.2			77.8	77.8
Index: 10 years after retirement at SPA			76.9	76.9			63.0	63.0
Extended part-time period for childcare			78.8	78.8			65.5	65.5
Survivor ratio 1*		0.7		0.7		0.7		
Survivor ratio 2*		0.7		0.6		0.7		
Low earnings (66 %)								
Base case: 40 years up to SPA	85.4	84.8	84.5	84.5	69.2	68.7	69.1	69.1
AWG career length case	82.6	87.4	87.9	94.5	66.4	71.2	72.4	79.7
Career break – unemployment: 3 years	83.8	83.8	82.5	82.5	67.7	67.6	67.2	67.2
Career break – childcare: 3 years	88.9	89.1	88.1	88.1	72.7	72.9	72.6	72.6
Short career (20-year career)	40.6	40.9	51.5	51.5	32.6	32.8	41.0	41.0
Early entry in the labour market: from age 20 to SPA			94.8	94.8			80.3	80.3
High earnings (100->200 %)								
Base case: 40 years up to SPA	69.8	69.4	63.3	63.3	56.3	55.9	51.2	51.2

**Survivor ratio 1: man base case, woman base case*

**Survivor ratio 2: man base case, woman short career case*

BELGIUM

Highlights

- Recent reforms have improved pension adequacy for vulnerable groups. The guaranteed minimum pension and the income guarantee for older people were increased.
- The pension calculation for the self-employed has been aligned with that of employees.
- The poverty risk of people aged 65+ increased by 2.2 percentage points between 2019 and 2022, due to the fact that working-age incomes increased faster than old-age incomes. Some groups are particularly vulnerable to economic hardship in old age. Women aged 65+ face a higher poverty risk than men in the same age group.
- New pension reforms have recently been announced with the aim of reinforcing the importance of work, to reduce gender inequalities and to contain the future costs of ageing.

1 GENERAL DESCRIPTION OF THE NATIONAL PENSION SYSTEM

The Belgian pension system consists of the statutory pension scheme (including a means-tested social assistance scheme), occupational pension schemes for employees and the self-employed, and personal pension schemes.

The statutory pension scheme includes three separate pay-as-you-go pension schemes covering employees, the self-employed, and civil servants – financed through a combination of social security contributions and taxes. Since 2021 the calculation of the statutory old-age pension has been similar for employees and the self-employed. For every year worked, people build up a pension entitlement equalling 60 % (individual rate) or 75 % if the pensioner has a dependent spouse (family rate) of gross wages (employees), or net business revenue (self-employed people) earned that year. For employees and the self-employed, wages or business revenues are capped at EUR 76,396 in 2023 for employees and EUR 65,899 for the self-employed. Wages or business revenues are indexed to the evolution in consumer prices until the time of retirement. The statutory pension of civil servants is calculated in a different way. Their pension is based on the average wage of the last 10 career years. For every year worked as a civil servant, they build up 1/60th of that amount (for some categories of civil servants, a more beneficial denominator applies). Civil servants' pensions may not exceed 75 % of the average wage of the last 10 career years, or EUR 7,813 per month (gross) in December 2022[22].

[22] Het RSVZ [Institute national d'assurances sociales pour travailleurs indépendants; National Institute for the Social Security of the Self-employed] (2023) (https://www.rsvz.be/sites/rsvz/files/2023-03/brochure_pensioen_.pdf);
Federale Pensioendienst [Service fédéral des Pensions; Federal Pension Service] (2023) (https://www.sfpd.fgov.be/nl/pensioenbedrag/berekening/verschillende-soorten-pensioenen/werknemers/lonen/loonplafond; https://www.sfpd.fgov.be/nl/pensioenbedrag/berekening/maximumpensioen).

Several corrections are put in place to reduce the impact of employment status and earnings levels on the amount of statutory pension benefits. Pension credits are granted to employees, self-employed workers, and civil servants for certain periods of non-employment ('assimilated periods'), such as periods of sickness, unemployment, care leave or invalidity. Moreover, if certain conditions are met, a 'minimum wage per career year' is granted to employees; and a guaranteed minimum pension exists, of EUR 1,738 for employees, the self-employed and civil servants (gross amounts for 45 career years), to improve pensions for those who have low incomes[23]. Finally, the statutory pension scheme also provides survivor or divorcee pensions ('derived rights'). Generally, the survivor pension equals 80 % of the deceased spouse's old-age pension calculated at the family rate. Widows and widowers aged under 49 receive a transition benefit or a temporary survivor pension. In cases of divorce, the ex-partner of a former employee or self-employed person may be entitled to a divorcee pension at the pensionable age. For each year of marriage, people build up an old-age pension based on 62.5 % of the former spouse's wage, if their own pension entitlements in that year are lower than those that result from 62.5 % of the ex-partners' wage. The old-age pension of the ex-partner is not affected[24].

The pensionable age in the three statutory pension schemes is 65 for both men and women, but will increase to 66 in 2025 and 67 in 2030. Early retirement is possible at 60 after a career of at least 44 years, at 61 after a career of 43 years, or at 63 after a career of 42 years[25]. In all three schemes, the target career equals 45 career years, and shorter careers lead to proportionally lower pensions. It is possible to work longer and to build up proportionally higher pensions. Statutory pensions can be combined with earnings from work without limitations after a career of 45 years or once the pensionable age is reached[26].

For people over 65 a means-tested social assistance scheme exists (the 'income guarantee for older people') that tops up statutory pensions below EUR 1,519 per month (gross amount for a single person) to this amount under certain conditions[27]. When calculating the statutory pension benefit, entitlement to the income guarantee is automatically examined. Nearly 5 % of the population aged 65+ were recipients of the income guarantee for older people in the fourth quarter of 2021[28].

The calculated pensions of employees and the self-employed, as well as the income guarantee for older people, are automatically indexed to consumer prices, and adaptations to the rise in welfare occur through the 'welfare envelope' (*welvaartsenveloppe; enveloppe bien-être*)[29]. Civil servants' pensions follow public sector wage development, known as 'perequation'[30].

[23] Federale Pensioendienst (2023) (https://www.sfpd.fgov.be/nl/pensioenbedrag/berekening/gewaarborgd-minimum-pensioen).

[24] Federale Pensioendienst (2023) (https://www.sfpd.fgov.be/nl/pensioenbedrag/berekening/verschillende-soorten-pensioenen/overlevingspensioen; https://www.sfpd.fgov.be/nl/pensioenbedrag/berekening/verschillende-soorten-pensioenen/gescheiden).

[25] Federale Pensioendienst (2023) (https://www.sfpd.fgov.be/nl/pensioenleeftijd/wanneer).

[26] Federale Pensioendienst (2023) (https://www.sfpd.fgov.be/nl/pensioenbedrag/bijverdienen#Hoeveel).

[27] Federale Pensioendienst (2023) (https://www.sfpd.fgov.be/nl/recht-op-pensioen/igo).

[28] 2,274,715 individuals were aged 65+, 110,340 of them registered as income guarantee recipients, on 31 December 2021. Datawarehouse Arbeidsmarkt en Sociale Bescherming [Data Warehouse Labour Market and Social Protection] (2023) (https://dwh-live.bcss.fgov.be/nl/dwh/dwh_page/content/websites/datawarehouse/menu/webtoepassing-globale-cijfers.html).

[29] The Generation Act of December 2005 stipulated that the government must reserve a budget (the 'welfare envelope') to adjust the pensions of employees and the self-employed to living standards. The welfare envelope corresponds to the budget

Occupational pensions are accessible for both employees and the self-employed. Occupational pensions for employees are usually organised and decided upon at the company or sectoral level. It is also possible for an employee to make an individual agreement with an insurance company or pension fund and save up to 3 % of gross wages or EUR 1,830 per year (in 2023) – whichever is higher – rendering a tax deduction of 30 % on contributions paid. In this case the employer deducts the pension contribution from the salary of the employee and transfers the contribution to the insurance company or pension fund[31]. The self-employed can contribute to an occupational pension up to 8.17 % of net business revenue (with a maximum of EUR 3,859 per year in 2023) and contributions are fully deductible from taxes as a business expense[32]. On top of that, the self-employed with a formal company structure can accumulate an additional occupational pension through an 'individual pension commitment', and since 2018 a similar option has also existed for the self-employed without a formal company structure ('pension agreement for the self-employed')[33]. For both employees and the self-employed, contributions to an occupational pension scheme should not be higher than the amount needed to reach a replacement rate of 80 %, statutory and occupational pension combined. The occupational pension (almost exclusively a lump sum) is paid out at the time of (early) retirement in the statutory pension scheme. At the start of 2023, 77 % of employees and 56 % of the self-employed were building up an occupational pension[34].

Next to these occupational pension plans, personal pension plans also exist. There are two types of personal pension schemes: pension saving schemes and individual life insurance schemes. In 2022, people could choose to pay up to EUR 990 per year into a pension saving scheme and receive a 30 % tax deduction, or EUR 1,270 with a 25 % tax deduction. Premiums for individual life insurance schemes attracted a 30 % tax deduction for up to EUR 2,350 per year in 2022. Depending on the type of personal pension scheme, taking out money from a personal pension (almost exclusively as a lump sum) is possible without penalty from age 60 or from age 65 onwards[35]. Almost 2.6 million Belgians paid into a personal pension saving scheme in 2021, which corresponded to around 37 % of the population aged 18-64[36]. Recent figures on the number of savers through individual life insurance schemes are not available.

needed to annually increase flat-rate benefits by 1 % and earnings-related benefits by 0.5 %. This budget is distributed on a two-yearly basis in consultation with the social partners.

[30] Het RSVZ (2023) (https://www.rsvz-inasti.fgov.be/sites/rsvz/files/2023-03/brochure_pensioen_.pdf); Federale Pensioendienst (2023) (https://www.sfpd.fgov.be/nl/pensioenbedrag/berekening/indexering; https://www.sfpd.fgov.be/nl/betaling/welvaartsaanpassing; https://www.sfpd.fgov.be/nl/kenniscentrum/perequatie).

[31] FSMA [Autorité des services et marchés financiers; Financial Services and Markets Authority] (2023) (https://www.fsma.be/nl/wat-het-vrij-aanvullend-pensioen-voor-werknemers). At the time of this report, the number of affiliates remains limited.

[32] Wikifin (2023) (https://www.wikifin.be/nl/pensioen-en-pensioenvoorbereiding/aanvullend-pensioen/het-vrij-aanvullend-pensioen-voor).

[33] Wikifin (2023) (https://www.wikifin.be/nl/pensioen-en-pensioenvoorbereiding/aanvullend-pensioen/het-aanvullend-pensioen-voor-zelfstandigen).

[34] PensionStat (2023) (https://www.pensionstat.be/nl/kerncijfers/aanvullend-pensioen/participatiegraad).

[35] Federale Overheidsdienst Financiën [Service Public Fédéral Finances; Federal Public Service Finance] (2022) (https://financien.belgium.be/nl/particulieren/belastingvoordelen/pensioensparen); Wikifin (2022) (https://www.wikifin.be/nl/sparen-en-beleggen/beleggingsproducten/producten-op-lange-termijn/wat-langetermijnsparen; https://www.wikifin.be/nl/pensioen-en-pensioenvoorbereiding/pensioensparen/wanneer-krijg-je-je-gespaarde-kapitaal-uitbetaald).

[36] De Tijd (2022) (https://www.tijd.be/markten-live/fondsen/algemeen/minder-pensioenspaarders-trappen-in-fiscale-val/10413979.html).

2 REFORM TRENDS

To ensure pension adequacy, the new government that took office in October 2020 has implemented several policy changes to strengthen statutory pension benefits[37]. The most important are listed below.

In 2020 the government decided to gradually increase the guaranteed minimum pension over four years to reach EUR 1,500 net in 2024 for those with 45 career years (at a single rate). In 2021, 2022, and 2023, the minimum pension was increased each year by 2.65 % for employees and the self-employed, and by 1.73 % for civil servants[38]. A similar increase was planned in 2024, but the government recently announced that the increase scheduled for 2024 will be reduced. As a result of the index adjustments to the statutory pension, the amount of EUR 1,500 net has already been reached. Also in 2020, the government decided to increase the income guarantee for older people. In 2021, 2022, and 2023 the income guarantee of older people was increased each year by 2.58 %. The government recently cancelled the planned increase in the income guarantee in 2024[39]. At the same time the wage and income ceiling used to calculate employee and self-employed pensions was also raised by 2.38 % in 2021, 2022 and 2023. The increases in the minimum pensions, the income guarantee for older people, and wage and income ceilings are granted on top of the indexation mechanisms and welfare adjustments (see Section 1).

In 2021, for career years from that point onwards, the calculation of the pension for the self-employed was brought in line with the calculation for employees. Historically, pensions for the self-employed were lower than those for employees, to compensate for their lower contribution levels. In practice a ‘correction coefficient’ was used to lower the revenues of the self-employed in the pension calculation. This coefficient was 69 %, meaning that 69 % of the income of the self-employed was taken into account when calculating their pension. The removal of the correction coefficient will gradually increase the pensions of the self-employed to the level of employees’ pensions[40].

Also in 2021, the transition benefit for young spouses without children (a temporary benefit for young surviving spouses who are not entitled to a survivor pension) was extended to 18 months. Previously, surviving spouses without children received the transition benefit for only 12 months. The transition benefit for spouses with children was extended from 24 to 36 months (if all children are 13 or over) or 48 months (if at least one child is under 13 or has a disability). Additionally, as is the case with the survivor pensions, a minimum pension was

[37] Regeerakkoord [Coalition Agreement] (2020) (https://www.belgium.be/sites/default/files/Regeerakkoord_2020.pdf).
[38] Federale Pensioendienst (2023) (https://www.sfpd.fgov.be/nl/pensioenhervorming); The Study Commission on Ageing, 2023, p. 76 (https://www.hogeraadvanfinancien.be/nl/publication/jaarlijks-verslag-2023-studiecommissie-voor-de-vergrijzing).
[39] The Study Commission on Ageing (2023), p. 82 (https://www.hogeraadvanfinancien.be/nl/publication/jaarlijks-verslag-2023-studiecommissie-voor-de-vergrijzing); Federale Pensioendienst, 2023 (https://www.sfpd.fgov.be/nl/pensioenhervorming); Clarinval (2023) (https://clarinval.belgium.be/nl/begrotingscontrole-2023-2024-vice-eersteminister-david-clarinval-tevreden-met-extra-inspanning).
[40] Het RSVZ (2021) (https://www.rsvz.be/nl/news/afschaffing-van-de-correctiecoefficient-voor-de-pensioenberekening-een-feit).

implemented so that the transition benefit for spouses within the employee scheme can be increased to a minimum level if certain conditions are met[41].

In 2023 the access condition for the guaranteed minimum pension was eased for two specific groups of workers. Assisting spouses (*meewerkende echtgenoten; conjoints aidants*) and childminders (*onthaalouders; accueillants d'enfants*) were unable to build up pension rights before 2003. A number of assisting spouses and childminders who performed a part of their career before 2003 were therefore not able to gain access to the guaranteed minimum pension scheme. As a result of these reform measures, the access condition that assisting spouses and childminders must meet is more flexible than the existing standard condition of 30 career years[42].

In July 2023 the government agreed on a new reform plan[43]. The plan contains four measures. The first is to introduce a new pension bonus to encourage people to work longer. This bonus differs from the bonus that existed in Belgium prior to 2015. The new bonus will accrue for each day the individual works beyond the early retirement age or pensionable age (see Section 1 for retirement conditions). The pension bonus will be paid out as a lump sum by default. However, individuals can still opt for a monthly annuity if they prefer. The lump-sum amount for someone working three years longer than their (early) retirement age will be EUR 22,650. Moreover, this is a net amount on which no tax or social security contributions are due. Second, a condition of 20 working years[44] to gain access to the minimum pension is to be introduced (in addition to the existing condition of 30 career years worked or assimilated). To ensure that women can also access the minimum pension scheme, certain periods of non-employment will nonetheless continue to be assimilated to worked periods (e.g. parental leave). Third, the system of perequation (see Section 1) will be adjusted so that the pensions of civil servants can only increase by a maximum of 0.3 % per year. Finally, the ‘Wijninckx-tax’ will be increased from 3 % to 6 %: this tax is due on occupational pension contributions in cases where the total pension (i.e. sum of statutory and occupational pension) is expected to exceed the maximum civil servants’ pension[45].

In addition to the above-mentioned reforms, policy adjustments were also made in response to the COVID-19 crisis. During this crisis, employees could make use of the system of temporary unemployment, while the self-employed could resort to the bridging right[46] or

[41] Federale Pensioendienst (2023) (https://www.sfpd.fgov.be/nl/pensioenhervorming); Roels, P. (2022), ‘De overgangsuitkering na overlijden werd aangepast’, *Life & Benefits, 27*(3), pp. 3-5.
[42] Federale Pensioendienst (2023) (https://www.sfpd.fgov.be/nl/recht-op-pensioen/onthaalouder); RSVZ (2023) (https://www.rsvz.be/nl/faq/wanneer-heb-je-recht-op-het-minimumpensioen-meewerkende-echtgenoot).
[43] This reform plan is an adapted version of the July 2022 reform proposals. Calculations by the Knowledge Centre for Pensions [*Kenniscentrum Pensioenen; Centre d’Expertise des pensions*] indicated that these proposals would have a negative impact on future ageing costs. As a result, the government decided to adapt the initial proposals. For more information on the initial reform proposals see Schols (2022) (https://ec.europa.eu/social/BlobServlet?docId=26150&langId=en) and Knowledge Centre for Pensions (2022) (https://www.plan.be/publications/publication-2303-nl-pensioenakkoord_juli_2022_doorrekening_van_pensioenmaatregelen%0b_rapport_op_vraag_van_de_kern_van_ministers+and).
[44] Expressed as 5,000 days of actual work throughout a person’s career (or 3,120 days for part-time employees).
[45] Lalieux (2023) (https://lalieux.belgium.be/nl/regeringsakkoord-over-pensioenhervorming-invoering-van-een-progressieve-bonus-om-oudere-werknemers and https://lalieux.belgium.be/nl/de-pensioenbonus-wordt-van-kracht-op-1-juli-2024); De Croo (2023) (https://www.premier.be/nl/pensioenakkoord-werken-meer-belonen-ook-pensioen).
[46] The existing systems of temporary unemployment and bridging rights were temporarily extended during the crisis. For more information see Van Lancker, A. and Cantillon, B. (2021), *ESPN Thematic Report: Social protection and inclusion policy responses to the COVID-19 crisis*: Belgium.

claim a postponement of or exemption from social security contributions when facing financial difficulties[47]. Pension credits are awarded to employees during periods of temporary unemployment, and a temporary measure was introduced to ensure that pension credits were granted to the self-employed with bridging rights for up to one year[48]. In cases of postponement of social security contributions, pension rights are accrued after the payment of these contributions. Conversely, pension rights are not accrued if the self-employed person was exempted from paying social security contributions. Moreover, from July 2020 until March 2022 the government granted all recipients of the income guarantee for older people a monthly premium. This premium equalled EUR 50 per month until September 2021 and was reduced to EUR 25 per month from October 2021 onwards[49]. Finally, a temporary measure was introduced to guarantee the building-up of occupational pensions for employees during periods of temporary unemployment until March 2022[50]. Belgium did not take specific pension measures to respond to the energy crisis, which mainly took place in 2022. Belgium's automatic indexation system ensures that social benefits, including statutory pension benefits and the income guarantee for older people, evolve with the general price level (see Section 1).

3 ASSESSMENT OF ADEQUACY

3.1 Current adequacy

The at-risk-of-poverty and social exclusion rate of those aged 65+ increased by 2.5 percentage points (pp) during 2019-2022, reaching 20 %. The monetary poverty risk among people aged 65+ in Belgium was considerably lower: the at-risk-of-poverty (AROP) rate was 17.9 % in 2022, up by 2.2 pp from 15.7 % in 2019. Nevertheless, a reduction in the poverty rates among those aged 65+ was expected due to the significant increases in the minimum pension and the means-tested income guarantee for older people in 2021 and 2022 (see Section 2). The Study Commission on Ageing showed that the poverty risk of those aged 65+ increased because the poverty threshold had increased more strongly (due to the strong increase in median income) than the minimum pension and income guarantee for older people[51]. The poverty rate increased as a result of a rise in the old-age income, accompanied by a stronger increase in working-age incomes, rather than a decline in the incomes of people aged 65+[52].

[47] Het RSVZ (2022) (https://www.rsvz.be/nl/nieuws/moeilijkheden-door-het-coronavirus).

[48] Wet van 22 december 2020 [Law of 22 December 2020] tot instelling van verschillende maatregelen ten gunste van zelfstandigen in de context van de COVID-19-crisis.

[49] The Study Commission on Ageing (2023), p. 76 (https://www.hogeraadvanfinancien.be/nl/publication/jaarlijks-verslag-2023-studiecommissie-voor-de-vergrijzing).

[50] Note that the employer/professional sector can refuse the implementation of this temporary measure. FSMA (2023) (https://www.fsma.be/nl/gevolgen-geval-van-tijdelijke-werkloosheid-wegens-de-coronacrisis). In addition to these measures, other temporary measures were implemented so that, for example, income from volunteer work related to the COVID-19 crisis does not negatively affect a person's pension; see Wet van 7 mei 2020 [Law of 7 May 2020] houdende uitzonderlijke maatregelen in het kader van de COVID-19-pandemie inzake pensioenen, aanvullende pensioenen en andere aanvullende voordelen inzake sociale zekerheid (1).

[51] The Study Commission on Ageing (2023), pp. 52-54 (https://www.hogeraadvanfinancien.be/nl/publication/jaarlijks-verslag-2023-studiecommissie-voor-de-vergrijzing).

[52] Moreover, it is important to note that the poverty risk for older people in the European Union statistics on income and living conditions (EU-SILC) for 2023 is significantly lower than that of the EU-SILC 2022 analysed here. In EU-SILC 2023, the poverty risk of those aged 65+ is 15.8 %. Further increases in minimum pensions and the income guarantee will at least partly explain this decline in the poverty risk. Eurostat (2023) (https://ec.europa.eu/eurostat/web/income-and-living-conditions/database [ilc_li02]).

The AROP figures in 2022 also indicated that some groups were particularly vulnerable to economic hardship in old age. The AROP rate in 2022 was 5.2 pp higher for those aged 75+ than for those aged 65+, although the difference narrowed from 6.0 pp in 2019. Furthermore, based on supplementary data from Eurostat, we can conclude that single people aged 65+ had a higher poverty risk (20.3 %) than couples where at least one person was aged 65+ (16.3 %) in 2022[53].

The rate of severe material and social deprivation (SMSD) for those aged 65+ was 3.5 % in 2022. Hence, 3.5 % of Belgians over 65 had reported that they were unable to afford a number of necessary or desirable items. The lower SMSD rate among people aged 65+ in Belgium compared with EU-27 average of 5.5 % is probably caused by the fact that many older people in Belgium are home-owners. An indication of the importance of home-ownership in Belgium can be found in the latest report by the Study Commission on Ageing, which showed that the AROP rate in Belgium for those aged 65+ is 6.0 pp lower when taking into account that home-owners and those that pay reduced rent have a higher disposable income than those renting in the private market[54].

The ratio of the median income of people aged 65+ relative to the median equivalised disposable income of people aged 0-64 was 73 % in 2022. However, in 2019 this ratio had been 78 %. This drop from 78 % to 73 % was mainly due to the sharp increase in the median equivalised disposable income of people under 65 between 2019 and 2022[55]. In addition, the median individual gross pension income of those aged 65-74 amounted to 48 % of the median gross earnings of those aged 50-59 according to the aggregate replacement ratio. In 2019, this ratio had been 2 pp lower. Different explanations may be behind the improved income position of recent pensioners compared with that of working people at the end of their careers, such as a growing number of pensioners with occupational pensions.

3.2 Future adequacy

The theoretical replacement rates (TRRs) are projected to fall in the next 40 years: for people (men or women) retiring in 2022 with average earnings and a 40-year career, the gross TRRs were 55.4 % and the net TRRs 77.4 %; in 2062, these numbers are expected to be 51.6 % and 75.2 % respectively. Gross TRRs are significantly lower than net TRRs (by 22 pp), which indicates the importance of the more beneficial taxation of pension income compared with wages. Net TRRs are relatively high in Belgium and are forecast to remain relatively stable in the future. Moreover, the net TRRs for men and women with low earnings are significantly higher and even show a marked increase in 2062 for men and women with a 40-year long career (base case): gross TRRs increase from 62.9 % to 64.7 %; and net TRRs from 85 % versus 89.5 %. This rise is likely to be at least partially explained by the increases in the minimum pensions in recent years (see Section 2).

[53] Eurostat (2023) (https://ec.europa.eu/eurostat/web/income-and-living-conditions/database [ilc_li03]).
[54] The Study Commission on Ageing (2023), pp. 58-60 (https://www.hogeraadvanfinancien.be/nl/publication/jaarlijks-verslag-2023-studiecommissie-voor-de-vergrijzing).
[55] Eurostat (2023) (https://ec.europa.eu/eurostat/web/income-and-living-conditions/database [ilc_di03]).

3.3 Developments in (in)equalities

Although the highest-income quintile among people aged 65+ is receiving an income that is 3.5 times higher than that of the lowest-income quintile, Belgium has a lower level of income inequality among older people (measured by the income quintile share ratio, S80/S20) than the EU average (4.1).

The situation of women and men is very different when considering labour market and health indicators. Women still lag behind in terms of employment in the 55-64 age group, with only about half of women (51.8 %) in employment in 2022 compared with 61.5 % of men. Moreover, women are expected to spend more years in retirement than men according to both indicators measuring retirement duration from the first pension (22.6 years for women versus 20.9 for men) or from the end of employment (23.6 years for women versus 21.1 for men). Health indicators, on the other hand, indicate that women aged 65 have a longer life expectancy than men, but that they do not necessarily live longer in good health. Women aged 65 in 2022 were expected to live on average 21.6 years more, 11.3 of which without moderate or severe health problems. In contrast, men aged 65 were expected to live on average 18.6 more years, 11 of which classed as healthy life years.

Regardless of the above-mentioned differences between men and women, gender inequality in retirement income is shrinking in Belgium. The gender gap in pension income narrowed by 9.6 pp between 2019 and 2022, with a remaining gap of 23.8 % in 2022. In addition, the gender gap in non-coverage rate remained relatively stable compared with 2019, with pension coverage in the 65-79 age group in 2022 being 7.3 pp lower for women than for men. The narrower gender inequality in pension income is probably the consequence of increased female labour market participation among younger cohorts and a smaller gender wage gap[56], but women also benefit more from Belgium's extensive system of assimilated periods. A recent study shows that 39 % of the average employment career of women aged 65 in 2019 was the result of assimilated periods, compared with 30 % for men[57].

Even though women are the main beneficiaries of corrections that reduce the impact of the level of earnings on the statutory pension amount, these do not fully compensate for the differences between men's and women's careers. The AROP rate for people aged 65+ in 2022 remained higher for women (18.4 %) than for men (17.1 %). One reason is that these corrections are mainly put in place in the statutory pension scheme and are therefore insufficient to fully prevent gender inequality in retirement income. Belgium has recently launched new statistics on the gender pension gap based on population register data for recent retirees in 2021. According to these statistics, the gender pension gap was 20 % when only considering statutory pensions, but widened to 50 % when only considering occupational pensions[58].

[56] Barslund et al. (2023) (https://hiva.kuleuven.be/nl/nieuws/docs/rapport-genderdimensie-pensioensysteem-nl.pdf).
[57] Schols et al. (2022) (https://www.plan.be/publications/publication-2226-nl-de_loopbaansamenstelling_van_toekomstig_gepensioneerde_werknemers).
[58] PensionStat.be (2023) (https://www.pensionstat.be/nl/kerncijfers/gender-pensioen).

4 KEY CHALLENGES AND OPPORTUNITIES

As a result of the three separate statutory pension schemes for employees, the self-employed and civil servants, not everyone can benefit from the same replacement rate. Generally, pensions for civil servants are higher due to their more beneficial calculation rules. Efforts have been made to bring pension protection for the self-employed closer to the levels for employees (see Section 2), whereas the statutory pension scheme for civil servants is calculated very differently and therefore difficult to integrate. A first opportunity is to strive for further harmonisation of the three statutory pension schemes.

Occupational pensions for employees and the self-employed are becoming increasingly popular, but to this day not all employees or self-employed workers have access to the occupational pension system, and among those who do have access substantial inequalities exist in the level of occupational pension build-up. In January 2023, 77 % of employees and 56 % of the self-employed were accumulating occupational pensions. 50 % of people aged 56-65 who are accruing occupational pension rights have accumulated at most EUR 10,253, while 1 % of them have accumulated over EUR 709,854[59]. In addition, as briefly mentioned in Section 3.3, there is evidence of gender inequality in the level of occupational pension build-up. A second challenge would thus be to ensure that the statutory pensions of *all* employees and the self-employed are supplemented by an occupational pension, as well as to pursue greater (gender) equality in the build-up of occupational pension benefits.

In Belgium there is a widespread practice that occupational and personal pensions are paid out as a lump sum. Such one-off payments do not protect against the longevity risk. An analysis by the Study Commission on Ageing showed that 97 % of recent retirees in 2017 with an occupational pension received a one-off lump-sum payment[60]. With regards to the longevity risk, allowing the pay-out of supplementary pensions as lump sums can subject pensioners to the risk of outliving their savings. Stimulating occupational pension payments in (monthly) annuities would be a third opportunity to increase the adequacy of the Belgian pension system. However, to date, lump-sum payments in Belgium have been taxed less than payments in the form of annuities[61].

[59] PensionStat.be (2023) (https://www.pensionstat.be/nl/kerncijfers/aanvullend-pensioen/participatiegraad; https://www.pensionstat.be/nl/kerncijfers/aanvullend-pensioen/hoogte-reserves).
[60] The Study Commission on Ageing (2022), p. 64 (https://www.hogeraadvanfinancien.be/sites/default/files/public/publications/hrf_vergrijzing_2022_07.pdf).
[61] FSMA (2023) (https://www.fsma.be/nl/kapitaal-rente).

5 BACKGROUND STATISTICS

5.1. Relative income	2022			Change 2019-2022		
	Total	Men	Women	Total	Men	Women
Relative median income ratio (65+)	0.73	0.77	0.71	-0.05	-0.03	-0.05
Income quintile share ratio (S80/S20) (65+)	3.50	3.78	3.25	0.16	0.26	0.09
Aggregate replacement ratio (ARR) (65-74) (%; change in pp)	48.0	50.0	47.0	2.0	1.0	3.0
5.2. Poverty and material deprivation	**2022**			**Change 2019-2022 (pp)**		
	Total	**Men**	**Women**	**Total**	**Men**	**Women**
At-risk-of-poverty or social exclusion (AROPE) (65+) (%)	20.0	19.1	20.7	2.5	3.0	2.1
At-risk-of-poverty (AROP) rate (65+) (%)	17.9	17.1	18.4	2.2	2.5	1.9
Severe material and social deprivation (SMSD) rate (65+) (%)	3.5	3.2	3.7	0.4	0.7	0.2
At-risk-of-poverty or social exclusion (AROPE) rate (75+) (%)	25.1	25.1	25.1	4.1	2.8	5.1
At-risk-of-poverty (AROP) rate (75+) (%)	23.1	23.2	23.1	4.1	2.5	5.3
Severe material and social deprivation (SMSD) rate (75+) (%)	2.6	2.0	3.1	-0.3	-0.2	-0.3
Relative median at-risk-of-poverty gap (65+) (%)	11.6	10.9	11.8	0.1	-1.5	1.0
At-risk-of-poverty (AROP) rate, 65+: 50 % threshold (%)	7.0	6.7	7.2	0.6	0.6	0.6
At-risk-of-poverty (AROP) rate, 65+: 70 % threshold (%)	38.0	34.6	40.8	3.6	3.2	3.9
Material and social deprivation (MSD) rate (65+) (%)	6.6	5.5	7.6	-0.4	-0.2	-0.4
5.3. Gender difference	**2022**			**Change 2019-2022 (pp)**		
Gender gap in pension income (65-79) (%)	23.8			-9.6		
Gender gap in non-coverage rate (65-79) (pp)	7.3			0.3		
5.4. Housing and health situation	**2022**			**Change 2019-2022**		
	Total	**Men**	**Women**	**Total**	**Men**	**Women**
Housing cost overburden rate (65+) (%; change in pp)	12.4	10.5	14.1	1.5	2.3	1.1
Self-reported unmet need for medical exam 65+ (%; change in pp)	1.5	1.3	1.6	-0.3	-0.3	-0.4
Healthy life expectancy (at age 65) (years) (1)	11.2	11.0	11.3	0.6	0.5	0.6
Life expectancy (at age 65) (years)	20.2	18.6	21.6	-0.4	-0.3	-0.5
	2022			**2062**		
Receiving long-term care cash benefits (65+) (%)	8.5			10.2		
Receiving long-term care in-kind benefits (65+) (%)	20.4			24.4		
5.5 Sustainability and context	**2022**			**Change 2019-2022**		
	Total	**Men**	**Women**	**Total**	**Men**	**Women**
Employment rate (55-64) (%; change in pp)	56.6	61.5	51.8	4.5	4.2	4.8
Pension expenditure (% GDP; change in pp) (1)	12.9			0.1		
Retirement duration from first pension (years) (2)	21.8	20.9	22.6	0.0	0.1	-0.3
Retirement duration from end employment (years) (3)	22.4	21.1	23.6	0.6	0.9	0.1
Projections (4)	**2022**			**2062**		
Old-age dependency ratio (20-64) (%)	33.6	29.6	37.5	51.6	47.0	56.4
Economic old-age dependency ratio (20-64) (%)	45.4	43.3	47.4	63.5	60.1	66.6
Gross public pensions (% GDP)	12.7			15.6		
Benefit ratio (%)	46.4			44.1		
Coverage ratio (65+) (%)	133.9			119.0		
Gross pension ratio high/low earner		2.1	2.1		1.9	1.9

(1) 2021 instead of 2022

(2) Change 2019-2021.

(3) Based on the assumptions of the 2024 Ageing Report for the 2023 average exit ages
(4) For the source of each of these six indicators providing projections by 2062, please see 'Indicators, definitions and abbreviations'.

5.6 Theoretical replacement rates

	Net (%)				Gross (%)			
	2022		2062		2022		2062	
	Men	Women	Men	Women	Men	Women	Men	Women
Standard pensionable age (SPA)	**65.0**	**65.0**	**67.0**	**67.0**				
AWG career duration (years)	**40.1**	**39.9**	**41.7**	**40.8**				
Average Earning (100 %)								
Base case: 40 years up to SPA	77.4	77.4	75.2	75.2	55.4	55.4	51.6	51.6
Increased SPA: from age 25 to SPA	77.4	77.4	76.6	76.6	55.4	53.6	53.2	53.2
AWG career length case	77.4	77.4	77.3	76.2	55.4	55.4	53.7	52.6
Longer career: 42 years to SPA			77.3	77.3			53.7	53.7
Shorter career: 38 years to SPA			73.1	73.1			49.4	49.4
Deferred exit: 42 years to SPA +2			78.4	78.4			54.5	54.5
Earlier exit: 38 years to SPA -2								
Career break – unemployment: 3 years	75.3	75.3	71.7	71.7	53.8	53.8	49.1	49.1
Career break – childcare: 3 years	77.4	77.4	75.2	75.2	55.4	55.4	51.5	51.5
Career break – care for family dependant: 3 years	76.4	76.4	75.1	75.1	54.6	54.6	51.5	51.5
Short career (20-year career)	42.0	42.0	55.1	55.1	26.6	26.6	34.1	34.1
Work 35 years, disabled 5 years prior to SPA			74.7	74.7			50.8	50.8
Early entry in the labour market: from age 20 to SPA			82.8	82.8			59.2	59.2
Index: 10 years after retirement at SPA			72.7	72.7			47.4	47.4
Extended part-time period for childcare			68.8	68.8			45.0	45.0
Survivor ratio 1*		0.6		0.6		0.6		0.6
Survivor ratio 2*		0.7		0.8		0.8		0.8
Low earnings (66 %)								
Base case: 40 years up to SPA	85.0	85.0	89.5	89.5	62.9	62.9	64.7	64.7
AWG career length case	85.0	85.0	89.7	88.5	62.9	62.9	67.3	65.9
Career break – unemployment: 3 years	83.1	83.1	89.2	89.2	61.5	61.5	64.4	64.4
Career break – childcare: 3 years	85.0	85.0	89.2	89.2	62.9	62.9	64.4	64.4
Short career (20-year career)	43.3	43.3	73.1	73.1	32.1	32.1	51.7	51.7
Early entry in the labour market: from age 20 to SPA			93.8	93.8			72.0	72.0
High earnings (100->200 %)								
Base case: 40 years up to SPA	60.4	60.4	56.9	56.9	41.1	41.1	36.3	36.3

**Survivor ratio 1: man base case, woman base case*

**Survivor ratio 2: man base case, woman short career case*

BULGARIA

Highlights

- The pension policy changes occurring in the period between 1 July 2020 and 1 July 2023 are focused on improving the adequacy of the statutory pension scheme.
- During the COVID-19 pandemic, the government provided additional income support to every pensioner through the statutory pension scheme by partial ad hoc increases.
- Despite the significant increase in the minimum and average pension amounts, poverty and social exclusion are still widespread among older people in Bulgaria. The poverty risk is particularly high for older women, indicating the existence of deep gender inequalities.
- In light of the projected decline in the replacement rate for statutory pension schemes, ensuring adequacy from a long-term perspective remains a challenge.

1 GENERAL DESCRIPTION OF THE NATIONAL PENSION SYSTEM

Since 1999, the Bulgarian pension system has developed from a fully unfunded model with only state social security to a mixed model including funded pension schemes. Currently, the Bulgarian pension system has three types of schemes:

(a) statutory pension schemes – the state public social insurance (SPSI) functioning on a pay-as-you-go (PAYG) principle;

(b) statutory funded pension schemes – universal pension funds (UPFs) for those born after 31 December 1959 (auto-enrolment with a possible opt-out) and professional pension funds (PPFs) for people working in arduous and hazardous conditions[62]; and

(c) supplementary pension schemes – voluntary pension insurance funds (VPIFs) and voluntary pension insurance funds with occupational pension schemes (VPIFOSs).

The state's public social insurance is managed by the National Social Security Institute (NSSI). The statutory funded pension schemes and the supplementary pension schemes are managed by licensed joint-stock companies called pension insurance companies (PICs). PICs are supervised by an independent Financial Supervision Commission (FSC) reporting to the Bulgarian National Assembly. As of 2023, there were ten PICs.

[62] Workers in arduous or hazardous jobs (WAHJ) are in two groups: those working under the 1st and the 2nd categories of labour. Insured persons working under the 1st category of labour (mostly miners, divers, aircraft staff and pilots, metallurgists, nuclear power plant workers) are exposed to the arduous and hazardous working conditions to a greater extent compared with the insured people working under the 2nd category of labour. Insured people working under the 3rd category of labour are not excessively exposed to hazardous factors and do not perform arduous tasks on a regular basis. Their working conditions are considered 'normal' and for that reason they do not participate in PPFs.

According to NSSI, in 2022, there were slightly above 2.8 million insured people in the SPSI (monthly average), or 86 % of the labour force aged 15 years or more[63]. Quarterly data on the number of members of statutory funded pension schemes and supplementary pension schemes is published by the FSC. Due to the fact that the definitions of an 'insured person' in the SPSI and the statutory and supplementary funded schemes are different, membership data is not comparable[64].

Participation in the SPSI is mandatory for all economically active people. Only people born after 31st December 1959 could participate in UPFs and since 2015 they have had the opportunity to opt out. At the end of 2022, people who decided to opt out represent 2.2 % of the total number of insured people in the SPSI[65]. Pension contributions are due on gross incomes from employment and/or self-employment (the 'contributory income')[66]. In 2023, the pension contribution rate for insured people working under the 3rd category of labour was 19.8 % for those born before 1960 and 14.8 % for those born after 1959. The pension contribution rate for people who had opted out of UPFs to switch to SPSI was only 19.8 %. Employers paid 55.66 % of the total contribution rate while 44.34 % was paid by employees.

The SPSI provides entitlements related to old-age, disability, and survivors' pensions. The old-age pension benefit is conditional upon a fixed contribution period and reaching a certain age. People aged 70 years or older who do not meet these requirements, are not eligible for any kind of pension, and live in low-income families[67]. They are entitled to the 'social old-age pension'. As of 31 December 2022, 31.5 % of the Bulgarian population received a pension from the SPSI. The old-age pensioners had the biggest share, representing 75.3 % of the total number of pensioners. The number of social old-age pensioners was very low – approximately 0.25 % of the total number of pensioners.[68]

The pensionable age in 2023 was 64 years and 6 months for men and 62 years for women. The pensionable age is set to grow each year by one month for men and two months for women up to 2029 – and thereafter by three months – until it reaches 65 years for women and men. This will be in 2029 for men and 2037 for women. After 2037, the pensionable age for women and men should increase in line with changes in life expectancy on the basis of implementing legislation that has yet to be adopted. The required contribution period (39 years and 4 months for men and 36 years and 4 months for women) in 2023 is also set to increase by two months per year, until it reaches40 years for men and 37 years for women in 2027. From 2023, insured people who do not meet the qualifying conditions might still be eligible for an old-age pension at 67 (both men and women) with the completion of at least 15

[63] Own calculations based on data published by the National Social Security Institute (https://www.nssi.bg/wp-content/uploads/SOD_2022.pdf) and National Statistical Institute, Labour Force Survey (https://www.nsi.bg/en/content/4007/labour-force-and-activity-rates-national-level-statistical-regions-districts).
[64] Data on the number of participants in UPFs, PPFs, VPIFs and VPIFOs can be found here: https://www.fsc.bg/?page_id=41340.
[65] Ministry of Finance (2023). Convergence Programme of the Republic of Bulgaria (https://www.minfin.bg/upload/54908/Convergence+Programme+of+Bulgaria+2023-2026_BG.PDF).
[66] National Revenue Agency, *Social Security Income* (https://nra.bg/wps/portal/nra/osiguryavane/darzhavno-obshtestveno-osiguryavane-doo/osiguritelen-dohod#osiguritelen-dohod1).
[67] Until 31 May 2023, the income per family member for the last 12 months had to be lower than the so-called 'Guaranteed Minimum Income' or BGN 75 (EUR 38) in 2023. From 1 June 2023, people become eligible if the income per family member for the last 12 months is lower than 30% of the official poverty line. The monthly amount of the official poverty line is determined by the Council of Ministers and in 2023 it is BGN 504 (EUR 258) per month.
[68] National Social Security Institute (https://www.nssi.bg/wp-content/uploads/STATB42022.pdf).

years of actual insurance. Pensionable age is lower for some categories of insureds. For example, in 2023, insured people working under the 1st and 2nd categories of labour acquired the right to a pension between 4 years and 6 months and 11 years and 8 months - earlier than the pensionable age if they had 10 years (1st category of labour) or 15 years (2nd category of labour). This applied if the sum of their age and length of contribution period was 94 for women and 100 for men. Self-employed people in Bulgaria retire following the general rules.

The amount of an old-age pension depends on four factors. The average contributory income in the country for the twelve months preceding the month of retirement, the ratio between the personal contributory income and average contributory income in the country for each month from January 2000 to the moment of retirement (the 'individual coefficient'), the total contribution period, and the accrual rate. From July 2022, the pension formula was modified as a lump-sum component of BGN 60 (EUR 31) added to the amount calculated according to the mentioned parameters (for details, see Section 2). A full year of service in some occupations[69] should be counted as between 1.25 and 3 years of insurance by applying specific multipliers. The accrual rate for the calendar contribution period is 1.35 % per full year while the accrual rate for the difference between the total contribution period (with multipliers) and the calendar contribution period (without multipliers) is 1.2 % per full year. Retirement can be deferred without any upper age limit. For the old-age benefit, each additional full year of insurance after reaching the pensionable age has an accrual rate of 4 % without limitations regarding the maximum number of years to which this rate is applicable.

The spouse of a deceased pensioner is entitled to either a survivors' pension of up to 50 % of the pension of the deceased pensioner, which cannot be received with a personal old-age pension, or the 'widows' supplement' equal to 26.5 % of the pension of the deceased pensioner. As of 31 December 2022, only 5.4 % of the pensioners received a survivors' pension, compared with 27.9 % who received the 'widows' supplement.'[70]

The old-age pension cannot be lower than a specified minimum, which as of 31st December 2022 is BGN 467 (EUR 239). The amount of the minimum survivors' pension is 75 % of the minimum old-age pension. The minimum old-age pension amount is determined according to political decisions, and it is not linked to a specific formula. The same is valid for the period between 2021 and 2023 for the maximum pension, which was BGN 3,400 (EUR 1,738) at the end of 2022.

Old-age benefits granted before 31 December of the previous year are indexed yearly as of 1 July of the current year — applying, with equal weight, the increase in the average contributory income in the country and inflation for the previous year as measured according to the harmonised consumer price index (HICP) methodology (the so-called 'Swiss rule'). With some exceptions, the social-old-age pension is usually indexed by the same percentage as the old-age pension benefit.

Old-age pensioners can perform paid work and combine pensions and earnings without any restrictions. According to some estimates, more than 22 % of old-age pensioners continue

[69] These are the insured people working under 1st and 2nd categories of labour (WAHJ), military servicemen, policemen and some groups of civil servants from the inferior security and national defense systems, ballet dancers.
[70] National Social Security Institute (https://www.nssi.bg/wp-content/uploads/STATB42022.pdf).

working.[71] Pensioners do not pay social and health insurance contributions on their pensions, and pensions are not subject to taxation.

UPFs provide a supplementary old-age pension upon reaching pensionable age. The payment of a pension could start up to one year before reaching pensionable age if the accumulated amount allows lifetime monthly payments that are not less than the minimum old-age pension. PPFs provide a fixed-term early retirement old-age pension to insured people having sufficient periods of contributions under the 1st and 2nd categories of labour, which is paid upon reaching pensionable age.

The contribution rate to UPFs remained at 5 % from 2007 to 2023: 2.2 % paid by the employee and 2.8 % paid by the employer. The contribution rate for PPFs is 7 % (2nd category of labour) and 12 % (1st category of labour), paid by the employer.

The first cohort of pensioners started drawing annuities from UPFs in 2021. At the end of the first quarter of 2023, the number of people receiving a payment from UPFs was only 0.7 % of the total number of pensioners from the SPSI. More than 90 % of them (12,802 people) received fixed-term scheduled payments, while the share of the lifetime pension recipients was below 10 % (1,392 people).[72]

The amount of the lifetime benefit paid by the funded schemes is based on the accumulated sums in individual accounts, the technical interest rates approved by the regulatory body, and the life expectancy tables. The lifetime benefit amounts are updated once per year according to the profitability of the pension fund assets and following the arrangements included in the contract between the pensioner and the respective PIC.

2 REFORM TRENDS

The main characteristics of the pension policy changes occurring in the period from 1st July 2020 to 1st July 2023 can be summarised as follows: (a) emphasis on improving the adequacy of the statutory pension insurance scheme through ad-hoc pension increases to address the additional risks caused by the COVID-19 pandemic; (b) using the statutory pension scheme as one of the main policy instruments to channel government-provided income support to households during the COVID-19 pandemic; and (c) regulating the payout phase of the statutory funded pension scheme. The measures, taken in a context of repeated parliamentary elections over the last 3 years, included numerous changes in statutory pension parameters and the additional provision of lump-sum pension supplements. While striving to improve the adequacy of public pensions, the measures were mostly ad hoc rather than systemic in nature, foregoing actuarial projections or consultations.

Indexation rules were adjusted repeatedly. Contributory pensions granted before 31 December of the previous year were indexed as of 1 July by 6.7 % in 2020, 5.0 % in 2021, and 10 % in 2022. The indexation percentages in 2021 and 2022 were higher than those that would have been applied if the legislatively embedded indexation rules had been followed: 4.8 % and

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[71] Tosheva, E. (2021), 'Work after Retirement – Trends in Bulgaria for the 2009-2019 Period', *Economic and Social Alternatives*, 29(2), pp. 5-18 (https://doi.org/10.37075/ISA.2021.2.01).
[72] Financial Supervision Commission (https://www.fsc.bg/?page_id=41340).

6.1 % respectively. Public authorities also implemented several ad-hoc policy measures in addition to the statutory indexation, resulting in a significant increase in pension amounts. In the period from 31 December 2020 until 31 December 2022, the minimum old-age pension amount rose by 86.8 % and the social old-age pension amount rose by 74.4 % over the same period. Surprisingly, the increase in maximum pension amount was the biggest, by far. In December 2022, it reached a level more than 283 % higher than its December 2020 level. Pension indexation of 12 % was implemented in July 2023 in accordance with the 'Swiss rule'.

In relation to the pandemic, in addition to pension indexation, the government provided a monthly supplement to every pensioner, regardless of their pension amount, for the period between August 2020 and June 2022[73].

As a measure for promoting vaccination among pensioners at the end of 2021, the government devoted an additional BGN 100 million as a one-off individual payment of BGN 75 (EUR 38) in addition to pensions. This additional pay was targeted at those pensioners who had completed their COVID-19 vaccination (one course or booster) between 31 December 2021 and 30 June 2022.[74]

Another anti-crisis measure, in force from February until the end of 2023, is an additional 20 % discount on monthly public transport cards for old-age pensioners.[75] In 2021, the Agency for Social Assistance provided additional one-off financial support for food to people with a pension below the poverty line[76] (approximately 19.5 % of all pensioners). In April 2022, all pensioners received a lump sum ('Easter pension supplement')[77]. In April 2023, the 'Easter pension supplement' was received by pensioners whose pension amount is less than the poverty threshold.

The lump-sum COVID-19 supplements and the supplements to promote vaccination rates among older people were implemented together with other measures towards providing better income support to pensioners. As of 25 December 2021, the accrual rate for each full year of service (without multipliers) was increased from 1.2 % to 1.35 % for a full year. Moreover, almost 52 % of all pensioners whose pension income (COVID-19-related supplements included) fell in January 2022 compared with December 2021 were granted an additional lump-sum supplement to compensate for the difference[78]. This supplement, popularly coined 'individual compensation,' was paid for six months – from January to July 2022.

In April 2022, the government adopted another policy change. Its goal was to prevent a decline in pension income after the end of the period during which the COVID-19 lump-sum supplements were paid and to correct some unfair consequences of the pension indexation rules that had accumulated over the years. As of 1st July 2022, public authorities de facto changed the existing pension formula by deciding that lump-sum supplements related to the

[73] National Social Security Institute, *Pensions 2020* (https://www.nssi.bg/wp-content/uploads/STATB32020.pdf); National Social Security Institute, *Pension Update* (https://www.nssi.bg/fizicheski-lica/pensii-bg/osyvremeniavane-na-pensii/ – accessed 30 May 2023).
[74] National Social Security Institute (https://www.nssi.bg/wp-content/uploads/Bul_1_2022.pdf).
[75] Darik News (https://dariknews.bg/novini/bylgariia/ot-1-fevruari-bezplaten-gradski-transport-za-deca-do-10-g.-otstypki-za-uchenici-i-pensioneri-2337164).
[76] Social Assistance Agency (https://asp.government.bg/uploaded/files/6395-YearlyASP-site.pdf).
[77] National Social Security Institute (https://www.nssi.bg/wp-content/uploads/STATB22023.pdf).
[78] National Social Security Institute (https://www.parliament.bg/pub/cW/20220114101006_Analiz_Pensii.pdf).

COVID-19 pandemic and subsequent individual compensations should be automatically added to the amount of already granted contributory pensions. For those to be granted in the future, a lump-sum component of BGN 60 (EUR 31) is added to the pension's amount. Another change took place as of 1 October 2022, when all contributory pensions were recalculated using the accrual rate applicable in the month and year of granting the pension and then by applying retroactive indexing with either inflation or the increase in average contributory income in the country (whichever is higher) for each year since 2008.It was decided that pensions granted before 2008 would be treated as if they were granted in 2008. If the result of this retroactive indexing is not in favour of the pensioner, the original amount would be preserved.

Adopted in March 2021, the legal regulation of the statutory funded pension scheme payout phase was another very important feature of policy changes. It was preceded by a change in the statutory pension scheme formula adopted in December 2020, in force as of 1st September 2021. It implied that the pension amount should consider pensioners' length of participation in the UPFs compared with their total contribution period. The payout phase rules stipulated that people insured in UPFs can either receive a lump sum, a scheduled fixed-term payment, or a lifetime pension. A lifetime pension is granted only if its amount, calculated at the time of retirement, is higher than 15 % of the minimum old-age pension amount determined by the law in the budget of the SPSI. In all other cases, pensioners receive either a lump sum or a scheduled fixed-term payment if the total accumulated funds in the individual account are higher than three times the minimum old-age pension amount.

3 ASSESSMENT OF ADEQUACY

3.1 Current adequacy

The aggregate replacement ratio (ARR) for Bulgaria in 2022 remained low at 36 %, with a large difference between the genders (43 % for men and 34 % for women). Data points to a significant loss of income once retired, especially concerning women's pension earnings. ARR has remained practically unchanged since 2008, pointing to persistent structural issues.

In 2022, the at-risk-of poverty or social exclusion (AROPE) rate for those aged 65+ is 45.5 % (34.5 % for men and52.8 % for women), compared with the 20.2 % EU average (16.7 % for men and 22.9 % for women). It is further increasing with age to 56.2 % among people aged 75+ (39.9 % for men and 65.3 % for women). Since 2019, AROPE for women aged 75+ has increased by 5 pp while for men it has slightly decreased by 0.5 pp It is more common for women to live alone in their later ages and lack social support, which makes them more vulnerable to falling into poverty and social exclusion.

The at-risk-of-poverty (AROP) rate among pensioners is much higher than the EU average and has a significant gender gap. In 2022, the AROP rate in old age was 35.6 % – 23.7 % for men and 43.5 % for women (the latter with a 4 pp change since 2019) – reflecting gender inequalities in pension adequacy. The AROP rate also increased in advanced old age, reaching 47.9 % among people aged 75+: 29.8 % for men and 57.9 % for women.

As regards the depth of poverty, the relative median AROP gap for those aged 65+ in 2022 was 22.2 %: 17.6 % for men versus 22.9 % for women. In other words, among older women with an income below the AROP threshold, their median income is 22.9 % lower than the threshold.

In 2022, the severe material and social deprivation (SMSD) rate for those aged 65+ was 24.2 %: 19.4 % for men and 27.3 % for women. Since 2019, SMSD rates demonstrates a decrease for both the 65+ and 75+ age groups of -5.8 pp. Bulgaria still has the second highest severe material and social deprivation rate in the EU.

In 2022, the material and social deprivation (MSD) rate for people aged 65 or more was 41.9 % (34.4 % for men versus 46.9 % for women) but has fallen by -7.9 pp (-8.7 pp for men versus – 7.3 pp for women) since 2019.

In 2022, life expectancy at 65 was 13.2 years for men and 17.3 years for women in Bulgaria. It remains well below the EU average for both genders (17.8 years for men, and 21.2 years for women), and it has decreased by 0.9 years since 2019. Healthy life years expected at 65 are below the EU average of 9.7 years and total 8.4 years: 7.7 years for men and 9 years for women. Self-reported unmet need for medical examination is small – at 3.5 %, without major differences between men and women – indicating that reasons for low life expectancy may be found in the quality of medical care, and the overall quality of life rather than in access to healthcare. Recent scientific research shows that older Bulgarians tend to neglect their own health since earlier ages.[79] The difference between life expectancy and the healthy life years expected at 65 indicates that, on average, at the end of their lives, men would spend about four years in need of serious medical care, while the figure for women is around six and a half years.

Housing costs weigh heavily on people aged 65+, especially women. Housing cost overburden rate for people aged 65+ in 2022 was 24.7 %: 16.5 % for men versus 30.1 % for women, while the EU average was 10.7 %. Housing allowances in Bulgaria are negligible in scope and amount. One of the few groups that can benefit are people aged 70 and over accommodated in social housing. According to the Annual report of the Agency for Social Assistance in 2022, only 45 people monthly were supported by housing allowances in the whole country.[80]

3.2 Future adequacy

Assuming a standard 40-year career and average earnings, theoretical replacement rates (TRRs) were projected to fall between 2022 and 2062 by 8.1 pp and 10.5 pp for the gross and net replacement rates for men and women respectively. TRRs highlight the importance of longer careers for future adequacy, especially for men. The impact on men's TRR of a slightly shorter career (38 years to standard pensionable age) and of a 3-year career break due to unemployment is considerable. Their projected TRR for 2062 is only 12.2 % in both cases as opposed to 61.6 % for women. This major gender difference in these two specific scenarios

[79] Tosheva, E., Markova, E. and Yordanova, G. (2021), 'Before and during the outbreak: prerequisites for the high COVID-19 mortality rate in Bulgaria: Empirical insights from SHARE data', *Revista Inclusiones* 8 (Special Issue October), pp. 44–61. https://doi.org/10.5281/zenodo.8009870.

[80] Annual Report of the Agency for Social Assistance 2022.

is due to the fact that the contribution period required for an old-age pension at the age of 65 from SPSI is 40 years for men versus 37 years for women and that only periods during which an unemployment benefit can be received (which is limited to 12 months) are considered as contribution periods. Contrary to women, in these two scenarios, men do not meet the eligibility conditions and can only rely on a pension from the statutory funded schemes for a period of two years. This happens upon reaching age 67 or the 40-year contribution period, when an old age pension from SPSI is granted and the TRR level in 2062 is equal to those of women.

National projections show that in the next three years, as a result of pension adequacy policies implemented in 2021 and 2022, the public pension expenditure will increase significantly and reach 11 % of GDP. This will have a favourable influence on the net replacement rate[81] of the SPSI pensions, which is expected to rise from approximately 52 % in 2022 to 56-57 % in 2026.[82] Nevertheless, these policy measures increased the social security deficit and, hence, the reliance on state subsidies to maintain the system's financial balance. In 2023, it was expected that the share of state subsidies in total revenues would reach 47 %[83], compared with 40 % in 2022[84].

In the long run, however, the net replacement rate of SPSI pensions is projected to drop significantly and reach 37 % in 2070[85]. This downward trend could be explained by the two important features of the current pension legislation. On one hand, the SPSI pension amount granted to people insured both in SPSI and UPFs at retirement is adjusted to address the fact that during their working career, part of the total pension contributions were diverted to UPFs. On the other hand, the current pension indexation rule causes pension growth to lag behind the evolution of wages, which to a certain extent mitigates the adverse effect of ageing on the financial sustainability of the public pension system. For that reason, despite its fast-growing old-age dependency ratio, national projections suggest that in the next three decades, in Bulgaria, the share of statutory pension scheme expenditures in GDP will decrease and fall by almost 2 pp[86].

Currently, there are no publicly available projections of the expected trends in the amounts of pensions paid from UPFs, so it is not possible to construct a comprehensive picture of the future developments in pension adequacy in Bulgaria.

3.3 Developments in (in)equalities

Between 2019 and 2022, the values of the main income inequality indicators remained practically unchanged. In 2022, the relative median income ratio reached 0.68 (+0.01 pp) while the income quintile share ratio (S80/S20) was 4.98 (+0.06.), respectively. It can be

[81] Average pension to net average contributory income in the country.
[82] Ministry of Finance (2023), *Convergence Programme of the Republic of Bulgaria* (https://www.minfin.bg/upload/54908/Convergence+Programme+of+Bulgaria+2023-2026_BG.PDF).
[83] Law on the Budget of State Public Social Insurance for 2023 (https://www.nssi.bg/wp-content/uploads/zbdoo-2023.pdf).
[84] National Social Security Institute (2023), *Report on the Implementation of the Annual Budget of the State Public Social Insurance for 2022* (https://www.parliament.bg/pub/plenary_documents/49-310-00-1_Otchet_izpalnenie_byudzhet_na_DOO_2022.pdf).
[85] Ministry of Finance (2023), *Convergence Programme of the Republic of Bulgaria* (https://www.minfin.bg/upload/54908/Convergence+Programme+of+Bulgaria+2023-2026_BG.PDF).
[86] Ibid.

concluded that income inequalities persist, both between older people and other population groups and within the group of older people itself.

The relative median income ratio for women was 0.61 compared with 0.81 for men, which can be linked to the fact that female pensioners had significantly lower replacement rates than their male counterparts (see ARR above). This is caused by several reasons. On average, women acquire pensions with shorter contribution periods: the difference was 2.3 years for the pensioners whose old-age pensions were granted in 2022 (36.9 years for men and 34.6 years for women)[87]. Women were overrepresented among the invalidity (56 % to 44 % in 2022) and survivors' (79 % to 21 % in 2022) pension recipients whose pension amounts were lower than the average pension. Men dominated among pensioners receiving higher pensions, reproducing former gender pay inequalities. Also, it was more likely for male pensioners to remain in employment after retirement. In 2021, 20 % of old-age male pensioners were working compared with 10 % of female old-age pensioners.[88] This results in their pensions being recalculated and increased with the accrual rate for each additional year of paid employment.

There are other unsolved issues, mostly negatively affecting the oldest pensioners, women in particular. Between 2019 and 2022, the gender gap in pension income in the 65 to 79 year age group widened by 3 pp, reaching 24.3 %. In parallel, the at-risk-of-poverty (AROP) rate for women aged 75 and above soared by 9.9 pp while it rose by only 0.6 pp for men in the same age group. This shows that over that period, the relative position of the oldest women deteriorated. Given the gender differences in life expectancy at 65 years, 13.2 years for men and 17.3 years for women, the likelihood that female pensioners will live alone in their later years is very high. As the increase in women's poverty in advanced old age is linked to survivorship and living single, the drop in life expectancy at 65 years may be a significant factor behind the increase in AROP rate for women aged 75 and more. As the pension indexation does not compensate for the full increase in wages in the country, it also widens the gap between the pension income of the oldest pensioners, who are mostly female (in 2022, 65 % of all pensioners aged 75+ were female), and the pension income of people who retired more recently. As a result, at the end of 2022, women aged 75+ represented 29 % of the group of pensioners with the lowest pensions.[89] Their share in the total number of pensioners was less than 21 %.[90]

In conclusion, since 2019, the development of inequalities has been shaped by both demographic and policy-related factors. The negative dynamics of life expectancy at 65, pension indexation, and the evolution of the maximum pension amount compared with the changes in the minimum pension have all contributed to the decline in the relative position of the oldest pensioners, including women.

[87] National Insurance Institute (2023), *Annual Statistical Yearbook Pensions 2022* (https://www.nssi.bg/wp-content/uploads/YEARBOOK_Pensions_2022.pdf).
[88] National Social Security Institute (2022), *Annual Statistical Yearbook Pensions 2021* (https://www.nssi.bg/wp-content/uploads/YEARBOOK_Pensions_2021.pdf); National Social Security Institute (2023), *Annual Statistical Yearbook Pensions 2023* (https://www.nssi.bg/wp-content/uploads/YEARBOOK_Pensions_2022.pdf).
[89] BGN 600 (EUR 307) per month or less, without supplements. The choice of the threshold is arbitrary and was imposed by the format of the publicly available administrative data.
[90] National Social Security Institute (2023), *Annual Statistical Yearbook Pensions 2022* (https://www.nssi.bg/wp-content/uploads/YEARBOOK_Pensions_2022.pdf).

4 KEY CHALLENGES AND OPPORTUNITIES

Compared with the working-age population, older people are exposed to a higher risk of poverty, and material and social deprivation. Some groups, especially older women and people over 75 years, experience cumulative forms of exclusion. These include very low incomes, severe material deprivation, deteriorating health in the later ages, and heavy housing costs.

Recent policy initiatives improved overall pension adequacy but failed to address existing gender and age-related inequalities. Population ageing and the current high reliance of the public pension system on state budget subsidies provide limited space for improving future pension adequacy. The pension formula and existing indexation rules withhold the upward evolution of replacement rates as well.

In addition to ensuring the adequacy of old-age benefits provided by the statutory scheme, efficiently mobilising other elements of the social protection system, including social assistance, labour market policy, and healthcare policies, represents an opportunity to better address the needs of older people in Bulgaria.

5 BACKGROUND STATISTICS

	2022			Change 2019-2022		
5.1. Relative income	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**
Relative median income ratio (65+)	0.68	0.81	0.61	0.01	0.07	-0.02
Income quintile share ratio (S80/S20) (65+)	4.98	4.93	4.73	0.06	-0.22	0.09
Aggregate replacement ratio (ARR) (65-74) (%; change in pp)	36.0	43.0	34.0	-1.0	1.0	-1.0
5.2. Poverty and material deprivation	**2022**			**Change 2019-2022 (pp)**		
	Total	**Men**	**Women**	**Total**	**Men**	**Women**
At-risk-of-poverty or social exclusion (AROPE) (65+) (%)	45.5	34.5	52.8	-1.5	-3.6	-0.1
At-risk-of-poverty (AROP) rate (65+) (%)	35.6	23.7	43.5	1.0	-3.5	4.0
Severe material and social deprivation (SMSD) rate (65+) (%)	24.2	19.4	27.3	-5.8	-5.1	-6.4
At-risk-of-poverty or social exclusion (AROPE) rate (75+) (%)	56.2	39.9	65.3	3.1	-0.5	5.0
At-risk-of-poverty (AROP) rate (75+) (%)	47.9	29.8	57.9	6.8	0.6	9.9
Severe material and social deprivation (SMSD) rate (75+) (%)	25.7	19.9	28.9	-5.8	-3.5	-7.2
Relative median at-risk-of-poverty gap (65+) (%)	22.2	17.6	22.9	1.5	-2.2	1.9
At-risk-of-poverty (AROP) rate, 65+: 50 % threshold (%)	23.2	12.2	30.4	2.4	-3.0	5.8
At-risk-of-poverty (AROP) rate, 65+: 70 % threshold (%)	45.8	33.7	53.7	-1.5	-6.1	1.4
Material and social deprivation (MSD) rate (65+) (%)	41.9	34.4	46.9	-7.9	-8.7	-7.3
5.3. Gender difference	**2022**			**Change 2019-2022 (pp)**		
Gender gap in pension income (65-79) (%)	24.3			3.0		
Gender gap in non-coverage rate (65-79) (pp)	-3.5			-1.6		
5.4. Housing and health situation	**2022**			**Change 2019-2022**		
	Total	**Men**	**Women**	**Total**	**Men**	**Women**
Housing cost overburden rate (65+) (%; change in pp)	24.7	16.5	30.1	-1.1	-2.9	0.0
Self-reported unmet need for medical exam 65+ (%; change in pp)	3.5	2.8	3.9	-0.2	-0.7	0.1
Healthy life expectancy (at age 65) (years) (1)	8.4	7.7	9.0	-1.5	-1.5	-1.4
Life expectancy (at age 65) (years)	15.4	13.2	17.3	-0.9	-1.0	-0.8
	2022			**2062**		
Receiving long-term care cash benefits (65+) (%)	2.6			3.1		
Receiving long-term care in-kind benefits (65+) (%)	1.8			1.7		
5.5 Sustainability and context	**2022**			**Change 2019-2022**		
	Total	**Men**	**Women**	**Total**	**Men**	**Women**
Employment rate (55-64) (%; change in pp)	68.2	73.3	63.5	3.8	4.1	3.6
Pension expenditure (% GDP; change in pp) (1)	9.0			1.4		
Retirement duration from first pension (years)	16.6	14.0	18.9	-1.1	-1.3	-1.2
Retirement duration from end employment (years) (2)	17.5	14.7	19.8	0.3	0.2	0.3
Projections (3)	**2022**			**2062**		
Old-age dependency ratio (20-64) (%)	36.6	28.7	44.8	66.7	57.8	76.1
Economic old-age dependency ratio (20-64) (%)	45.1	38.0	51.6	80.2	75.4	84.4
Gross public pensions (% GDP)	9.5			9.7		
Benefit ratio (%)	31.1			24.6		
Coverage ratio (65+) (%)	136.9			101.4		
Gross pension ratio high/low earner		2.4	2.4		2.2	2.2

(1) 2021 instead of 2022

(2) Based on the assumptions of the 2024 Ageing Report for the 2023 average exit ages
(3) For the source of each of these six indicators providing projections by 2062, please see 'Indicators, definitions and abbreviations'.

5.6 Theoretical replacement rates

	Net (%)				Gross (%)			
	2022		2062		2022		2062	
	Men	Women	Men	Women	Men	Women	Men	Women
Standard pensionable age (SPA)	**64.4**	**61.8**	**65.0**	**65.0**				
AWG career duration (years)	**40.3**	**37.4**	**41.1**	**38.8**				
Average Earning (100 %)								
Base case: 40 years up to SPA	76.2	76.2	65.7	65.7	59.1	59.1	51.0	51.0
Increased SPA: from age 25 to SPA	75.2	70.7	65.7	65.7	58.3	54.9	51.0	51.0
AWG career length case	76.8	71.6	67.4	63.8	59.6	55.6	52.3	49.5
Longer career: 42 years to SPA			69.1	69.1			53.6	53.6
Shorter career: 38 years to SPA			12.2	61.6			9.5	47.8
Deferred exit: 42 years to SPA +2			75.2	75.2			58.3	58.3
Earlier exit: 38 years to SPA -2								
Career break – unemployment: 3 years		72.7	12.2	61.6		56.4	9.4	47.8
Career break – childcare: 3 years	76.2	76.2	65.0	65.0	59.1	59.1	50.4	50.4
Career break – care for family dependant: 3 years	76.2	76.2	64.5	64.5	59.1	59.1	50.1	50.1
Short career (20-year career)			6.2	6.2			4.8	4.8
Work 35 years, disabled 5 years prior to SPA			60.4	60.4			46.8	46.8
Early entry in the labour market: from age 20 to SPA			74.3	74.3			57.6	57.6
Index: 10 years after retirement at SPA			59.9	59.9			46.5	46.5
Extended part-time period for childcare			59.1	59.1			45.9	45.9
Survivor ratio 1*		0.6		0.6		0.6		0.6
Survivor ratio 2*		0.5		0.5		0.5		0.5
Low earnings (66 %)								
Base case: 40 years up to SPA	79.6	79.6	66.0	66.0	61.8	61.8	51.2	51.2
AWG career length case	80.2	75.0	67.7	64.1	62.2	58.2	52.5	49.7
Career break – unemployment: 3 years		76.1	12.2	61.6		59.1	9.4	47.8
Career break – childcare: 3 years	79.6	79.6	65.3	65.3	61.8	61.8	50.6	50.6
Short career (20-year career)			6.2	6.2			4.8	4.8
Early entry in the labour market: from age 20 to SPA			74.5	74.5			57.8	57.8
High earnings (100->200 %)								
Base case: 40 years up to SPA	63.5	63.5	47.3	47.3	49.3	49.3	36.7	36.7

**Survivor ratio 1: man base case, woman base case*
**Survivor ratio 2: man base case, woman short career case*

CROATIA

Highlights

- The aggregate replacement ratio fell from 39 % in 2019 to 37 % in 2022, and was among the lowest in the EU.
- Croatia has taken steps to improve minimum income protection, including the introduction of a basic benefit for older people who are not entitled to a contributory old-age pension in 2021, and increasing the amount of the minimum pension and the survivor pension in 2023.
- Furthermore, from 2023 old-age and disability pension can be combined with a partial survivor pension.
- Key opportunities to address challenges include promoting longer working lives, changing the way pensions are taxed and indexed, and protecting low-income pensioners by ensuring access to minimum income or housing benefits.

1 GENERAL DESCRIPTION OF THE NATIONAL PENSION SYSTEM

Since 2002 the Croatian pension system has been a mixed system, consisting of three schemes. The legislative framework is complex and has been changed frequently[91]. The statutory pension scheme is designed as a pay-as-you-go (PAYG) system financed by contributions, with a deficit financed by the state, which was around 38.9 % for 2022[92]. In addition, there are two funded schemes: the statutory funded pension scheme and supplementary pensions. They are defined-contribution schemes based on individual accounts financed from contributions and investment returns. The statutory funded pension scheme is mandatory, while the supplementary pension scheme is voluntary, and includes both 'open funds' for all citizens and 'closed funds' sponsored by employers, trade unions or other professional associations. Closed funds within the supplementary pension scheme therefore have some features of occupational pension schemes, although Croatia has no specific framework for occupational defined-benefit pension schemes.

Regarding personal coverage, the statutory pension schemes cover all people in employment and self-employment (including those on maternity, paternity and parental leave and sick

[91] Currently it consists of several basic laws: the Pension Insurance Act (OG 157/2013, 151/2014, 33/2015, 93/2015, 120/2016, 18/2018, 62/2018, 115/2018, 102/2019, 84/2021, 119/2022); the Act on Compulsory Pension Funds (OG 19/2014, 93/2015, 64/2018, 115/2018); the Act on Voluntary Pension Funds (OG 19/2014, 29/2018, 115/2018); and the Act on Pension Insurance Companies (OG 22/2014, 29/2018, 115/2018). However, there are altogether 18 laws relevant to the pension system.

[92] There is a trend of falling state expenditure, due to a recent employment increase (in 2018 it increased to approximately EUR 2.166 billion, in 2019 EUR 2.253 billion, in 2020 EUR 2.575 billion, in 2021 EUR 2.423 billion, and in 2022 EUR 2.242 billion). Source: Author's calculations based on information from the reports of the Croatian Pension Insurance Institute (http://www.mirovinsko.hr/UserDocsImages/Izvjesce_o_radu_i_poslovanju_Zavoda).

leave), and some others including full-time volunteers, apprentices and parents with children aged under 1. All insured people who were under 40 at the time of the 2002 reform had to participate in both the public pension scheme and the statutory funded pension scheme. Those aged 40-50 could choose between staying only in the public pension scheme or additionally joining the statutory funded scheme, while those over 50 had to remain within the public pension scheme. The dependency ratio within the public pension scheme grew rapidly between 1990 and 2014, being itself a major driver of the reforms. Since 2010 it has been higher than 80 %, reaching a peak of 87.57 % in 2014. In March 2023 there were 1.32 employees per pensioner, making the dependency ratio 75.75 %. It is useful to note that during the summer months the dependency ratio improves thanks to tourism (reflecting the seasonal character of the Croatian economy). The number of individual accounts within the statutory funded pension scheme is always higher than the number of contributors, because the scheme's accounts are kept inactive during a period of unemployment. The number of savers within the supplementary pension schemes is growing. In 2016, 20.6 % of employees were members of these schemes; in 2021 the figure increased to 25.2 %[93].

The total contribution rate for the statutory schemes is 20 %. People covered only by the PAYG scheme pay all their contributions to the statutory pension scheme, while those in both schemes pay 15 % to the PAYG pension scheme and 5 % to the statutory funded pension scheme. Since January 2017, due to tax reform, people receiving non-regular income from employment and self-employment ('other income') have paid contributions at a reduced rate (10 % instead of 20 %). The pension contribution is paid from an employee's wages or the 'pension insurance base' (for self-employed people and other categories). Contributions paid for mandatory pension schemes are tax-exempt, while pension payments are taxed. Contributions paid for voluntary schemes are not tax-exempt[94], although employers' matching contributions are[95]. The supplementary pensions in payment are therefore normally tax-exempt; they are only partially taxed, in proportion to the tax relief awarded during the accumulation phase.

The pensionable age still differs for men and women, although it will be equalised at 65 by 2030. In 2020 the pensionable age for men was 65, and for women 62 years and 6 months, while in 2023 for women it was 63 years and 3 months. The early retirement age is set five years lower. Regarding qualifying years, 15 years are required for old-age retirement, while for early retirement the requirement is 35 years. In addition, since 2014 there have been two early-retirement options without pension reduction: (a) at 60 for those who have completed at least 41 years of contributions; and (b) for people who have reached early retirement age and have been unemployed for at least two years as a result of the bankruptcy of their employer. Deferred retirement is possible but with an accrual bonus for a maximum of only five years (hence, up to age 70). Since 2014, old-age pensions have been paid in full only to beneficiaries who continue to be employed part time up to a maximum of half of the full working hours (i.e. a maximum of 20 hours per week). The Labour Act, as well as many laws in the public sector, still links automatic termination of employment to reaching age 65 (e.g.

[93] Ibid.
[94] The government stopped the income tax incentive in 2010.
[95] Since 2010, up to EUR 66 per month or a total of EUR 790 per year. The government has provided a matching contribution of 15 % for savers in the supplementary pension scheme, up to a ceiling of EUR 100.

in the education sector), while with regulatory recent changes it is subject to the contract between the company and the employee[96]. The pension amount is calculated by multiplying the personal points by the pension factor and the current value of the pension. Personal points depend on the pension length of service and the wages that the insured person has earned during their working life; they are determined by multiplying the average value points by the total pension length of service and the starting factor, and are calculated equally for all types of pensions. Value points are calculated by dividing the salary (i.e. the insurance base) by the average annual salary of all employees in the Republic of Croatia for the same calendar year.

Indexation of pensions is applied from 1 January and 1 July of each calendar year. It is determined by adding up the rate of change in the average consumer price index in the previous half-year compared with the half-year preceding it and the rate of change in the average gross salary of all employees in the Republic of Croatia in the previous semester compared with the semester that precedes it. According to the formula for indexation it takes into account 70 % of the factor that grew by a bigger percentage and 30 % of the factor that grew by a smaller one.

Croatia has numerous groups of pensioners (determined by special legislation) who have earned their pensions under more favourable conditions, based on their status[97]. In March 2023 there were 18 categories, accounting for 14.96 % of all pensioners. The biggest group is war veterans, and in 2017 the government changed the legislation to provide more extensive rights for these beneficiaries[98]. In addition, people who perform hazardous and arduous work, as well as some other categories (e.g. people with certain disabilities), enjoy pension advantages in the form of additional years of service and a retirement age reduction, partially financed by employers' additional contributions[99].

2 REFORM TRENDS

The Croatian government implemented some economic activity support measures during the COVID-19 crisis[100] that may affect future pension adequacy. Among these measures, support for preserving jobs should be highlighted. The government prevented the dismissal of employees by providing some groups of employers with support that covered 100 % of the minimum net salary and contributions for pension insurance. The government only paid contributions on the gross minimum wage, which reduced the amount of contributions for those who earned more than the minimum wage before the pandemic. However, these support measures may have a very limited impact on future pensions, because such support was provided to employers/employees in a short period of a few months.

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[96] https://www.mirovina.hr/mirovine/je-li-nuzno-raditi-nakon-65-godine-mora-postojati-dogovor-ali-ne-smije-postojati-obveza/

[97] Croatian Pension Insurance Institute, *Statistical Information*, 1/2020, p. 33.

[98] Zakon o hrvatskim braniteljima iz Domovinskog rata i članovima njihovih obitelji [Act on Croatian War Veterans and Members of Their Families], OG 121/17.

[99] Vukorepa, I. (2017), 'Retirement policy changes for workers in arduous and hazardous jobs: Comparative overview and lessons for Croatia', *Zbornik Pravnog fakulteta u Zagrebu*, Vol. 67, No 1, pp. 5-28.

[100] See Bežovan, G., Šućur, Z. and Babić, Z. (2021), *ESPN Thematic Report: Social protection and inclusion policy responses to the COVID-19 crisis – Croatia*, European Social Policy Network, Brussels: European Commission.

Croatia introduced a basic benefit[101] for older people without pensions or other means of income. In 2020 the government passed the Act on National Benefit for Older People[102]. The benefit is targeted at citizens aged 65+ who have resided in Croatia for 20 years and whose annual income does not exceed EUR 120.71 in 2023 per household member per month (0.8 % of people aged 65+ in 2023)[103].

From 1 January 2023 changes were made to survivor pensions. Widows and widowers can choose only the survivor pension, which will then amount to 77 % of the deceased partner's pension for one family member, instead of the previous 70 %: but they can also choose another option, which is to continue receiving their own pension and an additional 27 % of the survivor pension. The survivor pension, apart from exceptional cases, can be received by people aged 65+ up to the maximum amount of EUR 869 per month. In addition, the pensions of deceased partners will be adjusted from the time of their death until the most recent indexation of pensions.

Amendments to the above act from 2023 increase the monthly starting factor for calculating pensions for employees who, in agreement with their employer, continue to work after the age of 65. For them, the starting factor rises from 0.34% to 0.45%. In addition, the starting factor of 0.15 % for the pensions of insured people with long service was restored.

Amendments to the national pension legislation abolished the reduction of privileged pensions, which was introduced in 2010 so that pensions greater than EUR 464.53 per month will gradually return to the old amounts. From 1 July 2023 pensions determined or realised according to special regulations on pension insurance will be reduced by 5 % until 31 December 2023 instead of the current 10 %. The Pension Reduction Act expires on 31 December 2023, and from 1 January 2024 pensions will no longer be reduced[104].

In the amendments to the Labour Act (2022) there was one important change for pensioners who work in retirement. The new provision is that employers will not pay severance pay[105], nor will they set a notice period for people who are over 65 with 15 insurance years and who want to retire. In addition, the state, not the employer, will pay sick leave for pensioners who are working[106]. In this way employers are encouraged to keep their workers beyond the retirement age.

In order to reduce the risk of poverty and improve the economic position of pensioners with the lowest pension benefits, the minimum pension increased by 3 % from the beginning of 2023. The increase in the minimum pension refers to all beneficiaries of the minimum pension, regardless of the amount of pension. It is estimated that about 23 % of all pensioners

[101] It is a substitute for the basic pension.
[102] Zakon o nacionalnoj naknadi za starije osobe [The Act on National Benefit for Older People], OG 62/2020.
[103] https://www.mirovinsko.hr/hr/isplata-nacionalne-naknade-za-starije-osobe-za-travanj-2023-krece-17-svibnja/2887
[104] https://www.mirovina.hr/mirovine/vlada-je-konacno-usvojila-izmjene-zakona-o-povratku-dijela-povlastenih-mirovina/
[105] In terms of this act, severance pay is a sum of money which, as a means of securing income and mitigating the adverse consequences of termination of an employment contract, the employer pays to the employee whose employment contract is terminated after two years of continuous work.
[106] Zakon o izmjenama zakona o radu [Law on Amendments to the Labour Law] OG, 151/2022.

could be eligible[107]. In addition, the amount of survivor pensions increased by 10 % from the beginning of 2023, regardless of the amount of pension.

By the decision on the regular pension indexation in the six-month period from 1 July to 31 December 2022, the value of pensions increased by 6.18 %, while according to the decision on the regular pension indexation rate for the period from 1 January to 31 June 2023, the value of pensions increased by 5.37 %. From 1 July to 31 December 2023 the value of pensions increased by 8.42 %.

Under pressure from pensioners' associations, from 1 April 2023[108] there is no longer the obligation for retirees whose pension exceeds the average net salary to pay a 3 % contribution for health insurance, which means that the net pensions for this group will increase.

In addition, between 2021 and 2023 the government adopted four packages of ad hoc income support measures for pensioners aimed at cushioning the impact of the COVID-19 pandemic, high inflation, high energy prices and the rising cost of living. So far, a total of around EUR 248 million has been paid to pensioners through one-off benefits targeted at non-working pensioners whose pensions were below a defined ceiling. As part of the last package in April 2023, about 50 % of all pensioners received the benefit (those whose total monthly pension income in March 2023 did not exceed EUR 610 and who were not employed).

3 ASSESSMENT OF ADEQUACY

3.1 Current adequacy

The aggregate replacement ratio (ARR) stood at 39 % in 2019 and fell to 37 % in 2022, making it among the lowest in the EU. The low ARR can be explained by a very unfavourable pension system dependency ratio, lack of income from the statutory funded part of the pension system for current pensioners, and the limited number of years of contributions (short working lives). The share of pensioners who receive a pension based on 40 or more qualifying years – although slowly increasing – is still very low (only 18.8 % at the end of 2022, and among women 13.2 %)[109]. The employment rate for the 55-64 age group significantly improved during 2019-2022, from 43.9 % to 50.1 %. However, it was still among the lowest in the EU and was substantially lower than the EU average (62.3 % in 2022). The difference between men's and women's employment rates for the 55-64 age group was significant in 2022 (employment rates were 55.7 % for men and 45.0 % for women), but a similar difference can be found in other EU Member States.

The overall at-risk-of-poverty and social exclusion (AROPE) rate for older people (65+) remained significantly higher (33.5 %) in 2022 than the EU average (20.2 %). The AROPE rate for those aged 75+ was 4.3 percentage points (pp) higher in 2022 than for people aged 65+. The AROPE rate for older women (65+) in 2022 stood at 37.7 % and was significantly

[107] See: Bežovan, G., Šućur, Z. and Babić, Z. (2023), *Measures to tackle energy poverty and rising energy prices – Croatia*, European Social Policy Analysis Network, Brussels: European Commission.
[108] Zakonom o izmjenama Zakona o doprinosima [Act on Amendments to the Act on Contributions], OG, 33/23.
[109] Moreover, less than 40 % of pensioners have fewer than 30 years of service. Information from the Croatian Pension Insurance Institute, Statistical Information, 12/2022, p. 97.

higher than that of men (27.5 %). The situation was similar in the case of the at-risk-of-poverty (AROP) rate for people aged 65+, which increased from 30.1 % in 2019 to 32.4 % in 2022 and was significantly higher than EU average of 17.3 %. A relatively high AROP rate among Croatian pensioners is a direct consequence of low pensions and high income inequality in old age (see Section 3.3). A higher AROP rate among older women than men is caused mainly by lower women's wages, women's longer life expectancy, the relatively high number of single older women, and a higher share of women without pensions. The material and social deprivation rate for people aged 65+ was 13.8 % in 2022 (2.7 pp higher than the EU average).

The housing situation of older people (65+) in Croatia is relatively good, because 96.5 % are home-owners and 7.0 % reported a problem of housing cost overburden in 2022, which was better than in the EU (10.7 %). On the other hand, health indicators show a significantly worse situation than in many EU Member States. The expected healthy life years at age 65 were 5.2 years in 2021, which was significantly lower than the EU average of 9.7 years. Moreover, in Croatia life expectancy at 65 in 2022 was 17.1 years, which was significantly lower than EU average of 19.6. Data also point to an increase in self-reported unmet needs for medical examination of 1.9 pp in the period 2019-2022; and the share of older people with unmet needs for medical examination stood at 8.2 % in 2022, compared with the EU average of 5.6 %. This increase in self-reported unmet needs for medical examination may have been mostly induced by the COVID-19 crisis, when healthcare resources were directed at fighting the pandemic and many medical examinations were postponed. These negative trends in health indicators should be researched more broadly, in order to improve healthcare policy for the older population.

The average retirement duration from first pension receipt was 18.6 years in 2022, but was 4.6 years longer for women (20.8) than for men (16.2). The average retirement duration from exiting employment in 2022 was 19.2 years, and the difference between men and women was 4.1 years. Both indicators of retirement duration registered a slight drop in 2022 compared with 2019. A possible explanation for this trend is an extension in working lives in recent years and increased mortality rates among the population aged 65+ due to the COVID-19 pandemic.

3.2 Future adequacy

The theoretical replacement rates (TRRs) for men and women in 2062 are projected to be significantly lower than those in 2022. For a 40-year career ending at the standard retirement age and with average earnings, the reduction is expected to be 9.6 pp, reaching 44 % in 2062. All forms of career breaks (because of childcare, care of family dependants, or unemployment) result in projected lower TRRs in 2062 – by around 9 pp. The TRRs for low-income earners are higher by about 7 pp than for average-income earners. Extending the career by two years and entering retirement two years after the standard pensionable age (SPA) increases the TRR in 2062 by 6.7 pp compared with the base case. Given the low replacement rates, the prospective TRRs point to the problem of short careers and the need to raise the SPA.

The key challenge of pension adequacy in the future will be the inter-generational redistribution between the fewer younger cohorts paying contributions and the older cohorts receiving pensions. In 2020 the old-age dependency ratio (ages 20-64) was 38.6, but this ratio is expected to rise in the future (it is estimated that in 2059 the ratio will be 60.1 for Croatia). This means that the share of funds for pensions from taxes (the budget) will have to increase, which will unfavourably influence the budget balance and cause a shortage of funds for other social needs.

In addition, a longer pension duration can be expected because of increasing longevity, in a situation where the number of healthy life years after 65 is on a downward trend (see Section 3.1). This could be a challenge for the public healthcare system, and at the same time an incentive to improve preventive and curative healthcare policy.

The self-employed and non-standard workers have a lower contribution base and/or contribution rate, as well as short and interrupted work careers. This means that some workers on non-standard contracts will be confronted with periods of service that are too short to qualify for a pension (or that potentially yield a very low pension). The Croatian economy is more seasonal due to the relatively high share of tourism. According to Eurostat, non-standard employment accounted for 19 % of total employment in Croatia in 2022, although this share was 2.7 pp lower than in 2019[110]. Women are more likely to be in non-standard employment than men.

The high rate of inflation and the rise in energy costs particularly affect the retired population with a lower pension income. Despite the government's ad hoc attempts to cushion these effects, inflation and high energy costs are causing a fall in the real standard of living of pensioners and their purchasing power, because the inflation rate is currently higher than the indexation rate.

3.3 Developments in (in)equalities

The relative median income ratio of older people (65+), which is defined as the ratio of the median equivalised disposable income of people aged 65+ to the median equivalised disposable income of people under 65, fell from 0.75 in 2019 to 0.72 in 2022, and remained significantly below the EU average of 0.90 in 2019 and 2022. This could be explained by the fact that during 2019-2022 wages grew faster than pensions: whereas the average net salary increased by about 20 %, the average net pension only increased by 14.3 %[111]. The relative median income ratio (65+) for women in 2022 was 7 pp lower than that for men, but the difference between the ratios for men and women was even greater in 2019 (9 pp). The relative median income ratio for both men and women worsened in 2022 compared with 2019 (the ratio for men was 0.82 in 2019 and 0.76 in 2022, while the ratio for women was 0.73 in 2019 and 0.69 in 2022). A slightly smaller fall in the ratio for women in 2019-2022 can be in part explained by the fact that the retirement age for women in Croatia is slowly being raised

[110] https://ec.europa.eu/eurostat/databrowser/view/LFSI_PT_A__custom_7593484/default/table?lang=en
[111] Author's calculations based on: Croatian Bureau of Statistics, *Women and Men in Croatia, 2023 and 2020* (https://podaci.dzs.hr/hr/publikacije/) and https://podaci.dzs.hr/hr/podaci/trziste-rada/place/).

until 2030[112], and longer periods of paying contributions are directly affecting the level of income from pension benefits.

Income inequality between the top and the bottom quintiles of those aged 65+ (the income quintile share ratio, S80/S20) was 4.48 in 2022, which was a slight fall compared with 2019, when it was 4.51. In comparison with the EU average S80/20 ratio of 4.10 in 2022, income inequalities for pensioners were significantly greater in Croatia.

In Croatia there are still more women than men aged 65-79 who do not have access to the pension system. The gender gap in non-coverage rate (65-79) amounted to 5.4 pp in 2022, which was almost the same as in 2019 (5.6 pp). The gap was close to the EU average in 2022 (5.3 pp).

The gender gap in pension income (65-79) narrowed from 24.4 % in 2019 to 20.9 % in 2022 (a reduction of 3.5 pp). This meant that pension payments in 2022 to women aged 65-79 were about 21 % lower, on average, than for men of the same age. In part, the narrowing of the gender gap in pension income can be explained by the fact that the retirement age for women in Croatia is being slowly raised until 2030 (by three months every year), and longer periods of paying contributions are affecting their level of income from pension benefits. The gender gap in pension income is narrower in Croatia than in the EU (26.1 % in 2022).

The main pensioners' associations (Union of pensioners and Association of pensioners) believe that the current model of pension indexation[113] contributes to the growth of income inequality among pensioners. It is why the pensioners' associations request that, on the one hand, pensions be indexed in full to the more favourable of prices or salaries; and, on the other hand, that instead of a single indexation rate, differentiated rates be used with regard to the level of pensions. Their proposal is that pensions up to EUR 300 per month should be indexed at 120 % of the more favourable index growth, and pensions from EUR 301 to EUR 550 at 110 %[114].

4 KEY CHALLENGES AND OPPORTUNITIES

Given the unfavourable demographic trends, it is necessary to reduce the outflow of the labour force, increase the employment rate of older workers (which is considerably below the EU average) and promote longer working lives to ensure adequate and sustainable pensions. Possible areas for action include: (a) continue with measures discouraging early retirement and incentivising deferred retirement (see Section 3.1); (b) gradually raise the retirement age from 65 for men and 63 years and 3 months for women; (c) change the way pensions are taxed by increasing the non-taxable part of the pension; (d) change the model of pension indexation in order to increase the replacement rate of pensions in the future (see Section 3.3); and (e) protect low-income pensioners by ensuring access to minimum income or housing benefits in the event of high housing or energy costs.

[112] For three months every year till 2029.
[113] See Section 1 'General description of the national pension system'.
[114] https://www.suh.hr/naslovna/ili-vise-mirovine-i-veca-prava-ili-prosvjedi-najesen/

5 BACKGROUND STATISTICS

	2022			Change 2019-2022		
5.1. Relative income	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**
Relative median income ratio (65+)	0.72	0.76	0.69	-0.03	-0.06	-0.04
Income quintile share ratio (S80/S20) (65+)	4.48	4.37	4.50	-0.03	-0.05	-0.11
Aggregate replacement ratio (ARR) (65-74) (%; change in pp)	37.0	36.0	35.0	-2.0	-4.0	-6.0
	2022			**Change 2019-2022 (pp)**		
5.2. Poverty and material deprivation	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**
At-risk-of-poverty or social exclusion (AROPE) (65+) (%)	33.5	27.5	37.7	1.4	0.7	1.9
At-risk-of-poverty (AROP) rate (65+) (%)	32.4	26.6	36.5	2.3	1.7	2.9
Severe material and social deprivation (SMSD) rate (65+) (%)	6.1	5.0	6.9	-1.5	-1.7	-1.4
At-risk-of-poverty or social exclusion (AROPE) rate (75+) (%)	37.8	29.1	42.8	1.4	1.9	1.1
At-risk-of-poverty (AROP) rate (75+) (%)	37.0	28.6	41.7	2.1	2.5	1.7
Severe material and social deprivation (SMSD) rate (75+) (%)	5.2	4.1	5.9	-1.4	-0.4	-1.8
Relative median at-risk-of-poverty gap (65+) (%)	26.3	25.8	26.5	0.1	0.2	0.3
At-risk-of-poverty (AROP) rate, 65+: 50 % threshold (%)	21.7	17.3	24.9	1.1	1.3	1.1
At-risk-of-poverty (AROP) rate, 65+: 70 % threshold (%)	42.9	37.2	47.0	2.9	2.2	3.6
Material and social deprivation (MSD) rate (65+) (%)	13.8	11.5	15.5	-1.6	-1.4	-1.6
5.3. Gender difference	**2022**			**Change 2019-2022 (pp)**		
Gender gap in pension income (65-79) (%)	20.9			-3.5		
Gender gap in non-coverage rate (65-79) (pp)	5.4			-0.2		
	2022			**Change 2019-2022**		
5.4. Housing and health situation	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**
Housing cost overburden rate (65+) (%; change in pp)	7.0	5.4	8.1	0.2	0.4	0.0
Self-reported unmet need for medical exam 65+ (%; change in pp)	8.2	8.0	8.3	1.9	1.4	2.2
Healthy life expectancy (at age 65) (years) (1)	5.2	5.1	5.2	0.4	0.5	0.3
Life expectancy (at age 65) (years)	17.1	15.3	18.6	-0.8	-0.6	-0.9
	2022			**2062**		
Receiving long-term care cash benefits (65+) (%)	8.2			8.9		
Receiving long-term care in-kind benefits (65+) (%)	1.3			1.4		
	2022			**Change 2019-2022**		
5.5 Sustainability and context	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**
Employment rate (55-64) (%; change in pp)	50.1	55.7	45.0	6.2	3.1	9.1
Pension expenditure (% GDP; change in pp) (1)	9.1			0.2		
Retirement duration from first pension (years)	18.6	16.2	20.8	-0.9	-0.7	-1.5
Retirement duration from end employment (years) (2)	19.2	17.0	21.1	-1.0	-0.7	-1.4
Projections (3)	**2022**			**2062**		
Old-age dependency ratio (20-64) (%)	38.6	32.3	44.8	60.9	53.9	68.3
Economic old-age dependency ratio (20-64) (%)	53.9	48.1	59.1	75.5	79.6	72.2
Gross public pensions (% GDP)	9.0			8.8		
Benefit ratio (%)	29.8			25.7		
Coverage ratio (65+) (%)	140.7			113.5		
Gross pension ratio high/low earner		2.1	2.0		2.0	2.0

(1) 2021 instead of 2022
(2) Based on the assumptions of the 2024 Ageing Report for the 2023 average exit ages
(3) For the source of each of these six indicators providing projections by 2062, please see 'Indicators, definitions and abbreviations'.

5.6 Theoretical replacement rates

	Net (%)				Gross (%)			
	2022		2062		2022		2062	
	Men	Women	Men	Women	Men	Women	Men	Women
Standard pensionable age (SPA)	**65.0**	**63.0**	**65.0**	**65.0**				
AWG career duration (years)	**42.3**	**40.0**	**42.3**	**40.5**				
Average Earning (100 %)								
Base case: 40 years up to SPA	53.6	53.6	44.0	44.0	37.9	37.9	31.2	31.2
Increased SPA: from age 25 to SPA	53.6	50.9	44.0	44.0	37.9	36.1	31.2	31.2
AWG career length case	56.3	53.6	46.0	44.6	40.1	37.9	32.6	31.6
Longer career: 42 years to SPA			45.7	45.7			32.4	32.4
Shorter career: 38 years to SPA			42.2	42.2			29.9	29.9
Deferred exit: 42 years to SPA +2			50.7	50.7			35.9	35.9
Earlier exit: 38 years to SPA -2			40.2	40.2			28.5	28.5
Career break – unemployment: 3 years	49.5	49.5	40.7	40.7	35.1	35.1	28.8	28.8
Career break – childcare: 3 years	52.2	52.9	42.9	43.4	37.0	37.5	30.4	30.8
Career break – care for family dependant: 3 years	49.5	49.5	40.7	40.7	35.1	35.1	28.8	28.8
Short career (20-year career)	26.8	26.8	22.0	22.0	19.0	19.0	15.6	15.6
Work 35 years, disabled 5 years prior to SPA			38.5	38.5			27.3	27.3
Early entry in the labour market: from age 20 to SPA			49.8	49.8			35.3	35.3
Index: 10 years after retirement at SPA			40.9	40.9			29.0	29.0
Extended part-time period for childcare			35.9	36.4			25.5	25.8
Survivor ratio 1*		0.5		0.6		0.5		0.6
Survivor ratio 2*		0.5		0.5		0.5		0.5
Low earnings (66 %)								
Base case: 40 years up to SPA	60.2	60.2	50.9	50.9	45.3	45.3	38.3	38.3
AWG career length case	63.6	60.2	57.2	55.5	47.8	45.3	43.0	41.7
Career break – unemployment: 3 years	55.7	55.7	47.1	47.1	41.9	41.9	35.4	35.4
Career break – childcare: 3 years	59.4	60.2	50.3	50.9	44.7	45.3	37.8	38.3
Short career (20-year career)	30.1	30.1	25.5	25.5	22.6	22.6	19.2	19.2
Early entry in the labour market: from age 20 to SPA			57.6	57.6			43.4	43.4
High earnings (100->200 %)								
Base case: 40 years up to SPA	41.3	41.0	33.6	33.6	28.8	28.5	23.4	23.4

**Survivor ratio 1: man base case, woman base case*
**Survivor ratio 2: man base case, woman short career case*

CYPRUS

Highlights

- The at-risk-of-poverty rate for people aged 65+ was 20.8 % in 2022, 3.8 percentage points (pp) below the 2019 level. During the same period, the at-risk-of-poverty or social exclusion rate for people aged 65+ fell by 3.6 pp, reaching 21.3 % in 2022. Although both indicators have come closer to the EU average over the last three years, they still stand slightly above it.
- The most important reforms that took place during 2020-2023 were new legislation extending access to occupational pensions to all public sector employees, and the introduction of a new, simplified scheme providing income support to low-income pensioners.

1 GENERAL DESCRIPTION OF THE NATIONAL PENSION SYSTEM

The pension system in Cyprus comprises the following schemes.

Social security statutory pension schemes

(a) The general social insurance scheme (GSIS) is a compulsory earnings-related scheme that covers every person gainfully employed in Cyprus, both in the public and in the private sector, including the self-employed.

(b) The social pension scheme is a non-contributory scheme providing minimum pensions to residents of Cyprus aged 65+ with no pension income or one that is below the level of the social pension. The social pension is equivalent to 81 % of the basic part of the GSIS pension and ensures universality in pension provision.

Additional minimum-income protection, beyond the GSIS minimum pension and the social pension, is also provided to pensioners in the form of:

(a) income support, which is provided to pensioners through a non-contributory means-tested scheme for the support of low-income pensioners [115] and the Easter allowance[116]; and

(b) the guaranteed minimum income (GMI), which provides access, inter alia, to a means-tested top-up benefit for all people/families with income below a minimum threshold.

[115] Pensioners with a pension income below the poverty threshold are entitled to a special cash allowance whose level is announced annually by the Ministry of Labour and Social Insurance (MLSI).
[116] The Easter allowance is a non-contributory means-tested benefit provided to eligible pensioners once per year.

Occupational pension schemes

Occupational schemes consist of:

(a) the government employees' pension scheme (GEPS), which provides supplementary pension benefits to its members[117];
(b) semi-government sector employees' pension schemes, which provide supplementary pension benefits to their members[118]; and
(c) voluntary provident funds, which are mainly provided by organisations and businesses in the private sector, set up for a single employer or on an industry-wide basis.

The backbone of the pension system is the GSIS. Participation in the GSIS is compulsory for every person employed in Cyprus and is financed by means of contributions paid by employers, employees and the government. The total contribution rate to be paid for employees is 21.5 % (with an upper ceiling on insurable earnings), of which 8.3 % is paid by the employee, 8.3 % by the employer and 4.9 % by the government. The total contribution rate for the self-employed is 20.5 %, of which 15.6 % is paid by the self-employed and 4.9 % by the government. Furthermore, it should be noted that, to ensure better gender equality in old age over recent years, men have also become eligible to receive the widower/survivor pension.

The statutory pensionable age under the GSIS is currently 65 for both men and women, but early retirement at 63 is possible under certain insurance conditions. However, financial disincentives (an actuarial adjustment factor to reduce the statutory pension) are established in order to discourage retirement before 65. These should be viewed in conjunction with financial incentives for prolonging working life until 68; in particular, each month of postponed retirement comes with the benefit of a 0.5 % pension increase. The only special arrangements for workers in hazardous/arduous occupations are for miners, who may retire from 58, depending on the number of years worked in a mine[119].

Pensions provided by the GSIS consist of a basic and a supplementary part, both calculated on the basis of the contributory period and the level of the insurance points gained over a working life. Specifically, for the statutory pension, the basic pension is set at 60 % of the average of the actual and assimilated[120] basic insurable earnings over the relevant period. This rate increases to 80 %, 90 % and 100 % if the beneficiary has one (spouse), and two or three dependants, respectively. The supplementary pension is equal to 1.5 % of the total insurance points (actual and assimilated) of the beneficiary in the supplementary part. The basic part is indexed to the annual increase in basic insurable earnings, while the supplementary part is indexed to consumer prices.

[117] Government employees in Cyprus are employees who hold a permanent position in public agencies, agencies associated with the Auditor General, Accountant General and their assistants, public educational services, security forces (police, fire department, civil protection) and the army.
[118] Their members include permanent employees of public enterprises, local authorities, and other public legal organisations.
[119] Note that the number of miners is very low and still on a falling trend.
[120] Every insured person can be credited with assimilated insurable earnings in cases of various contingencies, including periods of parental leave.

In addition to the compulsory GSIS pensions, several employee and professional groups have access to supplementary retirement income through occupational schemes. The most important occupational pension scheme is the GEPS. The GEPS provides pensions to central government employees, teachers, academics, police officers, and armed forces personnel. Similarly, employees of the semi-government sector have access to occupational schemes providing the same or similar benefits to the GEPS.

Access to occupational pension income is also available to certain categories of the self-employed (e.g. lawyers, doctors and dentists) who have set up and operate their own defined-benefit occupational schemes. In parallel, a large number of small provident funds[121] operate in the private sector, financed by employees and employers on a voluntary basis. The relative importance of these provident funds in retirement income is rather limited, as their members usually receive lump-sum entitlements before retirement upon certain contingencies (e.g. termination of employment, retirement, incapacity, death, or dissolution of the fund).

2 REFORM TRENDS

The most important reforms during the reference period (July 2020 to July 2023) include: (a) the introduction of new legislation extending access to occupational pensions to all public sector employees; and (b) the introduction of a new, simplified scheme providing income support to low-income pensioners.

During the COVID-19 crisis the government also implemented a series of measures to support employers, employees and the self-employed. These measures included, among other things, special allowances for the support of the unemployed, special allowances for the self-employed, and special leave for parents[122]. The period of participating in these schemes was counted as a period of assimilated insurance, thereby protecting pension rights. Moreover, in response to the COVID-19 crisis, the Overdue Social Contribution Law was amended. The purpose of this amendment was to allow individuals and companies who had regulated the payment of their overdue social contributions in instalments to defer the relevant payments due for March and April 2020 by extending the repayment period by two months.

As far as the first reform is concerned, since 2011 access to the GEPS has not been provided to newly hired public employees, leaving them without access to occupational pensions. Following years of social dialogue between the relevant ministries and the public sector trade unions, in December 2022 parliament passed the law on the ‘Occupational Plan for Pension Benefits of Employees of the Public Service and the Wider Public Sector’[123]. The new pension scheme applies to all employees who were hired or appointed after 1 October 2011, as well as to permanent employees appointed to a position for the first time on or after the entry into force of the law. The plan therefore fills a gap that had existed for almost 10 years, resulting in a different treatment between older and newer cohorts of public servants. In the

[121] According to administrative data, 1,091 provident funds were registered in 2016, covering 92,752 members (Statistical Data Regarding the Schemes Administered by the Social Insurance Services, Social Insurance Services). According to more recent data published by the Office of the Registrar of Provident Funds, their number was reduced to 943 provident funds in August 2022.

[122] An exhaustive list of the COVID-19 related measures can be found in the 2021 ESPN Thematic Report: *Social protection and inclusion policy responses to the COVID-19 crisis* (https://ec.europa.eu/social/BlobServlet?docId=24596&langId=cs).

[123] http://www.cylaw.org/nomoi/enop/non-ind/2022_1_210/index.html (in Greek).

semi-public sector, several organisations have established their own provident funds, but now they also have the option to join the new scheme. The scheme will be financed by employee and employer contributions at 5 % rates and will provide a lump sum upon retirement, as well as an occupational pension calculated based on the average salary over employees' working lives[124].

Another important reform is the 'new plan to support low-income pensioners', launched in January 2022[125]. The aim of the new scheme is to strengthen income support for low-income pensioners who are at risk of poverty. Moreover, the scheme is designed to simplify the application process for accessing the relevant benefits, resulting in a lower administrative burden. Eligibility extends to all people receiving a GSIS pension and/or a social pension and/or an occupational pension from a scheme in Cyprus, whose family income is below the poverty threshold[126]. The level of the benefit depends on gross income and the size of the recipient unit and is designed so that the total income of the recipient unit does not fall below EUR 710 per month (for a single-person household) and EUR 1,210 per month (for a couple)[127]. Compared with the previous scheme, the application procedure has been simplified, since applicants can file a separate application for the benefit (previously they had to apply for the GMI). This procedural improvement is expected to reduce long delays in the examination of applications and increase clarity for applicants.

During the reference period, other potential pension reforms were discussed. The government notably announced its intention to reform the pension system by the end of 2025, with the primary objective to enhance pension adequacy, especially for low-income pensioners, and ensure efficient poverty protection, while securing financial sustainability. The International Labour Organization (ILO) was asked to assist the government in this endeavour.

Moreover, the newly elected government (February 2023) expressed the intention to further strengthen supplementary and personal pension schemes by means of financial incentives to insured people and by enhancing the supervisory framework to ensure the adoption of best practice in pension/provident fund management. As concerns the latter, relevant initiatives[128] have been included in Cyprus Recovery and Resilience Plan[129].

Finally, a recurring theme in the public debate is the mitigation of the actuarial adjustment factor applied to GSIS statutory pensions taken early. Trade unions have expressed their support for such a measure. The government asked the ILO to conduct an impact assessment prior to submitting any proposal to the social partners.

[124] The insured has the option of converting the lump sum into an annuity.
[125] Decision of the Council of Ministers No 94.078, 30-11-2022 (in Greek).
[126] For example, in the cases of single-person households and couples, their gross income should not exceed EUR 10,324 and EUR 15,468, respectively.
[127] To put these figures into perspective, in 2021 the poverty thresholds for a single-person household and a couple in Cyprus were EUR 834 and EUR 1,251 per month respectively (Eurostat, Online code: ILC_LI01, accessed 2 June 2022). In the case of larger recipient units, the amounts are adjusted accordingly.
[128] Relevant initiatives include improving the administrative capacity of the supervisory authorities, and preparing and implementing the necessary tools for ensuring compliance with the regulatory frameworks conveyed to the European Insurance and Occupational Pensions Authority.
[129] https://data.consilium.europa.eu/doc/document/ST-10686-2021-ADD-1/en/pdf

3 ASSESSMENT OF ADEQUACY

3.1 Current adequacy

The at-risk-of-poverty (AROP) rate for people aged 65+ in Cyprus was 20.8 % in 2022. This was 3.8 percentage points (pp) below the 2019 level. The AROP rate for people aged 75+ was 29 %, 5.4 pp below the 2019 level. Similarly, the at-risk-of-poverty or social exclusion (AROPE) rates for the same age groups were: 21.3 % (3.6 pp below 2019) and 29.1 % (5.4 pp below 2019) respectively. These changes most probably reflect the general improvement in poverty and inequality that was recorded in Cyprus between 2019 and 2022[130]. Despite the falls in the risk of poverty among older people, their relative income (that is, their income relative to non-pensioners' income) remained stable. In particular, the aggregate replacement ratio (ARR) increased marginally from 41 % to 42 % between 2019 and 2022, while the relative median income ratio (among those aged 65+) remained stable at 0.77 in the same period.

Although these levels are lower than in the recent past, still they are above the respective EU-27 averages. For example, the AROP (65+) was 3.5 pp above the EU average and the AROPE (65+) was 1.1 pp above the EU average in 2022. These differences are larger for the 75+ group. In particular, the AROPE (75+) was 7.8 pp above the EU average and the AROP (75+) was 10.1 pp above the EU average in 2022. Finally, the ARR was also relatively low (42 % versus 58 % in the EU-27).

The retirement duration from first pension was 20.8 years (19.7 for men and 21.8 for women) in 2022. Pension duration is likely to shorten slightly in the future due to the long-term effect of past reforms (e.g. the introduction of actuarial reductions applied to pensions taken early and the increases in the statutory pensionable age), which are not yet fully reflected in available indicators.

To conclude, despite some improvements in pension adequacy and income maintenance, the risk of poverty among older people in Cyprus is still relatively high (especially among women and those aged 75+). A possible explanation of the high levels of poverty among the latter group is that the current pension system was introduced in the 1980s[131], with a fraction of pensioners possibly still being covered by the previous less generous social insurance flat-rate scheme. It may be expected that this effect will gradually attenuate.

Nevertheless, the anti-poverty effect of non-contributory policies supporting low-income pensioners – such as the social pension, the income support to low-income pensioners, and the GMI – help mitigate poverty risks. A factor that has intervened to increase the poverty-reduction effects of the pension system is the newly introduced national healthcare system. The new system has improved the availability and affordability of healthcare services (the percentage of people aged 65+ reporting unmet need for medical examination was only 0.4 % in 2022), and is likely to contribute to the improvement of (healthy) life expectancy. In 2022,

[130] Indicatively, the AROP rate in the overall population fell from 14.7 % to 13.9 % between 2019 and 2022 (Eurostat online data code: ILC_LI02). The Gini index score fell from 31.1 to 29.4 the same period (Eurostat online data code: ILC_DI12).

[131] The GSIS was introduced in 1957 and reformed in 1964 and 1980. The 1980 reform converted the previous flat-rate contributions scheme to the current earnings-related insurance scheme.

healthy life expectancy at age 65 stood at 9.2 years (9.1 for men and 9.3 for women) – slightly below the EU-27 average of 9.7 years (9.5 for men and 9.9 for women). Meanwhile life expectancy was 19.6 years (18.4 for men and 20.8 for women), the same as the EU-27 average of 19.6 (17.8 for men and 21.2 for women). Finally, current pension adequacy is complemented by access to affordable housing (the housing cost overburden rate was only 1.9 % in 2022) and extensive home-ownership conditions.

3.2 Future adequacy

Theoretical replacement rates (TRRs) are expected to slightly increase over the period 2022-2062. According to the baseline scenario of 40 years up to the standard pensionable age (SPA), the net TRR for an average-income earner is expected to increase by 1 pp for both men (from 65.6 % to 66.6 %) and women (from 64.4 % to 65.4 %). However, the change in TRRs is expected to differ between low- and high-income earners. In particular, net TRRs are expected to fall for low-income earners (indicatively from 78.8 % to 77.8 % for men, and from 77.9 % to 77.0 % for women, according to the baseline scenario) and to increase for high-income earners (from 56.6 % to 62.4 % for both women and men). Furthermore, the simulation shows that in the case of the increased SPA scenario (from age 25 to SPA), the net TRR will reach 72 % in 2062 for both women and men (that is 6.4 pp above the 2022 level).

The prospective TRRs for both women and men under the scenario of three-year career breaks due to unemployment or childcare show a relatively small effect on adequacy, primarily due to the pension credits of the GSIS. One exception is the three-year career break for childcare, where women's TRRs would fall by 8 pp. In general, the differences between current and prospective TRRs for low- and high-earners, as well as for complete and shorter careers, show that the social security pension system will maintain its redistributive role in the future.

Despite the expected improvement in TRRs, the challenges for pension adequacy are often debated, especially in regard to income maintenance for those relying only on statutory pensions and who are not at the lower end of incomes. Several stakeholders have stressed that prospective pensioners should have better access to supplementary pension income in order to secure an adequate retirement income. Indeed, the government is moving in this direction (see also Section 2 for current and prospective reforms).

3.3 Developments in (in)equalities

Income inequality among older people is relatively high in Cyprus. The income quintile share ratio (S80/S20) for those aged 65+ was 4.43 in 2022 (EU-27: 4.1). The ratio was also significantly higher for men (4.91) than women (4.00) in the same year. Inequalities in the labour market are transmitted to the pension system through insufficient contributions, resulting in pension disparities. In addition, individuals in poorly paid occupations and certain socio-economic groups are less likely to have access to occupational pensions. For example, non-standard employees bear a higher risk of poverty after retirement due to the aforementioned reasons, although the lack of data does not allow the quantification of the problem.

Although some improvements have been achieved in the last decade, gender disparities still remain large. The gender gap in pension income (for those aged 65-79) stood at 36.7 % in 2022, 2.6 pp less than in 2019. Similarly, the ARR for women stood at 42 % in 2022, well below that for men (47 %). Gender disparities are especially large for women aged 75+. For example, their AROPE rate was 30.8 % in 2022. The following factors can explain gender differences: (a) a higher incidence of career interruptions and non-standard forms of employment among women; (b) labour market inequalities, and particularly gender pay gaps; and (c) longer life expectancy among women.

It is not expected that the COVID-19 pandemic will have an impact on future pension disparities. This is due to policies aimed at retaining employment. With regard to the current inflation and energy crisis, pensions were adjusted to offset inflationary pressures. Specifically, in May 2022, in parallel with the general measures targeted at coping with the rise in the cost of living, the Council of Ministers announced a 4.3 % increase in GSIS pensions. GSIS pensions had been already increased by 1.22 % on 1 January 2022; both increases were in line with the relevant legislation[132].

4 KEY CHALLENGES AND OPPORTUNITIES

Over recent decades the risk of poverty among older people in Cyprus has fallen significantly. This is a commendable improvement, but more efforts are needed to secure sustainable protection against poverty and improve access to adequate pensions.

An important challenge concerns the gender pension gap, which has narrowed considerably in recent years, but remains significantly above the EU average. Although gender disparities in old age can be expected to continue reducing, primarily due to the improved access of women to the labour market, it is still important to consider the possibility of reforming the pension system so as to reduce the effects of labour market inequalities on pensions.

The assessment of the long-term impact of past reforms on the retirement paths of various disadvantaged groups, in the context of the ongoing ILO pension reform study, could identify future challenges and provide suggestions for potential adjustments to the pension system.

Finally, access to supplementary pension provision, including occupational pensions and personal pension plans, is important for income maintenance in old age. The main opportunities for reform include: broader coverage; better governance of occupational pension funds; improved transferability of pension rights between jobs; and enhanced supervision and guidance. In that respect, Cyprus has made progress in recent years, even if more reform efforts are required.

[132] New support measures decided by the Council of Ministers (in Greek).

5 BACKGROUND STATISTICS

5.1. Relative income	2022			Change 2019-2022		
	Total	Men	Women	Total	Men	Women
Relative median income ratio (65+)	0.77	0.78	0.76	0.00	-0.04	0.02
Income quintile share ratio (S80/S20) (65+)	4.43	4.91	4.00	-0.04	0.12	-0.14
Aggregate replacement ratio (ARR) (65-74) (%; change in pp)	42.0	47.0	42.0	1.0	0.0	3.0

5.2. Poverty and material deprivation	2022			Change 2019-2022 (pp)		
	Total	Men	Women	Total	Men	Women
At-risk-of-poverty or social exclusion (AROPE) (65+) (%)	21.3	19.5	22.9	-3.6	-3.2	-3.8
At-risk-of-poverty (AROP) rate (65+) (%)	20.8	19.1	22.4	-3.8	-3.4	-4.0
Severe material and social deprivation (SMSD) rate (65+) (%)	0.9	0.9	1.0	0.1	0.0	0.3
At-risk-of-poverty or social exclusion (AROPE) rate (75+) (%)	29.1	27.1	30.8	-5.4	-3.8	-6.7
At-risk-of-poverty (AROP) rate (75+) (%)	29.0	27.0	30.7	-5.4	-3.6	-6.8
Severe material and social deprivation (SMSD) rate (75+) (%)	0.3	0.1	0.4	-0.1	-0.5	0.2
Relative median at-risk-of-poverty gap (65+) (%)	13.9	14.7	12.4	0.4	1.2	-0.9
At-risk-of-poverty (AROP) rate, 65+: 50 % threshold (%)	8.0	8.3	7.8	-1.8	-0.6	-2.8
At-risk-of-poverty (AROP) rate, 65+: 70 % threshold (%)	40.8	37.9	43.3	-0.1	-0.4	0.1
Material and social deprivation (MSD) rate (65+) (%)	5.5	4.8	6.0	1.3	1.1	1.3

5.3. Gender difference	2022	Change 2019-2022 (pp)
Gender gap in pension income (65-79) (%)	36.7	-2.6
Gender gap in non-coverage rate (65-79) (pp)	1.8	1.4

5.4. Housing and health situation	2022			Change 2019-2022		
	Total	Men	Women	Total	Men	Women
Housing cost overburden rate (65+) (%; change in pp)	1.9	1.0	2.7	1.0	0.3	1.6
Self-reported unmet need for medical exam 65+ (%; change in pp)	0.4	0.7	0.2	-0.2	0.3	-0.6
Healthy life expectancy (at age 65) (years) (1)	9.2	9.1	9.3	1.6	1.0	2.2
Life expectancy (at age 65) (years)	19.6	18.4	20.8	-0.7	-0.5	-0.7

	2022	2062
Receiving long-term care cash benefits (65+) (%)	2.2	2.3
Receiving long-term care in-kind benefits (65+) (%)	9.5	11.4

5.5 Sustainability and context	2022			Change 2019-2022		
	Total	Men	Women	Total	Men	Women
Employment rate (55-64) (%; change in pp)	65.0	76.0	54.2	3.9	4.0	3.5
Pension expenditure (% GDP; change in pp) (1)	10.0			0.2		
Retirement duration from first pension (years)	20.8	19.7	21.8	-0.6	-0.5	-0.7
Retirement duration from end employment (years) (2)	20.9	19.4	22.3	-0.3	0.1	-0.6

Projections (3)	2022			2062		
Old-age dependency ratio (20-64) (%)	26.6	25.6	27.5	44.2	41.1	47.1
Economic old-age dependency ratio (20-64) (%)	31.1	31.5	31.0	59.8	56.9	62.3
Gross public pensions (% GDP)	8.2			12.3		
Benefit ratio (%)	57.2			47.7		
Coverage ratio (65+) (%)	113.8			111.2		
Gross pension ratio high/low earner		2.2	2.2		2.4	2.4

(1) 2021 instead of 2022
(2) Based on the assumptions of the 2024 Ageing Report for the 2023 average exit ages
(3) For the source of each of these six indicators providing projections by 2062, please see 'Indicators, definitions and abbreviations'.

5.6 Theoretical replacement rates

	Net (%)				**Gross (%)**			
	2022		**2062**		**2022**		**2062**	
	Men	**Women**	**Men**	**Women**	**Men**	**Women**	**Men**	**Women**
Standard pensionable age (SPA)	**65.0**	**65.0**	**68.5**	**68.5**				
AWG career duration (years)	**43.3**	**41.8**	**45.3**	**44.1**				
Average Earning (100 %)								
Base case: 40 years up to SPA	65.6	64.4	66.6	65.4	59.7	58.6	58.5	57.4
Increased SPA: from age 25 to SPA	65.6	65.6	72.0	72.0	59.7	59.7	63.3	63.3
AWG career length case	67.7	66.9	74.6	71.7	61.6	60.9	65.5	63.0
Longer career: 42 years to SPA			69.7	69.7			61.3	61.3
Shorter career: 38 years to SPA			63.7	63.7			56.0	56.0
Deferred exit: 42 years to SPA +2			69.7	69.7			61.3	61.3
Earlier exit: 38 years to SPA -2			56.4	56.4			49.6	49.6
Career break – unemployment: 3 years	62.2	62.2	63.1	63.1	56.6	56.6	55.4	55.4
Career break – childcare: 3 years	61.9	62.7	62.8	63.6	56.4	57.1	55.2	55.9
Career break – care for family dependant: 3 years	61.1	61.1	62.0	62.0	55.6	55.6	54.5	54.5
Short career (20-year career)	46.4	46.4	47.0	47.0	42.0	42.0	41.0	41.0
Work 35 years, disabled 5 years prior to SPA			66.9	66.9			58.7	58.7
Early entry in the labour market: from age 20 to SPA			78.4	78.4			68.9	68.9
Index: 10 years after retirement at SPA			66.3	66.3			54.8	54.8
Extended part-time period for childcare			57.1	57.9			50.2	50.9
Survivor ratio 1*		0.9		0.9		0.9		0.9
Survivor ratio 2*		0.9		0.9		0.9		0.9
Low earnings (66 %)								
Base case: 40 years up to SPA	78.8	77.9	77.8	77.0	71.8	70.9	69.3	68.5
AWG career length case	80.8	79.7	78.0	78.0	73.6	72.6	69.6	69.6
Career break – unemployment: 3 years	76.6	76.6	75.7	75.7	69.7	69.7	67.3	67.3
Career break – childcare: 3 years	76.3	76.9	75.4	76.0	69.5	70.0	67.1	67.6
Short career (20-year career)	58.6	58.6	57.9	57.9	53.1	53.1	51.2	51.2
Early entry in the labour market: from age 20 to SPA			78.0	78.0			69.7	69.7
High earnings (100->200 %)								
Base case: 40 years up to SPA	56.6	56.6	62.4	62.4	45.9	45.9	49.9	49.9

**Survivor ratio 1: man base case, woman base case*
**Survivor ratio 2: man base case, woman short career case*

CZECHIA

Highlights

- The Czech pension system has a significant redistributive function and is effective in protecting the older population against poverty and social exclusion; however, this ability is dependent on past economic growth and pension indexation. At a time of sharp declines in real wages, pensioners were completely protected against high inflation.
- Extraordinary pension indexation due to high inflation and its unintended effects on early retirement decisions had a negative impact on the financial balance of the pension system in 2022 and 2023. In spring 2023, the government adopted a one-off law on extraordinary pension indexation; a possible conflict with the constitution is currently being assessed by the Constitutional Court.
- The government is preparing several parametric adjustments to the current pension system. If approved, they will have an impact on the adequacy of pensions. The tightening of early-retirement rules (effective from October 2023) is expected to significantly reduce the number of people retiring early.
- The government is looking at ways to improve the personal pension scheme, since it may play an important role in the provision of the income-related component of the old-age security system. The plans, published in 2023, are designed to increase employers' involvement in employees' long-term savings plans and support the availability of long-term retirement savings products.

1 GENERAL DESCRIPTION OF THE NATIONAL PENSION SYSTEM

The Czech pension system is currently based on a statutory pension scheme and a supplementary personal pension scheme. The statutory pension scheme (defined-benefit, pay-as-you-go – PAYG) is operated by the state and plays a dominant role (representing more than 90 % of old-age pensioners' income). The statutory funded pension scheme (defined-contribution, fully funded) was launched at the beginning of 2013 (as a voluntary partial opt-out from the statutory pension scheme) and closed at the end of 2015. The supplementary saving schemes include a personal pension scheme and other forms of individual security for old age consisting of products offered by commercial insurance companies. Even though the supplementary pension schemes cover more than 50 % of the population aged 0-65, they represent less than 1 % of current old-age pensioners' income. There is no occupational pension system in Czechia. Only the personal pension scheme is described and discussed in this report, since it is the main supplementary pension product in Czechia.

The statutory defined-benefit, PAYG pension scheme is based on pension insurance. This scheme is universal and compulsory for employees and self-employed people and allows the voluntary participation of economically inactive people. The system provides old-age pensions (almost 80 % of the system's expenses), disability pensions and survivor pensions. A combination of an old-age and survivor pension is common, especially for women. The principles of calculating different pensions are similar. In the case of concurrent pensions, the lower of the pensions is reduced. The pension consists of two elements: a universal basic amount (flat rate), which is equal to 10 % of the national average wage, and an individual earnings-related pension. The latter is 1.5 % of the reference wage for each full year of insurance. To calculate the reference wage, a progressive formula is used in which income thresholds are applied. Up to 44 % of the average wage, 100 % of the reference income is considered; and between 44 and 400 % of the average wage, only 26 % is considered. The period of insurance is the period during which the individual paid pension premiums together with certain non-contributory periods. These include several life situations, the most common being periods of caring for a child under 4 (100 % of the childcaring period counts as the period of insurance) and periods of unemployment (which count only partly). The non-contributory period is usually not counted in the reference wage calculation.

Generally, pensions in payment are indexed on an annual basis (by the consumer or pensioner price index plus one third of the real wage growth rate). The universal basic component, together with the indexation method, results in a situation where higher pensions are indexed at a slightly lower rate than lower pensions. Only pensions above a high threshold are subject to personal income taxation (this applies to fewer than 1 % of pensioners).

The pensionable age is 64 for men and women without children in 2023. The pensionable age is due to fall by up to four years for women, depending on the number of children raised. The pensionable age has been increasing since 1996, with the pace of increase modified several times over the years. According to the current legislation, the pensionable age is set to rise to 65 in 2030. Since 2018 the legislation has linked the pensionable age to life expectancy; however, this link is not automatic. There is no special treatment for those in arduous jobs within the statutory pension scheme, with the exception of miners and paramedics.

The contribution rate is 28 % and is split between employees (6.5 %) and employers (21.5 %). Pension system expenditure rose from 7.7 % to 8.8 % of GDP between 2008 and 2022. Although in recent years the pension system has been in balance[133] or in a deficit of up to 1 % of GDP, the Czech Fiscal Council[134] projects that the deficit will grow after 2030, reaching 3-4 % of GDP between 2050 and 2070. Other projections have produced similar results[135].

The scheme allows for deferred and early retirement. The early-retirement penalty depends on how prematurely the old-age pension is drawn (up to five years from the pensionable age), with 1 in every 3 newly granted pensions being early. Deferred old-age pensions represented only 1 % of newly granted pensions[136]. There is no restriction in terms of receiving an old-age pension and continuing to work. The only exception is the period of early retirement until reaching the pensionable age (usually one to three years). Should the individual earn income

[133] MF (Ministry of Finance) (2023), *Hospodaření systému důchodového pojištění* [The pension scheme's economics] (https://www.mfcr.cz/cs/soukromy-sektor/soukrome-penzijni-systemy/iii-pilir-doplnkove-penzijni-sporeni-a-p).

[134] CFC (2022), *Report on the Long-Term Sustainability of Public Finances 2022* (https://www.rozpoctovarada.cz/en/publikace/report-on-the-long-term-sustainability-of-public-finances-for-the-year-2021/).

[135] Ageing Working Group (https://economy-finance.ec.europa.eu/publications/2021-ageing-report-economic-and-budgetary-projections-eu-member-states-2019-2070_en) or Ministry of Labour and Social Affairs (https://www.mpsv.cz/documents/20142/225513/Zpr%C3%A1va+2019.pdf/6f47700b-66a2-00a1-c86e-28090e8f5c6a).

[136] CSSA (Czech Social Security Administration) (2023), *Statistická ročenka z oblasti důchodového pojištění za rok 2008-2022* [Statistical Yearbook on Pension Insurance for 2008-2022] (https://www.cssz.cz/web/cz/statisticke-rocenky).

from economic activity during this time, the early-retirement pension will be temporarily suspended. The working pensioner can periodically apply for a pension increase. For every 360 days of economic activity, the pension increases by 0.4 % of the reference wage. In the case of fully deferred pensions, the pension is increased by 1.5 % of the reference wage for every 90 days of economic activity.

The statutory pension scheme is, in principle, uniform for employees, self-employed people and other non-standard labour categories. However, self-employed people have a different calculation of taxable income and subsequently the contribution base for pension insurance. This results in lower contributions in absolute terms than for standard forms of employment, resulting in lower earnings-related entitlements. In Czechia non-standard forms of employment mainly include fixed-term contracts, part-time work and categories of occasional work contracts. These occasional work contracts (agreement to perform work and agreement to complete a job) are intended to serve only marginal or occasional work, and their social insurance is subject to income thresholds from one and the same employer (allowing people to have several/parallel non-insured marginal employments with different employers).

The personal pension scheme is a voluntary, defined-contribution, fully funded scheme with a direct state contribution and tax incentives. The system is administered by private pension companies, which managed funds worth 8.7 % of GDP in 2022. The participation rate is almost 60 % of the economically active population and most participants are enrolled in the conservative pension plan. The annual rate of return on the plan is low and has oscillated around the rate of inflation over the past 10 years. The rate of return on the dynamic pension plans has outpaced inflation and wage growth (in selected funds), but has been lagging behind the performance of the main world stock exchange indices (e.g. S&P 500) over the same period[137]. Contributions to the system can be made by participants themselves and by their employers. Since 2013, participant contributions of up to CZK 1,000 (EUR 40) per month are subsidised by a state contribution, using a degressive formula. Roughly 28 % of participants received a contribution from their employer in the first quarter of 2023. In addition to the low level of participants' contributions, who consequently cannot expect to be significantly compensated for the drop in earnings on retirement, the system faces a few other shortcomings. The main ones include the low rate of return of pension funds, their high management fees, and oligopolistic competition accompanied by low market transparency. It is possible to claim benefits from this scheme up to five years before reaching pensionable age (which under certain conditions cancels the reduction of the statutory pension due to early retirement) but in any case, subject to having reached 60 and having at least a five-year contribution period.

2 REFORM TRENDS

According to the law in force, the present rise in the pensionable age will continue until it reaches 65 in 2030. Since 2018 the pensionable age has been supposed to reflect changing life

[137] APF CR (The Association of Pension Funds of the Czech Republic) (2023), *Ekonomické Ukazatele Penzijních Společností a Jejich Fondů za Rok 2022 – čtvrtletně* [Economic Indicators of Pension Companies and their Funds for 2022 – Quarterly] (https://www.apscr.cz/ctvrtletni-vysledky/).

expectancy, with the assessment taking place every five years (the next one will be held in 2024). However, the law does not include any automatic mechanism for changing the pensionable age. The law obliges the government to react only when the projected part of life in retirement exceeds the 24-26 % range. The only groups of workers in arduous or hazardous jobs who benefit from special retirement rules (lower retirement age) are underground miners (since 2016 the rules have targeted approximately 4,000 miners, who can reduce their pensionable age by 10 years) and staff who have worked for at least 20 years within the Integrated Rescue System (since 2023 the rules have targeted approximately 6,500 people).

In connection with the COVID-19 pandemic, all self-employed people were exempted, up to the threshold of minimum premiums, from paying pension and health insurance premiums for a period of six months (March to August 2020); this amounted to about 0.4 % of GDP in 2020. A similar but shorter measure (June to August 2020) applied to premiums paid by employers with fewer than 50 employees. In neither case will the waiver of social security payments have implications for the future pensions of those directly or indirectly affected. The disruptions to business during the most stringent phases of the 2020 quarantine translated into lower assessment bases of many self-employed individuals. Since the income from that period can be excluded from the reference wage calculation, it will not negatively affect their pension calculation.

A one-off compensation bonus of CZK 5,000 (EUR 200) was paid to all pensioners in December 2020. As from 2019, the universal basic amount of pension increased from 9 % to 10 % of the average wage. The previous government (2017-2021) took several decisions to increase pensions outside the statutory indexation framework to prevent widening the gap between the economically active and pensioners. Measures increasing pensions beyond the required indexation were criticised both by the then political opposition (there were parliamentary elections in autumn 2021) and by the Czech Fiscal Council for worsening financial sustainability.

Standard indexation of pensions is carried out in January based on the yearly change in the price level in June of the previous year (measured by the consumer price index – CPI). The pension legislation provides for an extraordinary indexation if the CPI has risen by more than 5 % since the last decision made. This protects pensioners at a time when prices are rising sharply. The extraordinary indexation closely follows the increase in the price level and only the earnings-related component of the pension is indexed (the universal basic amount of pension is not indexed). The method is slightly more favourable for pensioners with above-average retirement pensions, for whom the indexed part of the pension represents a higher share of the total pension. Between June 2021 and January 2022, the price level increased by 8.2 %, which resulted in an extraordinary increase in the percentage-based component of each pension by the same rate, starting with the June 2022 pension payment. Turbulent developments in 2022 led to an increase in the price level by a further 5.2 % between January 2022 and April 2022. Pensions paid from September 2022 onwards again reflected this increase in the price level. The January 2023 indexation was based on the CPI growth as of June 2022. However, by January 2023 the price index for pensioner households had increased by an additional 11.5 % and the government was forced to make a decision over another indexation of pensions as from June 2023. An 11.5 % increase in the percentage-based component of pension would have caused a major hit to public finances, so the government passed a one-off law under the fast-track legislative procedure reducing the indexation of the percentage-based component to CZK 400 (EUR 16) plus 2.3 %. Growth in pensions by a fixed amount is usually implemented through growth in the universal basic pension amount (linked to the national average wage). Growth in the percentage-based component by a fixed amount is an exceptional measure that increases social protection of the lowest pension beneficiaries. In May 2023 the main opposition party challenged the law before the Constitutional Court, arguing that it retroactively changed the rules of pension indexation.

In January 2019 the Ministry of Labour and Social Affairs (MLSA) set up a Commission for Fair Pensions. The work of the commission resulted in several recommendations for the pension system, which were backed by an analysis by the Organization for Economic Co-operation and Development (OECD)[138]. Drawing on the commission's work, the MLSA prepared three draft amendments to the Pension Act. In June 2021 the related bills were presented to parliament. The first one proposed a simpler and fairer benefit formula for the statutory pension scheme. The second amendment related to workers in arduous and hazardous jobs (about 1.5 % of all employees), reducing their pensionable age by one year for every 10 years of arduous occupation (free of penalty). The third amendment would introduce a new plan to increase the old-age pension for each child raised by CZK 500 (EUR 20) per month for the parent who is defined as the main carer (in the vast majority of cases, the mother). The expected impact would include a substantial fall in the at-risk-of-poverty (AROP) rate for women. Only the last-mentioned bill passed through parliament in the second half of 2021. The pension increase for the child's main carer was applied for the first time in January 2023.

In May 2023 the labour ministry presented the main thesis for the continuation of the pension reforms[139]. The package of measures includes the following proposals. The first one is the bill on pension indexation and early pensions. It passed through parliament and will take effect from October 2023. Firstly, the law changes the system of regular January indexation of pensions, from inflation and half of the real wage growth to inflation and a third of real wage growth. Secondly, it changes the system of extraordinary indexation when there is a change in the CPI of more than 5 %. The proposal builds on the above-mentioned one-off law and abolishes the indexation of the percentage-based component by inflation and replaces it with indexation by 60 % of the value of inflation. On the other hand, it also adjusts the calculation formula in favour of low pensions. The extra indexation will be paid as an additional one-off benefit[140] to pensions until pensions are properly indexed in January. Thirdly, whereas the current system allows early retirement up to five years before pensionable age, the bill shortens the period to only three years and allows early retirement only for those with at least

[138] OECD (2020), *OECD Reviews of Pension Systems: The Czech Republic*, OECD Publishing, Paris, November 2020 (https://www.oecd.org/els/oecd-reviews-of-pension-systems-czech-republic-e6387738-en.htm).

[139] The reform applied from 1 October 2023.

[140] The measure is designed to mitigate the negative impact on the financial balance of the system. However, the adjustment for inflation in the form of a one-off temporary benefit was also prompted by a change in the behaviour of early pension claimants. Applying for an early pension in 2022 was more financially attractive than waiting for regular retirement. The Ministry of Labour even published guidance that allowed individuals to claim early retirement in 2022, then suspend it and only resume it when it is convenient for the pensioner. As a result, approximately 120,000 people (usually 30,000 yearly, which corresponds to 30 % of all pensioners) applied for an early-retirement pension 2022. These people will have a higher pension than if they had waited until retirement age. In the first eight months of 2023, the same number of people applied for early retirement as in the entire record year of 2022. For more details, see: https://ceskeduchody.cz/navody/vypoctova-zamitacka-pri-zadosti-o-duchod-vyhody-nejasnosti-caste-otazky.

40 years of pension insurance (previously 35 years of insurance). Only 6 % of people taking early retirement today have accumulated fewer than 40 years of insurance. The penalty for early retirement will be higher (with an exception for people with 45 years of pension insurance). The change whereby the percentage-based component of the newly assessed early pension will not be indexed until the person reaches pensionable age is absolutely essential. The changes introduced will fundamentally restrict the possibility to apply for an early pension and, if a person applies their pension will be permanently reduced by more than it is today.

A new measure to support part-time jobs for selected groups of employees took effect in February 2023. The measure has reduced the employer's social security contributions by 5 percentage points (pp) (from 24.8 % to 19.8 %). It targets people who are more vulnerable in the labour market. Among other groups, people over 55 (even old-age pensioners) are eligible.

Several reform proposals are in the pipeline for the coming years, including a planned reform (to be gradually implemented between 2026 and 2035) that is expected to affect pension adequacy. The current formula for calculating new pensions will gradually reduce the general replacement rate of newly assessed pensions by approximately 0.3-0.5 pp annually over a period of 10 years. Other plans involve the introduction of income-sharing between spouses, the introduction of a parental bonus, and an adjustment of survivor pensions. It is also planned to adjust the pensionable age and the group of people with preferential treatment (those in arduous and hazardous jobs) from 2025. Changes to supplementary pension schemes are also under consideration, specifically changes to the formula for calculating the state contribution to the current personal pension scheme and an increase in the yearly tax credit for savings. In addition, it is planned to introduce a new long-term investment product for qualified investors.

3 ASSESSMENT OF ADEQUACY

3.1 Current adequacy

In the case of Czechia, indicators measuring pension adequacy change only to a limited extent over time. The relative median income ratio (65+) reached 0.73 in 2022, remaining unchanged from 2019. The figure is low compared with the rest of the EU-27. It is 0.05 higher for men than for women. The position of Czechia among EU Member States is also related to the lower level of the aggregate replacement ratio (49 % in 2022), which has increased by 2 pp over the last three years. If the previous indicator works out worse for women (due to their higher life expectancy), the income redistribution incorporated in the pension calculation formula slightly benefits them (by 5 pp in 2022). Income redistribution also accounts for the very low old-age income inequality: the income quintile share ratio (S80/S20) among those aged 65+ was 2.7 in 2022, compared with 4.1 for the EU-27; and the AROPE indicator (16.6 % in 2022) was lower than in other EU-27 Member States (20.2 %). The proportion of people aged 65+ suffering from material and social deprivation is below 5 % and has been falling in recent years (it was 11.3 % in 2014, and fell to 4.6 % in 2022). The value was well below the EU-27 average (11.1 %) in 2022; the gap between men and women was 2.7 pp in 2022. The severe material and social deprivation rate was even below 2 %. The AROPE value is therefore almost entirely explained by the AROP value (16.0 % in 2022). The prerequisites for this long-term trend are compulsory employment before 1989 (every individual was insured for retirement at all times). In addition, the length of the insurance period rather than the amount of the reference income determines the amount of pension). Persistently low unemployment rates and income solidarity (redistribution) in the pension calculation formula also contribute to the low level of old-age poverty and inequalities (for more details, see Section 3.3).

The AROP rate of people aged 65+ is fundamentally affected by the economic situation and the labour market. In 2015-2019, the Czech economy grew strongly, and real wages grew by more than 5 % per year. Regular pension indexation did not keep pace with economic growth (pensions are indexed based on past real wage growth, and real wage growth is only partially taken into account in the indexation formula). The AROP rate therefore rose from 7.4 % in 2015 to 16.6 % in 2019. The cooling of the economy and the impact of the COVID-19 pandemic caused real wages to fall and unemployment to rise slightly in 2020. In that year, the indexation of pensions translated into the development of relevant parameters in 2019 and the government decided to increase pensions beyond the compulsory indexation. These developments then caused the AROP rate to fall to 10.1 % in 2021. Despite the payment of a one-off pension benefit of CZK 5,000 (EUR 200) in 2021, there was a large deterioration in the AROP rate, to 16.0 % in 2022. This deterioration was already predicted[141] in spring 2021, as it was caused by a considerable personal income tax reduction approved at the end of 2020. As a result of rising net incomes of the economically active part of the population, the AROP threshold rose by 11 % in 2021, which pension indexation could not keep up with. Due to inflation reaching 15 % in 2022, there was a sharp fall in real wages (by 7.5 %), while old-age pensions were indexed in line with the change in the CPI.

The progressive pension formula (described in Section 1) generates only slightly differentiated pensions (see the ‘gross pension ratio high-/low-earner’ indicator). Individuals with the lowest labour incomes benefit from this set-up. The pension system coverage ratio (percentage of the population aged 65+) exceeds 100 % (137.4 % in 2019) and only a few individuals aged 65+ are not entitled to an old-age pension. This means that people aged 65+ are mostly above the income poverty threshold, but not too far from it. If we changed the poverty line from the usual 60 % of the equalised median income to 70 %, the number of people aged 65+ in poverty would have increased to 32.9 % in 2022, with a huge gap between men and women. These figures show that old-age pensioners are not critically at risk of income poverty, but they are not too far from the income poverty threshold.

Old-age pensioners are mostly (about 90 %) owner-occupiers. Only 9.4 % of people aged 65+ reported housing costs exceeding 40 % of income (housing cost overburden rate) in 2022. The state covers health insurance for all old-age pensioners, so everyone has access to standard healthcare. Direct patient co-payments are very low in Czechia. Thus, officially, only 2 % of individuals aged 65+ reported an unmet need for medical examination in 2022. Life expectancy at age 65 has increased by four years over the last 30 years. It reached its

[141] Jahoda, R., Malý I. and Špaček D. (2021), ‘Public Policy Responses to the COVID-19 Epidemic – The Case of Family Policy in the Czech Republic’, Scientific Papers of the University of Pardubice, 29(1), pp. 1-11. ISSN 1804-8048.

maximum in 2019 (18.4 years), with the following years negatively affected by the COVID-19 pandemic. In 2021 the value dropped to 16.7 years, and bounced back to 18.1 years (Eurostat estimate) in 2022. Women have a life expectancy 3.7 years longer than men's. The indicator of healthy life expectancy at age 65, which reflects the subjective assessment of an individual's health, ranks Czechia among the countries with the lowest value (7.6 years in 2021). Since the pensionable age is still below 65, the retirement period is approximately one year longer than life expectancy at 65.

Czechia spends less on pensions (9.3 % of GDP in 2022 according to Eurostat; the Czech Ministry of Finance declared 8.8 % of GDP in 2022) than the EU average (13 % of GDP in 2022). The proportion remained the same as in 2009 and was slightly higher than in 2019 (8.6 % of GDP). The different tax treatment of pensions in the EU[142] may have an impact on the reported GDP proportions. As stated in Section 1, only pensions above a high threshold are subject to personal income taxation in Czechia (this applies to fewer than 1 % of pensioners). The old-age pension growth factor (due to higher inflation and thus extraordinary pension indexation) was offset by a reduction in the number of old-age pensioners by about 200,000 people in the last three years (due to excess deaths caused by COVID-19 and the effect of the increase in the retirement age). Pension expenditure will continue to be under severe pressure in the coming years. The 'economic old-age dependency ratio' indicator (40.6 % in 2022) is expected to gradually worsen in the coming years (predicted to reach 71.1 % in 2060).

3.2 Future adequacy

As regards future adequacy, the theoretical replacement rates (TRRs) for similar careers are projected to worsen between 2022 and 2062. The net TRR for low-income earners remains approximately 17 pp higher than for average-earners for both men and women (in 2022 and 2062), reflecting the progressivity of the pension and tax systems. Compared with the base case, a three-year care-related career break does not imply a loss of pension rights, unlike a career break due to unemployment. The age of retirement can have a significant impact on pension income. Retiring two years before or after the standard pensionable age would imply an 8.8 pp lower or a 9.3 pp higher net TRR, respectively, compared with the base case. Due to pension indexation, an individual's net TRR after 10 years of retirement drops by 3.8 pp compared with a recent retiree. The net survivor pension ratio is expected to increase from 0.54 in 2022 to 0.6 in 2062 for female survivors with a 40-year career and from 0.56 to 0.61 for those with a 20-year career[143].

3.3 Developments in (in)equalities

AROP rates are much higher for women than for men. They live longer than men, which means that their pensions grow more slowly than wages (and the AROP threshold) for a longer period of time. The AROP rate for people aged 65+ was 16.0 % in 2022 but for people aged 75+ it was 20.0 %. Women's higher life expectancy also means that they are more likely

[142] See PAR Volume I for more detail.
[143] This refers to the pension(s) received by a female survivor as a share of what she would have received if her spouse were alive and also in receipt of a pension.

to outlive their husbands and are more likely to live in single-person households. The household composition has a substantial impact on AROP values. According to the Czech Statistical Office[144], only a few people in households of two adults with one or both aged 65+ are at risk of poverty. The figure slightly worsened from 3.1 % to 4.1 % between 2017 and 2022. However, the AROP rate for both men and women aged 65+ living alone saw a significant increase over this period, from 28.3 % to 37.8 %. Several factors contribute to this. The most significant is the fact that women live longer than men. A two-person household with two pensions is rarely at risk of income poverty. However, when one person dies, the surviving partner may fall into poverty despite receiving a survivor pension.

As already indicated, the Czech pension system is based on income solidarity. It is underpinned by a benefit formula that favours low-income individuals. According to the online pension calculator prepared by the MLSA, a person on the minimum wage who accrued the usual period of insurance can expect a gross replacement rate of close to 100 %, whereas a person on the average national wage will only get about 50 % (which is similar to the 2022 value of the aggregate replacement ratio of 49 %), and a person on twice the average wage will not even reach 35 %. The development of the labour market over the last 30 years indicates that only the very minimum number of people do not reach the minimum insurance period of 35 years. If women did not retire earlier than men with respect to the number of children raised (this advantage is gradually being eliminated), the gender gap in pensions indicator (14.6 % in 2022) would be even narrower. Czechia is one of the few EU Member States where the inequality of income distribution measured by the income quintile share ratio (S80/S20) is less than 3.

The COVID-19 pandemic had virtually no effect on the evolution of income inequality among old-age pensioners. Household incomes were protected through ordinary and extraordinary pension indexations. The Czech healthcare system did not hit a capacity ceiling, and it never happened that anyone did not have access to high-quality healthcare provided free of charge. Only 2.0 % of people aged 65+ reported unmet need for a medical examination in 2022 (2.4 % in 2020 and 4.4 % in 2021). As a measure of increased prevention of disease transmission, older people had dedicated hours during the pandemic peaks when only they could enter shops with basic food[145]. However, due to lower vaccination coverage, the mortality rate among older people was not negligible.

A different situation arose in the context of the energy crisis. Due to the liberalised energy supply market, the first energy suppliers were already going bankrupt in the second half of 2021. A major event was the collapse of the Bohemia Energy supplier, which provided electricity or gas to about 20 % of households. The provider was unable to supply energy at contracted (low) prices, after which large numbers of senior households saw their energy bills rise. This was further exacerbated by the impact of Russia’s war of aggression against Ukraine at the beginning of 2022. After initial monitoring of the situation, the government prepared a series of general measures targeting households (zero VAT, a price ceiling for households, and payment of the ecological part of the distribution tariff by the state), with no

[144] Czech Statistical Office (2022), *Household Income and Living Conditions – 2022*, Table 19 People at Risk of Poverty, 2017-2022 (https://www.czso.cz/csu/czso/household-income-and-living-conditions-5qh0ztby3b).
[145] For example, every working day from 9:00 till 11:00.

special treatment for older households. Today, energy prices for Czech households are capped and the increase in energy prices has been covered by the improved housing allowance. The number of housing allowance recipients more than doubled in the last two years. Single-person households of people aged 65+ make up almost one third of beneficiaries (Q1/2023 data on benefit recipients). Rising rents and energy prices have resulted in the need to simplify the rules for claiming social benefits, including the possibility of applying electronically. This area of social policy has been discussed at length in the media. The destigmatisation and simplification of the housing allowance rules has increased the number of recipients and has led to a reduction in benefits non-take-up, even for households with older people.

4 KEY CHALLENGES AND OPPORTUNITIES

The financial performance of the pension system (i.e. its deficit) has deteriorated in the last two years, and the most significant challenge will be to restore the financial sustainability of the system in the long run while preserving adequacy. The current draft reform measures are designed to curb the growth of future expenditure rather than increasing revenues, which may make maintaining the currently good pension adequacy challenging.

The tightening of early-retirement conditions will significantly affect future applicants and is therefore likely to reduce the number of people taking early retirement. If these people stay longer in the labour market, the system revenues and the future pension replacement ratios will improve. However, the expectation of tighter conditions resulted in a large number of people retiring early in 2022-2023. Not only will these people be missing from the labour market and not contributing to the pension system, but the government will also face the problem of how to address their low pensions in the coming years.

Czechia is looking for ways to increase the statutory pensionable age. The current legislation already empowers the government to respond to a rise in life expectancy, but it is looking for a solution to build a closer link between retirement age and life expectancy. Alongside this, the pensionable age of people working in arduous conditions should be regulated. Systemic rather than ad hoc solutions are called for.

The expected deterioration in pension adequacy is to be offset by an increase in income solidarity. The need for private savings solutions for people with average and above-average incomes is also being emphasised. Greater financial involvement by employers, bigger individual contributions, and improved internal returns remain the main challenges of voluntary schemes. Currently, there are financial incentives for participation in the personal pension scheme; however, most of the funds saved are withdrawn as a one-off lump sum. Czechia should consider how to promote lifelong annuities. Funds' management fees were capped by law in 2012. Due to a lack of competition, most pension companies charge fees at the maximum possible level. When compared with today's fintech products in the field of long-term investment, the costs of Czech personal pension companies are extremely high (a total expense ratio of over 2.5 % is not exceptional).

5 BACKGROUND STATISTICS

5.1. Relative income

	2022			Change 2019-2022		
	Total	Men	Women	Total	Men	Women
Relative median income ratio (65+)	0.73	0.76	0.71	0.00	0.02	-0.01
Income quintile share ratio (S80/S20) (65+)	2.70	2.65	2.62	0.13	0.11	0.09
Aggregate replacement ratio (ARR) (65-74) (%; change in pp)	49.0	47.0	52.0	2.0	2.0	2.0

5.2. Poverty and material deprivation

	2022			Change 2019-2022 (pp)		
	Total	Men	Women	Total	Men	Women
At-risk-of-poverty or social exclusion (AROPE) (65+) (%)	16.6	8.7	22.6	-0.8	-1.1	-0.7
At-risk-of-poverty (AROP) rate (65+) (%)	16.0	8.3	21.8	-0.6	-1.1	-0.3
Severe material and social deprivation (SMSD) rate (65+) (%)	1.6	0.9	2.1	-0.3	-0.5	-0.2
At-risk-of-poverty or social exclusion (AROPE) rate (75+) (%)	20.6	9.7	27.5	-0.7	-1.1	-0.8
At-risk-of-poverty (AROP) rate (75+) (%)	20.0	9.3	26.8	-0.7	-1.1	-0.7
Severe material and social deprivation (SMSD) rate (75+) (%)	1.5	0.4	2.2	-0.1	-0.5	0.1
Relative median at-risk-of-poverty gap (65+) (%)	11.3	10.2	11.8	0.5	0.0	0.8
At-risk-of-poverty (AROP) rate, 65+: 50 % threshold (%)	5.2	2.4	7.4	0.0	-0.4	0.2
At-risk-of-poverty (AROP) rate, 65+: 70 % threshold (%)	32.9	22.0	41.2	-1.5	-3.9	0.2
Material and social deprivation (MSD) rate (65+) (%)	4.6	3.1	5.8	-0.9	-1.4	-0.4

5.3. Gender difference

	2022	Change 2019-2022 (pp)
Gender gap in pension income (65-79) (%)	14.6	0.4
Gender gap in non-coverage rate (65-79) (pp)	-0.2	0.9

5.4. Housing and health situation

	2022			Change 2019-2022		
	Total	Men	Women	Total	Men	Women
Housing cost overburden rate (65+) (%; change in pp)	9.4	6.1	11.8	-0.7	-0.4	-1.2
Self-reported unmet need for medical exam 65+ (%; change in pp)	2.0	2.3	1.9	-0.9	-0.1	-1.4
Healthy life expectancy (at age 65) (years) (1)	7.6	7.0	8.2	-0.5	-1.0	0.0
Life expectancy (at age 65) (years)	18.1	16.1	19.8	-0.3	-0.3	-0.3

	2022	2062
Receiving long-term care cash benefits (65+) (%)	11.5	17.1
Receiving long-term care in-kind benefits (65+) (%)	8.2	12.2

5.5 Sustainability and context

	2022			Change 2019-2022		
	Total	Men	Women	Total	Men	Women
Employment rate (55-64) (%; change in pp)	72.9	79.1	66.8	6.2	4.4	7.9
Pension expenditure (% GDP; change in pp) (1)	9.3			0.7		
Retirement duration from first pension (years)	20.8	18.3	23.0	0.0	0.2	-0.4
Retirement duration from end employment (years) (2)	20.9	18.5	23.1	0.6	1.2	0.0

Projections (3)	2022			2062		
Old-age dependency ratio (20-64) (%)	35.3	29.0	41.8	59.4	53.7	65.5
Economic old-age dependency ratio (20-64) (%)	40.2	37.8	42.3	66.3	70.0	63.4
Gross public pensions (% GDP)	8.7			10.9		
Benefit ratio (%)	42.7			40.5		
Coverage ratio (65+) (%)	129.9			112.5		
Gross pension ratio high/low earner		1.4	1.4		1.4	1.4

(1) 2021 instead of 2022
(2) Based on the assumptions of the 2024 Ageing Report for the 2023 average exit ages
(3) For the source of each of these six indicators providing projections by 2062, please see 'Indicators, definitions and abbreviations'.

5.6 Theoretical replacement rates

	Net (%)				Gross (%)			
	2022		2062		2022		2062	
	Men	Women	Men	Women	Men	Women	Men	Women
Standard pensionable age (SPA)	**63.8**	**62.7**	**65.0**	**65.0**				
AWG career duration (years)	**40.6**	**36.8**	**41.8**	**38.6**				
Average Earning (100 %)								
Base case: 40 years up to SPA	65.0	65.0	59.2	59.2	52.8	52.8	47.6	47.6
Increased SPA: from age 25 to SPA	65.0	65.0	59.2	59.2	52.8	52.8	51.0	51.0
AWG career length case	65.0	59.8	57.4	51.5	52.8	48.6	46.2	41.4
Longer career: 42 years to SPA			61.5	61.5			49.5	49.5
Shorter career: 38 years to SPA			56.9	56.9			45.7	45.7
Deferred exit: 42 years to SPA +2			68.5	68.5			55.1	55.1
Earlier exit: 38 years to SPA -2			50.4	50.4			40.5	40.5
Career break – unemployment: 3 years	61.5	61.5	56.1	56.1	49.9	49.9	45.1	45.1
Career break – childcare: 3 years	65.0	65.0	59.2	59.2	52.8	52.8	47.6	47.6
Career break – care for family dependant: 3 years	65.0	65.0	59.2	59.2	52.8	52.8	47.6	47.6
Short career (20-year career)								
Work 35 years, disabled 5 years prior to SPA			58.4	58.4			47.0	47.0
Early entry in the labour market: from age 20 to SPA			65.0	65.0			52.3	52.3
Index: 10 years after retirement at SPA			55.4	55.4			44.5	44.5
Extended part-time period for childcare			57.3	57.3			46.1	46.1
Survivor ratio 1*		0.5		0.6		0.5		0.6
Survivor ratio 2*		0.6		0.6		0.6		0.6
Low earnings (66 %)								
Base case: 40 years up to SPA	83.4	83.4	76.1	76.1	70.8	70.8	63.7	63.7
AWG career length case	83.4	77.0	79.0	66.6	70.8	65.4	66.1	55.7
Career break – unemployment: 3 years	79.4	79.4	72.5	72.5	67.4	67.4	60.7	60.7
Career break – childcare: 3 years	83.4	83.4	76.1	76.1	70.8	70.8	63.7	63.7
Short career (20-year career)								
Early entry in the labour market: from age 20 to SPA			83.3	83.3			69.7	69.7
High earnings (100->200 %)								
Base case: 40 years up to SPA	40.3	40.3	35.5	35.5	31.3	31.3	27.4	27.4

**Survivor ratio 1: man base case, woman base case*
**Survivor ratio 2: man base case, woman short career case*

DENMARK

Highlights

- The three-pillar Danish pension system has a high degree of social adequacy and financial sustainability and is set to retain both. Adequacy is underpinned by a measure of public-private benefit integration. Financial sustainability is boosted by the strict linking of the pensionable age to life expectancy.
- Statutory pensions are effective at preventing poverty and involve significant redistribution in favour of those with no or small supplementary pension savings.
- Occupational pensions covering 85 % of employees are set to play a key role in income maintenance. However, self-employed and non-unionised workers are not covered.
- Concerns about workers unable to work until the rising pensionable age have led to new rights-based and health-tested possibilities for early retirement.
- A government pension commission suggests making retirement periods more equal across generations by easing the way pensionable ages link to life expectancy.

1 GENERAL DESCRIPTION OF THE NATIONAL PENSION SYSTEM

Denmark has a multi-pillar old-age pension system that combines, and to a certain extent integrates, income from four types of pension schemes (statutory, statutory funded, occupational, and personal pension schemes). Retirement practices are also markedly affected by the rights-based early-retirement pension schemes – the voluntary early-retirement pension (VERP – *efterløn*) and early pension (*tidlig pension*) – and by the health-tested senior pension scheme (*seniorpension*).

Statutory pensions consist of two old-age pension schemes: the national old-age pension scheme, also known as the people's pension (PP – *Folkepension*); and the smaller statutory funded pension scheme (*Arbejdsmarkedets Tillægspension* – ATP).

The PP, which accounts for almost two thirds of all pension income, is a universal, non-contributory, residence-based scheme financed from general taxation on a pay-as-you-go basis. People are entitled to 1/40th of the PP for each year they reside in Denmark, between age 15 and the pensionable age[146]. Benefits are taxable and consist of a flat-rate amount (*grundbeløb*) and an income-tested supplement (*pensionstillæg*). As of January 2023 the flat-rate amount and the supplement are no longer tested against the pensioner's own earned income. But the supplement is still tested against all capital and pension income. There is a special supplementary benefit for pensioners with little to no income besides the full old-age pension and low savings. Pensioners in this situation are also substantially helped by income-

[146] From 1 July 2025 entitlement to a full pension will be conditional on having resided in Denmark for 9/10ths of the time between age 15 and pensionable age.

and savings-tested social supplements such as the housing and heating benefits for pensioners. The full pre-tax PP (national old-age pension plus the supplementary benefit) for a pensioner without other income was EUR 25,835 annually for a single person and EUR 19,743 annually for a person in a couple in 2023[147]. Benefits are indexed to average wage developments. Pension receipt can be deferred for up to 10 years with actuarial compensation. The present standard pensionable age of 67 (2022) will be raised to 68 by 2030 because it is linked to developments in life expectancy. Denmark was a pioneer in this respect. The aim is to limit the average duration of receipt of the old-age pension to 14.5 years while giving people a 15-year warning before the next rise in the pensionable age.

The ATP is a mandatory, fully funded defined-contribution scheme financed from small nominal contributions (linked to the number of hours worked) for all employed people. The scheme is mandatory for employees over 16 working more than nine hours a week. In 2022, 90 % of pensioners received a payment from the ATP. For more than half of present old-age pensioners, the ATP constitutes the largest supplementary pension. The ATP, which has largely matured and offers a moderate supplementary annuity (typically about 10-25 % of the flat-rate amount in the public pension), is organised in a separate fund under tripartite management. People in non-standard jobs pay the same ATP contributions as people in standard jobs. Self-employed people can make voluntary contributions to the ATP scheme, but very few do.

There are two schemes equivalent to the ATP for people of working age who receive social transfer incomes (except claimants of the integration allowance), one compulsory and one voluntary. In the compulsory scheme (*obligatorisk pensionsordning*) the contribution is set to gradually increase until it reaches 3.3 % of the social security benefit. The voluntary supplementary scheme (*supplerende arbejdsmarkedspension for førtidspensionister*) allows claimants of a disability pension or senior pension to make additional subsidised savings for old age. Claimants pay one third, and the state two thirds, of the flat-rate, monthly contribution (EUR 77 in 2023).

For current old-age pensioners, about 75 % of pension income in 2022 derived from the statutory schemes. As the supplementary pension schemes mature, the income share of statutory schemes is set to fall to about 50 %.

Occupational pension schemes are based on voluntary collective agreements providing compulsory coverage for the employees concerned. These, mostly sector-wide, schemes cover 85 % of full- and part-time employed people or 65 % of the working-age population. Low coverage rates are found in sectors with a large share of unskilled and non-unionised labour such as agriculture, retail sales and catering. The bulk of occupational pensions are fully funded, defined-contribution schemes with obligatory in-house annuitisations. Lifetime annuities are usually supplemented by a time-limited benefit paid out in the first 10 to 15 years after retirement. The importance of these pension schemes in overall pension income is steadily increasing as the major sectoral schemes established around 1990 expand, as an effect of growing contribution rates and the maturation of these schemes. Contributions vary from

[147] In 2024 the monthly rates are DKK 14,944 for a single person and DKK 11,030 for a person in a couple.

12 to 19 % across sectors, with workers typically saving 12 % of their gross pay, while professionals such as nurses and schoolteachers contribute about 14 % and university graduates 17-19 %. There are only very few occupational pension schemes covering groups of the self-employed (primarily professionals such as doctors and lawyers) and none for people in jobs not covered by collective agreements.

Personal pension schemes consist of a wide range of voluntary personal life insurance and pension saving plans with uneven coverage and differing scope, of which most savings schemes allow lump-sum payments with no annuitisation obligation. Regulation largely prohibits schemes from being used for tax-dodging. These schemes are used for insurance (i.e. to secure the desired level of income) and for compensation (i.e. to replace the lack of savings in occupational pension schemes). The compensatory function is mostly relevant for the self-employed and workers not covered by collective agreements (including people in non-standard jobs) and thus without occupational pension coverage. However, people without occupational pension coverage do not make sufficient compensatory pension savings, as on average they only pay about 3 % of their gross income into personal pension schemes.

The voluntary early retirement pension, which in the past facilitated large-scale early retirement, is a voluntary, contributory scheme where the financing involves a major subsidy from general taxation. To become entitled, people must have been a member of the voluntary unemployment insurance scheme, paid the special extra contribution for 30 years and started these contributions by their 30th birthday. The annual maximum for the pension savings and work income-tested benefit is EUR 31,565 in 2023. The lowest entry age is 64 in 2023, and the maximum duration three years. Henceforth the eligibility age will be linked to the pensionable age, which is indexed to developments in life expectancy. As a result, the retirement age in the VERP will be raised to 65 in 2027 and further to 66 in 2032.

The early pension at the level of a full pension can be claimed as a rights-based benefit one, two or three years before the pensionable age, by those workers who by their 61st birthday can document a working career (including periods of unemployment and sickness) of respectively 42, 43 or 44 years. The annual benefit amounts to EUR 22,413 in 2023. Unlike the VERP, the early pension benefit is unaffected by occupational pension savings below DKK 2 million.

The senior pension can be claimed up to six years before the pensionable age by people with a working capacity of a maximum of 15 weekly hours, and a work record of full-time employment of a minimum of 20-25 years. The annual benefit level for single claimants in 2023 is set at EUR 31,584[148].

2 REFORM TRENDS

As part of measures to boost the economy, old-age pensioners (like other recipients of social transfers) received a tax-free lump sum of EUR 134 in October 2020. The COVID-19 crisis did not affect future pension rights, since the accrual of pension credits for the PP is

[148] The monthly rates in 2024 are respectively of 20,370 DKK for a single person and 17,316 DKK for a person in a couple.

residence-based, while the short-term wage compensation schemes paid resulted in contributions to occupational pension schemes.

Whereas the sudden rise in energy prices resulted in general compensation payments to all citizens with gas-based heating, the inflationary pressures led parliament in 2022 to introduce a special supplement of EUR 671 for pensioners, who already on a regular basis receive the special supplementary benefit (*supplerende pensionsydelse, ældrecheck*). The inflation-compensating supplement thus only reached a limited segment of those pensioners potentially in need.

Amid a continued commitment to raising both the pensionable and the effective exit age, the long-standing trend to restrict premature retirement was broken by the adoption of two new early-retirement schemes at the end of 2020. Some catering to the needs of workers with reduced working capacity was increasingly perceived as a precondition for continued popular acceptance of the linking of the pensionable age to life expectancy that underpins financial sustainability. The rights-based early pension, aimed at people with particularly long working careers, and the health-tested senior pension, aimed at people whose weekly working ability has been reduced to less than 15 hours, were adopted on the same day in late 2020 as parliament decided to raise the pensionable age to 69 from 2035. The new early-retirement options came into effect in January 2022 (see end of Section 1), and so far the number of claimants is double that expected for the senior pension and somewhat less than that foreseen for the early pension. For both schemes, eligibility ages are defined in relation to the pensionable age, and they will therefore change with this.

The debate over the need for new early-retirement options in view of the steady increase in the pensionable age led to the establishment of a Pension Commission, with the mandate to assess the durability and fairness of the entire Danish retirement system, and in particular to analyse to what extent people can actually postpone retirement in line with the growth in life expectancy.

Reporting in May 2022, the Pension Commission[149] had little to say about the latter; but it found that the present linkage to life expectancy creates unfairness across age cohorts and generations, and suggested a way to ease it from 2040 without endangering overall financial sustainability. Beyond that, most of the commission's suggestions were aimed at tackling various disincentives hampering pension savings and pensioners from working.

With parliament particularly focused on boosting labour supply, the first initiative in line with the Pension Commission's recommendations came in June 2023, when it was legislated that earned income from a pensioner's own work will no longer lead to a reduction in the PP benefits (*grundbeløb* and *pensionstillæg*), with the result that pensioners can now continue working while drawing their public pension and thus no longer need to apply to have it deferred.

[149] Kommissionen om tilbagetrækning og nedslidning (2022), Fremtidssikring af et stærkt pensionssystem – Beskæftigelsesministeriet maj 2022 (https://bm.dk/media/20703/fremtidssikring-af-et-staerkt-pensionssystem.pdf).

3 ASSESEMENT OF ADEQUACY

3.1 Current adequacy

The Danish pension system scores well on protection against poverty but less so on income maintenance. The aggregate replacement ratio (ARR) was 45 % in 2022, down by 3 percentage points (pp) since 2019. The emphasis of the universal public pension is on protection against poverty, whereas income maintenance is to be fulfilled by the occupational pension schemes, most of which were established around 1990, but which do not include the self-employed and people in jobs not covered by collective agreements. The latter groups can compensate for that through savings in personal pension schemes, which also act as vehicles of supplementary pensions for other groups.

Low-income groups receive substantially more in public pensions and tend to have better replacement rates than high-income groups. This is a result of the capital and supplementary pension income-testing of the pension supplement and the testing of all additional benefits such as the special supplement and housing and heating supplements against both income and savings.

When assessed in terms of its capacity to prevent poverty, the Danish pension system performs very well. It manages to achieve poverty levels that are low by EU standards, and these have fallen since the onset of the crisis in 2008. However, the at-risk-of-poverty or social exclusion (AROPE) rate for people aged 65+ was 14.3 % in 2022, up from 9.9 % in 2019. The at-risk-of-poverty (AROP) rate for people aged 65+ stood at 13.2 % in 2022, up 4.2 pp since 2019. However, these deteriorations in the AROPE and AROP rates are more likely to have resulted from temporary changes in median incomes caused by one-off demand-stimulating measures during the COVID-19 pandemic, primarily directed towards people of working age (e.g. the release of frozen holiday allowances) than from any real rise in old-age poverty. The AROPE rate for women aged 65+ in 2022 was 15 % compared with 13.5 % for men. When looking at the situation of people aged 75+, the poverty risk becomes more pronounced, though it remains below EU levels. In 2022 the AROPE rate was 20.6 % for people aged 75+, while the AROP rate was 20.1 %.

The above figures are not used in domestic debates. The social partners, the government, and poverty experts all use the 50 % of median income level rather than the 60 % used by the EU. There are two reasons for this. First, the 50 % level has been chosen on the basis of the relatively equal income distribution. Second, older people in Denmark have access to free universal healthcare as well as the most all-encompassing free home help in the world. The effective purchasing power of pensioners is also raised by age-related tax rebates (e.g. on owner-occupied housing) and discounts on medication, transport, admissions, and radio/TV. The fact that, unlike the Danish income figures, Eurostat data do not include imputed rent also affects the AROP rate among older people. The design of the public pension contributes to only 3.5 % of pensioners being at risk of poverty at the 50 % of the median income level, whereas the moderate ARR of public pensions helps explain why at the 70 % threshold the AROP comes to 28.1 %.

There is little severe material and social deprivation among older people. In 2022, 1.2 % of people aged 65+ reported suffering from severe material and social deprivation. This was one fifth of the EU average. Similarly, the rate of severe material and social deprivation among people aged 75+ was 0.6 % in 2022. This was around one eighth of the EU average.

The retirement duration from first pension was 15.0 years in 2022. The linking of pensionable ages with longevity is gender-neutral; but since 2019 life expectancy at 65 has reduced for both women and men by 0.2 %, so that in 2022 it stood at 20.7 years for women and 18.2 for men. The system is designed to reduce the average pension duration to 14.5 years in the longer term. But so far, averages are higher. The retirement duration from end of employment came to 19.6 years (17.9 for men and 21.2 for women) in 2022. Since life expectancy has recently been rising primarily thanks to better medicines and improved care for people of advanced age, various experts have argued that it cannot be taken for granted that the work capacity of people in their late 60s and early 70s will improve in line with the growth in life expectancy[150].

Pension benefits and other income are not considered when determining the eligibility for free long-term care services.

3.2 Future adequacy

The net theoretical replacement rates (TRRs) for workers in all income groups are projected to increase between 2022 and 2062. For average-income earners, the increase in the net TRR is 4.2 pp in the 'base case' and 7.2 pp in the case of 'increased SPA: from age 25 to SPA'. Both increases are markedly affected by the maturing of occupational schemes. The difference between the two cases results from the expected increase in the standard pensionable age (SPA) from 67 to 73 and the subsequent predicted rise in the Ageing Working Group career duration by more than three years. These developments are assumed to follow from the way the SPA is linked to the anticipated growth in life expectancy in Denmark.

The change in old-age dependency ratio from 35.3 % in 2022 to 50.5 % in 2059 is considerable but still among the lowest in the EU. The financial basis for the future adequacy of pensions is boosted by the strict linking of the pensionable age to life expectancy and the high employment rate of older workers. The maturing of occupational and personal pension savings schemes will improve pension adequacy in terms of income maintenance[151]. Meanwhile, social adequacy (including as reflected in the AROPE rate) will be underpinned

[150] For analyses and discussion see e.g.: De Økonomiske Råd – Formandskabet (2021a), Dansk Økonomi, forår 2021, KAPITEL III TILBAGETRÆKNINGSAFTALEN, København (https://dors.dk/vismandsrapporter?page=0); De Økonomiske Råd – Formandskabet (2021b), Dansk Økonomi, efterår 2021, KAPITEL IV: HELBRED OG ÆLDRES BESKÆFTIGELSE, København (https://dors.dk/vismandsrapporter?page=0).

[151] Kommissionen om tilbagetrækning og nedslidning (2022), Fremtidssikring af et stærkt pensionssystem, Beskæftigelsesministeriet maj 2022 (https://bm.dk/media/20703/fremtidssikring-af-et-staerkt-pensionssystem.pdf).

by a measure of public-private benefit integration through the testing of the pension supplement against all capital and private pension income.

The Danish response to challenges to pension sustainability and adequacy has focused on increasing the employment rates of older workers. Beyond workplace- and labour market-oriented policy initiatives, key measures consisted in restricting access to early retirement and linking the pensionable age to developments in longevity, while possibilities for combining earned income with a public pension also have been markedly eased. Structural improvements in the working conditions and health/education levels of older workers have resulted in a major rise in the employment rate of older workers aged 55-64, which now stands at 72.9 %.

In recent years disposable income has increased more quickly for pensioners than for the general population. This is mainly due to the maturation of occupational pension schemes, and a growing number of people continuing to work beyond the pensionable age and either postponing their pension claim or combining a public pension with some work income.

3.3 Developments in (in) equalities

A study[152] by the Danish trade association for insurance companies and pension funds has examined dimensions of the prior, present, and future income inequality among Danish pensioners. In the last 20 years pensioners have experienced a moderate increase in the inequality of their disposable income measured by Gini coefficient, from 0.22 in 2000 to 0.25 in 2020. Nonetheless, this is lower than the rise in the Gini coefficient, from 0.24 to 0.30, for the population as a whole. The major cause of the rise is that more pensioners now receive income from their pensions savings and from work after retirement. But in the future the spread and maturation of occupational and personal pensions are set to reduce income inequalities between blue-collar workers and white-collar employees, and between women and men. This is because over the next 30 years pension savings for groups with no or only very small current savings will be increasing the most. Today the 10 % of pensioners with the largest savings own 40 % of all savings. But by 2050 their share will have fallen to 25 %. In this sense the expected development of occupational and personal pensions will contribute to a reduction of inequality among Danish pensioners.

Obviously, these developments will also increase the inequality between those with and those without occupational pension coverage. Though the testing of the pension supplement and the various special supplements and benefits against private pension income will temper such inequalities, they are likely to grow to considerable proportions and leave non-unionised workers and many self-employed people relatively vulnerable.

Although the gender gap in pensions narrowed by more than 10 pp from 2008 to 2019 and was among the lowest in the EU, it subsequently rose by 1.1 pp to 8.8 % in 2022. While this is one of the smallest gaps in EU, it nevertheless helps explain why older women are more often overburdened by housing costs than men (20.7 % versus 15.1 %).

[152] Forsikring & pension (2022), Lav Ulighed I pensionssystemet I dag og I fremtiden, Analyserapport 2022:1, København (www.fogp.dk/media/8584/lav-ulighed-i-pensionssystemet-i-dag-og-i-fremtiden-opdateret-til-2020-2.pdf).

In a comparative study for the Nordic countries[153], the Nordic Council has found that the gender pension gap is considerably narrower in Denmark and shows how this is an effect of the design features of the Danish pension system, which combines and partially integrates a residence-based public scheme with a defined contribution occupational system in the context of high full-time employment rates among Danish women.

4 KEY CHALLENGES AND OPPORTUNITIES

When implementing the link between pension age and longevity, inter-generational equity could be improved, for instance, by increasing the currently envisaged target pension duration of 14.5 years, adjusting the ratio according to which longevity gains are converted into pension age increases (currently 1:1), or slowing the tempo of implementation. This is in line with the proposal from the government's Pension Commission to reduce the rise in the pensionable age to half of the increase in life expectancy from 2040. This is in light of the fact that the impact of only raising the pensionable age at half the speed would be financially manageable, since most of the demographic transition from large to smaller population proportions of working age by then would be over.

While the lack of supplementary pension savings for self-employed people and non-standard workers has been partially addressed, it is widely acknowledged that more could be done (e.g. by making a sufficient level of supplementary pension savings compulsory or introducing mandatory membership of occupational pension schemes).

[153] Nordic Council of Ministers (2023), *Gender Equal Pensions in the Nordics*, TemaNord 2023:506, pub@norden.org (https://pub.norden.org/temanord2023-506).

5 BACKGROUND STATISTICS

	2022			Change 2019-2022		
5.1. Relative income	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**
Relative median income ratio (65+)	0.77	0.79	0.75	0.00	0.02	-0.01
Income quintile share ratio (S80/S20) (65+)	3.07	3.21	2.94	-0.39	-0.88	-0.01
Aggregate replacement ratio (ARR) (65-74) (%; change in pp)	45.0	42.0	47.0	-3.0	-2.0	-4.0
	2022			**Change 2019-2022 (pp)**		
5.2. Poverty and material deprivation	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**
At-risk-of-poverty or social exclusion (AROPE) (65+) (%)	14.3	13.5	15.0	4.4	4.5	4.3
At-risk-of-poverty (AROP) rate (65+) (%)	13.2	12.5	13.9	4.2	4.4	4.2
Severe material and social deprivation (SMSD) rate (65+) (%)	1.2	1.3	1.1	0.0	0.2	-0.1
At-risk-of-poverty or social exclusion (AROPE) rate (75+) (%)	20.6	18.6	22.3	5.2	4.0	6.3
At-risk-of-poverty (AROP) rate (75+) (%)	20.1	18.1	21.7	5.6	4.1	6.7
Severe material and social deprivation (SMSD) rate (75+) (%)	0.6	0.7	0.6	-0.4	0.0	-0.7
Relative median at-risk-of-poverty gap (65+) (%)	10.1	9.1	11.3	2.0	0.3	4.4
At-risk-of-poverty (AROP) rate, 65+: 50 % threshold (%)	3.5	3.1	3.9	1.6	0.9	2.2
At-risk-of-poverty (AROP) rate, 65+: 70 % threshold (%)	28.1	26.3	29.6	1.1	0.0	1.9
Material and social deprivation (MSD) rate (65+) (%)	3.2	3.0	3.3	0.2	-0.1	0.4
5.3. Gender difference	**2022**			**Change 2019-2022 (pp)**		
Gender gap in pension income (65-79) (%)	8.8			1.1		
Gender gap in non-coverage rate (65-79) (pp)	-2.7			-2.2		
	2022			**Change 2019-2022**		
5.4. Housing and health situation	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**
Housing cost overburden rate (65+) (%; change in pp)	18.1	15.1	20.7	-1.7	-1.6	-1.9
Self-reported unmet need for medical exam 65+ (%; change in pp)	7.6	7.6	7.6	3.0	2.6	3.4
Healthy life expectancy (at age 65) (years) (1)	9.9	9.5	10.2	-1.4	-1.2	-1.6
Life expectancy (at age 65) (years)	19.5	18.2	20.7	-0.3	-0.2	-0.3
	2022			**2062**		
Receiving long-term care cash benefits (65+) (%)	0.0			0.0		
Receiving long-term care in-kind benefits (65+) (%)	17.2			23.4		
	2022			**Change 2019-2022**		
5.5 Sustainability and context	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**
Employment rate (55-64) (%; change in pp)	72.9	76.8	69.0	1.6	1.0	2.1
Pension expenditure (% GDP; change in pp) (1)	11.4			-1.0		
Retirement duration from first pension (years) (2)	15.0	13.3	16.9	-2.9	-2.9	-1.8
Retirement duration from end employment (years) (3)	19.6	17.9	21.2	-0.7	-0.5	-0.6
Projections (4)	**2022**			**2062**		
Old-age dependency ratio (20-64) (%)	35.3	32.2	38.4	50.5	46.9	54.1
Economic old-age dependency ratio (20-64) (%)	40.3	40.2	40.6	52.2	50.5	53.8
Gross public pensions (% GDP)	8.3			6.8		
Benefit ratio (%)	61.0			58.2		
Coverage ratio (65+) (%)	111.2			81.0		
Gross pension ratio high/low earner		1.5	1.5		1.5	1.5

(1) 2021 instead of 2022

(2) Change 2019-2021
(3) Based on the assumptions of the 2024 Ageing Report for the 2023 average exit ages
(4) For the source of each of these six indicators providing projections by 2062, please see 'Indicators, definitions and abbreviations'.

5.6 Theoretical replacement rates

	Net (%)				Gross (%)			
	2022		2062		2022		2062	
	Men	Women	Men	Women	Men	Women	Men	Women
Standard pensionable age (SPA)	**67.0**	**67.0**	**73.0**	**73.0**				
AWG career duration (years)	**43.9**	**42.7**	**47.1**	**46.2**				
Average Earning (100 %)								
Base case: 40 years up to SPA	71.7	71.7	75.6	75.6	67.2	67.2	71.3	71.3
Increased SPA: from age 25 to SPA	72.7	72.7	79.9	79.9	68.3	68.3	75.8	75.8
AWG career length case	72.5	72.3	79.3	78.6	68.1	75.1	67.9	74.4
Longer career: 42 years to SPA			76.0	76.0			71.7	71.7
Shorter career: 38 years to SPA			74.4	74.4			70.0	70.0
Deferred exit: 42 years to SPA +2			82.9	82.9			78.8	78.8
Earlier exit: 38 years to SPA -2			33.3	33.3			27.5	27.5
Career break – unemployment: 3 years	71.5	71.5	74.1	74.1	67.0	67.0	69.8	69.8
Career break – childcare: 3 years	71.7	71.7	74.3	74.3	67.2	67.2	69.9	69.9
Career break – care for family dependant: 3 years	69.8	69.8	73.9	73.9	65.2	65.2	69.5	69.5
Short career (20-year career)	61.3	61.3	64.4	64.4	56.4	56.4	59.7	59.7
Work 35 years, disabled 5 years prior to SPA			75.6	75.6			71.3	71.3
Early entry in the labour market: from age 20 to SPA			83.3	83.3			79.2	79.2
Index: 10 years after retirement at SPA			70.4	70.4			66.0	66.0
Extended part-time period for childcare			72.6	72.6			68.2	68.2
Survivor ratio 1*		0.5		0.5		0.5		0.5
Survivor ratio 2*		0.5		0.5		0.5		0.5
Low earnings (66 %)								
Base case: 40 years up to SPA	96.2	96.2	99.8	99.8	92.9	92.9	96.8	96.8
AWG career length case	98.0	97.6	103.2	102.5	94.8	94.4	100.4	99.7
Career break – unemployment: 3 years	96.0	96.0	98.4	98.4	92.7	92.7	95.2	95.2
Career break – childcare: 3 years	96.2	96.2	98.5	98.5	92.9	92.9	95.4	95.4
Short career (20-year career)	85.0	85.0	86.5	86.5	80.8	80.8	82.5	82.5
Early entry in the labour market: from age 20 to SPA			107.2	107.2			104.7	104.7
High earnings (100->200 %)								
Base case: 40 years up to SPA	48.6	48.6	50.8	50.8	41.3	41.3	44.2	44.2

**Survivor ratio 1: man base case, woman base case*
**Survivor ratio 2: man base case, woman short career case*

ESTONIA

Highlights

- Estonia has the highest at-risk-of-poverty rate for older people in the EU (52.3 % versus the EU average of 17.3 % in 2022), also exceeding the at-risk-of-poverty rate of the working-age population (16 %) by 36.3 percentage points. The income situation of older Estonians relative to the working-age population is worse than the EU[154] average (e.g. one of the lowest aggregate replacement ratios: 44 % versus 58 %).
- As a result of a 2021 reform making the statutory funded scheme voluntary, approximately 30 % of participants of funded pension insurance have withdrawn their statutory funded pension. This reform risks reducing the adequacy of pensions in the future considerably and puts people at a higher risk of poverty in old age.
- The low replacement rates of pensions have raised questions about the adequacy of the Estonian pension system. The government has extraordinarily increased the flat-rate base amount on top of annual indexing almost every year since 2020 and increased the tax exemption for people of pensionable age so that the average old-age pension is tax-free from 2023.
- The different acts regulating special pensions in certain occupations were reformed in 2020 and 2023, meaning that the payment of special pensions will gradually fall in the long run.

1 GENERAL DESCRIPTION OF THE NATIONAL PENSION SYSTEM

The Estonian pension system consists of three main schemes:

(a) a state pension insurance scheme (statutory pension scheme, a pay-as-you-go system);

(b) a statutory funded pension scheme (defined-contribution – DC – scheme), which has been voluntary since 2021; and

(c) supplementary pension schemes, including occupational pension schemes and personal pension schemes.

The state pension insurance scheme includes two separate tiers: first, employment-based old-age pensions and survivor pensions; and second, flat-rate residence-based minimum pensions. Minimum pensions are financed from the general state budget, whereas old-age and survivor pensions are predominantly financed from an earmarked social tax (social contributions) paid by employers and self-employed people at the rate of 16 % or 20 % of gross earnings depending on whether the insured person has joined the statutory funded pension scheme or

[154] EU and EU-27 refer to the current 27 Member States of the European Union.

not (i.e. if the insured person has joined the funded pension scheme, 16 % is allocated to the state pension insurance scheme and 4 % to the funded pension scheme). Additional transfers from the general state budget were made in 2023 to cover the suspension of pension contributions in 2020-2021 (see more details in Section 2). The coverage of the state pension insurance system is practically universal. Caring periods are counted as pension contribution periods in respect of caring for children up to age 3 and caring for people with disabilities. Additionally, one parent gets a pension supplement for each child raised for at least eight years, or alternatively the state makes payments to the statutory pension fund of a parent during three years (4 % of the previous year's average wage; applies to children born after 2013). If there is a disagreement between parents, the pension rights are divided equally.

Old-age pensions (state pension insurance) currently consist of four components: (a) the flat-rate base amount; (b) the pensionable length-of-service component (covering periods up to 1998); (c) the insurance component, which is based on individual social tax payments (covering periods from 1999 to 2020); and (d) a joint part that consists of an insurance component and a solidarity component starting from 2021. The new joint part replaces the previous 100 % insurance component with the 50 % insurance component and a 50 % years-of-service part (solidarity component). Survivor pensions take in to account the number of eligible dependants.

All pensions are indexed annually. The general index is a weighted average of the consumer price index and the growth of social tax revenues of the pension insurance system (in a 20:80 proportion). The old-age pension components are indexed differently: the flat-rate base amount is indexed to 1.1 times of the general index, and other components to 0.9 times the general index.

The pensionable age is 64 years and 6 months in 2023, and it will gradually increase to 65 by 2026. From 2027 onwards pensionable age is linked to life expectancy. There is a possibility of early retirement. Between 2021 and 2025 those retiring early have a choice between two systems: an early-retirement pension (an older system that is gradually being abolished) and flexible retirement. An early-retirement pension can be taken up to three years prior to the pensionable age. For every month of early retirement, the old-age pension amount is reduced by 0.4 %.

In parallel, the system of flexible pensions is available, which will eventually replace early-retirement pensions (see more details on the reform in Section 2). Flexible pensions are available up to five years before pensionable age with a required work record of between 20 and 40 years, depending on the time to pensionable age: 40 pensionable service (PS) years – five years before pensionable age; 35 PS years – four years before pensionable age; and so on until 20 PS years – one year before pensionable age.

Retirement can be deferred, and thus it is possible to increase the pension as an actuarially neutral formula is applied. Cumulating pension and work income is allowed in the new flexible retirement system (it was not allowed with the previous early-retirement pensions). In addition it is possible to take out half of the pension and continue working full time, in which case half of the pension is deferred.

For the statutory funded DC scheme, the contribution rate is 6 % of gross wages – the employee pays 2 % of their gross wage and another 4 % is diverted from the social tax paid by the employer (as part of the 20 % pension insurance contribution). The amount of funded pension depends on total contributions over the working career and on the yields of pension funds. Participation in the funded DC scheme is voluntary. People born after 1983 are automatically enrolled in the system, but may opt out (see more details in Section 2 below).

At the beginning of 2020 about 95 % of people aged 19-63 were members of the statutory funded scheme and about 64 % of participants contributed in 2019[155]. The first benefits were paid out in 2009, but the amounts were marginal due to short contribution periods (at the time 6.5 years). The benefits of the statutory funded DC scheme still play a minor role in total old-age income. As of June 2023, approximately 30 % of all participants in the pension insurance fund have chosen to opt out of the statutory funded scheme and withdraw the money, according to data from the Estonian Funded Pension Registry[156] (see Section 2).

The pensionable age for funded pensions is tied to the flexible pension (i.e. it can be taken up to five years before the ordinary pensionable age), although there are no conditions as to the years of service. There is an exception to the supplementary funded pension – for those who joined before 2021, the pensionable age remains 55.

Finally, there are supplementary pension schemes. These include superannuated pensions and old-age pensions under favourable conditions for arduous and hazardous work and selected other occupational groups. These pensions are granted to employees and specialists who work in professions that involve loss or reduction of professional capacity for work before attaining the pensionable age, hindering continued work in such professions or positions (e.g. police officers, miners, and some groups of artists). The length of work (usually between 20 and 25 years) and age criteria (usually 5-10 years before the pensionable age) vary across professions eligible for superannuated pensions[157/158]. These pensions will be annulled within a long transition period (see Section 2).

In 1998 a supplementary personal pension scheme was introduced, participation in which can take the form of pension insurance policies offered by licensed private insurance companies or units of pension funds managed by private asset managers. Tax incentives have been introduced to encourage participation in the voluntary private pension schemes. However, at the end of 2022 only around 20 % of people aged 18-60 participated in those voluntary schemes, with 147,796 participants in voluntary pension funds and 38,739 contracts in the form of life insurance (Ministry of Finance statistics). A legal framework for employers' pensions was set up in 2012 and was added to the voluntary funded scheme as an additional option to make contributions. Occupational pension fund contributions go to the supplementary funded pension fund. Only a small number of employers contribute to the

155 Ministry of Finance (2022), *Riikliku Vanaduspensioni, Kohustusliku Kogumispensioni ja Vabatahtliku Kogumispensioni Statistika* (https://app.powerbi.com/view?r=eyJrIjoiZTEwZjNlOWUtMWU0Yy00NjBlLTk3ODctODZhNjcyMzE3NjM0IiwidCI6IjRmYjQ2MmUyLWE2MzktNGJlNC1iM2U1LTM2ZWM1MTg0M2M5MSIsImMiOjl9) (accessed 6 June 2023).

156 Estonian Funded Pension Registry (https://www.pensionikeskus.ee/statistika/ii-sammas/raha-valjavotmise-ja-maksete-mittetegemise-avalduste-statistika/) (accessed 6 June 2023).

157 Superannuated Pensions Act (https://www.riigiteataja.ee/en/eli/ee/508112019001/consolide/current) (accessed 17 March 2020).

158 Võrk, A., Piirits, M. and Masso, M. (2016), *ESPN Thematic Report on Retirement regimes for workers in arduous or hazardous jobs*, European Social Policy Network, European Commission: Brussels.

occupational pension schemes (covering fewer than 5,000 employees, i.e. approximately 0.4 % of those employed) (Ministry of Finance statistics).

The Estonian pension and welfare system includes three minimum income guarantees. First, there is a guarantee that an employment-related old-age pension is not lower than the minimum pension. Second, the minimum pension serves as a minimum pension guarantee for those who are not entitled to an employment-related benefit but have at least five years of residence in Estonia. Finally, there is a means-tested social assistance subsistence benefit, guaranteeing a minimum level of disposable income for households after the payment of housing costs.

There is an additional annual benefit of EUR 200 for pensioners who live alone and whose pension is smaller than an established level of 1.2 times the average pension (EUR 720 in 2023). In 2022 it was paid to more than 96,200 people (31 % of old-age pensioners, of whom 24 % were men and 86 % women, a total amount of EUR 19 million)[159].

Regarding self-employed and non-standard workers, there are no differences – receiving a pension depends on the payment of social tax.

2 REFORM TRENDS

The main changes in the pension system since 2020 include: an increase in the threshold for tax-free pensions since January 2023; the abolition of special pensions for police, boarder guard, prosecutorial and military forces in January 2020, and of superannuated pensions and pensions under favourable conditions with a long transition period in February 2023; and reform of the statutory funded pension in November 2020. Introducing a new solidarity component in the pension formula, which replaced the insurance component from 2021, will contribute to equalising state old-age pensions. Several decisions were made to increase income for pensioners during 2020-2023. Finally, an overview of the COVID-19 and the energy poverty crisis measures is given.

An increase in the tax-allowance for people of pensionable age was implemented in January 2023. Old-age pensions are subject to income tax. There was previously a special tax-free pension allowance in addition to a basic allowance, which was abolished at the beginning of 2018 and replaced with an overall increase in the tax-exempt portion of income for low- and medium-income earners (EUR 500 per month in 2019). In 2019 the full pension for an average non-working pensioner was exempt from income tax, as the average old-age pension was EUR 476 per month. However, as the tax-exempt threshold remained the same from 2018 to 2022, more retirees started to pay income tax, which meant that the average old-age pension was not tax-free from 2020 (the average monthly old-age pension was EUR 519 in 2020 and EUR 551 in 2021). Since 1 January 2023 the average old-age pension has again been tax-free. A tax allowance in the amount of an estimated average old-age pension for a person with 44 years of service (EUR 704 in 2023) applies to people of pensionable age or people who reach pensionable age during the calendar year. The actual average monthly

[159] Social Insurance Board, Riiklik Sotsiaalkindlustus 2022 (https://sotsiaalkindlustusamet.ee/asutus-uudised-ja-kontakt/praktiline-teave/statistika#riikliku-sotsiaalkin) (accessed 6 June 2023).

pension in 2023 is EUR 700. The tax allowance applies to all types of pensions, including deferred pensions. The exemption is first applied to pensions and can be further applied to other types of taxable income if the pension falls below EUR 704. This tax exemption is not dependent on other income. Each year the new theoretical average pension for the forthcoming calendar year is calculated, published in the State Budget Act and applied from the start of the year. For people who use the opportunity to take old-age pensions before pensionable age (e.g. early-retirement or flexible pensions), a general income-dependent tax allowance is applied at EUR 654 per month in 2023. Unlike the tax allowance for pensions, this is reduced as the income increases.

After the reform had been discussed for several years[160], in February 2023 changes to the Old-Age Pensions under Favourable Conditions Act and Superannuated Pensions Act were passed, according to which these types of pensions will be annulled after a long transition period. The required length of service can be acquired until 31 December 2030 (if the length of service required is up to 12 years and 6 months) or 31 December 2036 (if the length of service required is longer). Additionally, a longer transition period is applied to workers in underground and surface mining operations in oil shale mining, processing or beneficiation (service can be acquired until 31 December 2049). The long transition period allows people to adjust to the new regulation and if needed make a career change. The cost of these special pensions is about 2.1 % of all annual pension costs as of 2023. With the onset of the transition period, costs will gradually fall starting in 2031 and eventually come to a complete halt by 2076.

During the period, pensions for defence forces personnel, prosecutors, police, and border guard officials were also changed; people who started work in these occupations after January 2020 will no longer be entitled to a special pension[161].

A reform of the statutory funded pension entered into force from 6 November 2020, after the Supreme Court rejected the president's appeal against the bill. The Compulsory Funded Pension Reform Act made membership of the statutory funded pension scheme voluntary. Young people will continue to be enrolled automatically and pensioners will also continue collecting a pension as before. However, the act provides several options for people who have joined the scheme. First, it is possible to opt out of the pension fund and withdraw all the money. Second, a person can suspend new payments and leave the collected money in the fund. Third, it is possible to transfer payments and shift the contribution from the pension fund to an individual pension investment account. According to data from the Estonian Funded Pension Registry[162], as of 28 June 2023 more than 226,000 people (28 % of all

[160] The Estonian National Audit Office concluded in their 2014 study that there were no objective reasons for continuing the special treatment of people who are allowed to retire under favourable conditions, and of people who received a superannuated pension, because those people were no less healthy than the general population. Estonian National Audit Office, *Sustainability of state's pension policy*, 2014 (https://www.riigikontroll.ee/DesktopModules/DigiDetail/FileDownloader.aspx?FileId=13170&AuditId=2313) (accessed 28 June 2023).

[161] Pensions for these occupations are regulated under separate acts: the Military Service Act, Police and Boarder Guard Act, and Prosecutor's Office Act.

[162] Estonian Funded Pension Registry, statistics on withdrawal applications from the statutory funded pension scheme and stopping further payments applications (https://www.pensionikeskus.ee/statistika/ii-sammas/raha-valjavotmise-ja-maksete-mittetegemise-avalduste-statistika/) (accessed 28 June 2023).

participants of the pension insurance fund[163]) had chosen to opt out of the scheme and had withdrawn their money; 1,258 people (0.2 % of all participants) had stopped further payments to the funds; and 4,671 people (0.6 % of all participants) had transferred contributions to the individual investment account. Opting out of the funded DC scheme was most frequent during 2021 and had slowed down by 2023.

As a new option, the reform allows people to receive a fixed-term pension from a pension fund or insurance company after reaching retirement age in addition to a lifetime pension or a one-off disbursement of collected money. The period can be set by the retiree, or they can choose the recommended period (based on average remaining life expectancy).

From 2021 an actuarially neutral flexible pension was introduced that will gradually replace early-retirement (from 2026 early-retirement pensions will no longer be granted) and deferred pensions. Flexible pensions are available up to five years before pensionable age with a work record required of between 20 and 40 years, depending on the time to pensionable age. The work record required to qualify for an early-retirement pension is increasing gradually between 2023 and 2025 (from 18 years in 2023 to 20 years in 2025). Flexible pensions can be taken any time after the retirement age. The increase and reduction coefficients are calculated yearly based on life expectancy and the interest rate of the European Central Bank and depend on the time of retirement. It is possible to work while receiving a flexible pension, whereas an early-retirement pension did not allow working before pensionable age.

As a new option, it is possible for a pension recipient to temporarily suspend receipt of their pension fully or partially (up to 50 % of the pension sum) – for instance, if they are working (normally pension payments continue with working). Suspending pension receipt guarantees a slightly higher pension afterwards as the increase coefficients are applied to the suspended pension.

Between 1 July 2020 and 1 July 2023 several decisions were made to increase the income of pensioners. The changes were the following.

(a) The pension base part (i.e. one of the components of the state pension insurance scheme, which is revised every year in April) was increased extraordinarily by EUR 7 in 2020, by EUR 16 in 2021, and by EUR 20 in 2023 (these increases were on top of annual indexation in 2020 and 2021, and before indexation in 2023). The base part is applied to all pensions, except special pensions that are calculated according to the salary of the occupation (e.g. police officers, prosecutors, and defence forces).

(b) In addition to increases resulting from indexation, the national minimum pension was increased extraordinarily by EUR 30 in 2021 and EUR 20 in 2023.

(c) The annual benefit to pensioners living alone increased from EUR 115 to EUR 200 starting from 2022 to ease the burden of inflation caused by energy crises.

Pensions also increased due to annual indexations that take place on 1 April each year. Pension indexation in 2023 was 13.9 % (following 7.9 % in 2022 and 1.6 % in 2021). This, coupled with an extraordinary surge, led to a remarkable escalation in the average old-age

[163] Estonian Funded Pension Registry, number of open pension accounts (https://www.pensionikeskus.ee/en/statistics/ii-pillar/no-of-open-pension-accounts/) (accessed 28 June 2023).

pension. To keep up with salary and price inflation, the total pension increase in 2023 was larger than in previous years and was further enhanced by an increase in the amount of the income tax exemption (see also above).

Due to the COVID-19 crisis, the government temporarily suspended contributions to the mandatory funded scheme (4 % from the social tax) between 1 July 2020 and 31 August 2021. The aim was to divert government expenditure for use on extraordinary COVID-19-related crisis measures. It was also possible for an employee to suspend payments towards a funded pension (2 %) during the same period. In January 2023 statutory funded scheme contributions of 4 % were compensated for those whose payments were suspended by the state but who continued to pay 2 % contributions on their payroll during that period[164]. Starting in 2024, a person participating in a statutory funded scheme can opt to increase the contribution from 2 % to 4 % or 6 %. The higher contribution payment applies from the next year after making an application.

A salary subsidy was paid during March-June 2020 and March-April 2021 to an employee whose employer's activities were significantly disrupted due to the COVID-19 crisis[165]. Self-employed people were paid a salary subsidy during March-April 2021 in the amount of the minimum wage. The salary subsidy included taxes and contributions normally paid by the employer[166]. The social tax was therefore paid along with the subsidy and recipients acquired pension rights.

Another crisis measure to address energy poverty was implemented in November 2022: the government made a EUR 50 one-off payment to all people of pensionable age to compensate for the increased prices of electricity, fuel, gas, and consumer goods.

The government coalition agreement for 2023-2027 envisages an analysis of funded pension schemes (statutory funded and personal pensions) to make them more flexible, and consideration of the possibilities for establishing occupational pensions. An analysis of an occupational pensions scheme should be completed by May 2024. The coalition agreement also stresses the importance of the development of financial skills, including skills in pension accumulation. A study of pension-related financial literacy is planned to be published in April 2024.

3 ASSESSMENT OF ADEQUACY

3.1 Current adequacy

In 2022 Estonia had one of the highest at-risk-of-poverty or social exclusion (AROPE) rates for older people (aged 65+) in the EU (53.1 % versus the EU average of 20.2 %), up by 8.5 pp since 2019, while pensions had not kept up with rising wages and inflation. The at-risk-of-

[164] The yield of this period was also compensated for by average Estonian pension funds yields. Hence people with more risky funds lost a little and people with more conservative funds benefited from this compensation.
[165] Koppel, K. and Laurimäe, M. (2021), *Socioeconomic impact of COVID-19: Salary subsidy paid by the Unemployment Insurance Fund in 2020*, Tallinn: Praxis Centre for Policy Studies (https://www.praxis.ee/wp-content/uploads/2021/01/Salary-subsidy-analysis.pdf).
[166] Riigi Teataja, Tööhõiveprogramm 2021-2023 (https://www.riigiteataja.ee/akt/119032021020).

poverty (AROP) rate of older people in Estonia was the highest in the EU (52.3 % versus the EU average of 17.3 % in 2022). However, the severe material and social deprivation (SMSD) rate of people aged 65+ was 4.4 % in 2022, below the EU average of 5.5 %.

The median income of the majority of older people is close to the relative poverty line of the income distribution. Small changes in either the distribution of labour income or old-age pensions may change the poverty line and shift a large proportion of old-age people either above or below the poverty line, with no significant change in their actual living conditions. For example, the AROPE rate of those aged 65+ was 40.9 % in 2008; but following the financial crisis, when wages fell whereas pensions did not, it was only 17.0 % in 2011, before rising again to 44.6 % in 2019 and continuing an upward trend to 53.1 % in 2022. A similar result is found with the relative AROP gap, measuring the depth of poverty. Although Estonia has a very high AROPE rate, the material and social deprivation rate (for those aged 65+) was about the EU average (11 % versus 11.1 %) in 2022. It is therefore crucial that other indicators, such as the SMSD rate and the absolute poverty rate (a national indicator based on an estimated subsistence minimum that reflects the costs of minimum needs), are also used to evaluate the current situation of older people in Estonia either over time or relative to other socio-economic groups.

There was a significant difference in the AROPE rate between older men and women in 2022 – 43.9 % versus 58 % respectively among those aged 65+, and an even wider gap among those aged 75+ (48.1 % versus 68.7 %). The main reason may be that men have a shorter life expectancy (15.3 years compared with 20.5 years for women aged 65 in 2022) and therefore are less likely to live in single households, where the risk of poverty is higher. However, both older men and women in Estonia face the highest AROPE rates in the EU.

Older people’s material well-being relative to the working-age population (18-64) is worse than the EU average. The aggregate replacement ratio (ARR) was 44 % in Estonia in 2022 (EU average 58 %). There had been no change in the ARR since 2019. The relative median income ratio (for those aged 65+), which compares broader age cohorts (65+ versus 0-64) and takes into consideration all incomes, was lower in Estonia than in any other EU country in 2022 (0.53 versus an EU average of 0.90). Whereas the EU average remained unchanged between 2019 and 2022, the Estonian figure fell by 0.05 pp.

Self-reported unmet need for medical care among older people (65+) was worse than the EU average in 2022 (15.9 % in Estonia versus 5.4 % in the EU) although it had improved by 3.7 pp since 2019. This might be for all three of the following reasons: (a) financial – studies on out-of-pocket payments for healthcare suggest that Estonian pensioners face a high risk of impoverishment due to expenditure on medicines[167]; (b) waiting lists – the supply of services and waiting times for service delivery has been a broad discussion topic in the Estonian healthcare system[168]; and (c) excessive travel distances – smaller regional hospitals offer fewer services. In most cases, people in need of long-term care (LTC) must bear the costs themselves, as the old-age pension covers around half of the cost. In the first instance, the

[167] Võrk, A. and Habicht, T. (2018), *Can People Afford to Pay for Health Care? New evidence on financial protection in Estonia*, World Health Organization, Regional Office for Europe.
[168] OECD / European Observatory on Health Systems and Policies (Estonia) (2019), *Country Health Profile 2019: State of Health in the EU*, OECD Publishing, Paris/European Observatory on Health Systems and Policies, Brussels.

nearest relatives should bear the remaining costs. If that is not possible, local government helps to cover the costs. Generally, there were still no cash benefits for those in need of LTC in 2022. From July 2023 the state will cover the care component of institutional care up to a limit set by local government.

Life expectancy at age 65 was 18.4 years in 2022 in Estonia, and was shorter than the EU average by 1.2 years. The Estonian life expectancy gender gap is the widest in the EU (15.3 years for men versus 20.5 years for women). The difference has been the same since 2008. Healthy life expectancy at 65 was lower than the EU average in 2021 (7 years in Estonia versus 9.7 years in the EU). Retirement duration from first pension payment was 19.9 years in 2022, being considerably higher for women (22.0 versus 16.9 for men) due to their longer life expectancy. A similar difference applies to retirement duration from end of employment (16.7 years for men and 21.6 years for women).

3.2 Future adequacy

Projections indicate that the currently low net theoretical replacement rates (TRRs) of 32.9 % in 2022 will rise to 49.6 % by 2062 for both genders, marking a 16.7 pp increase. By 2062, individuals earning low wages are expected to have a net TRR of 58 % (+16.4 pp), while high-wage earners are forecast to have a TRR of 33.7 % (+9.6 pp). The upward trend in the TRRs can be partly attributed to the standard pensionable age rising from 64.3 to 68, as starting from 2027 the pensionable age will be tied to life expectancy. The negative impact on net TRRs of a short (20-year) career will increase: in 2022 it led to a TRR which was 8.7 pp below the base case; in 2062, this reduction will amount to 13.5 pp. Conversely, early entry into the labour market increases the projected TRR by 8.2 pp. Three-year career breaks (be it to care for young children, a family dependant or because of unemployment) have relatively small negative effects on net TRRs – both now and in 2062.

3.3 Developments in (in)equalities

The income range of older people (65+) in Estonia (the S80/S20 income quintile ratio) was 3.93 in 2022. Although having increased by 0.26 pp since 2019, it was narrower than in the EU (4.1 in 2022). This is due to the redistributive flat-rate base amount, which is about 40 % of the average old-age pension. The flat-rate base amount share of the statutory state pension increases every year, and this helps to slow the growth of inequality. The pensionable length-of-service component that covers periods up to 1998 (with full employment state policy for both genders up to 1991) is strongly redistributive, as it takes into account only employment and not earnings, although its role is gradually diminishing for new retirees. Redistribution is also achieved through crediting pension rights for some non-active periods (including childcare, studying, and military service up to 1998). In the future, when contributions matter more both in the state pension scheme and in the funded pension schemes, the income distribution of pensions will be considerably wider because of the current wide wage range of the younger population (the S80/S20 income quintile ratio of people under 65 is 5.09). Since 2021 a joint part is used in the pension formula that replaces the insurance component and slightly equalises the pensions received from state pension insurance scheme. In addition, participation or non-participation in the statutory funded pension will contribute to increasing inequalities in pensions in the longer run[169].

The gender gap in pension income in Estonia is the narrowest among the EU Member States, being 4.7 % in 2022 (26.1 % in the EU). Having been consistently at low levels (below 4 %) since 2019, the gender gap has increased by 3.9 pp as each year pensions depend more on earnings. The gender gap in coverage rate is also negligible in Estonia. This is caused by the composition of current old-age pensions, which mainly depend on the flat-rate base amount and the pensionable length-of-service component. In addition to including childcare leave in pensionable length of service, one of the parents who has raised children for eight years, usually the mother (i.e. children who were born up to 2012 or later, if parent does not participate in statutory funded pension), receives a pension supplement equal to the value of three and a half years of pensionable service. As a result, neither differences in earnings nor career breaks due to childcare influence the current gender pension gap. Gradually, the gender pension gap will continue to widen, as pensions will depend more on lifetime earnings (the insurance component in the state pension insurance scheme and statutory funded DC scheme).

4 KEY CHALLENGES AND OPPORTUNITIES

The main pressure on the Estonian pension system comes from the growing old-age dependency ratio. Higher replacement rates and/or lower poverty among pensioners could therefore be achieved through a combination of different approaches, including: facilitating a further increase in the effective retirement age; promoting higher retirement savings through a statutory funded scheme; and using tax incentives to increase additional voluntary savings. The government stresses the importance of pension awareness and offers pension counselling. A higher income in old age could also be achieved through private investment in stock markets, real estate or other stocks. However, this also assumes a high level of financial literacy and awareness, which remains a challenge.

The possibility for people to draw out money from statutory funded pension funds or stop paying contributions adds to the risk of pension inadequacy in the future. Analyses indicate that the replacement rate of a person who has joined the statutory funded scheme is 10 % higher[170].

Minimum pension income is guaranteed at the level of the national pension (EUR 336.39 in 2023). Estonia's anti-poverty measure targeted at older people in addition to pension is the annual benefit to pensioners living alone.

For people in need, the minimum income is a means-tested subsistence benefit. Only a small number of older individuals qualify for subsistence benefit. For the most financially vulnerable, food aid is available for recipients of subsistence benefit or people assessed by local government as financially deprived. The share of older people among food aid recipients was about 15 % in 2020. Starting from October 2022, the traditional food packages have been replaced by quarterly food vouchers valued at EUR 30 per household member.

[169] According to micro-simulations, pension inequality in Estonia is projected to peak in the mid-2050s and subsequently fall (Piirits M., 2022).

[170] Analyses of the Sustainability of the Pension System 2022, Ministry of Social Affairs and Ministry of Finance.

5 BACKGROUND STATISTICS

	2022			Change 2019-2022		
5.1. Relative income	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**
Relative median income ratio (65+)	0.53	0.57	0.51	-0.05	-0.06	-0.04
Income quintile share ratio (S80/S20) (65+)	3.93	4.33	3.70	0.26	0.31	0.24
Aggregate replacement ratio (ARR) (65-74) (%; change in pp)	44.0	42.0	46.0	0.0	2.0	0.0
	2022			**Change 2019-2022 (pp)**		
5.2. Poverty and material deprivation	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**
At-risk-of-poverty or social exclusion (AROPE) (65+) (%)	53.1	43.9	58.0	8.5	10.9	7.2
At-risk-of-poverty (AROP) rate (65+) (%)	52.3	43.6	57.1	8.6	11.7	7.2
Severe material and social deprivation (SMSD) rate (65+) (%)	4.4	2.4	5.4	0.3	-1.0	0.9
At-risk-of-poverty or social exclusion (AROPE) rate (75+) (%)	62.6	48.1	68.7	8.3	12.3	6.8
At-risk-of-poverty (AROP) rate (75+) (%)	61.9	48.0	67.7	8.3	13.3	6.3
Severe material and social deprivation (SMSD) rate (75+) (%)	4.2	0.6	5.7	-0.1	-1.7	0.6
Relative median at-risk-of-poverty gap (65+) (%)	21.6	18.8	22.2	2.9	0.3	3.3
At-risk-of-poverty (AROP) rate, 65+: 50 % threshold (%)	34.2	24.7	39.3	8.0	6.0	9.1
At-risk-of-poverty (AROP) rate, 65+: 70 % threshold (%)	64.7	58.1	68.2	5.6	6.6	5.0
Material and social deprivation (MSD) rate (65+) (%)	11.0	7.0	13.1	0.5	-2.0	1.7
5.3. Gender difference	**2022**			**Change 2019-2022 (pp)**		
Gender gap in pension income (65-79) (%)	4.7			3.9		
Gender gap in non-coverage rate (65-79) (pp)	-0.2			0.6		
	2022			**Change 2019-2022**		
5.4. Housing and health situation	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**
Housing cost overburden rate (65+) (%; change in pp)	5.3	4.7	5.7	2.3	1.4	2.8
Self-reported unmet need for medical exam 65+ (%; change in pp)	15.9	14.6	16.7	-3.7	-0.4	-5.2
Healthy life expectancy (at age 65) (years) (1)	7.0	6.2	7.6	0.1	-0.2	0.4
Life expectancy (at age 65) (years)	18.4	15.3	20.5	-0.6	-0.5	-0.6
	2022			**2062**		
Receiving long-term care cash benefits (65+) (%)	2.7			2.9		
Receiving long-term care in-kind benefits (65+) (%)	7.2			8.6		
	2022			**Change 2019-2022**		
5.5 Sustainability and context	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**
Employment rate (55-64) (%; change in pp)	73.7	71.7	75.5	1.8	2.6	1.2
Pension expenditure (% GDP; change in pp) (1)	6.9			0.3		
Retirement duration from first pension (years)	19.9	16.9	22.0	-0.2	-0.1	-0.3
Retirement duration from end employment (years) (2)	19.6	16.7	21.6	0.7	1.0	0.5
Projections (3)	**2022**			**2062**		
Old-age dependency ratio (20-64) (%)	35.1	24.3	46.1	61.5	54.3	69.1
Economic old-age dependency ratio (20-64) (%)	35.9	22.9	48.7	60.9	58.4	63.1
Gross public pensions (% GDP)	7.4			7.4		
Benefit ratio (%)	29.6			29.0		
Coverage ratio (65+) (%)	119.2			90.1		
Gross pension ratio high/low earner		1.7	1.7		1.7	1.7

(1) 2021 instead of 2022
(2) Based on the assumptions of the 2024 Ageing Report for the 2023 average exit ages
(3) For the source of each of these six indicators providing projections by 2062, please see 'Indicators, definitions and abbreviations'.

5.6 Theoretical replacement rates

	Net (%)				Gross (%)			
	2022		2062		2022		2062	
	Men	Women	Men	Women	Men	Women	Men	Women
Standard pensionable age (SPA)	**64.3**	**64.3**	**68.0**	**68.0**				
AWG career duration (years)	**43.0**	**43.4**	**47.0**	**47.0**				
Average Earning (100 %)								
Base case: 40 years up to SPA	32.9	32.9	49.6	49.6	25.9	25.9	41.8	41.8
Increased SPA: from age 25 to SPA	32.5	32.5	53.9	53.9	25.6	25.6	46.0	46.0
AWG career length case	32.5	33.4	54.7	54.7	25.6	26.3	46.7	46.7
Longer career: 42 years to SPA			51.0	51.0			43.1	43.1
Shorter career: 38 years to SPA			48.4	48.4			40.5	40.5
Deferred exit: 42 years to SPA +2			56.5	56.5			48.5	48.5
Earlier exit: 38 years to SPA -2			44.6	44.6			36.8	36.8
Career break – unemployment: 3 years	31.6	31.6	47.6	47.6	24.9	24.9	39.8	39.8
Career break – childcare: 3 years	34.2	34.2	48.2	48.2	26.9	26.9	40.6	40.6
Career break – care for family dependant: 3 years	31.6	31.6	48.4	48.4	24.9	24.9	40.5	40.5
Short career (20-year career)	24.2	24.2	36.1	36.1	19.1	19.1	28.5	28.5
Work 35 years, disabled 5 years prior to SPA			36.7	36.7			29.1	29.1
Early entry in the labour market: from age 20 to SPA			57.8	57.8			49.8	49.8
Index: 10 years after retirement at SPA			48.5	48.5			40.7	40.7
Extended part-time period for childcare			48.1	48.1			40.2	40.2
Survivor ratio 1*				0.5				
Survivor ratio 2*				0.4				
Low earnings (66 %)								
Base case: 40 years up to SPA	41.6	41.6	58.0	58.0	35.2	35.2	52.2	52.2
AWG career length case	41.0	42.2	64.1	64.1	34.7	35.7	57.5	57.5
Career break – unemployment: 3 years	39.7	39.7	57.1	57.1	33.7	33.7	50.0	50.0
Career break – childcare: 3 years	43.4	43.4	59.0	59.0	36.8	36.8	52.1	52.1
Short career (20-year career)	31.4	31.4	44.4	44.4	26.6	26.6	37.6	37.6
Early entry in the labour market: from age 20 to SPA			67.3	67.3			60.9	60.9
High earnings (100->200 %)								
Base case: 40 years up to SPA	24.1	24.1	33.7	33.7	14.2	14.2	25.7	25.7

**Survivor ratio 1: man base case, woman base case*
**Survivor ratio 2: man base case, woman short career case*

FINLAND

Highlights

- While the Finnish pension system comprises several pension schemes for different sectors of employment, it is fully co-ordinated, accrual rates are identical and, from an individual's perspective, the system is a one-stop shop with portability of pension entitlements across jobs, different schemes, and pension providers.
- There are no ceilings in statutory earnings-related pensions. The role of occupational or personal pensions is therefore negligible. Statutory pensions account for 98 % of all pension expenditure.
- Minimum pensions are not high in comparative terms, but together with rather generous pensioners' housing allowances they effectively combat poverty.
- The earnings-related pension system includes a number of longevity adjustments related to the pensionable age. The lowest pensionable age will gradually rise to 65 by 2027. From 2030 on, the pensionable age of those born in 1965 or later will be linked to life expectancy.
- The Finnish government has asked the social partners to present their plans for reforming the main earnings-related pension schemes. The deadline for the plans is January 2025.

1 GENERAL DESCRIPTION OF THE NATIONAL PENSION SYSTEM[171]

In Finland the statutory pension system consists of three defined-benefit parts. The first part is constituted by the earnings-related pensions (ERPs) system[172]. The ERP part is financed mostly on the pay-as-you-go (PAYG) principle and partially through funded contributions. Although the ERP system is statutory, it is decentralised and administered by pension insurance institutions. The second part is a residence-based national pension (NP – *kansaneläke*) and the third part is a guarantee pension (GP – *takuueläke*), which is designed to guarantee a minimum safety net. The NP and GP are administered by the Social Insurance Institution of Finland (Kela) and financed by taxes[173]. They are pure PAYG schemes.

[171] The following have provided insightful information on the Finnish pension system: Director General Jaakko Kiander and Chief Economist Joonas Rahkola, Public Sector Pensions (KEVA); Director General Mikko Kautto, Finnish Centre for Pensions (ETK); Head of Pension Affairs Sinikka Näätsaari, the Central Organisation of Finnish Trade Unions (SAK); Directors Ilkka Oksala and Vesa Rantahalvari, Confederation of Finnish Industries (EK); Director of Public Relations Janne Pelkonen, Pension Providers (TELA); and Director Harri Hellsten, the Federation of Finnish Enterprises (SY).
[172] Finnish Centre for Pensions (2023a), 'Työeläke.fi' (https://www.tyoelake.fi/en/).
[173] Social Insurance Institution of Finland (2023a), 'Pensions' (https://www.kela.fi/web/en/pension).

Pension income is taxable. However, if pensioners only have the NP and GP, they do not pay any taxes. In 2022 the ERP system accounted for 93 % of all public pension expenditure, whereas the share of NP and GP expenditure was only 7 %.

The Finnish ERP system consists of various schemes for different categories of employees. The private sector scheme (*työntekijän eläkelaki* – TyEL) is for private sector employees, and there are similar schemes for public sector employees (*julkisten alojen eläkelaki* – JuEL), sailors (*merimieseläkelaki* – MEL), the self-employed (*yrittäjän eläkelaki* – YEL), and farmers (*maatalousyrittäjien eläkelaki* – MYEL). Pension benefits and their accrual rates are similar in all schemes. The ERP system covers all employees and almost all self-employed people. People can accrue pension rights under several separate pension schemes throughout their working lives. Pension rights are co-ordinated in the Finnish Centre for Pensions (*Eläketurvakeskus* – ETK), which is a statutory body for collecting data on pensions, keeping records of individuals' work careers and their accrued pension rights, and providing information on pensions.

From an individual's perspective, the Finnish pension system is a one-stop shop with a relatively simple defined-benefit structure and portability of pension entitlements across jobs, different schemes, and pension providers[174]. The system is relatively transparent: the insured can easily check their retirement age and do pension calculations online[175].

The benefits in all schemes include old age, disability, rehabilitation benefits, and survivor pensions (for widowed spouses and orphans). The surviving spouse's pension is payable for a fixed term for recipients born in 1975 and later (not longer than for 10 years, but at least until the youngest child turns 18). In addition the ERP system grants a partial disability pension (50 %), a partial old-age pension (25 % or 50 %; see end of Section 1), and a years-of-service pension.

The pensioners' housing allowance (*eläkkeensaajan asumistuki*) is a special housing support system designed to help low-income pensioners. This compensates for a maximum of 85 % of housing costs. The amount of this allowance depends on pension income, area of residence, and housing costs paid[176].

Because of universal coverage and the absence of ceilings in the ERP schemes (in relation to either the insured income, contributions or pension amounts – with the exception of the YEL, which has maximum for insurable income), the role of supplementary pensions (i.e. occupational pensions or personal private pension insurance) remains small in Finland. The income package for pension recipients consists almost entirely of statutory pensions and housing allowances. In 2021, statutory pensions made up as much as 98 % of total expenditure on pensions, whereas only 2 % was spent on collective or individual supplementary pensions[177], and this percentage share is diminishing.

[174] Andersen, T (2021), *Pension adequacy and sustainability – An evaluation of the Finnish pension system*, Helsinki: ETK.
[175] For example: ETK (2023), 'Tyoelake.fi.calculators' (https://www.tyoelake.fi/en/calculators/).
[176] Kela (2023b), 'Housing allowance for pensioners' (https://www.kela.fi/web/en/housing-allowance-for-pensioners).
[177] Kela (2022), *Statistical Yearbook of the Social Insurance Institution 2021*, Kela, Helsinki, p. 17.

Employees can accrue pensions from age 17 to 68-70 depending on birth year[178]. The benefits and accrual rates (1.5 % per year) under these schemes are identical, but there are differences in administrative structures, financing, and degree of funding. The TyEL, the main private sector pension scheme, is about two-thirds PAYG and the degree of funding is one third. The pension funds for this scheme amounted to 90 % of GDP at the end of 2022. Employers and employees jointly finance the TyEL. In 2023 the average TyEL contribution for employers was 17.35 % of the wage sum, while the employee's share was 7.15 %[179].

There are no major coverage gaps in the employees' ERP (TyEL, JuEL, MEL) system. Every euro earned counts; that is, there are no requirements for minimum contribution periods or a minimum threshold income. Part-time workers and those on atypical employment contracts are therefore well covered by the TyEL. Pension rights are also accrued for a number of periods outside employment, such as spells of income-related unemployment benefits, parental leave or child homecare allowance[180]. Students completing their degree also accrue pension rights.

Self-employed people are obliged to take out YEL pension insurance if they are aged 18-67, their self-employment has continued for four months, and their annual income exceeds the minimum threshold (EUR 8,575.45 in 2023; the maximum insurable income was EUR 195,750)[181]. The accrual rates are the same as those for employees, but the self-employed are responsible for their own pension contributions. Unlike employees, the self-employed can, to some extent, define their insurable income (see Section 2). The YEL pensions are PAYG-based. The contributions collected are insufficient to cover the annual cost of the pensions paid. The deficit is financed by the state. In 2023 the state's share was one third of total revenue[182]. Various pension insurance companies administer the YEL scheme.

MYEL pensions were originally established for farmers, forest owners, fishermen, reindeer herders, and their families. Later, recipients of scientific or artistic grants and scholarships were included in MYEL's coverage. A separate insurance organisation (Mela) administers this scheme. MYEL pensions accrue in the same manner as other ERPs but the average contribution rates are lower. If the MYEL income was less than EUR 30,041 per year the average contribution rate in 2023 was 13 % of income, whereas the contribution rate was 24.1 % if work income exceeded EUR 47,208 (data for 2023). The MYEL is also a pure PAYG scheme and the contributions do not cover pension expenditure. The state is therefore heavily involved in financing it: in 2023 it financed 85 % of the MYEL's total cost[183].

[178] ETK (2021), 'Pension reform 2017, what's new?' (https://www.tyoelake.fi/en/themes/pension-reform-2017-whats-new/).
[179] Finnish Government (2022), 'Työeläkemaksut vuodelle 2023 vahvistettu' [Earnings-related pension contribution rates for 2023 confirmed] (https://valtioneuvosto.fi/-/1271139/tyoelakevakuutusmaksut-vuodelle-2023-vahvistettu; https://www.varma.fi/muut/uutishuone/uutiset/2019-q4/vuoden-2020-tyoelakemaksut-vahvistettu/).
[180] The child homecare allowance is paid to parents with a child under 3 who does not attend municipal childcare.
[181] Ilmarinen (2023), 'Yrittäjän eläkevakuutus' [Pension insurance for the self-employed] (https://www.ilmarinen.fi/yrittaja/yel-vakuutus/?gclid=CjwKCAjw1YCkBhAOEiwA5aN4AeoyIIvHDmz5nArhELsNW_vZGfCF3S8gTw4vi8HT315_YIIANZJKCxoCEwcQAvD_BwE).
[182] ETK (2022d), 'Self-employed' (https://www.etk.fi/en/finnish-pension-system/financing-and-investments/pension-contributions/self-employed/).
[183] Ibid.

All statutory pensions in Finland are co-ordinated with one another. The amounts of the NP and GP depend on accrued ERP benefits, which reduce the NP by 50 %. In 2023, pensioners whose ERP was more than EUR 1,512.38 (single person) or EUR 1,355.30 (those living with a spouse) per month were no longer entitled to an NP or GP. A full NP is granted based on 40 years of residence in Finland. In 2023 the full NP was EUR 732.67 per month for single pensioners and EUR 654.13 for cohabiting people. The full NP was approximately 20 % of the median wage. The NP is supplemented by GP benefits, which are payable in full to pensioners whose only income consists of the NP. The GP is fully dependent on other pension incomes, all of which are deducted from the full GP, which in 2023 was EUR 922.42 per month[184].

The 2005 pension reform introduced a flexible retirement age (63-68) for ERPs, whereas the pensionable age under the NP and GP was set at 65[185]. Under the 2017 pension reform, the lowest pensionable age will gradually increase from 63 to 65 between 2018 and 2027. Each age group born after 1955 has its own retirement age, which will increase by three months for each cohort (for a person born in 1955, the retirement age is 63 years and 3 months; for those born in 1956 it is 63 years and 6 months; and so on). From 2030 on, the retirement age of those born in 1965 or later will be linked to life expectancy.

Incentives exist for deferred retirement. If an employee continues to work beyond the retirement age, the pension they have accrued will increase by 0.4 % for each month they continue to work. Those in arduous jobs can qualify for a year-of-service pension (*työuraeläke*) at age 63 after 38 years of employment. The age limit of those born in 1965 or later will be linked to life expectancy. A disability pension may be granted to insured people who are aged between 16 and their lowest pensionable age and have lost their ability to work.

A partial old-age pension (*osittainen vanhuuseläke*) can be 25 % or 50 % of the claimant's accrued pension. It offers a flexible way to combine working and partial retirement. The recipient can work part time or full time. After 2017, insured people can retire on a partial old-age pension at 61, while the age limit is 62 for those born in 1964, and for those born in 1965 or later the age limit will be linked to life expectancy.

2 REFORM TRENDS

The survivor pension (*perhe-eläke*) was reformed with effect from 1 January 2022. There are two parts of the survivor pension paid from the ERP system: the surviving spouse's pension and the orphan's pension. After the reform, the surviving spouse's pension, instead of being a benefit without limits on duration, became payable only for a fixed period for recipients born in 1975 and later. For the older cohorts, the surviving spouse's pension remained unchanged. Currently the duration of a surviving spouse's pension is limited to a maximum of 10 years for those born in 1975 or later, but at least until the youngest child turns 18. The surviving spouse's pension can also be paid to common law spouses if they have under-age children. The orphan's pension is paid until the child turns 20 (the previous age limit was 18). If the surviving spouse receives their own pension, their pension will be paid at a reduced rate. The

[184] Kela (2023a), 'Pensions' (https://www.kela.fi/web/en/pension).
[185] ETK (2021), 'Pension reform 2017, what's new?' (https://www.tyoelake.fi/en/themes/pension-reform-2017-whats-new/).

calculation formula for the reduction is as follows: reduced surviving spouse's pension = full surviving spouse's pension – 0.5 × (surviving spouse's own pension – EUR 779)[186].

During the COVID-19 pandemic, employers' TyEL contributions were temporarily reduced (or in fact deferred) by 2.6 percentage points (pp) for the period 1 May 2020 to 31 December 2020. The reduced contributions should be paid back in full by the year 2025. The deferral is not compensated by the state, and the measure did not result in permanent changes in contribution, accrual rates or any other measures related to pension rights[187]. Although there were no changes in pensions due to the pandemic, due to rising prices and inflationary pressures the government introduced an additional increase (3.5 %) in Kela-based minimum pensions for the period 1 August to 31 December 2022. The adjustment in line with the net price index increased the NP and GP by 7.7 % (from 2022 to 2023). The increase in ERPs was 6.8 %[188]. To alleviate the effects of the peak in energy prices that followed Russia's war of aggression against Ukraine, the government increased the maximum housing costs compensated for by the pensioners housing allowance scheme. The increase of 7.8 % was temporary for the year 2023.

The self-employed could previously to some extent choose the income taken into consideration when defining their YEL pension contributions. They often under-insured themselves to minimise their contributions. Consequently they tended to be eligible only for a very low ERP. To tackle that problem, the method for defining the YEL contributions was reformed. The reform became effective on 1 January 2023. Following the reform, the assessment of income from self-employment is refined to match the industry-specific median wages in the self-employed person's field of work, taking into account work input, professional skills, and other information describing the value of the person's work[189]. Pension insurance companies now have the responsibility to verify (and if needed, negotiate with the entrepreneur) every third year on the proper size of the contributions. In principle, companies can increase the annual insurable income by a maximum of EUR 4,000. After 2029 the annual increase can be higher. In the meantime, more analyses will be conducted on how to develop the YEL scheme and whether it would be possible to introduce funding into the scheme. The government wants also to investigate the possibilities for centralising YEL payments to Mela.

The Finnish pension system will face severe demographic challenges. The economic old-age dependency ratio was 45.7 % in 2022 and it will be as high as 66.8 % in 2060. In 2020 spending on public pensions was 14.2 % of GDP, which was one of the highest shares among the EU Member States. Demographic changes will increase social spending, which in turn makes it more difficult to balance public finances. Public debt is rapidly increasing (from 40 % of GDP in 2000 to 73 % in 2022). Given these projections, there could be a trade-off between spending on pensions, social care, healthcare and other public services. In order to tackle the trade-off and indebtedness problems, the Ministry of Finance has suggested a number of budget retrenchment measures that could have ramifications for pension policies

[186] ETK (2022f), 'Survivor's Pension' (https://www.etk.fi/en/finnish-pension-system/pension-security/earnings-related-pension-benefits/survivors-pension/).
[187] Finnish Government (2022), 'Työeläkemaksut vuodelle 2023 vahvistettu' [Earnings-related pension contribution rates for 2023 defined] (https://valtioneuvosto.fi/-/1271139/tyoelakevakuutusmaksut-vuodelle-2023-vahvistettu).
[188] Kangas, O. (2023), *Measures to tackle energy poverty and rising energy prices – Finland*, European Social Policy Analysis Network, Brussels: European Commission.
[189] Finnish Government, Government's proposal to the Parliament, HE 102/2022 vp.

(e.g. abolishing accrual of pension rights for a number of periods outside employment, such as unemployment spells or studies).

In the long run, there is a need to increase pension contributions to keep TyEL pension expenditure and revenues in balance[190]. In order to keep the promises on prospective pension levels, representatives of employees would moderately increase the contribution rates, whereas the representatives of employers are reluctant regarding further increases. The government programme highlights that pension contributions must be stabilised in the long run to significantly strengthen the public economy as a whole. This could be done with the help of a rule-based stabilisation system. These measures would mean adjustments to pension benefits in payment. In its programme, the current government has set a deadline of January 2025 for the social partners to propose measures to solve the TyEL financial sustainability risks[191]. The measures would be applied throughout the whole ERP system.

3 ASSESSMENT OF ADEQUACY

3.1 Current adequacy

The Finnish relative median income ratio (for those aged 65+) in 2022 was 0.79. The ratio was significantly higher for men (0.84) than for women (0.74). Aggregate replacement levels were 51 % and 49 %, respectively – lower than the EU-27 average. The Finnish at-risk-of-poverty or social exclusion (AROPE) or at-risk-of-poverty (AROP) rates, whether for the 65+ or 75+ age groups, also tend to be lower than the EU average. In 2022 the overall AROPE for those aged 65+ was 15.5 % (11.3 % for men and 18.8 % for women). Among those aged 75+, the AROPE rates were 11.9 % (men) and 23.8 % (women). As regards changes for the period 2019-2022, the AROPE 75+ rate fell by 2.6 pp, and the relative median AROP gap for those aged 65+ fell by 3.1 pp for men and 1.5 pp for women. However, if the poverty threshold is increased to 70 % of the median income, the Finnish the AROP rate among those aged 65+ was higher than the EU average (31.2 % versus 27.6 %), while the Finnish AROP rate at the 50 % poverty threshold was very low (4.4 % versus the EU-27 average of 8.9 %). These results indicate that a significant share of Finnish pensioners have incomes between the 50 % and 70 % AROP thresholds. Severe material and social deprivation does not appear as a major problem in old age.

The combination of the relatively low replacement ratios and low material and social deprivation rates can be explained by other income transfers (for example pensioners' housing allowances – not included in calculations of pension adequacy). The role of the generous housing allowance is also reflected in the low housing cost overburden rate among those aged 65+ (5.7 % in Finland versus 10.7 % in the EU-27).

If we use the accessibility and affordability of well functioning social care and healthcare services as a measure of adequacy, the assessment would be more negative. Over 10 % of Finnish older people report unmet medical needs, which is twice as high as the EU-27

[190] Tikanmäki, Heikki et al. (2022), Statutory pensions in Finland – long-term projections 2022, Helsinki: ETK.
[191] Finnish Government, A strong and committed Finland Programme of Prime Minister Petteri Orpo's Government, Helsinki.

average. This result suggests that the Finnish healthcare system may not be working as well as it should. There are no major gender differences in self-reported unmet needs, but from 2019 to 2022 unmet needs increased more among men (2.6 pp) than among women (0.6 pp).

3.2 Future adequacy

According to long-term projections, the standard pensionable age for both women and men will rise by 4.1 years in the next 40 years (from 64.0 in 2022 to 68.1 in 2062), and the average career duration will increase by 2.5 years for men and 2.7 years for women. The net theoretical replacement rate (TRR) for average-income earners after 40 years of service will fall by 3.4 pp. Negative impacts are somewhat bigger in low- and high-income groups for both men and women (7.3 pp and 3.6 pp, respectively). Career breaks and extended part-time work will still result in lower TRRs in 2062, for both men and women. For instance, an unemployment period of three years would reduce the net TRR by 3.9 pp, and a three-year break due to childcare by 1.3 pp. In low-income groups, the corresponding falls are 8.3 pp and 6.5 pp. In 2062 a short career of 20 years will result in a 10.5 pp lower net TRR than in 2022 for an average-income earner (for both men and women).

Future adequacy depends on several variables such as demography, indexation of pensions, changes in other dimensions of social policy, and policy decisions. Demography (e.g. life expectancy at 65), and its impact on retirement duration from first pension receipt, is one of the relevant factors. The remaining expected life years for Finnish men at age 65 was 18.0, and for women 21.3, in 2022. Of those remaining years, 10.3 and 11.4 respectively were expected to be healthy life years in 2021.

In 2022 the average duration of retirement from the first pension payment was 20.3 years (18.7 for men and 21.9 for women). From 2019 to 2022 the average duration fell by 1.6 years. Regarding the future adequacy of pensions, a crucial question then is how well indexation can preserve the value of the accrued pension benefits. Kela pensions are linked to the ‘Cost of Living Index’, whereas in the ERP index the weight of change in prices is 80 % and that of wage increases is 20 %. As a rule, index adjustments are performed once a year.

As indicated above, there are (and will continue to be) severe problems in the accessibility and affordability of social care and healthcare services. For the time being, the Finnish healthcare and long-term care systems cannot properly cater to the growing needs caused by the greying population. If out-of-pocket payments for medicines and healthcare rise, those living on minimum pensions will face payment difficulties and will have to rely on social assistance, which has previously been a rare phenomenon among Finnish pensioners.

3.3 Developments in (in)equalities

In 2022 the average pension in Finland was EUR 1,845 per month[192]. Despite all efforts to enhance gender equality in all life spheres, there is still a significant gender gap in pension income (22.8 % in 2022), which is caused by gender differences in typical sectors of employment, careers and salaries. The gender gap in coverage rate is non-significant.

[192] ETK (2023c), ‘Average pensions’, Helsinki: ETK [retrieved 6 June 2023].

The gender income gap is also reflected in AROPE rates, which in 2022 were 18.8 % for women and 11.3 % for men in the 65+ age group. The AROP rates were almost the same. The gender difference in both cases was about 8 pp. According to the OECD, income inequalities among the older Finnish population were smaller than among the total population (Gini coefficient 0.24 versus 0.27; data for 2018). The relationship has not significantly changed in the 2000s[193]. The income quintile share ratio (S80/S20) for pensioners' disposable income in 2022 was 3.2 in Finland, compared with 4.1 in the EU-27. In contrast to the EU-27 average, the gap between the highest and lowest quintiles widened somewhat in Finland from 2019 to 2022, due to changes in the S80/S20 ratio among men (3.2 in 2019 versus 3.5 in 2022).

When it comes to the self-employed in general, and various new forms of platform and gig work in particular, there are some problems regarding adequate ERP coverage. People in these employment categories may under-insure their earnings, and consequently their pension income from the ERP schemes is low. Their main pension income therefore tends to come from the minimum pensions (the NP and GP), which in turn may increase inequalities in pension income between different employment groups.

4 KEY CHALLENGES AND OPPORTUNITIES

One of the major challenges to the pension system is related to rapid demographic changes, which are expected to increase the pressures on pension and other age-related public spending. The problem is that social spending in Finland is high and public debt is increasing. In order to tackle these long-term problems, the current government has introduced budget-balancing measures in public spending. The government has asked the social partners to prepare reform proposals and, together with the Ministry of Finance and the Finnish Centre for Pensions, find the means to stabilise the level of pension contributions and to significantly strengthen the public economy as a whole in the long run, with the help of a rule-based stabilisation system. If they are unable to agree on the measures needed, the government will come forward with its own proposals.

Changes in the labour market associated with atypical jobs (the gig economy) imply that the number of self-employed people may grow, and the present design implies that they may end up with low pension entitlements, increasing the reliance on minimum pensions. Similarly, if the future ERP entitlements are lower due to (for example) the introduction of automatic stabilisers, the role of minimum pensions in combatting old-age poverty may increase. All of this would require that sufficient increases are made in minimum pensions and that their indexation is kept up to date. In order to increase the overall income level of pensioners, the employment of older workers should be encouraged.

The Finnish ERP system includes longevity adjustments related to benefit levels and retirement ages. These adjustment mechanisms improve the economic sustainability of the systems. People in good health can cope with an increasing pension age. The combination of improved population health, longevity adjustments related to the pensionable age and incentives to defer retirement has increased the employment rates in the 55-64 age bracket. By

[193] OECD (2021), Pensions at a Glance 2021, p. 191.

2022 employment rates were 72.5 % for women and 69.9 % for men, and the increases from 2019 to 2022 were 3.9 pp and 5.1 pp respectively. Increasing employment, including increasing immigration and better integration of immigrants into the Finnish labour market, contributes to the sustainability of the pensions system.

However, not all people experience healthy ageing. The main early exit route for people with severe health problems is the disability pension. This will be a problem with the rising pensionable age, increasing longevity, and heterogeneous health conditions within cohorts. It will thus be important to monitor the socio-economic impacts of raising the pensionable age.

5 BACKGROUND STATISTICS

	2022			Change 2019-2022		
5.1. Relative income	Total	Men	Women	Total	Men	Women
Relative median income ratio (65+)	0.79	0.84	0.74	-0.02	-0.03	-0.03
Income quintile share ratio (S80/S20) (65+)	3.20	3.48	2.92	0.11	0.25	0.00
Aggregate replacement ratio (ARR) (65-74) (%; change in pp)	50.0	51.0	49.0	-2.0	0.0	-3.0
	2022			Change 2019-2022 (pp)		
5.2. Poverty and material deprivation	Total	Men	Women	Total	Men	Women
At-risk-of-poverty or social exclusion (AROPE) (65+) (%)	15.5	11.3	18.8	0.5	-0.2	1.0
At-risk-of-poverty (AROP) rate (65+) (%)	15.1	10.9	18.5	0.7	0.1	1.2
Severe material and social deprivation (SMSD) rate (65+) (%)	1.0	0.9	1.1	0.1	0.0	0.1
At-risk-of-poverty or social exclusion (AROPE) rate (75+) (%)	19.0	11.9	23.8	-2.6	-2.8	-2.3
At-risk-of-poverty (AROP) rate (75+) (%)	19.0	11.9	23.8	-2.1	-2.5	-1.7
Severe material and social deprivation (SMSD) rate (75+) (%)	0.4	0.0	0.6	-0.2	-0.3	-0.2
Relative median at-risk-of-poverty gap (65+) (%)	9.5	9.9	8.2	-0.9	-3.1	-1.5
At-risk-of-poverty (AROP) rate, 65+: 50 % threshold (%)	4.4	3.9	4.8	0.4	0.3	0.5
At-risk-of-poverty (AROP) rate, 65+: 70 % threshold (%)	31.2	22.1	38.3	2.9	0.1	5.0
Material and social deprivation (MSD) rate (65+) (%)	2.9	2.6	3.2	-0.2	0.0	-0.3
5.3. Gender difference	2022			Change 2019-2022 (pp)		
Gender gap in pension income (65-79) (%)	22.8			0.2		
Gender gap in non-coverage rate (65-79) (pp)	-1.0			-0.6		
	2022			Change 2019-2022		
5.4. Housing and health situation	Total	Men	Women	Total	Men	Women
Housing cost overburden rate (65+) (%; change in pp)	5.7	4.0	7.1	0.9	1.3	0.6
Self-reported unmet need for medical exam 65+ (%; change in pp)	10.3	10.5	10.1	1.5	2.6	0.6
Healthy life expectancy (at age 65) (years) (1)	10.9	10.3	11.4	1.4	1.0	1.8
Life expectancy (at age 65) (years)	19.7	18.0	21.3	-0.9	-0.8	-1.0
	2022			2062		
Receiving long-term care cash benefits (65+) (%)	13.0			15.8		
Receiving long-term care in-kind benefits (65+) (%)	9.1			12.1		
	2022			Change 2019-2022		
5.5 Sustainability and context	Total	Men	Women	Total	Men	Women
Employment rate (55-64) (%; change in pp)	71.2	69.9	72.5	4.4	5.1	3.9
Pension expenditure (% GDP; change in pp) (1)	13.8			0.2		
Retirement duration from first pension (years)	20.3	18.7	21.9	-1.6	-1.1	-1.6
Retirement duration from end employment (years) (2)	21.3	19.3	23.1	-0.5	-0.2	-0.5
Projections (3)	2022			2062		
Old-age dependency ratio (20-64) (%)	41.1	35.7	46.7	57.3	52.2	62.6
Economic old-age dependency ratio (20-64) (%)	48.4	44.3	52.7	66.2	63.2	69.1
Gross public pensions (% GDP)	12.8			13.5		
Benefit ratio (%)	50.8			44.0		
Coverage ratio (65+) (%)	124.3			112.7		
Gross pension ratio high/low earner		2.3	2.3		2.4	2.4

(1) 2021 instead of 2022

(2) Based on the assumptions of the 2024 Ageing Report for the 2023 average exit ages
(3) For the source of each of these six indicators providing projections by 2062, please see 'Indicators, definitions and abbreviations'.

5.6 Theoretical replacement rates

	Net (%)				Gross (%)			
	2022		2062		2022		2062	
	Men	Women	Men	Women	Men	Women	Men	Women
Standard pensionable age (SPA)	**64.0**	**64.0**	**68.1**	**68.1**				
AWG career duration (years)	**42.6**	**41.2**	**45.1**	**43.9**				
Average Earning (100 %)								
Base case: 40 years up to SPA	62.7	62.7	59.3	59.3	55.2	55.2	52.0	52.0
Increased SPA: from age 25 to SPA	61.7	61.7	62.6	62.6	54.1	54.1	55.9	55.9
AWG career length case	63.8	63.8	64.3	63.2	56.4	56.4	57.9	56.6
Longer career: 42 years to SPA			61.2	61.2			54.3	54.3
Shorter career: 38 years to SPA			57.4	57.4			49.8	49.8
Deferred exit: 42 years to SPA +2			65.7	65.7			59.6	59.6
Earlier exit: 38 years to SPA -2								
Career break – unemployment: 3 years	61.3	61.3	57.4	57.4	53.5	53.5	49.8	49.8
Career break – childcare: 3 years	59.7	59.7	58.4	58.4	51.7	51.7	51.0	51.0
Career break – care for family dependant: 3 years	59.5	59.5	56.6	56.6	51.4	51.4	48.9	48.9
Short career (20-year career)	46.6	46.6	36.1	36.1	35.6	35.6	26.0	26.0
Work 35 years, disabled 5 years prior to SPA			57.5	57.5			49.9	49.9
Early entry in the labour market: from age 20 to SPA			67.8	67.8			62.2	62.2
Index: 10 years after retirement at SPA			55.1	55.1			47.1	47.1
Extended part-time period for childcare			54.8	54.8			46.7	46.7
Survivor ratio 1*		0.6		0.6		0.6		0.6
Survivor ratio 2*		0.6		0.6		0.6		0.6
Low earnings (66 %)								
Base case: 40 years up to SPA	68.3	68.3	61.0	61.0	60.2	60.2	52.0	52.0
AWG career length case	68.7	68.7	65.3	64.3	60.8	60.8	57.9	56.6
Career break – unemployment: 3 years	67.6	67.6	59.3	59.3	59.3	59.3	49.8	49.8
Career break – childcare: 3 years	66.9	66.9	60.4	60.4	58.4	58.4	51.2	51.2
Short career (20-year career)	57.8	57.8	40.6	40.6	46.3	46.3	32.5	32.5
Early entry in the labour market: from age 20 to SPA			68.5	68.5			62.2	62.2
High earnings (100->200 %)								
Base case: 40 years up to SPA	52.2	52.2	48.6	48.6	42.4	42.4	39.3	39.3

**Survivor ratio 1: man base case, woman base case*

**Survivor ratio 2: man base case, woman short career case*

FRANCE

Highlights

- A parametric reform was adopted in April 2023. Its flagship measure was an increase in the minimum retirement age by three months every year, from 62 in 2023 to 64 by 2030 for those with long careers.
- The capacity of the pension system to ensure income maintenance rapidly deteriorated between 2019 and 2022.
- With the suspension in March 2020 of the plan to merge existing statutory and mandatory occupational pension schemes into a single 'universal' pension scheme, France's pension system continues to be fragmented along occupational lines.
- Reforms of the pension system remain indispensable, in particular in order to maintain the system's capacity to ensure adequate pensions.

1 GENERAL DESCRIPTION OF THE NATIONAL PENSION SYSTEM

In the French pension system, individuals are covered by different types of mandatory – statutory or occupational – pension schemes depending on their occupational status.

Private sector wage-earners (i.e. about two thirds of the working population) have to participate in two different types of mandatory schemes, both of which are financed on a pay-as-you-go basis, as follows.

A statutory 'general scheme' that offers up to 50 % of the earnings received by an individual during the 'best' 25 years of their career. Earnings taken into account in the calculation of benefits are capped at the level of the 'social security ceiling' (EUR 3,666 gross per month in 2023). The pensionable age is set at 62 in 2023 and is to increase by three months every year starting from 1 September 2023, to reach 64 by 2030. To receive a full pension, individuals must either have a contribution record ranging from 41.5 years (for individuals born in 1955-1957) to 43 years (for individuals born from 1965) or, if they have an incomplete contribution record, they need to postpone their retirement until age 67. Benefits in the general scheme are financed through capped and uncapped old-age insurance contributions.

A mandatory occupational pension ('AGIRC-ARRCO') whose amount depends on the total number of points accumulated by an individual for every contribution they have paid into the system. Individuals may draw a pension from the AGIRC-ARRCO scheme once they qualify for a pension in the general scheme. Contribution rates vary depending on whether they are levied below or above the social security ceiling. Those rates, as well as the 'price' and the 'value' of the point that are used to convert contributions into pension benefits, are *not* set by statute. Instead, they are entirely set by the social partners (i.e. employers' associations and trade unions), who created the occupational AGIRC-ARRCO scheme through a series of collective agreements signed during the post-war period. In 2021 the average AGIRC-

ARRCO pension of all retirees with direct rights in the scheme represented one third of their total pension[194].

Civil servants (i.e. about one fifth of the working population) have to participate in two different types of mandatory schemes, as follows.

- **Statutory pay-as-you-go schemes** (one covering civil servants of the central government; and another covering civil servants of local/regional authorities and public hospitals) that offer up to 75 % (for a complete career) of the final salary excluding bonuses. Unlike in private sector wage-earners' schemes, there is no cap on the salary level used for calculating benefits. The pensionable age in such schemes and the minimum contribution record to receive a full pension are set at the same level as in private sector wage-earners' schemes. Benefits are financed through contributions.
- **A statutory fully funded 'RAFP' scheme** that covers all types of civil servants. The RAFP is a points-based scheme where individuals accumulate pension points for every contribution they have paid into the scheme. Contributions (with employee and employer rates of 5 % respectively) are levied on ancillary remuneration (e.g. bonuses and allowances), which are not taken into account in the regular statutory pay-as-you-go civil service schemes.

Employees of a number of state-owned enterprises or state organisations (e.g. SNCF, EDF, RATP, and Banque de France) used to be covered by special schemes that offered benefits similar to those offered in civil servants' pension schemes with typically lower statutory retirement ages, but (with the exception of the special schemes for seamen, the Opéra de Paris and the Comédie Française), they are being gradually closed to new entrants, who are now covered by the statutory and occupational schemes for private sector wage-earners.

The self-employed are by default covered by the general scheme, or they are covered by schemes for very specific categories of self-employed people (e.g. farmers and physicians) with benefit rules varying across schemes. In addition, all self-employed people are covered by category-specific mandatory supplementary points-based schemes that are kept separate from – and charge lower contribution rates and offer lower benefits than – the AGIRC-ARRCO scheme for private sector wage-earners.

Regardless of their occupational status, all individuals can top up their mandatory pension benefits with voluntary personal pension schemes (*PER individuel*). Private sector wage-earners and employees of state-owned firms may also have access to fully funded occupational schemes (*PER d'entreprise*)[195].

All pensioners with low incomes may apply for a means-tested, non-contributory minimum pension ('ASPA') of a gross amount up to EUR 961.08 per month in 2023 (for a single

[194] *Données chiffrées – Retraités,* April 2023 (https://www.agirc-arrco.fr/nos-etudes-et-publications/donnees-chiffrees/retraites/).

[195] In 2020, contributions to extra-statutory fully funded occupational and personal pension schemes represented 5.1 % of all contributions paid into the French pension system. Benefits paid out by those schemes represented 2.1 % of all benefits paid out by the French pension system. 22 % of the active population were covered by such schemes. Source: DREES, *Les retraités et les retraites – édition 2022*, p. 244 and p. 249 (https://drees.solidarites-sante.gouv.fr/sites/default/files/2022-07/Retraites2022.pdf).

person). In the general scheme for private sector wage-earners, low-income pensioners with a full contribution record also have access to a contributory minimum pension (*minimum contributif*) of a gross amount up to EUR 747.57 per month in 2023.

In the private sector wage-earners' statutory general scheme, individuals employed on atypical contracts acquire pension rights for a full trimester if they have earned at least the equivalent of 150 hours remunerated at the level of the statutory minimum wage during that whole trimester (i.e. in 2023 earnings of at least EUR 1,690.50 for a whole trimester).

All statutory pensions are indexed each year on 1 January in line with the consumer price index. Given rising inflation in 2022, they were also exceptionally uprated by 4 % on 1 July that year, on top of a 1.1 % increase on 1 January 2022.

An early-retirement scheme is available in all mandatory pension schemes for workers with long careers (*dispositif carrières longues*). Workers with a complete contribution record can take early retirement at 58 if they worked for four or five trimesters before age 16; at age 60 if they worked for four or five trimesters before age 18; at age 60 (for individuals born before 1963) to 62 (for individuals born after 1970) if they have worked for four or five trimesters before age 20; or at age 63 if they have worked for four or five trimesters before age 21.

Victims of a work accident or an occupational disease are able to retire on grounds of incapacity at 62 regardless of their contribution record if they can demonstrate a permanent incapacity rate of between 10 % and 19 %, and at 60 if they can demonstrate a permanent incapacity rate of at least 20 %. Workers with disabilities can retire from age 55 if they have a permanent disability of at least 50 %.

2 REFORM TRENDS

The government's plan to replace the large majority of mandatory pay-as-you-go – statutory and occupational – pension schemes with a new universal pension scheme was suspended in March 2020 and effectively abandoned thereafter.

In response to the COVID-19 pandemic, periods of partial unemployment (*chômage partiel*) as part of short-time work arrangements (*activité partielle*) for private sector wage-earners were deliberately included in the accrual and calculation of pension rights in statutory and mandatory occupational pension schemes[196]. The self-employed benefited from reductions in social contributions, with their accrual of pension rights being preserved despite those reductions[197].

A parametric reform of statutory schemes was adopted in April 2023[198].

The main provisions of the reform are as follows.

(a) The pensionable age is to be increased by three months every year, starting from 1 September 2023, from 62 to 64 by 2030.

[196] https://www.info-retraite.fr/portail-info/sites/PortailInformationnel/home/actualites-1/lactivite-partielle-prise-en-com.html
[197] https://secu-independants.fr/cpsti/actualites/toutes-les-actualites/covid-19-dispositifs-de-reduction-des-cotisations
[198] *Loi n° 2023-270 du 14 avril 2023 de financement rectificative de la sécurité sociale pour 2023* (https://www.legifrance.gouv.fr/dossierlegislatif/JORFDOLE000047022789/).

(b) The minimum contribution record for a full pension will be increased by three months every year, starting from 1 September 2023, from 42 years to 43 years by 2027.

(c) Eligibility conditions in the early-retirement scheme for workers with long careers are to be tightened. From September 2023, workers with a full contribution record (which will be increased by three months every year, starting from 1 September 2023, from 42 years to 43 years by 2027) will be able to retire early at: (a) 58 if they have worked for four or five trimesters before age 16; (b) 60 for four or five trimesters of work before age 18; (c) 62 for four or five trimesters of work before age 20; and (d) 63 for four or five trimesters of work before age 22.

(d) Victims of a work accident or an occupational disease will continue to be able to retire on grounds of incapacity at 60 if they can demonstrate a permanent incapacity rate of at least 20 % (instead of at least 10 % before the reform). Those with incapacity between 10 % and 19 % will be able to retire at 62.

(e) In civil servants' pension schemes, the early-retirement age for special categories of 'active' and 'super active' civil servants (e.g. nurses, police officers, firefighters and prison officers – in total about 20 % of civil servants) is to be increased from 57 to 59 for active categories and from 52 to 54 for super active categories. All civil servants will also have the right to request an extension of their careers until 70.

(f) Special schemes for employees in the electric and gas industries (including EDF), the Paris metro (RATP), the Banque de France, members of the Economic, Social and Environmental Council, and notary clerks will be closed to new entrants from 1 September 2023. New employees in those organisations will be incorporated into the statutory general scheme and into the occupational AGIRC-ARRCO scheme.

(g) To reduce the gap between women's and men's pension levels, the reform introduces some elements of compensation for mothers (e.g. a guarantee that at least two trimesters of pre-existing pension bonuses – of up to eight trimesters – related to the birth, education or adoption of a child are allocated to a child's mother rather than to an unspecified parent[199]) and an extension of pension bonuses for informal/non-employed carers[200]. The reform bill also states the objective of halving the gender pension gap by 2037 and eliminating it by 2050.

A number of provisions aimed at increasing the employment rate of older workers (e.g. the creation of an 'older workers' index[201]' in companies with more than 300 employees, and an

[199] A bonus of four trimesters of pension insurance is granted in return for the birth or adoption of a child, and four trimesters in return for the education of a child. Before the 2023 reform, parents were able to freely allocate those eight trimesters among themselves for children born or adopted from 2010, whereas for children born or adopted before 2010 those eight trimesters were granted by default to the child's mother. The 2023 reform introduces a minimum default allocation of two out of eight trimesters to mothers.

[200] Before the 2023 reform, non-contributory pension bonuses for informal carers (*assurance vieillesse des parents au foyer*) were available only to carers living in the same household as the person cared for or having a family connection with that person. The 2023 reform opens up such bonuses for carers who do not live in the same household as the person cared for and do not have a family connection with that person. The scheme is to be renamed as '*assurance vieillesse pour les aidants*'. The government expects the number of beneficiaries to increase from 60,000 to 100,000.

[201] This mechanism would force companies to publish annual reports on the employment conditions (e.g. hiring, firing and actions to promote employment) of older workers, thereby allowing the social partners and the state to monitor and improve older workers' employment.

obligation to negotiate over the employment of older workers in case of a deterioration in the index) were found to be unconstitutional by the Constitutional Council in April 2023 on the grounds that they should not have been included in a social security budget bill. In spring 2023 the French government – led by Prime Minister Elisabeth Borne – indicated its intention to reintroduce similar provisions in the future, after negotiations with the social partners.

3 ASSESSMENT OF ADEQUACY

3.1 Current adequacy

The French pension system's capacity to ensure adequate pensions deteriorated on a number of dimensions between 2019 and 2022.

Firstly, the system's capacity to ensure income maintenance weakened as result of tightened eligibility conditions for a full pension, and a less generous indexation of pensions in the years preceding the COVID-19 pandemic[202]. The aggregate replacement ratio – which is the median individual pension income of the 65-74 age group relative to the median individual earnings of the 50-59 age group – dropped from 65 % to 57 % between 2019 and 2022. The relative median income ratio – which is the ratio of the median equivalised income of people aged 65+ to the income of people aged 0-64 – fell from 1 to 0.93 between 2019 and 2022. This drop went against a decades-long trend that had seen the living standards of pensioners converge with, and even surpass, those of other parts of the French population as an increasing number of people were able to qualify for a full pension.

Secondly, the French pension system is also less able to ensure poverty reduction. 15.4 % of people aged 65+ were at risk of poverty or social exclusion in 2022, an increase of 2.2 percentage points (pp) since 2019. The increase in the at-risk-of-poverty rate of people aged 65+ (by 2.8 pp to 12.5 % in 2022) and the concomitant fall in their rate of severe material and social deprivation (by 0.9 pp to 5.5 % in 2022) suggests that contradictory dynamics are at play[203]. Despite this deterioration, it is highly likely that the poverty rate – at 60 % of median equivalised disposable income – among pensioners remains significantly lower than the poverty rate among the whole French population: according to French administrative data, these poverty rates were 8.7 % and 14.6 % respectively in 2019[204]. This has largely had to do with the fact that low-income pensioners have access to higher minimum social benefits (the non-contributory ASPA as well as the contributory minimum pensions) than other parts of the population.

Between 2019 and 2022 the average retirement duration from the time an individual claimed their first pension fell by 0.3 years to 23.7 years, and the average retirement duration from the end of an individual's employment fell by 0.4 years. This happened in parallel with a fall by an average 0.7 years to 21.3 years in life expectancy at age 65 in the context of the COVID-19

[202] Conseil d'orientation des retraites (2023), *Rapport annuel: Évolutions et perspectives des retraites en France,* p. 181 (https://www.cor-retraites.fr/sites/default/files/2023-09/RA_2023_Def.pdf).
[203] Ibid. and DREES, *Les retraités et les retraites*: *Édition 2023* (https://drees.solidarites-sante.gouv.fr/sites/default/files/2023-08/RETRAITES23MAJ2928.pdf).
[204] DREES, *Les retraités et les retraites*: *Édition 2023*, p. 88 (https://drees.solidarites-sante.gouv.fr/sites/default/files/2023-08/RETRAITES23MAJ2928.pdf).

pandemic. Even though the employment rate of those aged 55-64 increased by 3.8 pp to 56.9 % between 2019 and 2022 as a result of the tightening of eligibility conditions (i.e. higher minimum contribution record) for a full pension, that very tightening has delayed access to retirement for a significant number of people who were already excluded from employment, such as the over-60s in long-term unemployment.

3.2 Future adequacy

Net theoretical replacement rates (TRRs) after a standard 40-year career are set to fall between 2022 and 2062 by around 11.5 pp both for average-income earners (from 77.9 % to 66.4 %) and low-income earners (from 76.3 % to 64.4 %) regardless of their gender. The fall for high-income earners is much smaller (from 55.8 % to 48 %, i.e. 7.8 pp) but their 2022 TRR is 22.1 pp lower than that of the average-income base case scenario. Credits for non-contributory periods compensate to some extent for careers interrupted due to unemployment, childcare and care for a family dependant. Women with career breaks due to childcare can expect to receive pensions with a higher TRR than workers with a standard 40-year career.

The 2014 pension reform set an objective of preserving a net replacement rate at retirement of two thirds (66.6 %) of an individual's average earnings during their last year of employment. Projections of replacement rates carried out by the Pension Steering Council (*conseil d'orientation des retraites*) after the 2023 reform show[205] that, starting from a replacement rate of around 72 % for a private sector, non-executive employee with a full career born in 1950, replacement rates will gradually fall for cohorts born in subsequent years; but they will remain above the 66.6 % threshold for cohorts born before 1971 in all potential scenarios, while they will potentially go below that threshold for individuals born after 1970 depending on assumptions. By contrast, for similar non-executive (category B) civil servants with a full career, the replacement rate is already below the 66.6 % threshold (around 63 %) for such employees born in 1950, because their ancillary remuneration (e.g. bonuses and allowances) is not taken into account at all in the regular statutory pay-as-you-go civil service schemes and weakly replaced in the statutory fully funded RAFP scheme. If the share of ancillary remuneration in such civil servants' total remuneration package continues growing, replacement rates will drop below 55 % for cohorts born after 1970.

Even if periods of partial unemployment as part of short-time work arrangements created during the COVID-19 pandemic are included in the accrual and calculation of pension rights in private sector wage-earners' statutory and mandatory occupational pension schemes[206], the level of private sector wage-earners' benefits will be negatively affected because of the lower earnings (i.e. combination of lower salary with unemployment benefits instead of a full salary) they received while being covered by such schemes.

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[205] For all figures cited below, please see: Conseil d'orientation des retraites (2023), *Rapport annuel: Évolutions et perspectives des retraites en France*, pp. 161-167 (https://www.cor-retraites.fr/sites/default/files/2023-09/RA_2023_Def.pdf).

[206] https://www.info-retraite.fr/portail-info/sites/PortailInformationnel/home/actualites-1/lactivite-partielle-prise-en-com.html

3.3 Developments in (in)equalities

The income distribution is more compressed among older people in France than among the general population. In 2019 the income inter-decile share ratio (P90/P10) was 2.9 among pensioners versus 3.4 among the general population[207]. The income quintile share ratio (S80/S20) of people aged 65+ fell by 0.65 to 3.46 between 2019 and 2022 (compared with an EU average fall by 0.14 to 4.1). Income inequality among French pensioners has thus been on a downward trend in recent years.

Some of that fall results from a relative de-indexation of pensions at the top of the income distribution, particularly among private sector employees. Pensions in the mandatory occupational AGIRC-ARRCO pension schemes – which constitute two thirds[208] of the total pension income of a typical white-collar employee with managerial responsibilities (*cadre*) – were systematically indexed below the level of inflation in 2019-2022[209]. Moreover, in 2020, pensions in the statutory general scheme were indexed at a lower level (0.3 %) for employees with a total pension income above EUR 2,000 per month than for those with a pension income below that threshold (1.0 %). It is estimated that the relative de-indexation of high-income, white-collar pensioners' pensions explains two thirds of the loss of purchasing power of the pensions of such pensioners born in 1932 over their time in retirement and 80 % of the purchasing power of pensions of similar pensioners from other cohorts[210]. In civil service statutory pension schemes, pensioners' income distribution is also being gradually compressed because of the growing importance of ancillary remuneration (e.g. bonuses and allowances) in civil servants' – particularly those with managerial responsibilities (category A) – total remuneration packages and with such ancillary remuneration being weakly replaced in statutory pension schemes.

Important inequalities among pensioners persist in relation to their occupational status, age and gender. In France's fragmented pension system, different occupations are assigned to mandatory – statutory and occupational – schemes, which differ in terms of the generosity of the pensions they offer and also pool individuals with different skills and income levels. Pensioners from mandatory schemes for the liberal professions, civil service and special regimes receive the highest pensions in absolute terms, while the lowest pensions are paid to retirees from pension schemes for agricultural professions (*Mutualité sociale agricole*)[211]. Individuals who were insured in several statutory schemes (*polypensionnés*) during their careers typically have lower pensions than individuals who were insured in a single statutory scheme (*monopensionnés*). In 2021 the pension of a *monopensionné* with a full contribution record was on average 4 % higher than that of a *polypensionné* with a full contribution record[212].

In relation to age-related inequalities, it appears that in 2019 the equivalised median income of pensioners aged 55-74 was higher than that of the general population by around 4 %, but

[207] Conseil d'orientation des retraites (2023), *Rapport annuel: Évolutions et perspectives des retraites en France*, p. 190.
[208] Ibid., p. 342.
[209] https://www.insee.fr/fr/statistiques/serie/010593202#Telechargement; https://www.insee.fr/fr/statistiques/2122401
[210] Conseil d'orientation des retraites (2023), *Rapport annuel: Évolutions et perspectives des retraites en France*, p. 199.
[211] DREES, *Les retraités et les retraites – édition 2023*, p. 55 (https://drees.solidarites-sante.gouv.fr/sites/default/files/2023-08/RETRAITES23MAJ2928.pdf).
[212] DREES, *Les retraités et les retraites – édition 2023*, p. 55.

the living standards of retirees aged 55 or under and those of pensioners aged 75+ were at the same level as those of the general population[213]. These age-related differences have to do with inter-generational differences in the level of pension rights that were accrued – with the oldest cohorts having accrued lower pension rights than younger cohorts because of their more uneven contribution records – and with the fact that there is a higher proportion of low-income earners among early retirees than among workers who retire later. The average pension received by a specific cohort used to increase for every new cohort until the cohort born in 1947[214]: but it is noteworthy that this tendency has now been reversed, with the average pension of pensioners born after 1947 falling with every new cohort. This fall is thought to be the result of tightened eligibility conditions for a full pension, the indexation of pensions below the effective level of inflation, and changes in the career patterns of retirees.

Finally, gender inequalities remain a persistent issue. In 2021, women's pensions – excluding survivor pensions – were on average 39.6 % lower than men's (EUR 1,178 gross per month compared with EUR 1,951) according to national administrative data[215]. This gap can be explained by the fact that women are generally less well paid than men during their working lives, and that their careers are more often incomplete. The gap has been narrowing over time: it went down to 39.6 % in 2021 from 46.6 in 2010 and 43.0 in 2015. An important role has been played by survivor pensions in reducing the gender gap: when such pensions are taken into account, the gap shrank to 27.9 % in 2021 (in comparison with 32.9 % in 2010 and 29.7 % in 2021). The relative stability of the gender gap in pension income during 2019-2022 (of those aged 65-79), as measured by Eurostat – with an increase of 0.1 pp to 30.1 % – suggests that the narrowing trend in this gender gap may have reversed.

4 KEY CHALLENGES AND OPPORTUNITIES

In order to prevent a deterioration in the adequacy of pensions, greater attention should be paid to three issues.

Firstly, pensions should be indexed in line with effective inflation. A relative de-indexation of pensions has cumulative effects over time. The problem is especially acute in the mandatory occupational AGIRC-ARRCO schemes, where the social partners have typically indexed pensions below the level of inflation in order to preserve the financial sustainability of these schemes.

Secondly, policy-makers should address the issue of work-retirement transitions. Although increases in the statutory pensionable age have helped increase the employment rate of older workers, some workers find themselves stuck in unemployment at the end of their careers. This negatively affects their pension rights.

Thirdly, new mechanisms should be introduced in order to reduce the gender gap in pensions. Survivor pensions have traditionally played an essential role in reducing that gap; but with the rise of divorce in French society, their role can be expected to be less important in the future.

[213] Conseil d'orientation des retraites (2023), *Rapport annuel. Évolutions et perspectives des retraites en France*, p. 194.
[214] All data mentioned in the rest of this paragraph are from DREES, *Les retraités et les retraites*. *Édition 2023*, pp. 12-13 (https://drees.solidarites-sante.gouv.fr/sites/default/files/2023-08/RETRAITES23MAJ2928.pdf).
[215] All data mentioned in the rest of this paragraph are from DREES, *Les retraités et les retraites*. *Édition 2023*, p. 12.

The design of French pension schemes should be further adapted to take into account those societal changes.

5 BACKGROUND STATISTICS

	2022			Change 2019-2022		
5.1. Relative income	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**
Relative median income ratio (65+)	0.93	0.95	0.92	-0.07	-0.08	-0.06
Income quintile share ratio (S80/S20) (65+)	3.46	3.53	3.36	-0.65	-0.37	-0.90
Aggregate replacement ratio (ARR) (65-74) (%; change in pp)	57.0	59.0	55.0	-8.0	-6.0	-10.0
	2022			**Change 2019-2022 (pp)**		
5.2. Poverty and material deprivation	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**
At-risk-of-poverty or social exclusion (AROPE) (65+) (%)	15.4	13.0	17.3	2.2	1.4	2.8
At-risk-of-poverty (AROP) rate (65+) (%)	12.5	10.5	14.0	2.8	1.4	3.9
Severe material and social deprivation (SMSD) rate (65+) (%)	5.5	4.7	6.2	-0.9	0.1	-1.7
At-risk-of-poverty or social exclusion (AROPE) rate (75+) (%)	15.2	11.7	17.6	0.1	-0.6	0.6
At-risk-of-poverty (AROP) rate (75+) (%)	12.6	9.7	14.6	1.3	0.0	2.3
Severe material and social deprivation (SMSD) rate (75+) (%)	4.2	3.3	4.9	-2.4	-0.2	-3.8
Relative median at-risk-of-poverty gap (65+) (%)	14.0	13.1	14.3	1.0	1.9	0.6
At-risk-of-poverty (AROP) rate, 65+: 50 % threshold (%)	5.5	4.5	6.2	2.5	2.2	2.7
At-risk-of-poverty (AROP) rate, 65+: 70 % threshold (%)	22.3	19.6	24.4	5.3	4.7	5.8
Material and social deprivation (MSD) rate (65+) (%)	10.3	9.3	11.0	-0.8	0.5	-1.9
5.3. Gender difference	**2022**			**Change 2019-2022 (pp)**		
Gender gap in pension income (65-79) (%)	30.1			0.1		
Gender gap in non-coverage rate (65-79) (pp)	0.9			0.1		
	2022			**Change 2019-2022**		
5.4. Housing and health situation	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**
Housing cost overburden rate (65+) (%; change in pp)	7.6	4.9	9.7	2.6	1.4	3.5
Self-reported unmet need for medical exam 65+ (%; change in pp)	5.3	4.3	6.0	3.6	2.7	4.3
Healthy life expectancy (at age 65) (years) (1)	12.0	11.3	12.6	1.0	0.9	1.0
Life expectancy (at age 65) (years)	21.3	19.3	23.1	-0.7	-0.5	-0.8
	2022			**2062**		
Receiving long-term care cash benefits (65+) (%)	0.0			0.0		
Receiving long-term care in-kind benefits (65+) (%)	10.2			13.1		
	2022			**Change 2019-2022**		
5.5 Sustainability and context	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**
Employment rate (55-64) (%; change in pp)	56.9	58.3	55.5	3.8	2.8	4.6
Pension expenditure (% GDP; change in pp) (1)	14.4			0.2		
Retirement duration from first pension (years)	23.7	22.1	25.1	-0.3	0.1	-0.8
Retirement duration from end employment (years) (2)	23.7	21.9	25.4	-0.4	0.1	-0.8
Projections (3)	**2022**			**2062**		
Old-age dependency ratio (20-64) (%)	37.9	33.3	42.3	56.1	50.2	61.8
Economic old-age dependency ratio (20-64) (%)	49.7	44.0	55.2	67.1	59.4	74.5
Gross public pensions (% GDP)	14.4			13.5		
Benefit ratio (%)	47.1			38.5		
Coverage ratio (65+) (%)	141.2			121.6		
Gross pension ratio high/low earner		2.2	2.2		2.2	2.2

(1) 2021 instead of 2022

(2) Based on the assumptions of the 2024 Ageing Report for the 2023 average exit ages

(3) For the source of each of these six indicators providing projections by 2062, please see 'Indicators, definitions and abbreviations'.

5.6 Theoretical replacement rates

	Net (%)				Gross (%)			
	2022		2062		2022		2062	
	Men	Women	Men	Women	Men	Women	Men	Women
Standard pensionable age (SPA)	**67.0**	**67.0**	**67.0**	**67.0**				
AWG career duration (years)	**41.3**	**40.6**	**43.5**	**42.3**				
Average Earning (100 %)								
Base case: 40 years up to SPA	77.9	77.9	66.4	66.4	64.2	64.2	53.8	53.8
Increased SPA: from age 25 to SPA	81.9	81.9	68.6	68.6	68.0	68.0	56.4	56.4
AWG career length case	79.5	79.5	70.0	69.1	65.8	65.8	57.7	56.4
Longer career: 42 years to SPA			68.6	68.6			56.4	56.4
Shorter career: 38 years to SPA			63.5	63.5			51.2	51.2
Deferred exit: 42 years to SPA +2			74.2	74.2			61.7	61.7
Earlier exit: 38 years to SPA -2			57.5	57.5			46.3	46.3
Career break – unemployment: 3 years	77.3	77.3	66.0	66.0	63.7	63.7	53.5	53.5
Career break – childcare: 3 years	76.4	86.3	65.4	70.4	62.9	72.2	52.9	58.1
Career break – care for family dependant: 3 years	75.6	75.6	64.0	64.0	62.1	57.0	51.6	51.6
Short career (20-year career)	37.2	37.2	32.5	32.5	30.0	30.0	26.2	26.2
Work 35 years, disabled 5 years prior to SPA			55.2	55.2			44.6	44.6
Early entry in the labour market: from age 20 to SPA			78.2	78.2			65.4	65.4
Index: 10 years after retirement at SPA			56.8	56.8			47.6	47.6
Extended part-time period for childcare			63.8	68.9			51.4	56.6
Survivor ratio 1*		0.6		0.6		0.6		0.6
Survivor ratio 2*		0.6		0.7		0.6		0.7
Low earnings (66 %)								
Base case: 40 years up to SPA	76.3	76.3	64.4	64.4	64.2	64.2	53.8	53.8
AWG career length case	78.1	78.1	69.1	67.6	65.8	65.8	57.7	56.4
Career break – unemployment: 3 years	75.7	75.7	64.1	64.1	63.8	63.8	53.5	53.5
Career break – childcare: 3 years	74.7	85.8	63.4	69.6	62.9	72.2	52.9	58.1
Short career (20-year career)	51.8	51.8	36.1	36.1	43.6	43.6	30.2	30.2
Early entry in the labour market: from age 20 to SPA			78.4	78.4			65.4	65.4
High earnings (100->200 %)								
Base case: 40 years up to SPA	55.8	55.8	48.0	48.0	43.3	43.3	36.7	36.7

**Survivor ratio 1: man base case, woman base case*

**Survivor ratio 2: man base case, woman short career case*

GERMANY

Highlights

- In the period July 2020 to July 2023, an important focus was on performance improvements in the statutory pension insurance (SPI) scheme for selected groups, such as people with low pensions and long contribution periods. The most notable measure in this regard is the introduction of the basic pension supplement in 2021. Previously granted disability pensions were also to be increased.
- The provisions of the 2017 Flexible Pension Act were expanded to further improve individual transitions from working life to retirement. From January 2023 additional income in cases of early retirement is possible without restrictions.
- Furthermore, as an important reform to improve transparency and user-friendliness, a digital pension overview (a pension tracking service) enables citizens to obtain information on individual pension entitlements online.
- Due to the regulations of the SPI scheme, high labour market participation and high levels of statutory pension benefits help reduce the at-risk-of-poverty or social exclusion (AROPE) rate. The AROPE rate for the population aged 65+ stood at 19.8 % in 2022, which was slightly lower than the EU average of 20.2 %.

1 GENERAL DESCRIPTION OF THE NATIONAL PENSION SYSTEM

Pensions in Germany stem from different sources and are often organised according to occupational status. The German pension system consists of both statutory and supplementary pension schemes.

Statutory pension schemes[216] consist of the following:

(a) the statutory pension insurance scheme (SPI), which is the most important as it provides compulsory cover for (almost) all employees and for certain categories of self-employed people;

(b) various pension schemes operated by the liberal professions for members of professional associations (*Berufsständische Versorgungswerke*);

(c) social insurance for agriculture, forestry, and horticulture (*Sozialversicherung für Landwirtschaft, Forsten und Gartenbau – Landwirtschaftliche Alterskasse*) for farmers and their family workers, which is closely connected to agricultural policy measures; and

(d) the compulsory pension scheme for civil servants (*Beamtenversorgung*), which functions as a combination of statutory pension insurance and occupational pension scheme and also includes a minimum pension.

[216] Which encompass survivor pensions, whereas in supplementary or personal pension schemes these depend on the arrangement.

Supplementary pension schemes consist of:

(a) a large number of very diverse occupational pension schemes; and

(b) voluntary personal arrangements for old-age provision (personal pension schemes).

If individual old-age provision from all income sources is not sufficient, (additional) means-tested benefits are provided by the 'basic income support in old age and in the event of reduced earnings capacity' scheme (*Grundsicherung im Alter und bei Erwerbsminderung*) under social code book XII.

The SPI covers all employees regardless of their employment relationship, except for the marginally employed whose jobs do not involve more than three months or 70 days work per year. 'Mini-jobbers' – those whose earnings do not exceed the monthly marginal earnings threshold – are entitled to opt out. 'Midi-jobbers' (people with an income of EUR 538.01-2,000 per month) are covered by compulsory insurance. Pension coverage also extends to, among others, claimants of income-replacement benefits (sickness benefit, injury benefit, and unemployment benefit), mothers or fathers during the initial child-raising period (3.0 'earnings points', or EPs, for children born since 1992 and 2.5 earnings points for children born earlier) and informal carers (during periods in which unpaid homecare is provided for a relative who receives benefits from the statutory long-term care insurance scheme). Regarding self-employed people, only certain groups are compulsorily insured in the SPI. According to current law, it can be assumed that about 3 million self-employed people (more than 75 % out of all self-employed people) are not mandatorily covered by any statutory pension scheme and therefore depend solely on taking out voluntary insurance in the SPI or other voluntary personal arrangements for old-age provision.

The SPI is financed on a pay-as-you-go basis with a sustainability reserve of a maximum of 1.5 times the overall monthly payments (*Nachhaltigkeitsrücklage*). Its financing is derived mainly from earnings in the form of social insurance contributions (paid in equal parts by employees and employers). Some funding also comes from general tax revenue; this money is intended to pay for interpersonal redistribution of income within the SPI[217].

The individual SPI pension level depends on how long contributions were paid and on the level of the insured income. For each contribution year, the insured income is converted into EPs. A person receives one EP if their individual gross salary is equal to the average earnings of all insured people. When calculating monthly pensions, the sum of the pension points earned over a person's working life is multiplied by the 'pension-type factor' (e.g. 1.0 for old-age pensions or 0.55 for a widow(er)'s pension) and the 'current pension value' (*Aktueller Rentenwert* – AR; in 2022/2023 this was EUR 36.02 for west Germany and EUR 35.52 for east Germany)[218]. The AR applies to newly retired as well as already retired pensioners (i.e. it is used to update all SPI pensions).

The AR is adjusted on 1 July of each year on the basis of a calculation rule. The calculation encompasses three factors: the earnings factor, for which the main reference point is gross

[217] For a detailed description see Gerlinger, T., Fachinger, U. and Hanesch, W. (2019), *ESPN Thematic Report on Financing social protection, Germany*, European Social Policy Network, Brussels: European Commission.

[218] From July 2023 the AR will be EUR 37.60 for both west and east Germany. The pension values could be adjusted one year earlier than originally planned.

salary growth; the contribution factor, which reflects the development of the SPI contribution rate; and the sustainability factor, which in general takes into account the changes in the relation between the expenditure and revenue of the SPI. In addition, a fixed threshold for the replacement rate is established. Overall, the indexation formula guarantees that SPI pensions increase in line with wage growth. Gross pensions are subject to income tax, but there are tax allowances; pensioners also pay contributions towards health and long-term care insurance.

The legal retirement age without deductions is being gradually raised from 65 to 67 between 2012 and 2031. In 2023 the standard old-age pension is paid at 65 years and 11 months. People with ‘exceptionally long contribution periods’ can claim their pension without deductions if they have paid contributions for a minimum of 45 years. The retirement age to qualify for this pension, which is at the moment set at 64 years and 4 months, gradually increases by two months for each birth cohort and will be 65 for people born in 1964 or later. The pension for workers with long contribution periods can be applied for when they reach 63 and have a minimum of 35 years of contributions. However, the pension will be permanently reduced. The maximum deduction is 14.4 % (0.3 % per month multiplied by 48 months) if the legal retirement age is 67 and the person retires at the earliest age of 63. On the other hand if the pension is claimed after the legal retirement age, the pension will be increased by 0.5 % for every month of the deferred pension.

Occupational pension schemes are in general voluntary for both employers and employees. In the public service sector, employers and employees are obliged, on the basis of collective agreements, to pay contributions to their occupational pension scheme (*Zusatzversorgung des öffentlichen Dienstes*). The design of schemes in the private sector varies widely. Some collective agreements provide a binding framework for occupational pension schemes, but there are considerable differences between the various collective agreements and sectors. Occupational pensions may be financed solely by employers, solely by employees, or by both. They are mostly defined-benefit schemes.

The personal pension scheme involves a wide variety of voluntary capital-funded personal arrangements for old-age provision. There are tax reliefs or direct subsidies for certified personal pension products if eligibility criteria are met. The direct subsidies are attractive for low-income earners and for employees with children, whereas tax reliefs are aimed at high-income earners.

2 REFORM TRENDS

The Basic Pension Act (*Grundrentengesetz*), which entered into force on 1 January 2021, is designed to give particular recognition to long-term mandatory contribution payments to the SPI scheme from those on below-average incomes. The supplement is granted only to individuals with at least 33 years of qualifying pension-relevant periods (*Grundrentenzeiten*) and if the overall EP average during their working life is below certain limits. For the average and the calculation of the pension supplement, only periods with an EP of at least 0.025 per month (corresponding to 30 % of average earnings) are considered. In the end the sum of the individual pension and the supplement can amount to 0.8 EP (corresponding to 80 % of average earnings).

The basic pension supplement depends on an income test. For people who are married or living in a registered partnership, the partner's income will be taken into account. If the taxable income exceeds EUR 1,686 for single people or EUR 2,424 for couples, the excess amount will fully reduce the supplement.

In parallel, an allowance was introduced for people who have a high number of credited periods and who are in receipt of a benefit under the 'basic income support in old age and in the event of reduced earnings capacity' scheme. For people with a minimum of 33 years of mandatory contributions to the SPI (or other compulsory old-age pension), the allowance is EUR 100 per month and an additional 30 % of the SPI pension. The allowance is subject to a cap of 50 % of the minimum subsistence level 1 (*Regelbedarfsstufe 1*), which is currently EUR 251 per month.

The new regulations mentioned above will lead to improvements for long-term low-income contributors to the SPI, but do not constitute a break with the reform policy of 2001.

Additionally, in order to relieve more low-income earners of the burden of social security contributions, the 'transition zone' (*Übergangsbereich*), in which employees pay reduced contributions, has been extended and now encompasses incomes between 12 times the minimum earnings threshold per month (*Geringfügigkeitsgrenze*) and EUR 2,000 per month. The reduced SPI contributions will not lead to lower entitlements, as the calculation of SPI pensions in these cases is earnings-related and not based on the sum of the contributions paid.

Thanks to the Pension Act 2022, people who started receiving a disability pension between 2001 and 2018 will receive an increase in their disability pension. Since 2019 new disability pensions have been calculated in a more beneficial way (benefits are calculated as if people worked until the statutory retirement age), but benefits in payment were not adjusted. A supplement will increase disability pensions that started between 2001 and June 2014 by 7.5 %, and those that started between July 2014 and 2018 by 4.5 %.

The provisions of the 2017 Flexible Pension Act were expanded to further improve individual transitions from working life to retirement. From January 2023 additional income in cases of early retirement is possible without restrictions.

Furthermore, as an important reform to improve transparency and user-friendliness, a digital pension overview (pension tracking service) enables citizens to obtain information on individual pension entitlements online.

The government parties have agreed to introduce mandatory retirement provisions for all newly self-employed people who are not subject to a compulsory pension system as well as to introduce additional partial capital coverage for the statutory pension insurance and to set a permanent minimum pension level[219] of 48 % for the statutory pension insurance.

Due to the low participation and results of the state-promoted personal pensions[220], on 30 November 2022 the federal government set up the pensions focus group (*Fokusgruppe private*

[219] In Germany, the (relative) pension level before taxation is the ratio of the standard pension (with 45 earnings points) to the average earnings of employees insured in the SPI, both reduced by the average of social contributions for health and long-term care insurance.

[220] The state-promoted personal pension is seen as a failure because the take-up of contracts never reached the expected numbers. The reasons for this include low interest rates and the high costs of the products. Moreover, the number of contracts

Altersvorsorge). This commission, which consists mainly of representatives of the asset management and insurance sector, the ministries and the social partners, has developed recommendations for a reform of certified personal pension products.

3 ASSESSMENT OF ADEQUACY

3.1 Current adequacy

The ratio of the median income of older people to that of the population aged 18-64 in 2022 remained unchanged from 2020, at 0.84 (men 0.84 in 2020 and 0.86 in 2022; women 0.83 in both years).

The AROPE rate for the population aged 65+ was 19.8 % in 2022 (men 17.3 %, women 21.8 %), a fall of 1.2 percentage points (pp) from 2020 (1.7 pp for men, 0.8 pp for women). For people in advanced old age (75+) the AROPE rate was lower in 2022 than for those aged 65+ (total 18.7 %, men 15.0 %, women 21.5 %). The AROPE rate for men fell by 0.9 pp from 2020 to 2022, and for women by 0.2 pp.

The average life expectancy at age 65 was 19.5 years (men 17.8, women 21.1) in 2022. It is remarkable that even over the short time period since 2019 the average life expectancy fell by 0.4 years (men 0.5 years, women 0.3 years). The number of healthy life years at age 65 in 2022 was relatively high in Germany (men 10.2 years, women 11.4 years). Nevertheless, the number of healthy life years had fallen since 2019 by 1.3 years for men and 1.4 years for women.

For Germany, the pension payment duration was 18.4 years for men and 21.8 years for women in 2022, according to Eurostat data. Compared with 2019 the duration fell by 0.57 years for men and 0.03 years for women. However, according to the national data from the German statutory pension insurance (*Deutsche Rentenversicherung Bund*), the average duration of SPI pensions in 2022 was 20.5 years (men 18.8, women 22.1) in 2021[221]. It is notable that the average duration of SPI pensions had increased since 2019. The average duration in 2019 was 19.9 years, an increase of 2.9 % (men 18.2, women 21.7).

3.2 Future adequacy

Based on assumptions regarding career length, earnings level and retirement age, the theoretical replacement rates (TRRs) showed a slight fall in the net replacement rates and a slight increase in the gross replacement rates for the majority of cases. After a 40-year career taking someone up to the standard pensionable age, the net TRR for the base case stood at 69.0 % in 2022, with this rate being projected to fall to 67.0 % by 2062 (for both men and women). The gross TRR for the base case was 49.1 % in 2022 and is projected to be 51.1 % by 2062. Variations in earnings or in career length do not lead to discrepancies in the evolution of the TRRs from 2022 to 2062. For example, the net TRR for the base case with

has been falling since 2017, and 20-25 % of insurance policies are dormant (i.e. premiums are not being paid): Bundesministerium für Arbeit und Soziales (2022), *Entwicklung der Riester-Verträge – Bestand in Tsd*., Berlin.

[221] Deutsche Rentenversicherung Bund (ed.) (2022), *Rentenversicherung in Zeitreihen Oktober 2022,* Berlin, p. 147.

low earnings was 73.4 % in 2022 and is projected to be 73.0 % by 2062, whereas the gross TRR was 55.4 % in 2022 and is projected to be 56.9 % by 2062 (for both men and women).

Regarding the future adequacy of pensions, the developments of the pension schemes and their specific elements have to be distinguished. Official calculations show that the net pension level before taxation of the SPI[222] is projected to fall from 48.1 % (2022) to 45 % (2037)[223]. Until now it has been specified in law that the net pension level must not fall below 43 % in 2030. Moreover the taxation of the pension benefits of the upcoming cohorts of pensioners will gradually increase.

3.3 Developments in (in)equalities

The gender gap in pension income for the central age group (65-79) narrowed from 31.1 % in 2020 to 28.5 % in 2022, though it remained higher than the EU average of 26.1 % in 2022. The gender gap narrowed significantly over the last decade (from 44.3 % in 2012). The fall was not caused by a single effect such as an institutional reform, but by a multitude of factors. Overall it was a combination of age, period and cohort effects[224].

The constancy of the median income of older people (see Section 3.1) went hand in hand with a reduction in inequality as measured by the income quintile share ratio. Mainly thanks to the redistribution measures taken over recent years in the SPI, the ratio for disposable income fell from 4.16 in 2020 to 3.85 in 2022.

However, because of the heterogeneity of the German pension system, the overview of the situation for older people only partially reflects the current situation. As the SPI is the most important pension scheme, the figures mostly mirror the dependency of pension entitlements on the duration of contribution payments and on individual earnings as well as on the reduction of SPI pension levels. To get a better understanding of future developments in (in)equalities, the other pension schemes also have to be considered. For example, for civil servants, the calculation of pensions is very different to that of the SPI[225]. The assessment basis is the last pensionable income before retirement, with a maximum replacement rate of 71.75 % after a full-time career. Additionally, civil servants are guaranteed a minimum pension (*Mindestversorgung*) of 35 % of pensionable remuneration. Civil servants are eligible for the minimum pension after a minimum of five years of service. The result is that almost no civil servant pensioner has to apply for benefits under the minimum income benefit scheme.

The aggregate replacement ratio for pensions (ARR) increased between 2020 and 2022 by 3 pp. However, it has to be taken into account that the ARR is the ratio of the median pension income for people aged 65-74 to the median income from work for people aged 50-59. Thus

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[222] In Germany, the (relative) pension level before taxation is the ratio of the standard pension (with 45 earnings points) to the average earnings of employees insured in the SPI, both reduced by the average of social contributions for health and long-term care insurance.

[223] Bundesministerium für Arbeit und Soziales (2023) (https://www.bmas.de/SharedDocs/Downloads/DE/Rente/rentenversicherungsbericht-2023.pdf?__blob=publicationFile&v=3); see Table B8 on p 38.

[224] See for example: Deutsche Rentenversicherung Bund (ed.) (2023), *Rentenversicherung in Zeitreihen: Oktober 2023*, Berlin: pp. 86ff., 113f., 126ff.

[225] At the beginning of 2019 around 1.69 million people were in receipt of civil service pensions, whereas 25.7 million people were in receipt of SPI pensions.

the evolution of the ARR depends on that of pension income as well as that of income from work.

4 KEY CHALLENGES AND OPPORTUNITIES

The basic pension supplement reduces the probability of people needing to claim benefits under the minimum income benefit scheme for long-term low-income contributors. Pension adequacy for low-income earners is projected to remain relatively constant.

It is expected that occupational and personal pensions will become more important in future, because of the reduction of the SPI pension level[226]. While occupational and personal pensions become more relevant the younger the cohorts are, this could potentially lead to increasing intra- and inter-generational income inequality in old age, because pension adjustments differ between the schemes and because of the variable returns achieved by pension insurance companies in the financial markets[227]. This is further intensified by differences in the uptake of capital-funded occupational and/or personal pensions by employees. However, it is unclear how many employees will be covered and what their entitlements will be when they retire.

[226] This challenge will be addressed by the planned pension reform package II with a permanent minimum pension level of 48 % (for the SPI).

[227] Fachinger, U., Künemund, H., Schulz, M.F. and Unger, K. (2015), 'Kapitalgedeckte Altersversorgung – Ihr Beitrag zur Lebensstandardsicherung', in W. Schmähl and U. Fachinger (eds), *Absicherung im Alter. Diskurse und Perspektiven*, Münster: LIT Verlag, pp. 303-349.

5 BACKGROUND STATISTICS[228]

	2022			Change 2020-2022		
5.1. Relative income	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**
Relative median income ratio (65+)	0.84	0.86	0.83	0.02	0.02	0.02
Income quintile share ratio (S80/S20) (65+)	3.85	3.83	3.85	-0.31	-0.40	-0.23
Aggregate replacement ratio (ARR) (65-74) (%; change in pp)	47.0	45.0	52.0	3.0	4.0	4.0
	2022			**Change 2020-2022 (pp)**		
5.2. Poverty and material deprivation	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**
At-risk-of-poverty or social exclusion (AROPE) (65+) (%)	19.8	17.3	21.8	-1.2	-1.7	-0.8
At-risk-of-poverty (AROP) rate (65+) (%)	18.3	15.9	20.3	-1.7	-2.1	-1.2
Severe material and social deprivation (SMSD) rate (65+) (%)	3.5	3.3	3.7	1.0	1.3	0.7
At-risk-of-poverty or social exclusion (AROPE) rate (75+) (%)	18.7	15.0	21.5	-0.5	-0.9	-0.2
At-risk-of-poverty (AROP) rate (75+) (%)	17.9	14.2	20.6	-0.7	-1.2	-0.4
Severe material and social deprivation (SMSD) rate (75+) (%)	2.1	1.7	2.4	0.3	0.6	0.1
Relative median at-risk-of-poverty gap (65+) (%)	19.1	17.0	20.0	-2.1	-3.4	-1.3
At-risk-of-poverty (AROP) rate, 65+: 50 % threshold (%)	9.9	8.1	11.4	-1.6	-1.9	-1.3
At-risk-of-poverty (AROP) rate, 65+: 70 % threshold (%)	29.3	26.6	31.5	-1.8	-2.1	-1.5
Material and social deprivation (MSD) rate (65+) (%)	7.7	7.2	8.0	2.2	2.6	1.7
5.3. Gender difference	**2022**			**Change 2019-2022 (pp)**		
Gender gap in pension income (65-79) (%)	28.5			-2.6		
Gender gap in non-coverage rate (65-79) (pp)	0.4			-0.5		
	2022			**Change 2019-2022**		
5.4. Housing and health situation	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**
Housing cost overburden rate (65+) (%; change in pp)	15.1	12.2	17.4	4.8	3.9	5.5
Self-reported unmet need for medical exam 65+ (%; change in pp) (3)	0.5	0.5	0.5	0.0	0.0	-0.1
Healthy life expectancy (at age 65) (years) (1)	10.8	10.2	11.4	-1.4	-1.3	-1.4
Life expectancy (at age 65) (years) (1)	19.5	17.8	21.1	-0.4	-0.5	-0.3
	2022			**2062**		
Receiving long-term care cash benefits (65+) (%)	12.1			13.5		
Receiving long-term care in-kind benefits (65+) (%)	7.0			8.3		
	2022			**Change 2019-2022**		
5.5 Sustainability and context	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**
Employment rate (55-64) (%; change in pp)	73.3	77.2	69.5	0.6	0.1	1.1
Pension expenditure (% GDP; change in pp) (1)	12.6			0.4		
Retirement duration from first pension (years)	19.8	18.4	21.7	-0.7	-0.6	-0.1
Retirement duration from end employment (years) (2)	20.0	18.4	22.1	-0.3	-0.2	0.2
Projections (4)	**2022**			**2062**		
Old-age dependency ratio (20-64) (%)	37.3	32.4	42.4	54.4	48.4	60.5
Economic old-age dependency ratio (20-64) (%)	42.9	40.4	45.2	60.9	59.2	62.4
Gross public pensions as % of GDP	10.2			11.2		
Benefit ratio (%)	43.0			35.0		
Coverage ratio (% of pop aged 65+)	124.4			123.2		
Gross pension ratio high / low earner		2.1	2.1		2.1	2.1

(1) 2021 instead of 2022

(2) Based on the assumptions of the 2024 Ageing Report for the 2023 average exit ages

(3) Change 2020-2022 for DE

[228] For DE, there was a major break in the time series in 2020 for EU-SILC, so figures for changes in EU-SILC-based indicators are for 2020-2022 (indicators in categories 5.1 to 5.4, which are based on EU-SILC).

(4) For the source of each of these six indicators providing projections by 2062, please see 'Indicators, definitions and abbreviations'.

5.6 Theoretical replacement rates

	Net (%)				Gross (%)			
	2022		2062		2022		2062	
	Men	Women	Men	Women	Men	Women	Men	Women
Standard pensionable age (SPA)	**65.9**	**65.9**	**67.0**	**67.0**				
AWG career duration (years)	**43.8**	**42.1**	**44.8**	**43.3**				
Average Earning (100 %)								
Base case: 40 years up to SPA	69.0	69.0	67.0	67.0	49.1	49.1	51.1	51.1
Increased SPA: from age 25 to SPA	69.0	69.0	69.6	69.6	49.1	49.1	53.6	53.6
AWG career length case	74.3	71.7	73.5	70.9	53.5	51.3	57.3	54.8
Longer career: 42 years to SPA			69.6	69.6			53.6	53.6
Shorter career: 38 years to SPA			64.3	64.3			48.6	48.6
Deferred exit: 42 years to SPA +2			75.9	75.9			59.5	59.5
Earlier exit: 38 years to SPA -2			60.6	60.6			45.2	45.2
Career break – unemployment: 3 years	67.1	67.1	65.0	65.0	47.5	47.5	49.3	49.3
Career break – childcare: 3 years	72.8	72.8	69.5	69.5	52.3	52.3	53.5	53.5
Career break – care for family dependant: 3 years	68.8	68.8	66.0	66.0	48.9	48.9	50.2	50.2
Short career (20-year career)	47.6	47.6	46.3	46.3	32.4	32.4	32.7	32.7
Work 35 years, disabled 5 years prior to SPA			61.8	61.8			50.0	50.0
Early entry in the labour market: from age 20 to SPA			76.1	76.1			59.7	59.7
Index: 10 years after retirement at SPA			63.6	63.6			48.0	48.0
Extended part-time period for childcare			67.4	67.4			51.5	51.5
Survivor ratio 1*		0.7		0.8		0.8		
Survivor ratio 2*		0.7		0.7		0.7		
Low earnings (66 %)								
Base case: 40 years up to SPA	73.4	73.4	73.0	73.0	55.4	55.4	56.9	56.9
AWG career length case	79.2	76.3	79.3	76.8	59.9	57.7	63.0	60.5
Career break – unemployment: 3 years	71.9	71.9	71.0	71.0	54.3	54.3	55.0	55.0
Career break – childcare: 3 years	84.9	84.9	81.2	81.2	64.5	64.5	64.8	64.8
Short career (20-year career)	64.4	64.4	64.2	64.2	46.7	46.7	48.9	48.9
Early entry in the labour market: from age 20 to SPA			81.8	81.8			65.4	65.4
High earnings (100->200 %)								
Base case: 40 years up to SPA	51.7	51.7	51.2	51.2	35.2	35.2	37.0	37.0

**Survivor ratio 1: man base case, woman base case*

**Survivor ratio 2: man base case, woman short career case*

GREECE

Highlights

- A reform of auxiliary (secondary) pensions based on notional defined contributions was introduced in September 2021, which envisaged the transition to a fully funded defined-contribution scheme, financed by mandatory social insurance contributions paid by employed people.
- In November 2022 a minor reform was implemented with the aim of streamlining specific aspects of insurance and pension legislation.
- In January 2023 the annual pension indexation was activated for the first time since 2008, increasing pensions by 7.75 %. Indexation had been frozen until the end of 2022 as part of the austerity measures implemented in the country.
- Efforts should be concentrated on enhancing employment rates and facilitating an increase in the effective retirement age and longer contributory periods, particularly for women, thereby leading to higher pension benefits, as well as on combating contribution evasion and undeclared work. Specific arrangements are also needed to ensure social protection coverage for workers engaged in new forms of employment.

1 GENERAL DESCRIPTION OF THE NATIONAL PENSION SYSTEM

Pensions in Greece have been based, since 13 May 2016, on a unified multi-tier (public) statutory pension scheme, which consists of the following parts: (a) a national non-contributory pension (financed out of the state budget); (b) a compulsory contributory (primary) pension operating under a defined-benefit pay-as-you-go scheme (unfunded scheme); (c) a contributory auxiliary (secondary) pension based on a notional defined-contribution (NDC) scheme that is gradually being replaced by the recently introduced (January 2022) funded defined-contributions (DC) scheme; and (d) lump-sum retirement benefits that are contributory for specific categories of insured people (such as civil servants, military staff, engineers, and lawyers), provided under an NDC scheme. There is also a supplementary occupational pension scheme and a supplementary (voluntary) personal pension scheme, while monthly dividends that operate under a statutory NDC scheme are provided to retired public sector employees and military staff. A means-tested 'social solidarity allowance for uninsured older people' is granted to uninsured people over 67 who are not covered by a pension scheme.

All the benefits under the statutory pension scheme, except for the monthly dividends provided to retired public sector employees and the social solidarity allowance for uninsured older people, are provided by a single social insurance institution, namely the Digital National

Social Security Fund (e-EFKA)[229]. In particular, e-EFKA provides: (a) all national and contributory (primary) pensions; (b) auxiliary (secondary) pensions to all retired people (freelancers are optionally covered by ancillary insurance – except for certain categories, for whom it is compulsory); and (c) lump-sum retirement benefits to certain categories of salaried employees (i.e. civil servants, military personnel, and certain white- and blue-collar employees in the private sector – sailors, employees in banking and the wholesale/retail trade and manufacturing sectors) and the self-employed liberal professions[230]. There are also four mandatory equity funds, which provide monthly dividends exclusively to retired public sector employees, and four mandatory supplementary pension schemes that provide auxiliary pensions to employees in the oil sector, food retailing, pharmaceuticals, and private insurance companies. Finally, the recently introduced defined-contribution statutory auxiliary pension will be provided by the Hellenic Auxiliary Pensions Defined Contributions Fund (TEKA)[231].

Uniform rules apply to the calculation of all statutory pension benefits[232]. The amount of the pension benefit comprises two parts: (a) the national non-contributory pension; and (b) the contributory pension[233]. The amount of the national pension of all insured people (natives and foreigners) is EUR 413.76[234] per month or EUR 4,965.12 per year for 20 years of contributions, reduced by 2 % for every year that falls short of 20 years of insurance, with a minimum of 15 years, and with a 2.5 % penalty for each year below the 40 years of permanent residence required[235]. As to the contributory pension, which is added to the national pension, this is the product of multiplying the pensionable salary[236] by the sum of the annual replacement rates. It should be noted that 6 % of the monthly pension benefit is paid as a contribution for healthcare coverage, while a 30 % reduction applies for retirees who combine income from pensions with income from work. In addition, pensions in payment[237] are annually adjusted according to an index equal to the sum of the annual percentage change in GDP and the percentage change in the average annual consumer price index, divided by

[229] e-EFKA is the result of the integration of the Unified Agency for Auxiliary Social Insurance and Lump-sum Benefits into the Unified Social Security Fund.
[230] From 1 January 2021 (Law 4670/2020), self-employed doctors and farmers, plus those who are exempt from mandatory inclusion in the auxiliary insurance scheme, may take out optional insurance.
[231] According to a press release issued in April 2023 by the Ministry of Labour and Social Affairs, TEKA currently covers approximately 172,000 people (see: https://teka.gov.gr/enimerosi/pano-apo-172000-oi-asfalismenoi-poy-ehoyn-entahthei-idi-sto-tameio-epikoyrikis (in Greek), while the projection is for 300,000 participants by the end of 2023.
[232] Data for April 2023 reveal that the average monthly gross income from pensions in Greece was EUR 983.97 (i.e. EUR 788.14 from the main contributory pension plus EUR 195.83 from auxiliary pensions). With regard to those receiving the main (contributory) pension, 29.06 % of them receive less than EUR 500 gross per month, while 60.85 % of pensioners receiving auxiliary pensions receive less than EUR 200 gross per month. See: IDIKA (2023), *Monthly Review of pension provisions – April 2023* (https://www.idika.gr/etaireia/erga/amka/57-uncategorised/790-μηνιαίες-εκθέσεις-εσεπσ-ηλιοσ-έτους-2023) (in Greek).
[233] There is the possibility of taking into account notional years of insurance (credits for non-contributory periods) in order to establish entitlement to a pension. In particular, the pension system provides that certain non-contributory periods (up to seven years), such as maternity leave, sickness leave, study leave and one year of receiving unemployment benefit, are counted as contributory periods. People with at least 12 years of contributions may purchase non-contributory periods (up to seven years) in order either to establish entitlement to a pension or to improve the level of their pension benefit.
[234] Until December 2022, the national pension was equal to the at-risk-of-poverty threshold for a single person for 2014 (fixed at EUR 384 per month) for 20 years of contributions, reduced by 2 pp for every year less than that.
[235] Since 1 January 2022, 30 years of permanent residence have been required for repatriates from Albania and the former Soviet Union.
[236] The pensionable salary is calculated based on the average monthly earnings over the whole working life for employees (for contributions after 2002), while for self-employed people it is based on the level of pension contributions paid over the whole working life. The pensionable salary is adjusted based on the change in the average annual consumer price index, while, according to the current legislation, from 2025 onwards this will be adjusted based on a wage change index, calculated by the Hellenic Statistical Authority.
[237] This applies only to the national and contributory parts of the pension and not to auxiliary pensions.

two. The increase cannot exceed the percentage change in the average annual consumer price index[238].

The statutory pensionable age is 67; as a general rule, this applies to all, with a few early-retirement exceptions. These exceptions concern, in particular: (a) the mothers and widowed fathers of children of any age who are incapable of any gainful activity (for them the statutory pensionable age is set at 55 with at least 5,500 days of contributions, or 50 for a reduced national pension[239] for insured people until 31 December 1992; and for insured people since 1 January 1993 the pensionable age has been 55 with at least 6,000 days or 20 years of contributions or 50 for a reduced pension); and (b) people engaged in arduous work (for whom the statutory pensionable age is set at 62, with at least 15 years of contributions, 12 of which in arduous work, and three years and four months – 1,000 days – of insurance in arduous work in the last 17 years before reaching pensionable age)[240]. However, for those with a contributory period of 40 years, the pensionable age is set at 62 instead of 67. As to the early pensionable age for employees, this is set at 62, with at least 15 years of contributions. However, the pension system provides that, for those who retire from 2017 onwards aged 62-67 and with fewer than 40 years of contributions, the amount of the national pension is to be reduced by 6 % for each year up to age 67. The effective retirement age in 2020 was estimated at 60.9 for men and 58.1 for women[241].

The qualifying retirement conditions for the main (contributory) old-age pension have been gradually aligned for all types of employees and all self-employed people (i.e. freelancers, farmers, and the liberal professions). Auxiliary pensions are based on the same qualifying criteria (pensionable age and contributory period) that apply to the main (national and contributory) pensions, while there is no minimum age or minimum contribution period requirement for the lump-sum element of e-EFKA. Survivor pensions are provided to surviving spouses regardless of their age, and to orphan children if they are unmarried and under 24. It should be noted, however, that there are still serious difficulties for non-standard workers in terms of the fulfilment of the qualifying retirement conditions, which relate mainly to the short duration of their contribution periods. Additionally, given that the amount of the national pension depends on the years of insurance and the years of residence, differentiations in relation to pensions can be observed between the self-employed and employees, due to different statutory ways of calculating pensionable earnings, which are the basis for the contributory part of the pension.

There are also a few supplementary pension schemes, which take the form of occupational pension funds[242] and (voluntary) personal pension plans. The pension benefits that they provide are supplementary to the benefits of the statutory pension scheme and they are DC in nature (funded schemes). At present there are 32 occupational pension funds, which provide

[238] Indexation had been frozen until the end of 2022 as part of the austerity measures implemented on the country.
[239] The contributory pension is added to the reduced national pension. The reduction concerns only the national pension not the contributory pension.
[240] There are special favourable pension rules for workers in arduous and hazardous jobs, which relate to a lower pensionable age and higher replacement rates.
[241] OECD (2021), *Pensions at a Glance 2021: OECD and G20 indicators*, Paris: OECD Publishing.
[242] Out of the 32 occupational pension funds that are currently in place in Greece, four are mandatory schemes, while the remaining 28 are voluntary.

benefits in kind[243] and in cash – paid in monthly annuities (pensions) or as a lump sum, while the coverage rate of occupational pension funds is estimated to be less than 5 % of the working-age population (aged 15-64)[244]. As to personal pension plans, these are the least developed and operate through individual pension accounts. Overall, these supplementary pension schemes make up an insignificant part of the whole pension system, given that they provide less than 1 % of the total number of pension benefits in Greece[245].

2 REFORM TRENDS

Almost all the provisions of the 2016 pension reform have now been implemented, except for the adoption of the unified regulation of e-EFKA, which will ensure the application of uniform rules for benefits and contributions to all insured people. Although Law 4670/2020 initially envisaged that this would be developed and put into force within two years (namely by February 2022), this is still pending[246].

In September 2021 a new reform (Law 4826/2021) of auxiliary (secondary) pensions, which are part of the statutory funded pension scheme, was introduced. This reform envisaged the transition to a fully funded DC scheme[247], financed by mandatory social insurance contributions paid by employed people[248]. This new system has been applied to those entering the job market since 1 January 2022 and those born after 1 January 2004, as well as on a voluntary basis to currently insured people aged up to 35. Every participant has an individual pension account of social insurance contributions, which are invested in products of varying investment risk exposure (low, medium or high) with the returns on investment determining the amount of the auxiliary pension. Investments are made by certified investment service providers that operate under a strict framework of supervision and control. The system includes a negative return guarantee to ensure that, whatever happens, the insured person will get back the amounts paid in social insurance contributions in real terms. A new public organisation, namely TEKA, is responsible for the collection and management of social insurance contributions, as well as for the payment of auxiliary pension benefits that will accrue from investment actions[249].

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[243] In-kind benefits may include the provision of supplementary healthcare services as well as benefits for medical expenses, hospitalisation, dental and vision care and coverage of additional funeral expenses.

[244] See: https://www.bankofgreece.gr/RelatedDocuments/Κατάλογος_Ταμείων.xlsx (in Greek) and OECD (2021), *Pensions at a Glance 2021: OECD and G20 indicators.* Paris: OECD Publishing.

[245] Symeonidis, G. (2020), *Occupational Insurance Funds as a pillar of the insurance system*, Athens: IME-GSEVE (https://imegsevee.gr/wp-content/uploads/2020/10/simeonidis.pdf) (in Greek).

[246] For an analysis see: European Commission (2018), *The 2018 Pension Adequacy Report: current and future income adequacy in old age in the EU. Volume 2 – Country Profiles,* Joint Report prepared by the Social Protection Committee (SPC) and the European Commission (DG EMPL), Luxembourg: Publications Office of the European Union; and European Commission (2021), *2021 pension adequacy report – Current and future income adequacy in old age in the EU, Volume 2, Country profiles,* Joint Report prepared by the Social Protection Committee (SPC) and the European Commission (DG EMPL), Luxembourg: Publications Office of the European Union.

[247] Until then, contributory auxiliary pensions were based on a pay-as-you-go completely NDC scheme.

[248] The contribution rate for the supplementary pension is 6 % of the monthly salary of employees (3 % is paid by the employer and 3 % is paid by the employee), while self-employed people pay EUR 39, EUR 47 or EUR 56, depending on their chosen contribution category.

[249] For more information see: Theodoroulakis, M., Konstantinidou, D. and Capella, A. (2021), *A new plan to reform part of the statutory pension scheme in Greece,* ESPN Flash Report 2021/46, European Social Policy Network, Brussels: European Commission.

Moreover, the adoption of Law 4997/2022 in November 2022 brought about a reform of the social insurance system aimed at rationalising insurance and pension legislation. In particular, it introduced: (a) changes in the statute of limitations for unpaid social insurance contributions by introducing a 10-year statute of limitations for all claims regardless of when they are asserted, which begins on the first day of the year following when work was provided, and a five-year statute of limitations for claims arising from work provided after 1 January 2026; (b) changes in the debt settlement schemes for unpaid social insurance contributions (debtors have the option to request a repayment plan of equal monthly instalments for a period ranging from 2 to 24 months or up to 48 months when debts are confirmed following an audit); (c) a social insurance contribution subsidy programme as an incentive for converting part-time employment contracts to full-time contracts; (d) specification of the pension indexation process[250]; and (e) the abolition of the exceptional early-retirement option that applied to public sector employees who had fulfilled the retirement conditions until the end of 2012.

In January 2023 pensions in payment (national and contributory parts) were increased by 7.75 % for the first time since 2008. Although the relevant legislation envisages annual pension indexation, its implementation had been frozen until the end of 2022. It is worth noting that this increase is based on the standard rules of yearly indexation, which take into account inflation, but was not directly related to the prevailing energy crisis, even though it coincided with the same period. However, pensioners receiving the 'personal difference'[251] did not see a change to their net pension, as the amount of increase was depicted as a fall in the amount of personal difference[252]. These individuals received a one-time pension bonus that ranged between EUR 200 and 300, depending on the level of their pension benefit. The amount of the basic pension for former beneficiaries of the Farmers Insurance Fund, as well as the social solidarity allowance for uninsured older people, were also increased from EUR 360 to EUR 387.90. Finally, the abolition of the special solidarity contribution tax for all types of income and of some other contributions (Law 4972/2022) brought about a further increase in pensioners' disposable income. However, it is noted that, as part of the indexation mechanism that applies to the amounts of the six social insurance contribution categories paid by freelancers, farmers, and self-employed, these were increased by 9.64 % in January 2023.

As to the social protection measures implemented in response to the COVID-19 crisis, it must be noted that most of them were temporary measures that primarily focused on maintaining jobs, supplementing employees' incomes, and providing one-off economic support to certain groups of the population[253]. Apart from an additional one-off payment of EUR 250 granted to low-income pensioners in December 2021, no other measures specifically targeted at pensioners were therefore taken in response to the COVID-19 crisis. It is also noted that the

[250] A joint ministerial decision will be issued by 31 December of the preceding year, providing the details concerning the increase in pensions in accordance with the relevant legislation.
[251] Pensioners having a personal difference are those who retired before May 2016 (Law 4387/2016). Their pension was recalculated according to the new rules. In the majority of cases, the difference between the new and the old pension was negative. However, pensions were not reduced for these older pensioners and the amount was kept as a personal difference, which is gradually reducing with indexation.
[252] This is the difference between the total pension benefit amount according to the old rules and the rules that have applied since 2016 for pension calculation.
[253] For an analysis see: Konstantinidou, D., Capella, A. and Economou, Ch. (2021), *Social protection and inclusion policy responses to the COVID-19 crisis*, European Social Policy Network (ESPN), Brussels: European Commission.

fact that the social insurance contributions[254] of all employed people (including seasonal employees for a specific period) whose labour contracts had been suspended were fully covered by the state budget was a positive development that ensured they received credits towards their pension rights, thus safeguarding their future pension adequacy. Freelancers, self-employed people and farmers had the option of a 25 % reduction in their social insurance contributions from February to May 2020 if paid promptly or deferring these payments to a later date. For those who opted for reduced contributions, the reduction was not compensated by the state and is expected to have a slightly negative impact on future pensions, because the pensionable salary used for calculating their contributory pension will be based on the actual (reduced by 25 %) amount paid.

With regard to measures supporting the living standards of older people against the background of spiking inflation and energy costs, these were mainly confined to two extraordinary financial support supplements for people on the lowest pensions. In particular, an additional one-off payment of EUR 200 was paid to 634,000 low-income pensioners (or 25.87 % of the total number of pensioners) fulfilling specific income criteria in April 2022, while an additional one-off payment of EUR 250 was paid to 947,560 vulnerable pensioners (or 38.31 % of the total number of pensioners) fulfilling specific eligibility criteria in December 2022[255]. It should be noted that 32,895 people receiving the social solidarity allowance for uninsured older people (or 1.33 %) also received the one-off payment of EUR 250 in December 2022[256]. Eligible pensioners could also benefit from other universal or means-tested temporary support measures to help people to cope with high energy prices.

In recent years, especially since the COVID-19 pandemic, there has been a significant focus on promoting the digitalisation of the social insurance system. To this end, the ‘digital transformation bible 2020-2025’, adopted in 2021, includes measures for the gradual digitalisation and upgrading of e-EFKA services. Particular attention has also been paid to the integration of all social insurance personal data on pension rights held in the information systems of the former social insurance funds into a single social insurance database.

It should also be noted that efforts have been concentrated on improving e-EFKA’s efficiency, especially in addressing the significant delays in the processing of old-age benefits and survivor benefits applications. Legislation adopted in September 2021 enabled the involvement of certified lawyers and accountants in the processing of pension claims, while new fast-track processes for awarding pension benefits were introduced in April 2022[257]. These steps contributed to the faster processing of pension applications, and the majority of outstanding pension arrears have now been resolved. These issues, along with the poor administrative capacity of the e-EFKA in the delivery of services to citizens, have been central topics addressed in the national debate until recently. Currently the debate focuses on

[254] It should be noted that businesses and employers could benefit from an extended deadline for paying social insurance contributions (without interest or surcharges) for a specific period.
[255] See: https://www.efka.gov.gr/el/deltia-typoy/deltio-typoy-143 and https://ypergasias.gov.gr/o-chartis-ton-taktikon-kai-ektakton-pliromon-apo-e-efka-dypa-opeka-kai-ypourgeio-ergasias-gia-tin-evdomada-19-23-dekemvriou/ (in Greek).
[256] See: https://opeka.gr/katavoli-epidomaton-kai-ektaktis-oikonomikis-enischysis-dekemvrios-2022/?fbclid=IwAR2scFlnDcj9WoDILBw_-MgchDyqKo7JxeO4CBmu3foZm6Ozmjp77KUedR4 (in Greek).
[257] The application of these fast-track processes, which result in initial allocations, has led to a situation where many retirees may not have been granted the full pension they are entitled to based on their social insurance record. This issue is expected to be resolved with the final validation from e-EFKA, albeit with some delays in the process.

the challenges for pension adequacy, which is part of the general discussion on the consequences of the current energy and cost-of-living crisis.

3 ASSESSMENT OF ADEQUACY

3.1 Current adequacy

In examining the poverty-related indicators for people aged 65+, it becomes evident that most indicators remained stable over the period 2019-2022, albeit with some exceptions concerning the health situation of older people[258]. In particular, the relative median income ratio of people aged 65+ was 0.97 in 2022, having fallen by 0.03 percentage points (pp) since 2019, which meant that the income of older people was slightly lower than that of younger age groups. The aggregate replacement ratio (ARR) (the ratio of the median individual gross pensions of people aged 65-74 to the median individual gross earnings of people aged 50-59) was 75 % in 2022, while the EU[259] average was 58 %. Compared with 2019, it was 1 pp lower. However, this fall does not reflect an increase in pension benefits, but rather an increase in the median gross earnings of people aged 50-59. Men have a higher ARR than women (80 % against 66 % in 2022), which reflects differences in pension levels.

Pensions in Greece continue to play a vital role in preventing older people from falling into poverty. The at-risk-of-poverty or social exclusion (AROPE) rate of people aged 65+ was 21 % in 2022 (18 % for men and 23.4 % for women), up slightly since 2019 (20.5 %). Similarly, the AROPE rate for the population aged 75+ was 21.1 % in 2022, up by 0.7 pp since 2019. It should be pointed out, however, that the AROPE rate for the total population in Greece was much higher than the rate for the population over 65 (26.3 % against 21 % in 2022). This implies that the income from pensions provides better protection against poverty than the income of the total population.

The at-risk-of-poverty (AROP) rate of people aged 65+ in Greece was 15.8 % in 2022, close to EU average of 17.3 %. It showed an increase of 3.6 pp over the period 2019-2022, which can be partly attributed to the negative impact on pensioners' income caused by the gradual abolition of the pensioners' social solidarity benefit (EKAS). The AROP rate among people aged 65+ computed with a 50 % poverty threshold was also fairly low in 2022: 8.7 %, against an 8.9 % EU average. However, this was not the case for the AROP rate of people aged 65+ computed with a 70 % poverty threshold; in that case the AROP rate was 24.4 % and showed an increase of 4.7 pp over the period 2019-2022. This indicates that although the pension system provides a safety net against poverty for pensioners (through the provision of the national pension), the level of the safety net is still not adequate to meet the 70 % poverty line. As for the relative median AROP gap, this showed a small increase of 0.6 pp over the period 2019-2022, to stand at 18.3 % in 2022, meaning that the median income among those aged 65+ at risk of poverty was 18.3 % lower than the poverty threshold.

It should be pointed out, however, that although the severe material and social deprivation rate of people aged 65+ fell by 1.3 pp over the period 2019-2022, it remained one of the

[258] See Section 5 'Background statistics'.
[259] EU and EU-27 refer to the current 27 Member States of the European Union.

highest in the EU. In 2022 it was 10.8 % (8.8 % for men and 12.4 % for women), which was far higher than the EU average (5.5 %). The material and social deprivation rate for people aged 65+ was also high, standing at 25.8 % in 2022 (21.7 % for men and 29.1 % for women), which was significantly higher than the EU-27 average (11.1 %).

Turning to the share of the population aged 65+ living in a household where total housing costs represent more than 40 % of their total disposable household income, the data show that although this rate fell by 2.7 pp over the period 2019-2022, standing at 24.9 % in 2022, it remained substantially higher than the EU average (10.7 %). Remarkable differences between men and women were also observed (17.4 %, versus 30.8 %), which can be attributed to the gender gap in pension income: women continue to receive lower pensions than men.

The share of people aged 65+ who reported unmet needs for medical examination increased dramatically (by 12.5 pp) in the period 2019-2022 (i.e. from 15.6 % in 2019 to 28.1 % in 2022), which can be largely attributed to the impact of the COVID-19 pandemic. The increase was higher among women aged 65+ (12.9 pp) than among men aged 65+ (11.8 pp). Eurostat data reveal that life expectancy at age 65 fell by 1.1 pp over the period 2019-2022, standing at 19.3 years in 2022 – 17.8 for men and 20.8 for women. In 2021, men aged 65 were expected to live in good health for 7.6 years (0.5 years less than in 2019), while women aged 65 were expected to live in good health for 7.7 years (the same as in 2019). Despite the fact that the fall in healthy life expectancy is not as significant as the overall drop in life expectancy at 65, the data still indicate that people are living as long, but with fewer healthy years. The old-age dependency ratio (the ratio of the number of people aged 65+ to those aged 20-64) was 38.7 % in 2022 and is projected to reach 67.7 % in 2059. All these, in turn, are expected to trigger an ever increasing demand for healthcare and long-term care services in Greece.

As to the sustainability indicators, data show that Greece lags behind the EU average in terms of employment in the 55-64 age group. In 2022 only 51.9 % of this age group were in employment, with significant gender disparities persisting: only 39.9 % of women were in employment compared with 65.4 % of men. However, it must be noted that the employment rate of people aged 55-64 had increased significantly since 2019 (by 8.7 pp), which is probably linked to the increase in the statutory retirement age and to the abolition of most early-retirement options. These developments appear to have also affected the retirement duration indicators. Specifically, the estimated retirement duration from the first pension was 20.2 years in 2022, down by 0.6 years since 2019. Additionally, the retirement duration indicator, computed as the life expectancy at the average age of leaving the labour market, was 20.1 years in 2022 (18.1 for men and 21.4 for women), down 1.9 years since 2019. Finally, an increase of 0.7 pp in pension expenditure relative to GDP can be observed between 2019 and 2022 (from 15.9 % of GDP in 2019 to 16.6 % of GDP in 2022).

3.2 Future adequacy

The theoretical replacement rates (TRRs) show a general increase from 2022 to 2062. In the base case scenario (40 years up to standard pensionable age), net TRRs are expected to rise significantly: by 10.5 pp for average-income earners (from 81.1 % to 91.6 %) and by 9.9 pp for low-income earners (from 89 % to 98.9 %) for both women and men. This increase is mainly attributed to the higher standard pensionable age, resulting in longer careers.

However, for those with 20-year careers, average-income earners will see a slight decline in net TRRs, from 41.8 % to 41.1 %, while low-income earners with equivalent careers will experience an increase from 45.6 % to 52.2 %. This highlights the redistributive role of pensions, albeit with relatively low TRRs. Three-year career breaks (be it for unemployment, childcare or family care) lead to lower TRRs than in the base case, but projections still suggest increases for average- and low-income earners.

Future pension adequacy in Greece appears to be ensured in the short run through the indexation mechanism for pensions in payment. This mechanism is essentially linked to developments in GDP and the average annual consumer price index, which suggests that the purchasing power of pensions will be ensured in the upcoming years. However, given that the pension system in Greece envisages that adequate pensions depend on longer careers, ensuring adequate pensions for women and non-standard workers with short working careers and low earnings remains a challenge that needs to be addressed. There is also concern for informal workers (undeclared work) and those engaged in new forms of employment (e.g. platform work, and remote working or teleworking), who are typically not covered by the social insurance system, and thus will not have access to a pension in the future.

As to the recent reforms, their implementation is not expected to affect the future adequacy of pensions. The only exception in this regard is the transition to a fully funded DC scheme. This new scheme aligns benefits with contributions, though the amount of the auxiliary pension is linked to the years of contributions and fund performance, notwithstanding that the state will ensure the endurance of the system in the case of the fund's underperformance. It introduces an element of uncertainty, albeit limited, for the level of future auxiliary pension benefits, while individuals with fewer years of contributions will receive low auxiliary pensions. Although the system includes a negative return guarantee, which is a positive element that guarantees that the insured person will at least get back the amounts paid in social insurance contributions in real terms, it does not safeguard the purchasing power of these funds.

3.3 Developments in (in)equalities

As to the developments in current pension inequalities, it must be pointed out that the delay in the adoption of the unified regulation of e-EFKA means that different rules continue to apply to each beneficiary for a number of cash and in-kind provisions (e.g. funeral expenses, maternity benefit, and disability provisions). These depend on the specific regulations of the social insurance fund that people were insured with prior to the establishment of e-EFKA, leading to inequalities persisting both in access to these benefits/provisions and in the actual levels of them.

Further to this, the abolition at the end of 2019 of the EKAS – a benefit granted to low-income pensioners, in effect mainly women pensioners – has contributed to the worsening of the gender gap in pensions. In particular, the gender gap in pension income for people aged 65-79 widened by 2.4 pp over the period 2019-2022, standing at 26.5 % in Greece in 2022, close to the EU average (26.1 %). Worse still, women in Greece continue to have less access to the pension system than men: the gender gap in the non-coverage rate remained almost unchanged over the period 2019-2022 (15.7 pp in 2019 and 16.6 pp in 2020), remaining far wider than the EU average (5.3 pp). This can be explained by the fact that women in Greece continue to exhibit, by and large, low employment rates and short working careers, which in turn lead to short contributory periods and thus to failure to fulfil the qualifying conditions for retirement.

Moreover, the S80/S20 income quintile share ratio for people aged 65+ increased from 3.76 in 2019 to 4.25 in 2022, suggesting that the reforms affecting the household income of older people undertaken in previous years have exacerbated income inequalities among people aged 65+.

4 KEY CHALLENGES AND OPPORTUNITIES

Greece faces a few challenges in improving pension adequacy. These include the burden imposed by the ageing of population, gender inequalities, high unemployment rates, low employment rates, and the rise of new forms of employment along with the prevalence of a strong informal sector. Ensuring universal access to the pension system and adequate pensions for all, especially for women and (non-standard) workers with short working careers and low earnings, along with ensuring the sustainability of the pension system, are the main issues to be addressed.

In addition, what continues to be an issue for pension adequacy is the fact that the amounts of certain provisions designed to guarantee a minimum level of protection for older people, especially for those with short careers or low incomes, remain below the AROP threshold. More specifically, despite the increase in the full gross amount of the national pension in 2022, it still fell below the AROP threshold for a single person in 2022 (EUR 5,712)[260]. This is even more concerning for uninsured people over 67 who are not covered by a pension scheme and who receive the social solidarity allowance for uninsured older people (EUR 413.76 per month; EUR 426.17 from January 2024), which is lower than AROP threshold. It becomes evident that these provisions are insufficient to lift a person above the AROP line.

As for the main opportunities for improving adequacy, specific policies and measures should be taken in order to enhance employment rates, especially for women, facilitating a further increase in the effective retirement age and longer contributory periods, thereby leading to higher pension benefits. Emphasis should also be placed on adopting the unified regulation of e-EFKA, which will ensure the application of uniform rules for insured people with regard to contributions and to benefits, as well as establishing effective mechanisms to combat contribution evasion and undeclared work. Specific arrangements are also needed to ensure protection against poverty in old age, and to adapt to the changing employment environment by ensuring social protection coverage for all individuals engaged in newly emerging forms of employment.

[260] Eurostat database, EU-SILC [ilc_li01], data extracted 7 September 2023.

5 BACKGROUND STATISTICS

	2022			Change 2019-2022		
5.1. Relative income	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**
Relative median income ratio (65+)	0.97	1.02	0.93	-0.03	-0.02	-0.03
Income quintile share ratio (S80/S20) (65+)	4.25	4.31	4.03	0.49	0.46	0.36
Aggregate replacement ratio (ARR) (65-74) (%; change in pp)	75.0	80.0	66.0	-1.0	-1.0	-2.0
5.2. Poverty and material deprivation	**2022**			**Change 2019-2022 (pp)**		
	Total	**Men**	**Women**	**Total**	**Men**	**Women**
At-risk-of-poverty or social exclusion (AROPE) (65+) (%)	21.0	18.0	23.4	0.5	0.1	0.9
At-risk-of-poverty (AROP) rate (65+) (%)	15.8	13.6	17.6	3.6	2.7	4.2
Severe material and social deprivation (SMSD) rate (65+) (%)	10.8	8.8	12.4	-1.3	-1.9	-0.8
At-risk-of-poverty or social exclusion (AROPE) rate (75+) (%)	21.1	16.1	24.8	0.7	0.2	0.9
At-risk-of-poverty (AROP) rate (75+) (%)	16.8	13.0	19.5	4.1	3.7	4.1
Severe material and social deprivation (SMSD) rate (75+) (%)	9.4	6.6	11.4	-1.1	-2.0	-0.6
Relative median at-risk-of-poverty gap (65+) (%)	18.3	18.8	18.1	0.6	0.1	1.3
At-risk-of-poverty (AROP) rate, 65+: 50 % threshold (%)	8.7	7.7	9.5	2.4	2.0	2.8
At-risk-of-poverty (AROP) rate, 65+: 70 % threshold (%)	24.4	20.5	27.4	4.7	3.2	5.7
Material and social deprivation (MSD) rate (65+) (%)	25.8	21.7	29.1	-1.3	-3.2	0.3
5.3. Gender difference	**2022**			**Change 2019-2022 (pp)**		
Gender gap in pension income (65-79) (%)	26.5			2.4		
Gender gap in non-coverage rate (65-79) (pp)	16.6			0.9		
5.4. Housing and health situation	**2022**			**Change 2019-2022**		
	Total	**Men**	**Women**	**Total**	**Men**	**Women**
Housing cost overburden rate (65+) (%; change in pp)	24.9	17.4	30.8	-2.7	-4.2	-1.6
Self-reported unmet need for medical exam 65+ (%; change in pp)	28.1	25.0	30.5	12.5	11.8	12.9
Healthy life expectancy (at age 65) (years) (1)	7.7	7.6	7.7	-0.2	-0.5	0.0
Life expectancy (at age 65) (years)	19.3	17.8	20.8	-1.1	-1.2	-0.9
	2022			**2062**		
Receiving long-term care cash benefits (65+) (%)	0.0			0.0		
Receiving long-term care in-kind benefits (65+) (%)	9.2			12.3		
5.5 Sustainability and context	**2022**			**Change 2019-2022**		
	Total	**Men**	**Women**	**Total**	**Men**	**Women**
Employment rate (55-64) (%; change in pp)	51.9	65.4	39.9	8.7	9.3	8.3
Pension expenditure (% GDP; change in pp) (1)	16.6			0.7		
Retirement duration from first pension (years)	20.2	18.9	21.4	-0.6	-0.9	-0.2
Retirement duration from end employment (years) (2)	20.1	18.9	21.4	-1.9	-1.6	-2.1
Projections (3)	**2022**			**2062**		
Old-age dependency ratio (20-64) (%)	38.7	34.4	43.0	67.7	58.5	77.8
Economic old-age dependency ratio (20-64) (%)	56.2	59.6	53.7	88.6	89.0	88.3
Gross public pensions (% GDP)	14.5			12.5		
Benefit ratio (%)	76.4			52.3		
Coverage ratio (65+) (%)	103.4			95.9		
Gross pension ratio high/low earner		2.3	2.3		2.0	2.0

(1) 2021 instead of 2022

(2) Based on the assumptions of the 2024 Ageing Report for the 2023 average exit ages
(3) For the source of each of these six indicators providing projections by 2062, please see 'Indicators, definitions and abbreviations'.

5.6 Theoretical replacement rates

	Net (%)				Gross (%)			
	2022		2062		2022		2062	
	Men	Women	Men	Women	Men	Women	Men	Women
Standard pensionable age (SPA)	**62.0**	**62.0**	**67.0**	**67.0**				
AWG career duration (years)	**41.1**	**40.0**	**43.9**	**42.8**				
Average Earning (100 %)								
Base case: 40 years up to SPA	81.1	81.1	91.6	91.6	72.8	72.8	81.6	81.6
Increased SPA: from age 25 to SPA	68.9	68.9	91.7	91.7	57.3	57.3	81.7	81.7
AWG career length case	80.3	76.8	94.0	93.4	73.5	67.4	84.2	83.5
Longer career: 42 years to SPA			91.7	91.7			81.7	81.7
Shorter career: 38 years to SPA			81.8	81.8			70.7	70.7
Deferred exit: 42 years to SPA +2			93.5	93.5			83.7	83.7
Earlier exit: 38 years to SPA -2								
Career break – unemployment: 3 years	68.9	68.9	78.4	78.4	57.3	57.3	67.6	67.6
Career break – childcare: 3 years	68.9	68.9	78.4	78.4	57.3	57.3	67.6	67.6
Career break – care for family dependant: 3 years	68.7	68.7	78.4	78.4	57.2	57.2	67.6	67.6
Short career (20-year career)	41.8	41.8	41.1	41.1	30.7	30.7	35.2	35.2
Work 35 years, disabled 5 years prior to SPA			78.0	78.0			67.2	67.2
Early entry in the labour market: from age 20 to SPA			96.0	96.0			86.4	86.4
Index: 10 years after retirement at SPA			82.2	82.2			71.3	71.3
Extended part-time period for childcare			73.0	73.0			62.5	62.5
Survivor ratio 1*		0.8		0.8		0.9		0.8
Survivor ratio 2*		0.8		0.7		0.8		0.8
Low earnings (66 %)								
Base case: 40 years up to SPA	89.0	89.0	98.9	98.9	79.6	79.6	90.7	90.7
AWG career length case	89.2	82.7	101.3	100.6	80.0	72.6	92.8	92.3
Career break – unemployment: 3 years	72.7	72.7	80.7	80.7	62.1	62.1	74.0	74.0
Career break – childcare: 3 years	72.7	72.7	80.6	80.6	62.1	62.1	73.9	73.9
Short career (20-year career)	45.6	45.6	52.2	52.2	35.4	35.4	41.6	41.6
Early entry in the labour market: from age 20 to SPA			103.3	103.3			94.7	94.7
High earnings (100->200 %)								
Base case: 40 years up to SPA	68.8	68.8	65.7	65.7	59.6	59.6	54.9	54.9

**Survivor ratio 1: man base case, woman base case*
**Survivor ratio 2: man base case, woman short career case*

HUNGARY

Highlights

- The Hungarian pension system consists of a pay-as-you-go statutory pension scheme complemented by a supplementary personal pension scheme and some smaller long-term saving plans offered by financial institutions.
- In the period between July 2020 and July 2023 the most important reform with an impact on pension adequacy was the reintroduction of the 13th month pension in 2021. Other recent reforms include the reduction of the social contribution tax rate, and measures to make it easier to combine retirement with work and to protect retired people against inflation.
- Between 2019 and 2022 material deprivation rates declined slightly among older people in Hungary. At the same time relative monetary income poverty increased, and this resulted in older people having an above-average level of income poverty.
- Inequality of income among older people increased significantly between 2019 and 2022, moving closer to the EU average. This continued the trend of increasing income inequalities among older people since 2010.

1 GENERAL DESCRIPTION OF THE NATIONAL PENSION SYSTEM

The Hungarian pension system consists of a pay-as-you-go (PAYG) statutory pension scheme complemented by the negligible remnants of the almost completely de-funded (formerly statutory funded) scheme[261], a supplementary personal pension scheme[262] and some smaller long-term saving plans offered by financial institutions.

Since July 2022 employers have paid 13 % of gross wages as a social contribution tax (*szociális hozzájárulási adó*), which is divided annually between the pension insurance fund (PIF) and the health insurance fund (HIF) by parliament. In 2023 the PIF received 9.3 % of gross wages, while the remaining part went to the HIF[263]. The PIF is responsible for old-age and survivor pensions. The HIF holds the disability portfolio ('benefits for people with changed working capacity', such as disability benefit and rehabilitation benefit). Special schemes for workers in arduous and hazardous jobs (miners, members of the armed forces, and dance artists) are paid from the National Fund for Family and Social Policy (*Nemzeti Család- és Szociálpolitikai Alap*).

[261] Hungary introduced a statutory funded scheme in 1998, which was almost entirely renationalised and de-funded in 2011. There remained 55,000 members of the statutory funded scheme in 2019, about 1.2 % of all employees. New inflows made up less than 0.5 % of total assets in 2019.

[262] About 25 % of all employees were members in 2019.

[263] See § 38 of Act XXV of 2022 on the 2023 Budget of the Central Government of Hungary.

Employees pay 18.5 % of their gross wages as social security contributions (SSC – *társadalombiztosítási járulék*). According to legislation in force[264], the equivalent of 10 % of gross wages is directed to the PIF from total SSC government revenues. The overall pension contribution rate is thus 19.3 % of gross wages in 2023 – 9.3 % paid by employers and 10 % by employees.

The minimum service period to qualify for a pension benefit is 20 years. A partial old-age pension can be gained based on a service period of 15 years, but this does not give eligibility for a minimum benefit. The service period includes non-contributory periods (university studies before 1998, and mandatory military service) and periods when the contributions are paid by the government on behalf of the insured person (maternity leave, childcare periods, and years in lower vocational school). Benefits are established by a formula based on the length of service and the average indexed net monthly wage earned in and after 1988. The rate with which the entry pension replaces the calculated net monthly lifetime wage is a function of recorded service years. This scale is non-linear, favouring people with short service periods at the cost of people with medium and long service lengths. The minimum amount of an old-age pension equals HUF 28,500 (EUR 77). From 2021, pensioners are entitled to a 13th month pension.

In 2023 the pensionable age is 65 for both women and men. The pensionable age has been raised from 62 to 65, by half a year for consecutive cohorts. The transition period started in 2014 for the birth cohort of 1952 and ended in 2022 with the birth cohort of 1957. A special early-retirement programme offers full old-age benefits for women with 40 years of eligibility (informally called the 'women-40 programme'[265]). This benefit is paid out by the PIF.

People eligible for a survivor pension (*özvegyi nyugdíj*) include those whose spouse died as an old-age pensioner[266]. Surviving spouses can receive a permanent survivor pension if they are above retirement age, are living with a disability, or had at least two minor children by the deceased. The permanent survivor pension amounts to 30 % of the deceased person's pension (60 % if the spouse has no pension in her own right).

Pensions are implicitly taxed: they are exempt from income tax but are calculated from net wages. Pensions in payment are indexed to prices in a forward-looking manner. In January benefits are raised by the inflation rate set in the annual budget of the central government. If the actual rate calculated from a special pensioners' consumer basket is higher, there is a retroactive adjustment in November. Adjustment is asymmetric in the sense that a pension increase in excess of the final annual inflation rate is not returned if inflation proves to be lower than the rate of pension increase decided in January. In years when GDP growth is higher than 3.5 % and the balance of the government budget is within the limits set by parliament, pensioners receive an extra premium by law, the amount of which depends on their regular benefit and the GDP growth rate.

[264] See § 26 of Act CXXII of 2019 on Eligibility to Social Protection Provisions and the Financing of Such Provisions.

[265] This programme was introduced in 2011, with the declared aim of facilitating intra-familial help with childcare, and in this way easing the work-life balance of working mothers with small children.

[266] Those whose spouse died before reaching pensionable age but with a specified service period (e.g. those whose spouse died above age 45 having at least 15 years of service period) are also eligible. Survivor benefits in Hungary also include orphan's allowance and parental pension.

In addition to the statutory pension, the pension system includes a supplementary personal pension scheme (*önkéntes nyugdíjpénztár*) and government-subsidised long-term savings plans, such as the pension pre-funding account (*nyugdíj előtakarékossági számla*) and special pension-purpose life insurance. The government supports the use of the supplementary personal pension scheme and long-term savings plans with a tax credit: 20 % of payments to such schemes can be deducted from personal income tax liabilities with an upper limit depending on the specific scheme[267]. The take-up of reserves from such funds is restricted before retirement age. For example, in the case of the supplementary personal pension scheme a minimum length of accumulation period is required (10 years) and full tax exemption is granted only after an accumulation period of at least 20 years.

Pensioners are allowed to take up employment in the private sector and the cumulation of pension benefits and labour income is allowed. This is different in the public sector, where the main rule is that labour income cannot be combined with pension benefits, so workers taking up a job in the public sector after retirement must defer/suspend their benefits, even if according to the legislation in force exemptions exist. Since 2020 the wages of working pensioners have been exempt from social insurance contributions (both employer and employee); working as a pensioner does not therefore add to pension entitlements.

All categories of self-employed and non-standard workers (part-time employees, employees with fixed-term contracts, temporary agency workers, casual and seasonal workers, and apprentices) are covered by both old-age and survivor pension insurance. The same rules apply to these groups as to people with a standard labour contract.

2 REFORM TRENDS

The pension system went through frequent and sometimes substantial reforms between 1992 and 2012, while recent years have seen more limited changes. During the period July 2020 to July 2023, the most important policy changes concerned pension benefits, social insurance contributions, and the combining of pensions and work.

The main reforms regarding pension benefits included the reintroduction in 2021 of the 13th month pension, which was abolished after the 2008 financial crisis. Initially, the plan was to reintroduce the 13th month pension gradually during a four-year period. Pensioners in February 2021 received the first quarter of the 13th month pension, but – before the parliamentary elections of 2022 – the government decided that pensioners would already receive the full amount of the 13th month pension in February 2022.

While the minimum amount of old-age pensions remained unchanged, the government doubled the minimum amount of the survivor pension for orphans (*árvaellátás*) to HUF 50,000 (EUR 135) per month.

In response to the rapid increase in inflation rates during 2022, the government decided an extraordinary increase of pensions by 3.9 % in July 2022 in addition to the usual increases in January and November. A pension premium was also paid during the year, as economic

[267] The ceiling for this income tax credit is HUF 150,000 (about EUR 405) per year in the case of the supplementary personal pension scheme, while it is somewhat lower in the case of the other schemes.

growth exceeded 3.5 % and the budget deficit did not exceed the original plans[268]. The amount of the pension premium is calculated by multiplying the part of the GDP growth above 3.5 % by 25 % of the pension due in November (up to a maximum of HUF 20,000, or EUR 54).

The pension contribution rate was also reduced. More precisely, the part of employers' social contribution tax going to the PIF was reduced from 11.1 % in 2021 to 9.3 % in 2022. During the labour market shock that followed the COVID-19 pandemic, employees in the most exposed sectors (catering, live performance, sports, recreation, and personal services) benefited from a temporary exemption from paying the social contribution tax, while counting this period for pension entitlements. Employees paid no more than the minimum amount of healthcare contributions per month. In the same period, employers also got relief from paying all taxes on labour.

Because of the unified social contribution tax, changes affecting the base or the rates of this tax are relevant for the receipts of the PIF. From 2020 a minimum contribution payment limit was introduced for those in employment, with a contribution base of at least 30 % of the minimum monthly wage. From September 2022 the government changed the legislation regarding the itemised tax for small taxpayers, which resulted in a significant reduction of those entitled to pay the (reduced) flat-rate tax, and an increase in those who are subject to the general social contribution rules, which is expected to increase receipts of the PIF. Finally, since July 2023 the social contribution tax must be paid on interest income earned on savings instruments subject to income tax, such as savings accounts, stocks, bonds, investment fund shares, and life insurance policies. This will increase receipts of the PIF.

Reforms have also been aimed at easing the conditions for pensioners to take up employment, which is now possible without restrictions in the private sector. In the public sector this prohibition remains, but an exception was introduced for some professions. Civil servants in the fields of social work, child protection, childcare, public education, or vocational training are not required to defer pension benefits[269]. In the case of retired doctors and nurses, a pension supplement scheme has been introduced and will continue in 2023 to compensate health workers for their pension breaks (to prevent them from leaving the health sector).

The increase in the at-risk-of-poverty (AROP) rate among older people and the record inflation rate in the EU has also brought pension adequacy to the forefront of policy debate. The reform of the pension system is therefore now back on the policy agenda, although not much is known about the planned directions of the reform. The Hungarian Recovery and Resilience Plan sets out a policy process for the reform of the pension system, where the preparation of a policy proposal by the government will be based on an independent international expert report. The entry into force of legislation amending the pension system is planned by the end of March 2025.

[268] The pension premium was introduced after the financial crisis by the §7 of Act XL from 2009.

[269] These exemptions, which were initially temporary, were made permanent by §73/B (1) of Government Decree No 168/1997 (X. 6) on implementing Act LXXXI of 1997 on Social Insurance Pension.

3 ASSESSMENT OF ADEQUACY

3.1 Current adequacy

In 2022, 8.1 % of GDP was spent on social protection in the categories of old age and survivorship, which was similar to the 8.0 % recorded in 2019. In January 2023 the statutory pension scheme granted 1.99 million old-age pensions (about 21 % of total population) and another 103,000 people (about 1.1 %) were paid a survivor benefit as their main or exclusive allotment (survivor benefits can also be paid as supplements to old-age pensions)[270].

The at-risk-of-poverty or social exclusion (AROPE) rate rose from 16.7 % to 18.4 % during 2019-2022 among those aged 65+. Despite this, the percentage of those AROPE in this age group remained lower in 2022 than the EU average (20.2 %).

Material and social deprivation affected 16.7 % of those aged 65+ in 2022, which represented only a minor change – a 1.1 percentage points (pp) decline – since 2019. As concerns the severe material and social deprivation (SMSD) rate, 8.2 % of older people were affected in 2022, compared with 9.2 % in 2019. This rate still exceeded the EU average (5.5 %), but was much closer to it than in 2015, due to falling deprivation rates between 2015 and 2019. The decline of deprivation rates among those aged 65+ (which was more modest compared with total population) was due to general economic upswing and to policy measures such as the price subsidy on utility costs.

In contrast to declining material deprivation rates, relative income poverty – as measured by the AROP rate – increased among older people from 11.1 % in 2019 to 13.4 % in 2022. The AROP rate among those aged 65+ exceeded the overall national rate (12.1 %) in 2022. Between 2005 and 2019 relative income poverty among older people was (sometimes well) below that of the entire population, but the continuous increase in the AROP rate of older people (and of a considerable drop in the child AROP rate) since 2015 has changed the age profile of poverty risks in the past few years. Since 2020, older people in Hungary have continued to have above-average AROP rates. Despite an increasing trend the AROP rate among older people in Hungary remained below the EU average (17.3 %) in 2022. The declining relative position of older people was mainly due to pensions being indexed to inflation in a period of rapid wage growth, while improving relative income position of families with children was associated with the favourable labour market context (increasing employment and wages) and generous family policy measures (e.g. tax allowances). Overall, therefore, the two main components of the AROPE rate have followed different trends among those aged 65+: the severe material deprivation rate declined, while the AROP rate increased. This continues the trends observed since 2015, when general economic growth allowed the decline in material deprivation rates among older people, while the income situation of pensioners worsened in relative terms, largely due to pensions being indexed to inflation in a situation of strong economic and wage growth.

In addition to the rise in the AROP rate, the AROP gap, measuring the depth of income poverty, has also widened among those aged 65+. The value of the indicator increased from

[270] Hungarian Central Statistical Office Summary Tables (STADAT), Table 25.2.1.5, downloaded from https://www.ksh.hu/stadat_files/szo/en/szo0054.html.

9.6 % in 2019 to 13.4 % in 2022, which significantly exceeded the increase in the EU average (0.7 pp). The AROP gap in 2022 in Hungary is therefore closer to the EU average (18.1 %) than before, albeit still narrower.

Self-reported unmet need for medical care affected 6.9 % of the population aged 65+ in 2022, which was higher than the EU average of 5.4 %. Women were more affected than men (7.9 % versus 5.2 % respectively) in 2022, as the perception of unmet need increased among women between 2019 and 2022 (by 2.1 pp), while it declined in the case of men (by 1.8 pp). Healthy life years at age 65 were 7.5 on average in 2021, up slightly since 2019 (by 0.4 years). Despite this the indicator remains considerably below the EU average of 9.7 years.

During the period 2019-2022 there was a rapid increase in the housing cost overburden rate (i.e. the burden of housing costs for the households compared with their income situation). The percentage of those for whom total housing costs exceeded 40 % of disposable income increased from 2.6 % to 8.6 % among older people, which was close to the EU average of 9.7 %. The housing cost overburden rate jumped in 2022 as a consequence of the steeply rising utility prices. This was partly a consequence of the reduction of the generous price subsidy on utility prices.

Pension adequacy can also be measured by the capacity of benefits to replace the income that was earned before retirement. The average replacement ratio, which measures the median individual pension income of the 65-74 age group relative to the median individual earnings of the 50-59 age group (excluding other social benefits), declined by 2 pp between 2019 and 2022, from 55 % to 53 %. The aggregate replacement ratio of pensions remained lower than the EU average (58 %). The relative median income ratio on the other hand improved from 0.90 to 0.96, and exceeded the EU average of 0.90 in 2022.

3.2 Future adequacy

The theoretical replacement rates (TRRs) are projected to fall significantly between 2022 and 2062. For both men and women earning an average wage during a 40-year career and retiring at the standard pensionable age (SPA), entry pensions are projected to replace 75.1 % of pre-retirement wages in 2062 (in net terms), which is significantly lower than the 94.0 % TRR observed in 2022. The TRR is sensitive to interruptions in the working career due to unemployment. For those with average earnings, a three-year unemployment period leads to a TRR in 2062 that is 4.2 pp lower than in the base case scenario (70.9 %). In contrast a career interruption for childcare of the same duration has no effect on the base case TRR. The projections show a strong incentive to defer retirement: postponing retirement by two years after SPA increases the TRR by 12.9 pp (to 88.0 %).

Entry pensions are relatively high compared with final wages. A hypothetical worker earning the average wage throughout an uninterrupted career of 40 years and retiring at the pensionable age received more than 87 % of their last wage in net terms in 2019. This reflects only a minor drop, especially if account is also taken of the costs of having a paid job, the value of household labour after retirement, and the utility of leisure.

The projections also reveal that the benefit formula is broadly insensitive to regular child-related career breaks. Carers, who are mostly women, can expect the same theoretical replacement rates (TRRs) in 2059 irrespective of spending three years or no time at all at home with small children, while they are a bit lower if this break extends to a 10-year period of part-time work.

An increasing pension budget is projected in relation to GDP in the long run (8.3 % in 2019 compared with 12.4 % in 2070)[271]. This is mainly the result of a growing number of people reaching retirement, and to a lesser extent the introduction of the 13th month pension (full monthly amount from 2022). The rising retirement age (64 in 2019 and 65 from the second half of 2021) will slightly mitigate the effects of these changes. In addition, the continuous application of the price index, rather than the increase in real wages, supports fiscal sustainability.

The currently modest gender pension gap might widen over time. First, the difference in entry benefits is growing as a consequence of the widening gap in the effective retirement age. Old-age pensions established in 2018 were 17 % higher for men than for women[272]. In 2014 the gap was still 8.2 %, and only 6.4 % back in 2013. Second, pensions in payment diverge from entry pensions during retirement if indexation is based on prices, not wages. Whereas entry pensions follow increases in real wages, pensions in payment grow only in accordance with the price index. Due to mortality differences between genders, this affects women more than men. This combination has the potential to increase the gender pension gap in the long run.

3.3 Developments in (in)equalities

Inequality of income among older people (as measured by the income quintile share ratio) increased from 3.1 to 3.67 between 2019 and 2022. This was still lower than the EU average of 4.1, but it was considerably closer to it than in 2019. This increase continued the trend of increasing income inequalities among older people that characterised the period starting in 2010. The value of the income quintile share ratio indicator was equal to 2.55 in 2010, which increased to 3.0 by 2015, and continued to rise thereafter.

The increase in inequalities among older people is a consequence of multiple causes partly related to economic factors (labour market developments, economic growth) and partly related to changes in the pension system. One of the economic factors is related to the transformational crisis of the 1990s, which led to increased inactivity and unemployment. The labour market careers of an important share of the population have been disrupted and cohorts with such experience are increasingly entering the pension system with less pension rights and lower pensions.

Several changes in the pension system also contributed to increased inequalities. The strong progressivity of the personal income tax was eliminated in 2011, when Hungary introduced flat-tax personal income taxation. As a consequence, new pensions (which are calculated based on earnings net of personal income tax) are becoming more and more proportional to gross earnings. Previously the value of above-average pensions used to be reduced by strong degression in the pension formula, but this had already been almost completely removed from the system by 2012. In addition, the social insurance contribution ceiling was abolished in

[271] European Commission (2021), *The 2021 Ageing Report: Economic and Budgetary Projections for the 28 EU Member States (2019-2070)*, Publications Office of the European Union.

[272] HCSO Pensions (20190), p. 11; and 2015 Statistical Yearbook of the Central Administration of the National Pension Insurance, p. 63.

2013. The contribution ceiling was previously set annually by the government for employee social insurance contributions (not employer contributions), usually at a level close to 3 times the average monthly gross salary. Overall the consequence of these changes was that the pension system became less redistributive and pensions are increasingly proportional to gross earnings.

The change in pension indexation also contributed to increasing inequalities among different cohorts of pensioners. Since 2010, pensions have been indexed against inflation in Hungary. As a consequence, those who retired before the period of rapidly increasing earnings in the second half of the 2010s can expect significantly lower pensions than those who retired a few years later, as pension indexation generally lags behind salary growth.

In terms of gender inequalities, figures reveal a comparatively modest gender pension gap among those aged 65-79, with women's pensions in Hungary being 10.8 % lower than those of men in 2022. The gender pension gap in Hungary was thus much lower than in the EU on average (26.1 %). The gender pension gap remained stable between 2019 and 2022 (widening by just 0.2 pp), while it was narrowing in the EU (by 3.4 pp). The gender pension gap is produced by a combination of gender differences in contributory periods and in average wages over the lifecycle. The gender gap in coverage rate was negligible in 2022[273].

There is also a noticeable gender difference in the values of poverty and deprivation indicators. The AROPE rate was 20.4 % among women, compared with 15.3 % among men, in 2022. The SMSD rate was 2.9 pp higher in 2022 among women aged 65+ than among men (9.4 % versus 6.5 %). Relative income poverty – as measured by the AROP indicator – was also higher among women (similarly by 2.5 pp).

4 KEY CHALLENGES AND OPPORTUNITIES

The next wave of demographic pressure is likely to come in the mid-2030s, when the relatively large cohorts born in the 1970s will reach pensionable age. To be better prepared, these cohorts need to increase their savings and invest in the human capital of their children (education and health), as well as their own (retraining and health). This would expand their labour market career by making them healthier and better trained, increase their PAYG pensions, and allow them to supplement their benefits with private savings. A broad reflection and coherent public policies to stimulate pension savings and human capital investment are called for.

Improving the health status of the general population and of older workers through health promotion and healthy ageing policies is another critical success factor to facilitate longer working careers in the long term. Raising the pensionable age is a difficult political process. Automatically linking the pensionable age to independently observable demographic indicators, such as life expectancy at birth or a pre-set expected length of retirement, would make the adjustment easier.

[273] The coverage gap does not affect the gender gap in pension benefits in any case, since the latter is calculated only from pensions paid.

In addition to the challenge raised by population ageing, there is that of increasing relative income poverty and income inequality among older people. Several possible solutions have been discussed in public and scholarly debate, such as a progressive distribution of the 13th month pension, the reintroduction of the contribution ceiling, and the adoption of progressive income taxation. Potential policy measures will have to ensure that incentives to pay contributions are not weakened.

5 BACKGROUND STATISTICS

	2022			Change 2019-2022		
5.1. Relative income	Total	Men	Women	Total	Men	Women
Relative median income ratio (65+)	0.96	1.00	0.93	0.06	0.04	0.06
Income quintile share ratio (S80/S20) (65+)	3.67	3.83	3.51	0.57	0.71	0.50
Aggregate replacement ratio (ARR) (65-74) (%; change in pp)	53.0	52.0	53.0	-2.0	-2.0	-2.0

5.2. Poverty and material deprivation	2022			Change 2019-2022 (pp)		
	Total	Men	Women	Total	Men	Women
At-risk-of-poverty or social exclusion (AROPE) (65+) (%)	18.4	15.3	20.4	1.7	2.4	1.4
At-risk-of-poverty (AROP) rate (65+) (%)	13.4	11.5	14.6	2.3	3.7	1.5
Severe material and social deprivation (SMSD) rate (65+) (%)	8.2	6.5	9.4	-1.0	-0.8	-1.0
At-risk-of-poverty or social exclusion (AROPE) rate (75+) (%)	18.5	15.4	20.1	2.5	6.2	0.6
At-risk-of-poverty (AROP) rate (75+) (%)	12.9	11.2	13.7	1.5	4.7	-0.3
Severe material and social deprivation (SMSD) rate (75+) (%)	7.9	7.2	8.3	-0.2	2.8	-1.8
Relative median at-risk-of-poverty gap (65+) (%)	13.4	13.9	13.4	3.8	4.5	3.7
At-risk-of-poverty (AROP) rate, 65+: 50 % threshold (%)	6.0	5.1	6.6	2.3	2.7	2.1
At-risk-of-poverty (AROP) rate, 65+: 70 % threshold (%)	20.9	17.1	23.3	-0.8	0.5	-1.5
Material and social deprivation (MSD) rate (65+) (%)	16.7	13.8	18.5	-1.1	-1.0	-1.2

5.3. Gender difference	2022	Change 2019-2022 (pp)
Gender gap in pension income (65-79) (%)	10.8	0.2
Gender gap in non-coverage rate (65-79) (pp)	0.1	0.1

5.4. Housing and health situation	2022			Change 2019-2022		
	Total	Men	Women	Total	Men	Women
Housing cost overburden rate (65+) (%; change in pp)	8.6	6.4	9.9	6.0	4.4	6.9
Self-reported unmet need for medical exam 65+ (%; change in pp)	6.9	5.2	7.9	0.6	-1.8	2.1
Healthy life expectancy (at age 65) (years) (1)	7.5	7.1	7.8	0.4	0.4	0.4
Life expectancy (at age 65) (years)	16.5	14.3	18.3	-0.4	-0.5	-0.3

	2022	2062
Receiving long-term care cash benefits (65+) (%)	1.0	1.1
Receiving long-term care in-kind benefits (65+) (%)	7.1	8.5

5.5 Sustainability and context	2022			Change 2019-2022		
	Total	Men	Women	Total	Men	Women
Employment rate (55-64) (%; change in pp)	65.6	76.8	55.7	8.9	7.8	9.5
Pension expenditure (% GDP; change in pp) (1)	8.1			0.1		
Retirement duration from first pension (years)	17.9	14.3	21.0	-0.8	-0.9	-0.4
Retirement duration from end employment (years) (2)	18.0	14.9	20.4	-0.6	-0.8	-0.1

Projections (3)	2022			2062		
Old-age dependency ratio (20-64) (%)	34.3	26.2	42.5	56.4	48.9	64.3
Economic old-age dependency ratio (20-64) (%)	40.4	32.8	47.3	62.3	58.2	65.9
Gross public pensions (% GDP)	7.7			11.6		
Benefit ratio (%)	38.2			40.2		
Coverage ratio (65+) (%)	127.6			121.5		
Gross pension ratio high/low earner		2.1	2.1		2.2	2.2

(1) 2021 instead of 2022

(2) Based on the assumptions of the 2024 Ageing Report for the 2023 average exit ages
(3) For the source of each of these six indicators providing projections by 2062, please see 'Indicators, definitions and abbreviations'.

5.6 Theoretical replacement rates

	Net (%)				Gross (%)			
	2022		2062		2022		2062	
	Men	Women	Men	Women	Men	Women	Men	Women
Standard pensionable age (SPA)	**65.0**	**65.0**	**65.0**	**65.0**				
AWG career duration (years)	**42.5**	**39.6**	**42.6**	**40.3**				
Average Earning (100 %)								
Base case: 40 years up to SPA	94.0	94.0	75.1	75.1	62.5	62.5	49.9	49.9
Increased SPA: from age 25 to SPA	94.0	94.0	75.1	75.1	62.5	62.5	49.9	49.9
AWG career length case	98.7	92.3	79.2	75.1	65.6	61.3	52.7	49.9
Longer career: 42 years to SPA			78.6	78.6			52.5	52.2
Shorter career: 38 years to SPA			72.5	72.5			48.2	48.2
Deferred exit: 42 years to SPA +2			88.0	88.0			58.5	58.5
Earlier exit: 38 years to SPA -2								
Career break – unemployment: 3 years	88.7	88.7	70.9	70.9	59.0	59.0	47.1	47.1
Career break – childcare: 3 years	94.0	94.0	75.1	75.1	62.5	62.5	49.9	49.9
Career break – care for family dependant: 3 years	94.3	94.3	75.1	75.1	62.7	62.7	49.9	49.9
Short career (20-year career)	60.3	60.3	49.7	49.7	40.1	40.1	33.1	33.1
Work 35 years, disabled 5 years prior to SPA			68.5	68.5			45.6	45.6
Early entry in the labour market: from age 20 to SPA			83.8	83.8			55.7	55.7
Index: 10 years after retirement at SPA			65.4	65.4			43.5	43.5
Extended part-time period for childcare			68.4	68.4			45.5	45.5
Survivor ratio 1*		0.7		0.7				
Survivor ratio 2*		0.6		0.6				
Low earnings (66 %)								
Base case: 40 years up to SPA	98.8	98.9	76.6	76.6	65.7	65.7	50.9	50.9
AWG career length case	103.7	96.9	80.4	76.6	64.5	64.5	50.9	50.9
Career break – unemployment: 3 years	92.9	92.9	72.3	72.3	61.8	61.8	48.0	48.0
Career break – childcare: 3 years	98.8	98.8	90.2	76.6	65.7	65.7	50.9	50.9
Short career (20-year career)	61.8	61.8	50.7	50.7	41.1	41.1	33.7	33.7
Early entry in the labour market: from age 20 to SPA			85.2	85.2			56.6	56.6
High earnings (100->200 %)								
Base case: 40 years up to SPA	68.3	68.3	55.6	55.6	45.4	45.4	37.0	37.0

**Survivor ratio 1: man base case, woman base case*
**Survivor ratio 2: man base case, woman short career case*

IRELAND

Highlights

- In 2022 the aggregate replacement ratio was 34 %, a fall of 4 percentage points since 2019 and among the lowest in the EU. Compared with the national benchmark, pension adequacy had also fallen since 2020.
- The intended rise in the pensionable age (to 67 by 2021 – 68 by 2028) has been reversed and the pensionable age will remain at 66 – however, with the option to defer retirement with actuarial incentives.
- An important change to the social insurance contribution system is the gradual phasing-out of the yearly average method of calculating the state pension (contributory) rate and the introduction of the total contributions approach as the sole method of pension calculation.
- It is planned to implement an automatic enrolment retirement savings system to address the low supplementary pension coverage rate.

1 GENERAL DESCRIPTION OF THE NATIONAL PENSION SYSTEM

The basis of the Irish pension system is a statutory mandatory social insurance pension, the state pension (contributory) (SPC), and a means-tested social assistance pension, the state pension (non-contributory) (SPNC). Currently the pensionable age for these pensions is 66. Legislation provided for the pensionable age to rise to 67 in 2021 and to 68 in 2028. However, after this became an issue in the 2020 general election, the legislation has been repealed and the pensionable age will remain at 66. From 1 January 2024, instead, there will be an option to defer claiming the SPC until age 70 (see Section 2 below).

The SPC is financed on a pay-as-you-go (PAYG) basis through contributions to the Social Insurance Fund (SIF) from employees, employers and the self-employed, with a subvention from general taxation to meet any shortfall in the SIF. The standard rate of contribution is 15.05 % of earnings, 4 % paid by employees and 11.05 % by employers[274]. In the case of the self-employed, the total contribution rate is 4 % of income above a threshold. The SIF covers all benefits. There is thus no separate earmarked fund for the SPC, and the contribution rates are not disaggregated for specific benefits.

Entitlement to the SPC is based on an individual's social insurance contribution record. Recipients of the SPC may continue in employment or self-employment. Currently SPC entitlement requires a minimum number of 10 years of paid contributions. The rate of pension entitlement is calculated using one of two methods, with the pensioner receiving the more

[274] Lower contribution rates for employers and employees apply at low levels of weekly earnings, and below EUR 352 weekly employees (but not employers) are exempt from contributions. The self-employed contribution rate is 4 %, subject to a minimum contribution of EUR 500 p.a. (whichever is the greater), and the self-employed with annual incomes of EUR 5,000 or less are exempt.

advantageous of: (a) a yearly average, which is the number of weekly contributions paid or credited[275], divided by the number of years between entering social insurance and reaching pensionable age, with a yearly average of 48 required for the maximum rate; and (b) the total contributions approach, which simply adds all contributions, paid and credited, to determine the rate. A total of 2,080 weekly contributions (40 years) is required for the maximum rate.

Since 1994, periods of informal care have been included in the calculation of average contributions. Under the yearly average calculation, this is done by dividing the contributions by a lower denominator (total years minus years of informal care work) where this benefited the pensioner. With the introduction of the total contributions approach in 2018, those receiving a pension after 1 September 2012 (who have the minimum 10 years of paid contributions required to qualify for a SPC) can receive up to an additional 20 years of credits for home caring periods, which are added to the contributions total. Planned changes to the calculation of the SPC are discussed in Section 2.

Currently the maximum (personal rate) SPC pension payable is EUR 265.30 weekly; pensioners aged 80+ and/or those living alone receive increases to their weekly pension payments of EUR 10 and EUR 22 respectively[276]. Pensioners also receive an increased pension in respect of a financially dependent spouse or partner. This additional pension is called the increase for a qualified adult (IQA); for qualified adults aged under 66 and over 66 respectively, the IQAs are 67 % and 90 % of the personal rate. The IQA is means-tested (i.e. a reduced rate is applied based on individual means).

The means-tested SPNC is financed out of general taxation and the maximum benefit is EUR 254 weekly – approximately 95 % of the maximum SPC rate. Similar to the SPC, there are additional payments in respect of qualified adults, those aged 80+, and people living alone. Income and the value of capital (excluding the value of the claimant's home) are assessed to estimate a claimant's weekly means. There are disregards in the means test, including for some income and assets.

For those whose spouse is deceased there is a widow's, widower's or surviving civil partner's (contributory) pension based on social insurance contributions available to those under 66 and over 66. There is also a means-tested widow's, widower's or surviving civil partner's (non-contributory) pension available to those under 66 who meet the means test conditions.

The state pension is normally increased annually as part of the budget. In the 2021 budget there was no increase in core weekly rates, but pensioners living alone received a EUR 5 increase in the weekly living alone allowance from January 2021. This allowance was increased in the 2022 budget by EUR 3 (bringing the rate up to EUR 22 per week). Pensions were also increased by EUR 5 from January 2022 (the increase relates to the maximum weekly rate). In the 2023 budget, pensions were increased by EUR 12 per week. The increase

[275] Credited contributions are granted to people with previous employment records who are in receipt of various social protection payments (and in certain other circumstances).

[276] A household benefits package, which assists with the costs of gas, electricity and the TV licence, is also available to some claimants. The free travel scheme allows recipients to travel free of charge on all public transport owned by the state, with some exceptions. Moreover, certain pensioners may also be eligible for other support and payments, such as the fuel allowance and/or telephone support allowance.

from January 2023 was combined with a mixture of exceptional cost-of-living payments. The rate of increase is not explicitly tied to the cost of living or wages.

The SPC maximum personal weekly rate of payment was slightly above the 34 % earnings benchmark from 2008 to 2020[277]. Calculations carried out on the same basis indicate that the SPC rate fell below the 34 % target during 2021-2023, with pension increases generally lower than wage increases. However, during these periods there were a number of one-off payments and double weekly payments that increased the total amount received on an annual basis. (This is discussed further in Section 2, under the response to the rising cost of living.)

Both pension schemes are administered by the Department of Social Protection. In the second quarter of 2023 the total number of recipients of old-age pensions was 496,050 (SPC) and 98,656 (SPNC). A further 124,957 people were in receipt of widows', widowers' and surviving civil partners' contributory pensions, of whom about 21 % were under 65.

Supplementary pension coverage, which includes occupational and personal pensions, is not mandatory and varies considerably. Occupational pensions can be provided on a defined-benefit (DB), defined-contribution (DC), or hybrid (DB/DC) basis. Personal pensions are provided on a DC basis. Private sector pensions are financed on a funded basis. Employer and employee contributions, and the tax relief on the contributions, are accumulated in pension funds, which are mainly managed by insurance and pension companies.

The state provides an incentive for employers, employees, and individuals in the labour force to provide supplementary pensions by allowing tax relief at marginal rates on pension contributions and the investment growth of the fund. Pension benefits are taxed in the same way as other income, although older people benefit from certain tax credits and exemptions and do not pay social insurance contributions on pension income. However, lump-sum payments from pensions are not taxable, subject to certain limits.

Public service occupational pensions, which are mainly mandatory, are almost universally financed on a PAYG basis. Private sector occupational pensions are voluntary for employees, except where they form part of the conditions of employment imposed by the employer, and are usually funded by employer and employee contributions. There is currently no statutory obligation on an employer to set up or contribute to an occupational pension scheme, nor to contribute to a personal retirement savings account (PRSA) where an employee chooses to have one. However, employers that do not have a pension scheme are obliged to facilitate the administration of employees' own contributions to a PRSA.

In relation to pension coverage, the social insurance system is mandatory and encompasses all sectors, full-time and part-time work, and all forms of employment and self-employment. In 2020 there were over 3 million pay-related social insurance (PRSI) contributors, and 88 % of those made contributions in the main social insurance category (class A) or as self-employed workers (class S), thereby building entitlements to the SPC. An annual survey of supplementary pension coverage showed that 66 % of the working population aged 20-69 had supplementary pensions coverage (the survey did not assess the value of the coverage) in 2022[278]. Of those with supplementary coverage, 62 % had DC pensions, 32 % DB pensions,

[277] Pensions Commission (2021), *Benchmarking and Indexation*, Technical Sub-Committee – Working Paper 4.
[278] https://www.cso.ie/en/releasesandpublications/ep/p-pens/pensioncoverage2022/

and 6 % hybrid coverage. Over 7 in 10 (73 %) had occupational pension coverage only (from current or previous employments), 10 % had personal pension coverage only, while 17 % had both occupational and personal pension cover.

2 REFORM TRENDS

A number of reform projects are on the table, mainly related to the pensionable age, pension adequacy, the introduction of a total contributions approach in benefit qualification and calculation, and an auto-enrolment (AE) system to support retirement savings. The planned rise in the pensionable age has been abandoned by the government, and it has been decided that the state pensionable age will remain at 66. After this became a political issue in 2020, the government appointed a Pensions Commission in 2021 to advise on it[279]. The commission reported in 2022 and put forward some options to ensure the financial sustainability of the pension system, involving a higher pensionable age, increased social insurance contributions, and increased state funding of the SIF. It recommended a mix of these measures.

In relation to state pension age, the Pensions Commission recommended an incremental rise of three months each year commencing in 2028, reaching 67 in 2031, with further increases of three months every second year, reaching 68 in 2039[280]. However, this did not prove to be a politically acceptable option and the Joint Oireachtas (Parliamentary) Committee on Social Protection recommended that the pensionable age should not be raised[281]. As a result, in October 2022 the government announced that the pensionable age would remain at 66 and that flexibility would be introduced, so that from January 2024 people would have the option to continue working until 70 in return for a higher pension. Legislation was subsequently approved, and the changes are scheduled to take effect from 1 January 2024. Finally, a roadmap for incremental increases in PRSI rates over time was first announced by the government in September 2022[282] and subsequently approved.

In 2022-2023, in response to the rise in the costs of energy and the cost of living more generally, the government took a number of measures that also applied to pensioners[283]. These included: a EUR 12 per week increase in the maximum weekly rate of all state pensions and proportionate increases for qualified adults and for people receiving a reduced rate of pension (the annual pension increase mentioned above); a one-off autumn cost-of-living double weekly payment; an additional EUR 400 one-off fuel allowance payment to all households receiving the fuel allowance (plus some changes to the fuel allowance qualification conditions for the over-70s to enable additional households to qualify); a one-off EUR 200 payment for pensioners receiving the living alone allowance; and a double

[279] Pensions Commission (2022), *Report of the Commission on Pensions* (https://www.gov.ie/en/publication/6cb6d-report-of-the-commission-on-pensions/). Space does not allow a full discussion of the many recommendations, which are mentioned as relevant below.
[280] Ibid.
[281] Joint Committee on Social Protection (2022), *Response to the Report of the Commission on Pensions*.
[282] https://www.gov.ie/en/press-release/6b939-minister-humphreys-announces-landmark-reform-of-state-pension-system-in-ireland/#:~:text=the%20long%2Dterm%20sustainability%20of,of%20a%20statutory%20actuarial%20review
[283] This is in addition to general measures that applied to the whole population. For further details see: Dingley, O. (2023), *Measures to tackle energy poverty and rising energy prices – Ireland*, European Social Policy Analysis Network, Brussels: European Commission.

Christmas bonus payment (i.e. double weekly payment). Apart from the annual increase and the broadening of eligibility for the fuel allowance, these were all one-off measures.

Moreover, the roadmap for pensions reform for 2018-2023 committed the government to develop proposals to: (a) set a formal benchmark target of 34 % of average earnings for SPC payments; and (b) institute a process whereby future changes in pension rates of payment are explicitly linked to changes in consumer prices and average wages. On this basis, the 'smoothed earnings' approach was developed, linking the pension rate of payment to 34 % of average wages, with a small margin of variation for periods where inflation exceeds earnings growth. As part of state pension reforms announced in September 2022, a further commitment was made by government that '*a smoothed earnings method to calculating a benchmarked/indexed rate of State Pension payments will be introduced as an input to the annual budget process, to be submitted to Government in September each year from 2023*.' The 2024 pension rate of payment is under preparation, based on a smoothed earnings approach, and will be part of the budget discussions.

The 2020 programme for government also included a commitment to introduce a total contributions approach (TCA) for the SPC to replace the yearly averaging system. Under the reformed system, the amount of pension paid would be proportionate to the number of social insurance contributions and/or credits made over a person's working life. Under the new system, the person's lifetime contributions will be more closely reflected in the benefit received. As an interim measure, a TCA approach was introduced in 2018 whereby people who apply for the SPC and do not qualify for the maximum rate of pension under the yearly average approach can be assessed under a TCA method[284]. The interim TCA approach was backdated to apply to pension recipients after September 2012. Since then, all pension applications have been assessed under both the yearly average and TCA methods, with the recipient receiving the better of the two. In late 2023 legislation was passed according to which the TCA approach will be become the sole method of calculating entitlement to the SPC, with the phased abolition of the yearly average method over 10 years starting from January 2025[285].

Finally, the government programme of 2020 contained a commitment to introduce an AE retirement savings system, to address the low proportion of employees with supplementary pensions, particularly in the private sector. The new system would be based on the following principles: a phased roll-out of contributions; matching contributions by employers (eventually 6 % by both employer and employee); a top-up by the state (2 %); a range of retirement savings funds for participants to choose from; and an opt-out facility. The system will be managed by a central processing authority. It is estimated that around 750,000 employees who do not currently have supplementary cover will be included (out of a total working population of 2.6 million in the first quarter of 2023). The Department of Social Protection published design principles for the scheme in 2022[286]. The Heads of the Automatic Enrolment Retirement Savings System Bill were published in 2022 and have been considered

[284] This includes a system whereby up to 20 years of home caring periods can be counted towards the TCA approach for time spent providing full-time care to children under 12 or people aged over 12 who require an increased level of full-time care.
[285] Dáil Éireann Debate, 28 March 2023.
[286] Department of Social Protection (2022), *The Design Principles for Ireland's Automatic Enrolment Retirement Savings System*.

by the Joint Oireachtas Committee on Social Protection, which set out a number of recommendations for amendments. The AE bill should be submitted to parliament in the near future. The enrolment of the first participants is expected to commence in the second half of 2024[287].

During the COVID-19 pandemic people in receipt of the pandemic unemployment payment were granted paid contributions for the period of receipt of the payment, to help them qualify for the SPC. Employees who continued in work and whose employment was supported by the state wage subsidy schemes continued to be covered by social insurance. PRSI did not apply to the wage subsidy and was reduced to 0.5 % on any additional wage payment made by the employer. These were temporary measures that have now ceased.

3 ASSESSMENT OF ADEQUACY

3.1 Current adequacy

A substantial proportion of the income of lower-income pensioners is derived from state pensions. Their level relative to the poverty line therefore has an important impact on adequacy. A key indicator of pension adequacy is the at-risk-of-poverty or social exclusion (AROPE) rate. The AROPE rate for people aged 65+ was 25.7 % in 2022, higher than the EU average and showing a significant increase of 6.6 percentage points (pp) from 2019[288]. The AROPE rate was much higher for women at 30.0 % and increased more in the period under consideration (by 7.3 pp). The at-risk-of-poverty rate (AROP) was similar at 24.9 % (an increase of 6.8 pp)[289]. The AROP rate was much higher for older people than for the general population. The AROP rate at the higher income threshold of 70 % was significantly greater at 38.0 %, indicating the clustering of pensioners at modest levels of income (41.3 % for women). The AROP and AROPE rates in 2022 were even higher for people aged 75+, at 31.3 % and 31.7 % respectively (again, for women the rates were significantly higher, at 39.6 % and 39.9 %).

The severe material and social deprivation (SMSD) rate for people aged 65+ was 3.2 % in 2022, although again the rate for women was higher than that for men. The SMSD rate had fallen slightly for men since 2019 but increased by 0.7 pp for women. Consistent with these data, the relative median income ratio fell slightly to 0.8 in 2022 (0.84 for men and 0.78 for women).

[287] The state has already decided the financial incentives for AE. These will take the form of a top-up on contributions at a rate of EUR 1 from the state for every EUR 3 contributed by the employee, subject to an earnings threshold of EUR 80,000 gross income. This form of financial incentive is more appropriate to the target population of the AE system: analysis from the ESRI estimates that up to 75 % of probable AE participants will be at the standard (20 %) rate of tax or outside the income tax net. The financial incentive for everyone who participates in AE will be equal, as it amounts to a third of the employee contribution regardless of a particular person's tax band. The current tax relief arrangements at the marginal rate provided for current supplementary pension arrangements will remain unchanged following the implementation of AE.

[288] The ESRI states that '*fluctuations* [in the level of AROPE for older people] *are highly dependent on the rate of the state pension*'. See: Sprong S. and Maître B. (2023), *Technical Paper on the Poverty Indicators for Social Inclusion in Ireland,* ESRI.

[289] This should also be seen in the context of an overall national AROP rate (as reported by the Central Statistics Office in Ireland) of 13.1 % in 2022 compared with 19.0 % for people aged 65+. See: https://www.cso.ie/en/releasesandpublications/ep/p-silc/surveyonincomeandlivingconditionssilc2022/poverty/.

The main policy likely to have affected pension adequacy in this period is the level of increase in pension rates. The median aggregate replacement rate (ARR) for 2022 was 34 %, a 4 pp fall on the figure for 2019. This is consistent with the finding in Section 2 that the pension rate fell back compared with average earnings over most of the period. Given Ireland's flat-rate system, the Irish ARR was much lower than the EU average. While the ARR for men was 38 % as in 2019, that for women was 37 %, a fall of 4 pp.

In relation to health and housing data, the level of housing cost overburden was generally lower than the EU average, at 2.1 %, although it increased for women compared with 2019. The self-reported unmet need for medical examination was also lower than the EU average (4.5 %), but had risen for both men and women (perhaps unsurprisingly given the context of the COVID-19 pandemic, which affected the provision of routine medical services). Healthy life expectancy at 65 fell to 12.6 years in 2021 (falling for both men and women) – as did life expectancy at 65, which fell to 20.5 years. Retirement duration from first pension in 2022 was 19.5 years (20.8 for women) a slight fall since 2019. However, retirement duration from end of employment rose to 21.3 years (22.7 for women), an increase of 0.5 years (0.1 for women) since 2019.

3.2 Future adequacy

According to the theoretical replacement rate (TRR) projections, which include supplementary pensions, the replacement rates for the base case (40 years of full-time work until the standard pensionable age) will hardly change at all on a net basis in the next 40 years – for both men and women, from 77.0 % in 2022 to 77.7 % in 2062. In the base case, the gross TRR will decline somewhat for both men and women, from 61.7 % to 59.3 %. For a worker retiring at the national effective exit age – the Ageing Working Group case – the net TRR will again remain broadly similar (82.3 % for both men and women in 2022 versus 82.9 % for men and 81.9 % for women in 2062). However, for a worker with a short career (20 years) the net TRR is much lower in 2022 (58 % for both women and men) and is expected to decline to 54.1 % (again for both women and men) by 2062.

The ESRI carried out a detailed study of the extent to which people approaching the state pension age will have adequate resources in retirement over the period 2022-2027[290]. The study found that relatively few (9 %) of those approaching the state pension age are likely to fall below the official AROP line in retirement using a definition of retirement income that includes pension income and income from financial assets. Non-pension wealth (e.g. second homes and cash savings) played an important role in individuals' financial situations. The study found that people living alone in the years before retirement are at greater risk of having inadequate income in retirement. As noted elsewhere, the introduction of AE is intended to improve pension adequacy for those currently without supplementary cover. However, as these will be DC retirement savings funds, the extent to which AE will improve the adequacy of pensions (at the pay-out stage) cannot be determined.

[290] Space does not allow a summary of the findings. Beirne, K., Nolan, A. and Roantree, B., *Income adequacy in retirement: Evidence from the Irish longitudinal study on ageing*, ESRI (https://www.esri.ie/pubs/RS107.pdf).

3.3 Developments in (in)equalities

Some recent studies have looked at the gender pension gap and the impact of pensions on poverty. The gender pension gap was 30.2 % in 2022, above the EU average and up 2.9 pp since 2019 (in contrast to a narrowing in the period 2010 to 2019). This is broadly consistent with data in other studies. An ESRI study in 2019 found that the average pension income (including supplementary pensions) of retired women was 35 % lower than that of retired men[291]. The Oireachtas Joint Committee on Social Protection reported in 2022 that women tended to receive social protection pension payments that were on average 33 % lower than those received by men, due to a range of factors including historically lower insurance rates[292]. However, the gender gap in the average state pension (contributory) (SPC) payment is less than this figure and decreasing over time, falling from 5.4% in 2019 to 3.8% in 2023. Among those in receipt of the state pension (non-contributory) (SPNC) in 2023, women receive payments that are, on average, 1.72% higher than men.

The Pensions Council has put forward a range of recommendations to reduce the gender gap in supplementary pensions[293]. Among other things, it suggested that long-term carers (defined as caring for more than 20 years) should have access to the SPC by having retrospective contributions paid for them by the Exchequer when approaching pension age for any gaps in their contribution history arising from caring. The contributions would be exclusively for SPC purposes and would be recognised as paid contributions both for the purposes of qualifying for the SPC and for calculating pension rate entitlement under the TCA[294]. Legislation to implement this recommendation was presented to government in July 2023 and is scheduled to be enacted by January 2024.

The Pensions Commission produced a working paper on the impact of state pensions on poverty prevention[295]. It concluded that state pensions have positive impacts on reducing pensioner poverty, across a range of indicators and however poverty is defined. However, consistent with other studies, it found that single-pensioner households (many of whom are women) have higher rates of poverty. The study did not look at the impact of disability, nationality or ethnicity.

The Pensions Commission pointed out that while women remained a minority of those entitled to contributory pension, the proportion of female SPC pensioners had increased from 34 % in 2010 to 40 % in 2022[296]. In addition, the vast majority of those in receipt of widows' or survivors' contributory pensions are women (84 % in the first quarter of 2023). While this demonstrates that the gender pension gap and gender coverage gap among state pensioners is narrowing, the gender gap in non-coverage rate for all pensions, including occupational and personal pensions, was estimated by Eurostat as being 8.4 % in 2022, an increase of 2.1 pp

[291] Nolan, A., Whelan, A., McGuinness, S. and Maître B. (2019), *Gender, Pensions and Income in Retirement,* ESRI. For a review of issues concerning supplementary pensions see: Irish Life (2022), *In search of Pension Parity: Ireland's Gender Pension Gap*.
[292] Joint Committee on Social Protection (2022), *Response to the Report of the Commission on Pensions*, 16.
[293] Pensions Council (2022), *Report on Gender Pension Gap*. The Pensions Council is a permanent agency to advise the Minister for Social Protection on matters relating to policy on pensions.
[294] Report of the Pensions Commission, October 2021.
[295] Pensions Commission (2021), *Poverty Prevention and State Pensions, Technical Sub-Committee – Working Paper 3*.
[296] It increased further to 40.5 % by the first quarter of 2023.

since 2019. The reasons for this increase, based on data related to occupational and personal pensions, are not known.

The Central Statistics Office carries out an annual survey of supplementary pension coverage[297]. This shows that while 66 % of the working population have pensions coverage, this is higher for men (68 %) than for women (65 %)[298]. Workers classified as professionals have the highest pension coverage rate (82 %), compared with just over 4 in 10 (43 %) workers whose occupational group was 'skilled traders'.

An ESRI study of the tax treatment of supplementary pension contributions found that higher-earners benefit more (by 3-4.5 % of disposable income) from tax relief on pension contributions than lower-earners[299]. In contrast, the recent actuarial review of the SIF found that the Irish social insurance system was 'strongly redistributive'.

The income quintile share ratio (S80/S20) for those aged 65+ increased slightly to 3.99 in 2022 (4.2 for men compared with 3.86 for women). There are no data on whether the COVID-19 pandemic, the current inflation and energy crisis, and related policy responses, have had an impact on opportunities to accrue pensions for different socio-economic groups and workers.

4 KEY CHALLENGES AND OPPORTUNITIES

A key challenge is the financial sustainability of the pensions system. The old-age dependency ratio is estimated to rise from 25.6 % in 2022 to 49.7 % by 2059. A recent actuarial review of social insurance[300] estimated that the pensioner support ratio[301] will fall from 4.4 in 2020 to 3.6 by 2030 and to 2.9 by 2040. The decision that the state pension age will not be raised means that one policy option to address this issue and improve the demographic balance of the state pension system is not available. It is not clear whether the option of a flexible pension age (which appears to be intended to operate on a broadly cost-neutral basis) will make any significant difference to financial stability, which would suggest that social insurance contributions and/or budget transfers to the SIF will have to increase very significantly in the next decade[302].

A further challenge is to improve the retirement income for many older people through the AE system[303]. Although AE has the potential to improve adequacy for those enrolled, its

297 https://www.cso.ie/en/releasesandpublications/ep/p-pens/pensioncoverage2022/
298 No data are collected on the value of coverage.
299 There was virtually no impact for the bottom three deciles. See: Doorley, K., Callan, T., Regan, M. and Walsh, J.R. (2018), *The tax treatment of pension contributions in Ireland*, ESRI. See also: Government of Ireland (2020), *Report of the Interdepartmental Pensions Reform and Taxation Group*; and from a gender perspective, Collins, M.L. (2020), 'Private pensions and the gender distribution of fiscal welfare', *Social Policy and Society*, 19(3), 500-516. A government-appointed commission recently set out proposals for tightening up the current system of taxation of pensions: Commission on Taxation and Welfare (2022), *Foundations for the Future,* Chapter 8 (https://www.gov.ie/en/campaigns/92902-commission-on-taxation-and-welfare/).
300 KPMG (2022), *Actuarial Review of the Social Insurance Fund 2020* (https://www.gov.ie/en/publication/99e8d-actuarial-review-of-the-social-insurance-fund-as-at-31st-december-2020/).
301 The number of people of working age to each person of pension age.
302 The Pensions Commission report opined that '*using any one of these policy levers by itself to meet the projected shortfalls in the SIF would require such an extreme change that it would be impractical or impossible to implement*' (p. 138).
303 An empirical analysis of the economic impact of AE based on specific scenarios is given in Bercholz, M., Bergin, A., Callan, T., Rodriguez, A.G. and Keane, C. (2019), 'A micro-macro economic analysis of pension auto-enrolment options',

impact will depend in part on the contribution rates[304] and in part on the structure of the state's financial incentive. In any case, AE is employment-based and it may not be practically possible to eliminate differences in coverage and adequacy. For example, periods of non-employment due to unemployment, illness and migration will affect workers' contributions to their pension scheme[305].

A third challenge is to ensure that the new TCA to the contribution-benefit link does not disadvantage specific groups with lower contribution records[306]. The means-tested SPNC is available to all those who are resident and who do not qualify for the maximum rate of the SPC. The introduction of the policy linking pension rates more closely to contributions paid creates tensions between the objectives of financial sustainability and encouraging employment, on the one hand, and solidarity and pension adequacy, on the other.

ESRI. For a study of the distributional impact of initial pension contributions see: Keane, C., O'Malley, S. and Tuda, D. (2021), *The Distributional Impact of Pension Auto-enrolment*, ESRI.

[304] When fully implemented, the total contribution rate going into participants' AE retirement savings accounts will be 14 %.

[305] The Pensions Council has recommended several modifications to the AE scheme that could help reduce the gender pensions gap: Pensions Council (2022), *Report on Gender Pension Gap*. On the basis of UK experience, it has been suggested that AE alone will not resolve the gendered nature of pensions in Ireland: Foster, L., Wijeratne, D. and Mulligan, E. (2020), 'Gender and proposed auto-enrolment in the Republic of Ireland: lessons from the UK' *Social Policy Administration* 2021;55, pp.143-156.

[306] See Pensions Commission report, p. 98.

5 BACKGROUND STATISTICS

	2022			Change 2019-2022		
5.1. Relative income	Total	Men	Women	Total	Men	Women
Relative median income ratio (65+)	0.80	0.84	0.78	-0.05	-0.04	-0.05
Income quintile share ratio (S80/S20) (65+)	3.99	4.20	3.86	0.19	0.19	0.35
Aggregate replacement ratio (ARR) (65-74) (%; change in pp)	34.0	38.0	37.0	-4.0	0.0	-4.0
5.2. Poverty and material deprivation	2022			Change 2019-2022 (pp)		
	Total	Men	Women	Total	Men	Women
At-risk-of-poverty or social exclusion (AROPE) (65+) (%)	25.7	20.9	30.0	6.6	6.0	7.3
At-risk-of-poverty (AROP) rate (65+) (%)	24.9	20.4	28.8	6.8	5.8	7.6
Severe material and social deprivation (SMSD) rate (65+) (%)	3.2	2.4	3.9	0.3	-0.1	0.7
At-risk-of-poverty or social exclusion (AROPE) rate (75+) (%)	31.7	21.2	39.9	10.2	7.3	12.6
At-risk-of-poverty (AROP) rate (75+) (%)	31.3	20.7	39.6	10.4	7.6	12.8
Severe material and social deprivation (SMSD) rate (75+) (%)	2.5	1.7	3.1	0.5	-0.1	0.9
Relative median at-risk-of-poverty gap (65+) (%)	9.8	9.6	9.8	3.8	3.1	4.3
At-risk-of-poverty (AROP) rate, 65+: 50 % threshold (%)	5.6	4.2	6.8	2.5	1.6	3.3
At-risk-of-poverty (AROP) rate, 65+: 70 % threshold (%)	38.0	34.2	41.3	4.5	4.4	4.6
Material and social deprivation (MSD) rate (65+) (%)	8.2	7.5	8.8	1.7	1.7	1.6
5.3. Gender difference	2022			Change 2019-2022 (pp)		
Gender gap in pension income (65-79) (%)	30.2			2.9		
Gender gap in non-coverage rate (65-79) (pp)	8.4			2.1		
5.4. Housing and health situation	2022			Change 2019-2022		
	Total	Men	Women	Total	Men	Women
Housing cost overburden rate (65+) (%; change in pp)	2.1	1.6	2.4	0.6	-0.5	1.4
Self-reported unmet need for medical exam 65+ (%; change in pp)	4.5	3.2	5.7	2.0	0.4	3.5
Healthy life expectancy (at age 65) (years) (1)	12.6	12.3	13.0	-1.0	-0.8	-1.1
Life expectancy (at age 65) (years) (1)	20.5	19.2	21.8	-0.3	-0.2	-0.3
	2022			2062		
Receiving long-term care cash benefits (65+) (%)	7.6			10.2		
Receiving long-term care in-kind benefits (65+) (%)	10.8			15.0		
5.5 Sustainability and context	2022			Change 2019-2022		
	Total	Men	Women	Total	Men	Women
Employment rate (55-64) (%; change in pp)	66.7	75.1	58.7	4.9	5.2	4.8
Pension expenditure (% GDP; change in pp) (1)	4.0			-0.6		
Retirement duration from first pension (years) (2)	19.5	18.3	20.8	-0.5	-0.3	-0.5
Retirement duration from end employment (years) (3)	21.3	19.9	22.7	0.5	1.0	0.1
Projections (4)	2022			2062		
Old-age dependency ratio (20-64) (%)	25.6	24.5	26.7	49.7	46.3	52.9
Economic old-age dependency ratio (20-64) (%)	30.4	31.6	29.4	59.6	53.9	65.3
Gross public pensions (% GDP)	3.8			6.4		
Benefit ratio (%)	38.5			34.6		
Coverage ratio (65+) (%)	137.8			133.4		
Gross pension ratio high/low earner		1.8	1.8		1.9	1.9

(1) 2021 instead of 2022

(2) Change 2019-2021
(3) Based on the assumptions of the 2024 Ageing Report for the 2023 average exit ages
(4) For the source of each of these six indicators providing projections by 2062, please see 'Indicators, definitions and abbreviations'.

5.6 Theoretical replacement rates

	Net (%)				Gross (%)			
	2022		2062		2022		2062	
	Men	Women	Men	Women	Men	Women	Men	Women
Standard pensionable age (SPA)	**66.0**	**66.0**	**66.0**	**66.0**				
AWG career duration (years)	**44.4**	**44.0**	**44.7**	**44.3**				
Average Earning (100 %)								
Base case: 40 years up to SPA	77.0	77.0	77.7	77.7	61.7	61.7	59.3	59.3
Increased SPA: from age 25 to SPA	78.4	78.4	78.7	78.7	63.0	63.0	60.2	60.2
AWG career length case	82.3	82.3	82.9	81.9	66.8	66.8	64.1	63.1
Longer career: 42 years to SPA			79.8	79.8			61.2	61.2
Shorter career: 38 years to SPA			75.7	75.7			57.4	57.4
Deferred exit: 42 years to SPA +2			82.0	82.0			63.3	63.3
Earlier exit: 38 years to SPA -2			34.6	34.6			24.3	24.3
Career break – unemployment: 3 years	74.6	74.6	75.1	75.1	59.4	59.4	56.9	56.9
Career break – childcare: 3 years	73.7	73.7	76.8	76.8	58.5	58.5	58.5	58.5
Career break – care for family dependant: 3 years	75.4	75.4	75.1	75.1	60.1	60.1	56.9	56.9
Short career (20-year career)	58.0	58.0	54.1	54.1	43.5	43.5	38.2	38.2
Work 35 years, disabled 5 years prior to SPA			67.7	67.7			55.4	55.4
Early entry in the labour market: from age 20 to SPA			84.0	84.0			65.1	65.1
Index: 10 years after retirement at SPA			74.2	74.2			56.0	56.0
Extended part-time period for childcare			74.2	74.2			56.0	56.0
Survivor ratio 1*		0.5		0.5		0.5		0.5
Survivor ratio 2*		0.5		0.5		0.5		0.4
Low earnings (66 %)								
Base case: 40 years up to SPA	90.9	90.9	90.8	90.8	78.1	78.1	75.5	75.5
AWG career length case	95.7	95.7	97.4	94.5	83.2	83.2	82.3	79.4
Career break – unemployment: 3 years	88.8	88.8	88.5	88.5	75.7	75.7	73.1	73.1
Career break – childcare: 3 years	87.9	87.9	90.1	90.1	74.8	74.8	74.7	74.7
Short career (20-year career)	70.5	70.5	66.0	66.0	57.6	57.6	52.3	52.3
Early entry in the labour market: from age 20 to SPA			96.8	96.8			81.4	81.4
High earnings (100->200 %)								
Base case: 40 years up to SPA	54.0	54.0	57.2	57.2	36.5	36.5	36.7	36.7

**Survivor ratio 1: man base case, woman base case*
**Survivor ratio 2: man base case, woman short career case*

ITALY

Highlights

- Despite high pension expenditure, pension adequacy is uneven in Italy: the statutory pension system is effective in ensuring income maintenance for the average pensioner, but pension income inequality is high, protection against poverty has improved but remains limited, and tight eligibility conditions include regressive clauses.
- The wave of pension reforms in 2016-2022 addressed some of these challenges by both reinforcing solidarity elements for better protection against poverty and facilitating early retirement via a plethora of temporary early-retirement options.
- The reform process should be completed by setting durable, sustainable and (especially) equitable eligibility conditions for retirement. This might imply reconsidering the calculation formula in the statutory public system, and the interplay with supplementary pensions, in order to ensure effective income maintenance in old age – including for workers with fragmented/short careers.

1 GENERAL DESCRIPTION OF THE NATIONAL PENSION SYSTEM

Since the 1990s the Italian pension system has been in the midst of an unfinished transition from a traditional structure based on statutory pension schemes toward a more complex architecture including both statutory and supplementary schemes. Since 1992 four waves of reform have implied changes along various dimensions. In the first wave (1992-1997) the overall pension architecture was redesigned by: (a) setting the regulatory framework for the development of supplementary voluntary occupational and personal funded pension schemes; and (b) replacing defined-benefit (DB) with notional defined-contribution (NDC) schemes in the statutory public pay-as-you-go (PAYG) pillar. The second wave (2001-2007) included fine-tuning measures and provisions in relation to supplementary pension coverage. In the third wave (2009-2011) reforms were aimed at reducing expenditure in the short term, mostly by severely tightening eligibility conditions for retirement and linking the pensionable age to demographic changes; the latter measures were partly (and temporarily) reversed by the reforms of the fourth wave (2016-2022), which also strengthened the anti-poverty safety net.

The **public, statutory pension system** managed by the National Social Insurance Institute is multi-tiered. Both the old-age social allowance (*assegno sociale*, formerly social pension) and the new citizenship pension (*pensione di cittadinanza*) constitute the **first tier**. They are anti-poverty, means-tested programmes financed by general revenues, providing flat-rate social assistance benefits to poor older people as identified by national income-test thresholds. Introduced in 2019, the citizenship pension is designed to strengthen the anti-poverty function of the statutory public system. It is a means-tested benefit for all those who have been resident in Italy for at least 10 years, aged 67+, with an annual equivalised income below EUR 9,360.

The monthly benefit amount for a single individual is set at EUR 630, plus EUR 150 as housing benefit[307].

Second-tier PAYG pension schemes represent the main component of the public statutory pillar, covering 100 % of the employed population: private and public employees, the self-employed (including platform workers) and project workers – 'para-subordinate' workers (*parasubordinati* – formally self-employed people who mostly work as employees through collaboration contracts – de facto bogus self-employed)[308]. While in the past these were all DB schemes, since the 1995 reform an NDC system applies to those who entered the labour market after 1 January 1996[309]. For workers with fewer than 18 years of contributions in 1995, the NDC system was applied pro rata (i.e. for working years after 1995)[310].

Since 1992 statutory contributory pensions have been indexed annually to the consumer price index. Full indexation (100 %) is guaranteed for pension amounts up to 4 times the minimum pension (corresponding to EUR 2,100 gross per month), whereas indexation is less generous for higher pension amounts (90 % at 4-5 times the minimum pension, and 75 % at 5 times).

Contribution rates vary from 33 % of gross earnings for private and public employees[311] to 24 % for the self-employed; para-subordinate workers now have the same contribution rate as employees, but in previous years they were subject to a much lower contribution rate (e.g. 10 % in 1996-1998).

Eligibility conditions for old-age and early-retirement pensions, as well as the old-age social allowance, are automatically adjusted to changes in life expectancy every two years, and they have been rapidly tightened in the last decade. While the pensionable age was still 65/60 for men/women respectively in 2010, in 2023 old-age pensions were paid to workers (men and women) aged at least 67, and the next increase is expected after 2026[312]. A minimum contribution period of 20 years is required. Deferred retirement is possible (and incentivised via actuarial calculations) up to age 71[313]. For workers fully included in the NDC system, a further condition applies: retirement before 71 is allowed only in cases where the pension equals at least 1.5 times the old-age social allowance mentioned above – about EUR 750 per month (the first 'pension value threshold').

Full contribution credits are earned for both maternity/paternity and parental leave. In addition, notional contributions are credited – up to a predefined threshold – to unemployed people covered by the main unemployment benefit schemes ('Naspi' and 'Dis-coll') as well as to workers on short-time work schemes.

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307 For the details of other anti-poverty measured adopted in 2016-2019, see: European Commission (2021), *Pension Adequacy Report 2021*: *Volume 2*, Brussels.

308 Only liberal professionals (e.g. lawyers and architects) are not enrolled in public second-tier schemes, since they are compulsorily covered by private pension funds for their respective categories.

309 At retirement, the total contribution amount virtually accumulated in NDC schemes is converted into an annuity through 'transformation coefficients', which ensure actuarial neutrality.

310 Initially, the DB system remained in force for workers with at least 18 years of contributions in 1995 until the 2011 reform also applied the NDC system pro rata (i.e. for working years after 2011) to these previously exempted workers.

311 Contributions were not levied on yearly gross earnings above EUR 113,520 in 2023.

312 In fact, the COVID-19 pandemic has reduced life expectancy in Italy, resulting in a seven-year freezing of the pensionable age. As a result, the decree of the Ministry of Economy and Finance of 18 July 2023 established that, as of 1 January 2025, the pension requirements are not further increased until the next update.

313 Only five years of paid contributions are required at this age.

As for the possibility of retiring prior to reaching the pensionable age, the **early-retirement scheme** (*pensione anticipata*) introduced by the 2011 reform applies different rules to workers subject to the NDC system pro rata (in the short term) and those fully subject to the NDC system in the medium to long run. For the first group, in 2023 retirement was possible after contributing for 42 years and 10 months (men) or 41 years and 10 months (women)[314]. Conversely, workers fully included in the NDC system are allowed to retire at 64, subject to the fulfilment of two conditions: (a) the payment of contributions for at least 20 years; and (b) the pension amount being at least 2.8 times the old-age social allowance (second pension value threshold). In addition to this early-retirement scheme, however, reforms adopted in 2016-2022 have introduced several early-exit options, mainly as temporary pilot programmes (see Section 2). The special rules for **workers in arduous and hazardous jobs** (WAHJ – *lavoratori in mansioni usuranti*) were modified by the 2016 reform. Since 1 January 2017 WAHJ have been allowed to retire prior to reaching the pensionable age provided they have worked as employees in relevant jobs for at least seven out of the previous 10 years before applying for retirement or, alternatively, if they have worked in such jobs for half their careers[315].

Statutory survivor pensions are paid to the closest relatives (wife/husband, children, parents, and brothers/sisters with disabilities) of pensioners/workers who have fulfilled the minimum contributory requirements. Depending on the type and number of beneficiaries, benefit levels vary between 15 % and 100 % of the original pension; they are also reduced according to the beneficiary's income level.

C**ombining** pensions with income from work is fully permitted to workers entitled to statutory DB pensions (except for those retiring with the quota system; see Section 2). Conversely, workers subject to the new NDC system may only combine old-age/early-retirement pensions with income from work if they fulfil at least one of the following conditions: (a) 60/65 years of age for women/men; (b) 40 years of paid contributions; and/or (c) 35 years of paid contributions and 61 years of age.

In addition to public pension provision, private sector employees – and public employees hired after 2000[316] – are entitled to a **severance-payment benefit** (*trattamento di fine rapport* – TFR) when they retire or change their employer[317].

Alongside the reformed and increasingly less generous public statutory schemes (see Section 3), the regulatory framework established in 1993 was aimed at developing voluntary DC supplementary funded schemes, mainly relying on tax incentives and especially the voluntary transfer of the TFR to pension funds. The regulatory framework allowed the setting-up of different types of supplementary pension schemes: (a) 'closed' pension funds (CPFs), which are typical occupational schemes for specific groups of employees established by collective

[314] As an effect of the 2019 reform, the automatic linkage of the contributory years for early retirement to changes in life expectancy is suspended until 31 December 2026.
[315] The reform also suspended (until 2025) the automatic linking of retirement conditions to changes in life expectancy. For details see: Jessoula, M., Pavolini, E. and Strati, F. (2016), *ESPN Thematic Report on Retirement regimes for workers in arduous or hazardous jobs: Italy*, European Social Policy Network, European Commission: Brussels.
[316] Before 2000 public employees were entitled to a similar and more generous severance payment.
[317] The TFR is de facto a deferred wage paid in a lump sum by employers to employees upon termination of the employment contract, and calculated as 6.9 % of workers' gross wages for each year of service. Project workers and obviously the self-employed are not entitled to the TFR.

agreements (second pillar); (b) 'open' pension funds (OPFs), typically personal pension plans; and (c) personal pension plans through life insurance contracts (PIPs). Importantly, since 2007, a 'silent consent' mechanism for the transfer of TFR contributions (6.91 % of gross wage) to funded occupational pension schemes has been operating for private sector employees[318]. Despite attempts to extend funded pension coverage, 30 years after the introduction of supplementary pensions membership of funded schemes is still far from being universal: in December 2022 there were around 9.2 million members of supplementary occupational schemes (3.8 million) and personal pension schemes (5.5 million members of OPFs/PIPs)[319], out of around 23.2 million people employed. Importantly, supplementary pension coverage varies remarkably across economic sectors and occupational categories. While total coverage among employees has reached 36 %, CPF take-up rates[320] are actually very high – between 70 % and 90 % – in core industrial sectors such as energy, chemicals and pharmaceuticals, around 40 % in the large fund for metalworkers (1 million potential members), and extremely low – with figures around 10 % – in retail, tourism, fashion and more generally the service sector. Coverage is also modest among self-employed people – 1.1 million members of personal pension plans out of 5.3 million self-employed people, corresponding to a coverage rate of around 22 % – whereas it is negligible for both non-standard and platform workers.

2 REFORM TRENDS

After two decades of substantial pension retrenchment and the three severe reforms adopted during the economic and sovereign debt crisis (2009-2011), which tightened eligibility conditions in the very short term, after 2016 a novel pension path was inaugurated with the *fourth wave* of reforms (2016-2022). This process was mostly focused on two main challenges.

First, despite the second-highest public pension expenditure in the EU (15.4 % of GDP in 2019, 17.2 % in 2021), the Italian statutory pension benefits continued to be characterised by an uneven distributional profile, leading to relatively high levels of income inequality and poverty rates among pensioners (see Section 3). On this front, the main innovation was the introduction of the citizenship pension in 2019 (Section 1).

Second, the pension debate focused on the negative consequences of implementing the new eligibility requirements in a phase of prolonged economic recession: in fact, despite the continuous increase of employment rates for older workers aged 55-64 – from 34.3 % in 2008 to 55.0 % in 2022 – a steep increase in unemployed people aged 50+ was also registered

[318] In accordance with the silent-consent mechanism, from January 2007 private sector employees have six months – either at the time of first employment or when they get a new job – to decide whether they want to keep the TFR or transfer it to a supplementary pension fund. Should they remain silent, the TFR is paid by default into a supplementary occupational CPF. See Jessoula, M. (2018), 'Pension multi-pillarisation in Italy: actors, "institutional gates" and the "new politics" of funded pensions', *Transfer: European Review of Labour and Research*, No 1/2018.
[319] Data by Covip, *Relazione per l'anno 2022*, June 2023 (www.covip.it).
[320] The take-up rate is calculated as the ratio between the number of workers affiliated to pension funds and potential members, the latter defined in relation to the economic sector covered by the collective agreement / CPF.

(Section 3) – as well as a critical 'old in, young out' effect on the labour market[321]. Against such a backdrop, the reforms adopted since 2020 represented a continuation of those enacted between 2016 and 2019 and they are to be considered a reaction to the cost-containment measures adopted during the Great Recession phase, especially with regard to the maintenance (and modification) of the plethora of early-exit options with relatively strict eligibility conditions and/or narrow definitions of disadvantaged workers[322].

In this context, the 2021 Budget Law (Law No 178/2020) provided funding for a one-year extension (until December 2021) of the 'woman's option' (*Opzione Donna*) – which allowed women to retire at 58 with 35 contributory years if they switched from the 'mixed' (partly earnings-related, partly NDC) pension calculation method to the NDC (which pays lower pensions than the former). Subsequently the woman's option was refinanced until the end of 2022 (2022 Budget, Law No 234/2021), and the 2023 Budget Law (Law No 197/2022[323]) further extended it until December 2023 while substantially tightening eligibility requirements. In fact, in 2023, women aged 60 (previously 59) with 35 years of contributions are eligible only if they are unemployed, care-givers or people with disabilities (minimum 74 % assessed disability). The 2021 Budget Law (Law No 178/2020) also provided funding for a one-year extension (until December 2021) of the social APE (*Anticipo pensionistico*, *Ape Sociale*). The latter was firstly introduced on a trial basis for 2017-2018, allowing some groups of disadvantaged workers[324] with at least 30 years of paid contributions – 36 years for those employed in 15 categories of demanding jobs (*mansioni gravose*) – to exit the labour market up to four years earlier than the standard pensionable age (SPA), through the provision of a state-subsidised allowance of a maximum EUR 1,500 per month. Subsequently the 2022 and the 2023 Budget Laws have further extended the duration of the social APE until 31 December 2023; moreover, the 2022 Budget Law increased from 15 to 23 the categories of workers in demanding jobs and reduced the contributory requirement (from 36 to 32 years) for workers in the construction sector.

The most debated policy option regarded, however, the possible continuation of the early-exit option, the 'quota 100 pension', introduced in 2019 as a temporary measure making it possible to retire before reaching both the legislated pensionable age (67) and the contributory period for early retirement (42 years and 10 months for men, 41 years and 10 months for women), subject to fulfilment of a combined contributory (38 years minimum) and age (62 minimum) requirement (38+62=100). Since quota 100 was projected to expire on 31 December 2021, the 2022 Budget Law established a new quota system for 2022 (i.e. the 'quota 102 pension') allowing people to retire at (minimum) age 64 and (minimum) 38 years of contributions. Subsequently the 2023 Budget Law further tightened the requirements of the quota system by introducing the 'quota 103 pension': until 31 December 2023 retirement is possible from age 62 with at least 41 years of contributions.

[321] See: Boeri, T. and Garibaldi, P. (2017), 'Closing the Retirement Door and the Lump of Labor', paper presented at Espen Moen – Norwegian Business School; and Jessoula, M. (2023), 'Pensioni, che fare? Superare i "miti" previdenziali per affrontare il "trilemma dell'adeguatezza"', *La Rivista delle Politiche Sociali*, No 1/2023.
[322] For details see: European Commission (2021), *Pension Adequacy Report 2021*: *Volume 2*, Brussels; and Jessoula, M. (2017), 'The 2016 Italian pension reform and the issue of equity', *ESPN Flash Report* 2017/12, European Social Policy Network, Brussels: European Commission.
[323] See Raitano, M. (2023), 'Le pensioni nel 2023: le novità introdotte dalla Legge di Bilancio', *Politiche Sociali*, No 1/2023.
[324] These are unemployed people, care-givers and people with 74 % assessed disabilities.

As a response to the inflation spike related to Russia's war of aggression against Ukraine, several measures were adopted by the government to support low-income pensioners. In 2022 Law Decree No 50, then modified by Law Decree No 115, introduced a EUR 200 lump-sum payment – the 'one-time allowance I' (*Indennità una tantum I*) – for several categories including pensioners[325]. Retirees with a personal yearly gross income – net of severance pay, income from the dwelling of residence, and other income sources subject to separate taxation – below EUR 35,000 in 2021 were eligible and received the 'bonus' in July 2022. A second additional lump-sum payment – the 'one-time allowance II' (*Indennità una tantum II*) – was paid to, among others, pensioners with a personal yearly gross income below EUR 20,000 in 2021. The amount was lower (EUR 150) and it was paid in November 2022 under Law Decree No 144.

In the midst of the inflation crisis, pension indexation (for both old-age and social pensions) was substantially modified, although temporarily. First, the difference between the provisional and the ultimate indexation rate[326] of 0.2 percentage points (pp), which should have been disbursed in January 2023, was brought forward to November 2022 by Decree-Law No 115/2022. Second, an additional temporary revaluation of 2 % for pensions lower than a specific threshold (yearly pensions below EUR 35,000) was established for October, November and December (including the 13th monthly instalment) by Decree-Law No 115/2022. Third, an additional revaluation for 2023 and 2024 of pensions equal to or lower than the minimum pensions (EUR 563.74 in 2023) was established by the Budget Law for 2023 (Law No 197/2022). The additional revaluation rate is equal to 1.5 % in 2023 (6.4 % for pensioners aged 75+), and 2.7 % in 2024[327]. As a consequence, the amount of the minimum pension was increased from EUR 525.38 to EUR 572 in 2023 and EUR 576 in 2024 (EUR 600 for those aged 75+ from 2023). All these measures are temporary, and the starting and ending dates are the following: (a) November 2022 for the anticipation of the additional revaluation due in January 2023; (b) October 2022 to December 2022 for the 2 % revaluation; and (c) January 2023 to December 2024 for the additional revaluation of minimum pensions. These measures went in parallel with other changes in the indexation mechanism that penalised retirees receiving mid-to-high pensions[328].

During the COVID-19 pandemic, workers protected through short-time work schemes also earned pension contribution credits, whereas no contributions were credited to self-employed

[325] For details see: Raitano, M. (2023), *Measures to tackle energy poverty and rising energy prices – Italy*, European Social Policy Analysis Network, Brussels: European Commission.

[326] The provisional indexation rate is decided at the end of every year for the following year by a joint decree of the Minister of Economy and Finance and the Minister of Labour and Social affairs in accordance with the variations in the cost of living. A subsequent decree establishes the *ultimate* indexation rate, with the difference disbursed in January of the following year (e.g. in January 2023 for 2022).

[327] The anticipation of the additional revaluation due in January 2023 was a one-off measure. The 2 % revaluation is received with every pension payment in October, November, and December 2022. The revaluation in minimum pensions is received with every pension payment in 2023-2024.

[328] The 2023 Budget Law introduced a mechanism based on pensions amount instead of brackets (i.e. it applies to the entire amount and not only to the portion of the amount in a certain bracket). Moreover, in 2023-2024 full indexation is provided only to pensions up to 4 times the minimum pension (EUR 2,100 gross per month), while benefits up to 5 times the minimum (EUR 2,626) will be revalued at 85 % of the inflation rate. A drastic cut in indexation applies to higher benefits: the indexation rate becomes 53 % for pensions of 5-6 times the minimum (EUR 3,150), 47 % at 6-8 times the minimum (EUR 4,200), 37 % at 8-10 times the minimum (EUR 5,250), and 32 % for benefits above the EUR 5,250 threshold.

who received the various bonuses[329]. Finally, a temporary reduction of contributions levied on employees' income (below certain income thresholds) was established for both 2022 and 2023, which implies a temporary increase in the share of general revenues in pension financing.

3 ASSESSMENT OF ADEQUACY

3.1 Current adequacy

The high level of public pension expenditure, its unbalanced distributional profile, and the tight eligibility conditions for retirement implemented in 2011-2018 prompt three main considerations concerning the adequacy of the Italian pension system.

First, high pension expenditure continues to ensure a high level of income maintenance in old age when average figures are considered. In 2022 the ratio between the median disposable income of older people (aged 65+) and the median disposable income of those aged 18-64 was 98 % in Italy – with a slight reduction of 3 pp from 2019 – against 90 % for the EU[330] average. The aggregate replacement ratio (ARR) was also significantly higher in Italy in 2022 (75 %, up by 2 pp since 2019) than in the EU (58 %) (see Section 5 'Background statistics').

Analysing indicators over time, their variation between 2008 and 2022 makes it possible to grasp the trend in the efficacy of the Italian pension system in ensuring income maintenance in old age. Overall, statutory pensions have become more effective in improving retirees' income conditions compared with younger people – the relative median income ratio increased from 0.89 (2008) to 0.98 (2022) – as well as compared with older workers (aged 50-59) – as shown by the remarkable 22 pp increase in the ARR (from 53 % in 2008 to 75 % in 2019). This is consistent with at least two parallel developments in last decade: first, the limited growth of wages and a severe increase in poverty, especially for those aged 55+, as consequence of the prolonged Great Recession (2008-2014) in Italy and the subsequent COVID-19 pandemic crisis; second, the increase in pension levels, due to the maturation of DB schemes for the self-employed and longer working life duration (from 30.0 years in 2008 to 32.2 in 2022), mostly resulting from higher employment rates for women and older workers.

Second, the pension system design is not particularly effective in protecting against poverty in old age. In fact, despite high expenditure, the Italian at-risk-of-poverty or social exclusion (AROPE) rate for older people (20.0 %) was in line with the EU average (20.2 %) in 2022, and substantially higher than in countries with similar *net* pension expenditure (e.g. 5 pp higher than in France or Austria). Moreover, the Italian at-risk-of-poverty (AROP) rate for those aged 65+ (17.8 % in 2022) was slightly higher than in the EU (17.3 %) and up by 1.6 pp since 2019. Despite such weaknesses, Italy registered a sharp fall in the severe material and social deprivation (SMSD) rate for people aged 65+, from 5.7 % in 2019 to 3.9 % in 2022,

[329] See: Jessoula, M., Pavolini, E., Raitano, M. and Natili, M. (2021), *ESPN Thematic Report: COVID-19 impact on social protection and social inclusion policies – Italy – 2021,* European Social Policy Network, Brussels: European Commission.
[330] EU and EU-27 refer to the current 27 Member States of the European Union.

compared with an EU average of 5.5 %[331]. This trend contrasts with the previous deteriorating tendency since the sovereign debt crisis, also possibly suggesting an impact of reforms targeted at poor pensioners adopted in 2016-2019[332].

Third, as regards the third dimension of adequacy, life expectancy and expected healthy life years at 65 were both higher in Italy than in the EU in 2022 – respectively 20.7 years (versus 19.6 in the EU), and 10.7 years (versus 9.7 in the EU). However, these figures must be considered in a medium-term perspective and especially in light of the changes in eligibility conditions for old-age pensions. In fact the remarkable and extremely rapid increase in pensionable ages – 7 years for women, 2 years for men – and contributory requirements (for early retirement) in 2010-2018 was not matched by an increase in life expectancy: the latter has actually fallen since 2013 (by 0.3 years) and more substantially since 2019 (by 0.7 years). Such opposing trends of working life and life duration are likely to raise concerns related to both retirement duration and the interplay between expected longer working lives, labour market performance and social service coverage. In fact retirement duration has fallen by 0.8 years since 2019. In this respect, the strict and rigid eligibility conditions for old-age pensions may be particularly detrimental for (especially blue-collar) workers with long careers and lower life expectancy. Several studies have actually registered a variation in life expectancy of around 3-5 years as between groups with higher and lower socio-economic status in Italy, thus pointing to the regressive effects implied by tight and rigid eligibility conditions for retirement[333]. Moreover the gap between retirement duration from the first pension (22.1 years) and retirement duration from the end of employment (21.5 years) suggests that for many workers there may be a relatively long period without income from work before reaching retirement. In fact the significant growth in the number of unemployed people aged 50-64 – from around 130,000 in 2007 to 552,800 in 2018, and still at 481,400 in 2022 – respectively corresponding to 2.5 %, 6.6 % and 5.5 % of the active population in the same age bracket and the same years – implies that measures must be taken to improve the absorption capacity of the Italian labour market and tackle the negative side-effects of the first waves of pension reforms. Last but not least, due to the underdevelopment of social care services in Italy, female workers – who, again, experienced a major increase in their pensionable age between 2012 and 2019 – are likely to encounter severe problems in reconciling care duties with a longer working life.

3.2 Future adequacy

If we look at the way theoretical replacement rates (TRRs) are expected to evolve in the long term, we see that they remain comparatively high with only a limited fall in the gross TRR – from 72.6 % in 2022 to 69 % in 2062 – for the base case (i.e. a worker with a 40-year career

[331] AROPE levels are higher for those aged 75+ (20.7 %) than for those aged 65+ (20.0 %), whereas the SMSD rate is slightly lower for those aged 75+ (3.4 % versus 3.9 % in the 65+ age bracket).

[332] See the European Commission (2021), *The Pension Adequacy Report*, Vol. II, Italy country fiche.

[333] See: Jessoula, M. (2023), ‘Pensioni, che fare? Superare i “miti” previdenziali per affrontare il “trilemma dell’adeguatezza”’, in *La Rivista delle Politiche Sociali*, No 1/2023; Ardito, C., Zengarini, N., Leombruni, L., d’Errico, A. and Costa G. (2022), ‘Increasing Inequalities in Mortality by Socioeconomic Position in Italy’, Netspar Academic Series, DP 01/2022- 004; and Ardito, C., Costa, G. and Leombruni, R. (2019), ‘Differenze sociali nella salute ed equità del sistema pensionistico italiano’, in M. Jessoula and M. Raitano (eds), ‘Le pensioni in Italia, oggi e domani?’, Special Issue in *La Rivista delle Politiche Sociali*, 3/2019.

retiring at the SPA). This is due to two main factors: the NDC system substantially rewards long careers and pensions claimed at late ages; and the very high SPA in Italy – among the highest in the EU for both women and men in 2022 (67) and in 2062 (70 years and 1 month). However, gross TRRs decline rapidly in the case of shorter careers, to 65.7 % for people retiring at the SPA with a 38-year career, 60.8 % in case of disability five years prior to reaching the SPA, and 34.7 % for a worker retiring at the SPA after a 20-year career. The challenge is thus how to ensure adequate pension income for individuals with either frequently interrupted careers or who retire prior to reaching the SPA.

Future pension adequacy must be assessed considering: the ‘actuarial neutrality’ principle shaping public statutory NDC schemes and supplementary DC funded pensions; the limited coverage of the latter (versus the universal coverage of statutory schemes; see Section 1); the steep increase in the SPA; and labour market features and performance. Two main challenges can be detected: first, the substantial regressive effects of very high pensionable ages in terms of retirement duration; second, how to ensure adequate pensions for workers with fragmented careers and those who will not be able to match the high age requirement for old-age pensions. National data show that the level of statutory public pensions will remain relatively high for those individuals who retire at the SPA: in 2050 the net replacement rate for those retiring at 69 with 39 years of contribution will be around 75 %. However, this figure declines sharply when considering a slightly shorter career – to 65 % for those retiring at 66 with 36 years of contributions. Importantly, workers with disadvantaged career profiles are typically not members of supplementary pension funds: this severely limits the integrative function of the latter for future retirees receiving modest statutory pensions. Measures introduced during the fourth wave of reforms (2016-2022) should not change the picture considerably since they were mostly geared towards the short term.

3.3 Developments in (in)equalities

As mentioned above, the high pension expenditure in Italy is unevenly distributed: EUR 6.1 billion (2 % of the total) is allocated to pay pensions to 1.8 million retirees with pension incomes below EUR 500 per month, in contrast to EUR 34 billion directed to only 400,000 retirees with incomes above EUR 4,500 per month[334]. Accordingly, indicators reported in Section 5 point to two main dimensions of inequality.

The first dimension concerns inequality in pension incomes. The value of the income quintile share ratio (S80/S20) among those aged 65+ was 5.39 in 2022, among the highest in the EU (EU average: 4.1), revealing that the Italian pension system has only limited effect in reducing the significant income inequality generated in the labour market (the S80/S20 for individuals aged under 65 was 5.71 in 2022). The trend is also dramatically worsening, considering that the old-age S80/S20 ratio in Italy in 2008 was 4.46.

The second dimension regards gender. All indicators show that women are systematically worse off than men in Italy. Although in 2022 the ARRs for both men and women were on the increase and well above the EU average (80 % in Italy versus 60 % in the EU for men;

[334] See Jessoula, M. (2023), ‘Pensioni, che fare? Superare i “miti” previdenziali per affrontare il “trilemma dell’adeguatezza”’, in *La Rivista delle Politiche Sociali*, No 1/2023.

72 % versus 56 % for women), there was an 8 pp gap between men and women in Italy (the same as in 2019) compared with a gap of only 4 pp in the EU. This is consistent with the level of the gender gap in pension income (GGP) (ages 65-79): in 2022 the GGP in Italy was actually significantly above the EU average (32.2 % versus 26.1 %): the reduction since 2019 was however the same as in the EU (by 3.4 pp). In addition the gender gap in the rate of non-coverage narrowed (by 4.2 pp since 2019) although it remained above the EU average (13.5 pp in Italy versus 5.3 pp in the EU). The recent improvement in the relative position of women (which appears in the ARR, GGP and the rate of non-coverage) reflects, on the one hand, the growing female labour market participation in the last two decades and, on the other, the limited increase of wages in Italy especially since the Great Recession (2008-2014). Nevertheless the weaker situation of older women also appears with regard to poverty: in Italy the AROPE rate for women aged 65+ was 22.8 % (versus 16.5 % for men) in 2022 compared with 22.9 % in the EU. In addition both the AROP rate (20.5 % for women, 14.4 % for men) and the SMSD rate (4.2 % for women, 3.4 % for men) were systematically worse for women than for men in Italy[335].

4 KEY CHALLENGES AND OPPORTUNITIES

In the light of the adequacy challenges outlined above, a few considerations can be formulated for both the short and the medium to long term. As to the former, a rigorous evaluation of measures introduced with the three reforms of the fourth wave (2016-2022) is needed to both make a step toward empirically well grounded pension policy-making, and rationalise the plethora of early-retirement options introduced in 2016-2019. In this respect, new eligibility conditions for retirement should be set in order to: (a) put an end to the practice of adopting, year after year, temporary and pilot measures only; and (b) ensure equity by reducing – or eliminating – the regressive impact of the current strict eligibility conditions for retirement.

For the medium to long run – while ensuring economic and financial sustainability – the key challenge is how to (re)design a pension model that can solve the ‘adequacy trilemma’[336]: that is, the effective and equitable combination of: (a) poverty prevention in old age; (b) adequate income maintenance for workers; and (c) sustainable pensionable ages. In fact the current pension architecture, fully shaped around the principles of regulatory homogeneity and actuarial neutrality – both in the NDC statutory system and in DC supplementary pensions (Section 1) – does not seem effective in ensuring adequate and equitable pensions in the future (Section 3). To address these challenges, reforms should ideally follow three main directions. First, the solidarity and redistributive capacity of public statutory schemes should be reinforced in order to reduce penalties for workers with fragmented careers. This requires a more or less incisive revision of the NDC system, which may range from the introduction of a

[335] Such uneven distribution of pension incomes in Italy is at least partly cushioned by the extremely high share of older people living in owned houses – 89.9 %, compared with 79 % for the whole population. Moreover, when assessing pensioners’ income adequacy in Italy, it is also important to outline that the main cash programme for long-term care – the companion allowance (*indennità di accompagnamento*) – is fully universal. See: Jessoula M., Pavolini E., Raitano, M. and Natili, M. (2018), *ESPN Thematic Report on Challenges in long-term care: Italy*, European Social Policy Network, Brussels: European Commission.

[336] Jessoula, M. (2023), ‘Pensioni, che fare? Superare i “miti” previdenziali per affrontare il “trilemma dell’adeguatezza”’, in *La Rivista delle Politiche Sociali*, No 1/2023.

minimum pension guarantee[337] to a fully fledged flat-rate statutory pension or the adoption of a progressive calculation formula. Second, eligibility conditions for old-age pensions should be made flexible, especially within the NDC framework[338]. Third, the role of supplementary funded schemes – currently covering workers already well protected in the statutory schemes – should be thoroughly reconsidered.

[337] Raitano, M. (2017), *Poveri da Giovani, Poveri da Anziani? Prospettive previdenziali e vantaggi della pensione di garanzia*, Social Cohesion Paper 1.2017, OCIS (https://osservatoriocoesionesociale.eu/osservatorio/poveri-da-giovani-poveri-da-anziani-prospettive-previdenziali-e-vantaggi-della-pensione-di-garanzia).

[338] In this reform process, the pension value thresholds (Section 1) – which do not allow workers with expected low pensions to retire either at the SPA or via early-retirement pensions – should be removed (or substantially relaxed). Second, the linking principle, currently translating 100 % of life expectancy gains into higher pensionable ages and contributory requirements, should possibly be better calibrated in order to consider differential life expectancy gains (across the various professional categories) as well as the decade-long reduction of life expectancy. Both these measures might significantly improve the equity and the adequacy profile – with respect to retirement duration – of the Italian pension system.

5 BACKGROUND STATISTICS

	2022			Change 2019-2022		
5.1. Relative income	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**
Relative median income ratio (65+)	0.98	1.00	0.97	-0.03	-0.05	-0.01
Income quintile share ratio (S80/S20) (65+)	5.39	5.37	5.32	0.32	0.30	0.31
Aggregate replacement ratio (ARR) (65-74) (%; change in pp)	75.0	80.0	72.0	2.0	3.0	7.0
	2022			**Change 2019-2022 (pp)**		
5.2. Poverty and material deprivation	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**
At-risk-of-poverty or social exclusion (AROPE) (65+) (%)	20.0	16.5	22.8	0.7	0.8	0.8
At-risk-of-poverty (AROP) rate (65+) (%)	17.8	14.4	20.5	1.6	1.4	1.8
Severe material and social deprivation (SMSD) rate (65+) (%)	3.9	3.4	4.2	-1.8	-1.1	-2.5
At-risk-of-poverty or social exclusion (AROPE) rate (75+) (%)	20.7	16.8	23.4	-0.3	-0.1	-0.3
At-risk-of-poverty (AROP) rate (75+) (%)	18.9	15.0	21.5	1.6	1.4	1.8
Severe material and social deprivation (SMSD) rate (75+) (%)	3.4	3.1	3.6	-3.0	-2.1	-3.5
Relative median at-risk-of-poverty gap (65+) (%)	20.5	20.1	20.7	2.2	0.7	2.9
At-risk-of-poverty (AROP) rate, 65+: 50 % threshold (%)	10.3	8.0	12.1	1.6	0.6	2.5
At-risk-of-poverty (AROP) rate, 65+: 70 % threshold (%)	25.7	22.0	28.7	1.9	1.7	2.1
Material and social deprivation (MSD) rate (65+) (%)	8.6	8.1	9.0	-3.0	-1.4	-4.1
5.3. Gender difference	**2022**			**Change 2019-2022 (pp)**		
Gender gap in pension income (65-79) (%)	32.2			-3.4		
Gender gap in non-coverage rate (65-79) (pp)	13.5			-4.2		
	2022			**Change 2019-2022**		
5.4. Housing and health situation	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**
Housing cost overburden rate (65+) (%; change in pp)	6.0	3.9	7.6	0.6	0.3	0.8
Self-reported unmet need for medical exam 65+ (%; change in pp)	2.7	2.1	3.2	-0.5	-0.5	-0.4
Healthy life expectancy (at age 65) (years) (1)	10.7	10.8	10.7	0.3	0.2	0.5
Life expectancy (at age 65) (years)	20.7	19.2	22.1	-0.7	-0.5	-0.8
	2022			**2062**		
Receiving long-term care cash benefits (65+) (%)	10.0			12.7		
Receiving long-term care in-kind benefits (65+) (%)	7.9			10.3		
	2022			**Change 2019-2022**		
5.5 Sustainability and context	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**
Employment rate (55-64) (%; change in pp)	55.0	65.3	45.2	0.7	0.7	0.6
Pension expenditure (% GDP; change in pp) (1)	17.2			0.7		
Retirement duration from first pension (years)	22.1	20.9	23.0	-0.8	-0.2	-1.3
Retirement duration from end employment (years) (2)	21.5	20.2	22.6	0.5	0.7	0.4
Projections (3)	**2022**			**2062**		
Old-age dependency ratio (20-64) (%)	40.6	35.6	45.6	65.8	57.0	75.4
Economic old-age dependency ratio (20-64) (%)	60.0	62.9	58.0	81.2	86.8	77.1
Gross public pensions (% GDP)	15.6			13.6		
Benefit ratio (%)	69.3			53.4		
Coverage ratio (65+) (%)	104.5			88.6		
Gross pension ratio high/low earner		1.9	1.9		1.9	1.9

(1) 2021 instead of 2022
(2) Based on the assumptions of the 2024 Ageing Report for the 2023 average exit ages
(3) For the source of each of these six indicators providing projections by 2062, please see 'Indicators, definitions and abbreviations'.

5.6 Theoretical replacement rates	Net (%)				Gross (%)			
	2022		2062		2022		2062	
	Men	Women	Men	Women	Men	Women	Men	Women
Standard pensionable age (SPA)	**67.0**	**67.0**	**70.1**	**70.1**				
AWG career duration (years)	**40.4**	**38.6**	**44.2**	**42.2**				
Average Earning (100 %)								
Base case: 40 years up to SPA	80.6	80.6	76.4	76.4	72.6	72.6	69.0	69.0
Increased SPA: from age 25 to SPA	84.9	84.9	84.6	84.6	76.4	76.4	76.5	76.5
AWG career length case	82.9	78.8	86.4	82.3	74.5	70.6	78.2	74.4
Longer career: 42 years to SPA			79.9	79.9			72.1	72.1
Shorter career: 38 years to SPA			72.9	72.9			65.7	65.7
Deferred exit: 42 years to SPA +2			82.4	82.4			74.5	74.5
Earlier exit: 38 years to SPA -2								
Career break – unemployment: 3 years	76.4	76.4	74.6	74.6	68.7	68.7	67.3	67.3
Career break – childcare: 3 years	78.5	78.5	74.5	74.5	70.6	70.6	67.2	67.2
Career break – care for family dependant: 3 years	78.8	78.8	74.5	74.5	70.9	70.9	67.2	67.2
Short career (20-year career)	54.4	54.4	51.1	51.1	36.5	36.5	34.7	34.7
Work 35 years, disabled 5 years prior to SPA			67.6	67.6			60.8	60.8
Early entry in the labour market: from age 20 to SPA			95.1	95.1			86.2	86.2
Index: 10 years after retirement at SPA			67.5	67.5			60.7	60.7
Extended part-time period for childcare			68.5	68.5			61.6	61.6
Survivor ratio 1*		0.7		0.8		0.7		0.8
Survivor ratio 2*		0.7		0.7		0.7		0.7
Low earnings (66 %)								
Base case: 40 years up to SPA	106.5	106.5	98.9	98.9	72.6	72.6	69.0	69.0
AWG career length case	109.3	103.7	114.0	108.5	74.5	70.6	78.2	74.4
Career break – unemployment: 3 years	100.8	100.8	98.2	98.2	68.7	68.7	67.3	67.3
Career break – childcare: 3 years	103.7	103.7	98.1	98.1	70.6	70.6	67.2	67.2
Short career (20-year career)	53.5	53.5	53.7	53.7	36.5	36.5	36.8	36.8
Early entry in the labour market: from age 20 to SPA			95.0	95.0			86.2	86.2
High earnings (100->200 %)								
Base case: 40 years up to SPA	67.9	67.9	61.6	61.6	58.2	58.2	51.9	51.9

**Survivor ratio 1: man base case, woman base case*
**Survivor ratio 2: man base case, woman short career case*

LATVIA

Highlights

- Among older people, the at-risk-of-poverty or social exclusion rate in Latvia has fallen in recent years, but remains the third-highest in the EU-27. The poverty gap is not shrinking. The income replacement rate is one of the lowest in the EU and projected to remain so in the long run.
- Between 2020 and 2023 significant improvements were made to the Latvian pension system. In particular, the minimum income reform was implemented, including an increase in minimum statutory pensions and their linkage to the median income. Social protection standards for self-employed and non-standard workers were improved through the introduction of a minimum contribution base.
- The redistributive elements in the system remain comparatively limited; individual accounts for pension capital accumulation are used both in the funded and pay-as-you-go schemes, and the announced enhancement of non-contributory elements has been suspended.

1 GENERAL DESCRIPTION OF THE NATIONAL PENSION SYSTEM

The old-age pension system consists of a statutory notional defined-contribution (NDC) scheme, a mandatory statutory funded defined-contribution (FDC) scheme, and voluntary supplementary pensions (funded by both private people and employers).

Both employees and the self-employed are socially insured. The total base rate of social contributions for employees (34.09 % of gross salary) is split between the employer and the employee (23.59 % and 10.5 % respectively); within this total rate, contributions are split between several insurance types. The share of pension insurance made up 24.5 percentage points (pp) in 2020, and 23.91 pp in 2021-2023; 20 pp out of those are registered on individual pension accounts (14 pp goes to the NDC and 6 pp to the FDC), while the remaining 3.91 pp are directed to the non-individualised pay-as-you-go (PAYG) pension budget. Old-age pensions are included in state social insurance for all categories of employees with no exclusions. The level of social protection coverage for non-standard workers does not primarily depend on their type of contract but on the contribution base.

The self-employed pay social contributions on the contribution base declared by the self-employed themselves. Those with earnings above the minimum may choose what part of their income to insure: the minimum only, the entire income or some freely chosen intermediate amount. The absolute majority opt for paying the minimum social contributions. Starting from July 2021, the difference between the part of the income chosen as the contribution base and the entire income is subject to 10 % social contributions (registered as pension insurance). The same rate is applied to the monthly incomes below the statutory minimum base. The state also covers contributions for people taking care of a child aged under 1½, and recipients of maternity/paternity benefits, unemployment and sickness benefits[339].

The minimum pension amount depends on the length of the insurance record, and starting from July 2023 is linked to the median equivalised income (see Section 2). As of July 2023 the statutory minimum is set at EUR 172.70 per month for those having 15 years of service, and increases by EUR 3.14 for each subsequent year (i.e. to those with 20 years of service it is set at EUR 188.40; 30 years – EUR 219.80; 40 years – EUR 251.20, etc). Older people with insurance records of fewer than 15 years are eligible only for the state social security old-age allowance amounting to EUR 125 per month, financed from the general tax budget.

Pensions (except for the state social security old-age allowances linked to median income developments) are subject to annual indexation, based on price inflation and changes in the nationwide wage bill; a longer period of service (30 years or more) increases the indexation coefficient. Only pensions lower than 50 % of the average insured wage are indexed in full, while for the pensions above this threshold only part of the benefit is indexed.

The amount of the individual pension from the statutory PAYG scheme is determined by lifetime contributions paid into the NDC scheme since 1996, thus accumulating the individual's notional pension capital. For years of service prior to 1996, notional capital is calculated on the basis of the wage in 1996-1999 (the minimum basis is set at the level of the national average wage during this period for those with at least a 30-year insurance record, and at 40 % of the average wage for those with a shorter insurance record[340]).

To calculate the individual amount of annuity at retirement, the individual pension capital is divided by the gender-neutral average life expectancy at the age when the pension is claimed (the 'G-factor'). In this manner, the Latvian pension formula automatically links the amount of the assigned pensions to longevity changes. The notional pension capital is annually revalorised based on the national wage bill growth, meaning it is affected by the size of the labour force (fewer working people means a lower revalorisation). Pension entitlements are thus affected by demographic changes twice: through revalorisation of pension rights during accrual and through benefit calculation upon claiming a pension. In 2020 and 2021 there was a fall in life expectancy due to higher mortality linked to the COVID-19 pandemic: life expectancy at age 64 fell from 17.97 years in 2019 to 17.37 in 2020 and further to 16.18 in 2021, which meant a more favourable formula for pensioners retiring in 2022 and 2023 respectively[341].

Before 2012 all pensioners received a monthly supplement for each year of pre-reform service. Those who have retired since 2012 do not receive this supplement[342], while those who had retired prior to 2012 have continued to receive it. The supplement is annually indexed together with pensions. In July 2023 the monthly supplement was EUR 1.43 per year of

[339] Since 2020, the contributions paid by the state have been directed only to the NDC, without a split between the NDC and FDC.
[340] In 2022, 48 % of all newly granted pensions were calculated using this rule.
[341] Thus, a person with the same amount of the accumulated notional capital retiring in 2023 gets an 11 % higher pension benefit than a person who retired in 2021 (the G-factor in the pension formula comes with a two-year lag).
[342] A supplement to the old-age pension after 2012 is granted if the old-age pension is granted instead of a disability pension and if prior to 2012 the supplement to the disability pension was granted.

service (EUR 2.14 for those who retired before 1996). As of March 2023, 62.3 % of pensioners received the supplements.

The pensionable age is being gradually raised from 62 to 65 by 2025 by three months every year (starting from 2014). In 2023 it is 64 years and 6 months for both men and women. The minimum insurance period to qualify for an old-age pension is 15 years (from 2025 it will be raised to 20 years). Early retirement is possible two years before the statutory pensionable age, provided the applicant has a minimum 30-year insurance record. During early retirement the pension is paid at 50 % of the calculated amount, and upon reaching the statutory age the pension is paid in full. Early retirement is more widespread among women: 15.9 % of newly granted old-age pensions for women in 2022 were early, compared with 11.8 % for men. The average pension age[343] rose from 62.78 (men) and 62.70 (women) in 2019 to 63.71 (men) and 63.64 (women) in 2022. Pensioners, except early retirees, may combine a full pension with income from work, which also gives an entitlement to a periodic recalculation of pension benefits.

The statutory funded DC scheme was launched in 2001. It is mandatory for those born after 1 July 1971. Those born between 1 July 1951 and 30 June 1971 had the right to join the scheme voluntarily, and practically all of them have exercised this right. On 31 December 2022 the statutory funded pension plans counted 1.3 million members[344] and the total worth of assets was around EUR 5.7 billion. At the same time a significant proportion of the members (31 %) are inactive (i.e. have not made a single payment into the scheme throughout a year); non-active participants are mostly those who emigrated to other countries. At the time of retirement the accumulated capital can be converted into an annuity either by adding it to the PAYG notional capital or by purchasing a life annuity from a private insurance company.

In addition, any private person and employer can make voluntary contributions to a private pension fund – seven funds offer 20 pension plans in total. The plans are predominantly financed from own contributions (in 2022, 84 % of the contributions were made by individuals) and covered 384,300 members in December 2022 (40 % of the economically active population), but only 50.1 % of them had made at least one contribution in the previous year; and the accumulated assets equalled EUR 679 million (less than one eighth of the assets in the statutory funded scheme).

In Latvia widow(er)s are not entitled to a survivor pension, but are eligible for a short-term allowance equal to 50 % of the deceased's pension payable for 12 months.

2 REFORM TRENDS

During the period under examination (July 2020 to June 2023), considerable steps were taken to improve the adequacy of the pension system in Latvia. These measures concern: (a) changes in the arrangements for social contributions for future pensions; (b) changes in

[343] The average age at which people claim an old-age pension. However, many pensioners continue to work and combine pension and work income. The effective retirement age (i.e. the age of complete withdrawal from the labour force) is considerably higher: in 2020, in Latvia, it was 66.3 for men and 64.5 for women (OECD statistics on average effective age of retirement).

[344] This is more than 100 % of the workforce (the economically active population equalled 951,300 in 2022), as many of the participants have emigrated but the accumulations on their pension accounts remain in the scheme.

minimum income schemes, including minimum pensions; and (c) improved adequacy of the statutory funded pension scheme.

The main innovation in the field of pension contributions came into force on 1 July 2021: this was the introduction of the minimum social contribution base, which was set equal to the statutory minimum wage. The new regulation was designed to increase the contribution base, and thus accrued pension rights and the rights in other social insurance schemes. Data from the State Revenue Service suggested that these changes could affect at least 20 % of the economically active population, namely those whose official income is below the minimum wage, most of them (more than 65 %) being employed under the general tax regime on part-time contracts. It also affects micro-enterprise workers, by transferring most of them to the standard tax regime with standard social contribution rates.

In addition, pension contributions were raised for the self-employed: starting from July 2021, the difference between the part of the income chosen as the contribution base and the entire income is subject to 10 % social contributions (registered as pension insurance). The same rate is also applied to the monthly incomes under the statutory minimum (instead of the 5 % applied previously). This measure will contribute to better social protection for the self-employed.

In the statutory PAYG scheme, the most important change relates to the reform of the minimum pension regulation. The reform was implemented in two rounds: firstly, minima were raised in January 2021, but no clear procedure for their regular uprating was established at that time. Secondly, from July 2023 the minima were tied to the median equivalised income. Pension amounts are then indexed on 1 October, meaning two reviews per year.

From 2021 the minimum pension amount has been also tied more closely to the length of service (previously not every year of service was counted, but only decades). The starting point ('base') for the minimum pension is one quarter of the median income[345]. For those having a minimum qualifying period (15 years), the minimum pension is 110 % of the base, and each subsequent year of service brings an additional 2 % of the base. Together with the increase in the sums, the previous unfair treatment of people with different service records was thereby corrected. The new rules applied not only to the newly assigned pensions but also to all pensions in payment. After recalculation, 16 % of all old-age pensions turned out to be minimum pensions; among newly assigned pensions, 15.4 % were minimum ones in 2021 and in 2022.

The state social security old-age allowance (social assistance benefit), which is paid to older people falling short of the required insurance record (in December 2022 they made up 0.61 % of all old-age pensioners), was also raised in 2021 from EUR 64.03 to EUR 109 per month (20 % of the median income). From July 2023 it was increased to EUR 125 and has become subject to annual uprating. The number of beneficiaries was 65 % higher in December 2022 than in December 2019; 40 % of the recipients were women.

[345] The median equivalised income is calculated using the country-specific scale (1 : 0.7 : 0.7) and is taken into the formula with a two-year lag: that is, the median income as observed in 2019 was used for defining minimum pensions in 2021; that for 2021 will be used in 2023 (starting from 1 July 2023); that for 2022 will be used in 2024, etc.

In addition, a change in pension indexation rules was made in June 2023. Anticipating that the real growth in wages in the preceding year would be negative (i.e. prices growing more quickly than the total wage bill), the government amended the formula so that in such a case wage growth is not included in the formula (as otherwise indexation would have fallen short of inflation). In view of the shrinking working-age population in Latvia, such situations may occur rather regularly in future, even in years when the inflation rate is not particularly high.

There were changes in the statutory funded scheme regulations concerning both the pay-in and pay-out stages. In Latvia such schemes offer three types of pension plans: active, balanced and conservative[346]. The total number of plans grew rapidly as restrictions on the permitted share of stocks in the investment portfolio of active plans were eased from 50 % to 75 % in 2020 and further to 100 % in 2021. Up to 2021, newly registered scheme participants were automatically assigned to a randomly selected conservative plan. In 2022 the default pension plan for newly registered scheme participants was changed from conservative to active, with the permitted share of stocks set at 50 %. Starting from 2023, newly registered participants under 55 are by default assigned to a randomly selected active plan, with the permitted share of stocks at 100 %, and participants over 55 to a randomly selected balanced plan, thus following a life-cycle investment strategy recommended by the OECD[347]. Such an approach is better tailored to the situation in Latvia, as more than half of newly registered participants do not make any choice of their own and remain in the default pension plan[348].

From 2023 the regulation of the pay-out phase of the statutory funded pension has been changed, setting an equal life-annuity monthly amount (*mūža pensija*) for the whole period of retirement (previously it was possible to divide it into three sub-periods with different payments). The previous regulation resulted in extremely low levels of life annuities during the last sub-period, undermining the adequacy of pensions for the oldest pensioners[349].

With regard to the pension rights acquired during the COVID-19 lockdowns, workers and self-employed people in those enterprises that were closed down completely (such as catering and hotels) received furlough allowances for which no social contributions were paid. Consequently, although this period is included in their insurance record, they did not acquire any pension capital for that time. This is also true for the beneficiaries of the unemployment assistance benefit. In the case of enterprises that did not close down completely but switched to part-time work and received furlough support, social contributions were paid on full wages, and such employees did not lose any of their pension rights.

Additional allowances for pensioners were introduced to compensate for rising energy prices during the heating season: a monthly allowance (EUR 20) for all pensioners (not means-tested) from November 2021 to April 2022; and a monthly allowance (EUR 10, 20 or 30) for those

[346] Conservative pension plans may not invest in stocks (i.e. companies' shares), but only in bonds and treasury bills; balanced plans may invest not more than 25 % of their assets in stocks; and active plans may invest most of their assets in stocks.
[347] OECD (2022), *Recommendation of the Council for the Good Design of Defined Contribution Pension Plans*, OECD/LEGAL/0467 (https://legalinstruments.oecd.org/en/instruments/OECD-LEGAL-0467%20).
[348] According to the State Social Insurance Agency, in 2020, 56 % of the scheme participants registered in that year were members of conservative pension plans at the end of the year.
[349] Rajevska, O. and Veretjanovs, V. (2022), 'The impact of the mandatory funded pension pillar on income inequality among seniors in Latvia', in: B. Rivža (ed), *The Strength of Latvia for the Long-term Development*, Latvian Academy of Sciences / Latvia University of Life Science and Technologies, pp. 193-200.

whose pensions did not exceed EUR 603 (approximately three quarters of all pensioners) from November 2022 to May 2023.

Annual pension indexation normally takes place on 1 October. However, in 2022, in view of the double-digit inflation, pensions were indexed on 1 August as a contingency measure, thus enabling pensioners to receive an increased benefit for two months longer.

In 2021 and 2022 the welfare ministry presented new ideas on income safeguards in the Latvian pension system (non-contributory basic pension or pension supplements based on years of service), but at that time the proposals were not supported by the government. However, in 2023 the ministry reaffirmed the intention to gradually widen the range of beneficiaries of pension supplements starting from 2024, financed from the general budget. The ministry has also drafted amendments that will allow funded-scheme participants to transfer their accumulated assets to the PAYG scheme five years before retirement age, to protect them from financial market fluctuations. The draft has been criticised by pension fund managers.

3 ASSESSMENT OF ADEQUACY

3.1 Current adequacy

The at-risk-of-poverty or social exclusion (AROPE) rate of older people fell considerably between 2019 and 2022: by 8.2 pp, from 50.8 % to 42.6 %, for people aged 65+; and by 4.5 pp, from 59.6 % to 55.1 %, for people aged 75+. This was the result of a drop in the at-risk-of-poverty (AROP) rate (7.4 pp for those aged 65+ and 3.6 pp for those aged 75+), probably attributable to the rise in the statutory minimum pension and one-off lump-sum benefit paid out to all pensioners in April 2021. In 2022 the depth of poverty among people AROP, as measured by the relative median AROP gap, was 25.7 % (the second-highest in the EU), a percentage almost identical to the 2019 figure. The share of older people living in households where total housing costs represented more than 40 % of total disposable household income was well below the EU average in 2022, at 6.7 % (EU-27: 10.7 %).

The relative median income ratio (among those aged 65+) was among the lowest in the EU in 2022: 0.64 compared with 0.90. The aggregate replacement ratio (ARR) in Latvia remained very low in 2022 (42 % as opposed to 58 % in the EU), especially taking into account the low reference earnings of workers aged 50-59[350]. The choice of the reference year can make a significant difference when observing medium-term trends: the highest ARR in the last decade was observed in 2013 (47 %), then gradually going down to 38 % in 2019, then increasing to 42 % in 2020 and remaining stable in 2021 and 2022. The improvement may be attributable to the increase in the statutory minima.

A very sensitive topic for Latvia is the health status of older people: healthy life years at age 65 are less than half the EU average: 4.8 in Latvia compared with 9.7 in the EU; during 2019-2021 this indicator improved slightly for Latvian women (from 4.8 to 5 years) but worsened

[350] The age group with the highest earnings in Latvia is 30-39. Starting from age 40, and especially after 50, wages are lower. (Central Statistical Bureau of Latvia, DSS260: Average gross monthly earnings by age group.)

for men (from 4.5 to 4.4 years). On self-reported unmet need for medical care (among those aged 65+), Latvia again was among the outliers in 2022, with 14.9 % versus 5.4 % in the EU. During 2019-2022 this share increased by 4.2 pp, mainly due to waiting lists becoming longer and some medical services being temporarily unavailable during the pandemic.

3.2 Future adequacy

Net theoretical replacement rates (TRRs) are expected to fall considerably between 2022 and 2062: from 60.2 % to 46.3 % for the base case scenario for an average-income earner. For the low-income earner base case scenario, the fall will be even steeper (from 71.1 % to 44.6 %). Low indexation reduces further the net TRR (to 42.7 %) 10 years after retirement for an average-income earner. At the same time, pensions benefits will also depend on the financial markets at the time of retiring and on the individual choice of a pension fund[351]. Virtually no scenario other than starting work at 20 and not being interrupted by unemployment and/or family circumstances produces a net TRR higher than 50 %. For low-income earners, all rates are lower than for average-income earners, pointing to limited redistribution mechanisms.

3.3 Developments in (in)equalities

Income inequality among those aged 65+ in Latvia remained among the highest in the EU in 2022, the S80/S20 income quintile ratio among those aged 65+ being 5.26 as compared with 4.10 on average in the EU. Pensions are not capped in Latvia. Income differentiation is more pronounced among men (5.27) than women (5.04). Recent reforms to minimum pensions have partially reduced inequality by increasing incomes in the bottom quintile; but at least for now their effect on income inequality is barely perceptible (the S80/S20 ratio in 2021 was 5.65, and in 2022 it was 5.26).

The Ministry of Welfare, while drafting the minimum income reform, commissioned the Latvian Bank to make distributional impact assessment projections using CGE-EUROMOD simulations. However, pensioners as a separate group are not mentioned in the conclusions regarding the reduction of inequality, which concern the whole population. It is only mentioned that the projected reduction in the AROP rate among pensioners is minimal, as their incomes are concentrated in the third decile, which would not be affected by the new regulation[352].

Gender differences in Latvia were less pronounced than on average in the EU: the gender gap in pension income (for ages 65-79) was 13.4 % compared with 26.1 % in the EU-27. According to registry data, in 2019-2022 the average female pension was 11-12 % lower than the average male pension. At the same time the difference in newly assigned pensions is much smaller, at just 4-6 %. This gap tends to expand at a later stage of retirement, and there can be different reasons for this. Male pensioners continue to work after statutory retirement more often than women: in December 2022, 19.4 % of old-age pensioners remained in employment

[351] Whereas statutory funded schemes accounted for 8 % of total TRR in 2022, they will be responsible for 38 % in 2062.
[352] Cabinet Regulation No 657 (17 September 2021), *On the Plan for the Development of the Minimum Income Support System 2022-2024* (https://likumi.lv/ta/id/326208).

(17.0 % among women and 24.1 % among men)[353]. Postponing retirement not only provides additional income from work but also allows pension benefits to recalculated once a year in line with newly paid social contributions. In addition, the annual indexation of pensions does not fully compensate for the rising cost of living, and since women live much longer than men (in 2022 the difference in life expectancy at 65 was 4.9 years in favour of women) and spend more years in retirement (retirement duration from first pension receipt among women was 5.0 years longer than among men in 2022), their pensions have time to depreciate much more than men's pensions. There is a strong gender difference in terms of poverty risk for those aged 65+, with an AROP rate of 45.6 % for women as against 30.2 % for men, making a gap of 15.4 pp. The gap is even wider for the 75+ age group: 22 pp (59.3 % and 37.3 % respectively). The gender gap in coverage is negligible (-0.2 %).

4 KEY CHALLENGES AND OPPORTUNITIES

As the NDC pension system has relatively few intra-cohort redistribution mechanisms against the background of high income inequality, its poverty-prevention capacity could be improved, including by increasing the contribution of the state budget. Despite significant improvements in legislation on minimum pensions, their amounts are still low and AROP rates among pensioners have fallen only slightly. Other options to increase the redistributive capacity of the system may include, for example, the introduction (or, rather, reintroduction) of non-contributory components in the pension formula, or a progressive increase in the contribution rates for old-age pensions[354]. The existence of numerous ‘service pension schemes’ based on a fundamentally different principle (defined benefits) has been widely criticised, including by the State Audit Office[355]; however, no changes have taken place so far. Finally, as a large share of future pensions will depend on the FDC scheme (one third of all future pensions), the performance of this scheme is also important.

Many of recommendations suggested in the OECD review of the Latvian pension system in 2018[356] remain valid, including, among other things, incorporating service pensions into the general scheme, linking pensionable age to life expectancy, and enhancing risk-sharing between asset managers and participants in the NDC scheme.

The provision of effective social safety nets and targeted social benefits and services for older people at local level could be also further improved.

[353] State Social Insurance Agency, LabIS.
[354] Setting caps on pensions would on the contrary have a limited redistributive impact, as only 3 % of pensioners receive pensions that are above the average contribution wage in Latvia.
[355] State Audit Office (2017), *Revīzijas ziņojums: ‘Vai valsts politika pensiju sistēmas ilgtspējas nodrošināšanai ir efektīva?’* [Audit report: ‘Are public policies effective in ensuring the sustainability of the pension system?’] (https://bit.ly/46ntOM4); State Audit Office (2020), *Izdienas pensijas: iespējams, nepanesams slogs valsts budžetam nākotnē* [Service pensions: a potentially unbearable burden on the future state budget] (https://bit.ly/3sFzOlE); and State Audit Office (2022), *Latvijas izmeklēšanas iestāžu sistēmā var un vajag veikt izmaiņas, lai noziedzīgus nodarījumus izmeklētu efektīvāk* [The system of Latvian investigative bodies can and should be reformed to investigate crimes more effectively] (https://bit.ly/3G72HdD).
[356] OECD (2018), *OECD Reviews of Pension Systems: Latvia*, OECD Publishing, Paris (https://doi.org/10.1787/9789264289390-en).

5 BACKGROUND STATISTICS

	2022			Change 2019-2022		
5.1. Relative income	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**
Relative median income ratio (65+)	0.64	0.72	0.60	0.02	0.06	0.00
Income quintile share ratio (S80/S20) (65+)	5.26	5.27	5.04	-0.16	-0.37	-0.20
Aggregate replacement ratio (ARR) (65-74) (%; change in pp)	42.0	37.0	46.0	4.0	1.0	5.0
	2022			**Change 2019-2022 (pp)**		
5.2. Poverty and material deprivation	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**
At-risk-of-poverty or social exclusion (AROPE) (65+) (%)	42.6	32.4	47.7	-8.2	-12.0	-6.2
At-risk-of-poverty (AROP) rate (65+) (%)	40.5	30.2	45.6	-7.4	-11.6	-5.4
Severe material and social deprivation (SMSD) rate (65+) (%)	10.5	7.1	12.2	1.2	0.7	1.5
At-risk-of-poverty or social exclusion (AROPE) rate (75+) (%)	55.1	39.6	60.5	-4.5	-14.6	-1.2
At-risk-of-poverty (AROP) rate (75+) (%)	53.5	37.3	59.3	-3.6	-14.4	0.0
Severe material and social deprivation (SMSD) rate (75+) (%)	11.2	7.3	12.6	2.1	1.2	2.3
Relative median at-risk-of-poverty gap (65+) (%)	25.7	19.6	27.1	0.2	-0.8	-0.6
At-risk-of-poverty (AROP) rate, 65+: 50 % threshold (%)	27.9	17.3	33.2	-5.7	-6.6	-5.1
At-risk-of-poverty (AROP) rate, 65+: 70 % threshold (%)	51.0	41.4	55.8	-7.2	-12.0	-4.8
Material and social deprivation (MSD) rate (65+) (%)	19.1	14.6	21.3	-1.7	-0.4	-2.3
5.3. Gender difference	**2022**			**Change 2019-2022 (pp)**		
Gender gap in pension income (65-79) (%)	13.4			-1.8		
Gender gap in non-coverage rate (65-79) (pp)	-0.2			-0.8		
	2022			**Change 2019-2022**		
5.4. Housing and health situation	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**
Housing cost overburden rate (65+) (%; change in pp)	6.7	3.1	8.5	-1.0	-2.9	-0.1
Self-reported unmet need for medical exam 65+ (%; change in pp)	14.9	11.7	16.5	4.2	1.9	5.3
Healthy life expectancy (at age 65) (years) (1)	4.8	4.4	5.0	0.1	-0.1	0.2
Life expectancy (at age 65) (years)	16.7	13.8	18.7	-0.7	-0.6	-0.7
	2022			**2062**		
Receiving long-term care cash benefits (65+) (%)	3.8			4.7		
Receiving long-term care in-kind benefits (65+) (%)	5.4			6.5		
	2022			**Change 2019-2022**		
5.5 Sustainability and context	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**
Employment rate (55-64) (%; change in pp)	69.5	68.3	70.5	2.2	0.7	3.4
Pension expenditure (% GDP; change in pp) (1)	7.8			0.6		
Retirement duration from first pension (years)	18.0	15.1	20.1	-1.1	-0.7	-1.2
Retirement duration from end employment (years) (2)	17.5	14.6	19.5	-1.1	-0.8	-0.9
Projections (3)	**2022**			**2062**		
Old-age dependency ratio (20-64) (%)	35.9	24.4	46.9	69.9	57.6	83.0
Economic old-age dependency ratio (20-64) (%)	41.0	25.1	57.0	82.4	77.4	86.6
Gross public pensions (% GDP)	7.2			5.9		
Benefit ratio (%)	25.7			18.2		
Coverage ratio (65+) (%)	137.8			119.2		
Gross pension ratio high/low earner		2.0	2.0		2.2	2.2

(1) 2021 instead of 2022

(2) Based on the assumptions of the 2024 Ageing Report for the 2023 average exit ages
(3) For the source of each of these six indicators providing projections by 2062, please see 'Indicators, definitions and abbreviations'.

5.6 Theoretical replacement rates

	Net (%)				Gross (%)			
	2022		2062		2022		2062	
	Men	Women	Men	Women	Men	Women	Men	Women
Standard pensionable age (SPA)	**64.3**	**64.3**	**65.0**	**65.0**				
AWG career duration (years)	**43.4**	**42.0**	**43.9**	**42.2**				
Average Earning (100 %)								
Base case: 40 years up to SPA	60.2	60.2	46.3	46.3	46.5	46.5	34.1	34.1
Increased SPA: from age 25 to SPA	59.2	59.2	46.3	46.3	45.5	45.5	26.6	34.1
AWG career length case	64.9	63.0	46.3	46.3	50.8	49.1	34.1	34.1
Longer career: 42 years to SPA			46.3	46.3			34.1	34.1
Shorter career: 38 years to SPA			44.2	44.2			32.2	32.2
Deferred exit: 42 years to SPA +2			49.2	49.2			36.7	36.7
Earlier exit: 38 years to SPA -2			20.9	20.9			15.1	15.1
Career break – unemployment: 3 years	57.0	57.0	43.9	43.9	43.5	43.5	31.9	31.9
Career break – childcare: 3 years	#N/A	60.2	45.7	45.7	#N/A	46.5	33.5	33.5
Career break – care for family dependant: 3 years	57.6	57.6	43.1	43.1	44.0	44.0	31.2	31.2
Short career (20-year career)	31.3	31.3	23.4	23.4	23.4	23.4	16.9	16.9
Work 35 years, disabled 5 years prior to SPA			40.3	40.3			29.1	29.1
Early entry in the labour market: from age 20 to SPA			51.9	51.9			39.1	39.1
Index: 10 years after retirement at SPA			42.7	42.7			30.8	30.8
Extended part-time period for childcare			42.8	42.8			30.9	30.9
Survivor ratio 1*				0.5				0.5
Survivor ratio 2*				0.3				0.3
Low earnings (66 %)								
Base case: 40 years up to SPA	71.1	71.1	44.6	44.6	55.8	55.8	34.1	34.1
AWG career length case	78.6	75.9	45.0	44.6	62.4	59.8	34.1	34.1
Career break – unemployment: 3 years	67.3	67.3	41.8	41.8	52.9	52.9	31.9	31.9
Career break – childcare: 3 years	#N/A	71.1	43.9	43.9	#N/A	55.8	33.5	33.5
Short career (20-year career)	38.3	38.3	22.1	22.1	30.1	30.1	16.9	16.9
Early entry in the labour market: from age 20 to SPA			51.3	51.3			39.1	39.1
High earnings (100->200 %)								
Base case: 40 years up to SPA	46.4	46.4	33.1	33.1	36.3	36.3	25.3	25.3

**Survivor ratio 1: man base case, woman base case*
**Survivor ratio 2: man base case, woman short career case*

LITHUANIA

Highlights

- Lithuania continues to face challenges in the three dimensions of pension adequacy. The life expectancy of retired Lithuanians is lower than the EU[357] average, income falls sharply at retirement, and the at-risk-of-poverty rate for older people is among the highest in the EU.
- Several measures designed to improve the adequacy of statutory pension benefits were adopted between 1 July 2020 and 1 July 2023. They included changes in the rules for pension indexation, a reduction in the required contribution period for the full general (basic) pension component, and an extra pension increase as a response to the high level of inflation in mid-2022.
- The statutory funded pension scheme does not significantly contribute to income in old age and is losing its popularity: almost two thirds of newcomers decided to leave the scheme after automatic enrolment in the first half of 2023, and 9 out of 10 respondents agree that it should become possible to leave the funded pension system before reaching retirement age.
- Improving pension adequacy needs the allocation of more funds. Pension spending in Lithuania remains well below the EU average.

1 GENERAL DESCRIPTION OF THE NATIONAL PENSION SYSTEM

Lithuania’s old-age pension system consists of five components, which vary considerably in their relative importance and financing methods. These include three types of public pay-as-you-go defined-benefit pension schemes (statutory pensions, state pensions, and social assistance pensions) and two types of funded defined-contribution (DC) pension schemes (a statutory funded pension scheme and a supplementary personal pension scheme). The **statutory pension** scheme is the most important in terms of coverage and provision of income in old age. Participation is mandatory for all employees and the self-employed without exception. The contribution rate for the individual (supplementary) earnings-related component of the statutory pension is 8.72 %. This component makes up about 55 % of a full average statutory pension. The general (basic) component is a flat-rate amount financed from general revenue. Pension benefits are free from personal income tax and social security contributions, including the compulsory health insurance contributions.

There is a minimum contribution period of 15 years for entitlement. Periods of maternity/paternity leave for children up to age 3, as well as periods of receiving

[357] The EU and the EU-27 refer to the current 27 Member States of the European Union.

unemployment and disability benefits[358], are included into the contribution record for old-age pensions. Around 616,000 people, or 95 % of the pension-age population, received statutory pension benefits in 2022[359].

The self-employed and non-standard workers (including platform workers) are covered by the same pension scheme as standard workers. The self-employed must pay contributions on their self-declared income, but not less than on the minimum wage. In order to pay lower contributions, they tend to under-declare income and thus are at risk of lowering their pension benefits. Control and enforcement capacities are limited, especially in the case of self-employed people providing services to natural people.

The pension benefit consists of two components. The first, general (basic), component is a flat-rate amount for all beneficiaries having a minimum contribution period (15 years in 2023). This general component is increased by 3.75 % for each additional year of contributions beyond the compulsory contribution period (33 years in 2023)[360]. It is financed from general revenues (state budget). The second, individual, component is earnings-related. This component is financed on a pay-as-you-go basis from the National Social Insurance Fund (NSIF). Working pensioners may combine a social insurance pension with income from work without any deductions. It is possible to postpone the pension for up to five years after the pensionable age. The deferred pension is increased by 8 % for each deferred year.

In 2023 the pensionable age is 64.5 for men and 64 for women[361]. The minimum contribution period for entitlement to pension benefits is 15 years for men and women[362]. There are no exceptions in the statutory pension benefits formula or in contribution periods for workers in arduous jobs. Pension indexation is based on the average change in the total wage bill in the economy for the previous three years, the current year, and three forecast years. Additional indexation of the individual component of the statutory pension, supplementing regular indexation, was introduced as of 1 January 2022 (for more details see Section 2).

An early-retirement statutory pension is available to people who have completed the compulsory contribution period and have fewer than five years before attaining the pensionable age. The rate of payment is the statutory old-age pension, minus 0.32 % for each month of early-retirement pension received before the full pensionable age. For those who opt to receive the early-retirement pension, the reduced statutory old-age pension amount is paid for the whole period of retirement. However, the statutory old-age pension is not reduced if the contribution period of the recipient is above 40 years and six months (in 2023) and the early-retirement pension is received for not more than three years.

Survivor pensions (called widow(er) pensions in Lithuania) are paid to a person who has reached the pensionable age or has a disability if their deceased spouse had acquired the minimum contribution period required to receive a disability or an old-age pension. The

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[358] https://www.infolex.lt/ta/89537:str10?refid=13

[359] Statistics Lithuania (2023a), *Recipients of state social insurance old-age, disability and work incapacity pensions at the end of the year* (https://osp.stat.gov.lt/statistiniu-rodikliu-analize#/).

[360] A compulsory contribution period increases by six months each year until it will reach 35 years in 2027.

[361] The pensionable age will increase by two months for men and by four months for women each year since 2012 until it reaches 65 for both men and women in 2026.

[362] Law Amending the Law of the Republic of Lithuania on State Social Insurance Pensions No I-549, adopted on 29 June 2016, No XII-2512 (https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/b79c4442bd4a11e6a3e9de0fc8d85cd8?jfwid=-ji9gt565y).

monthly amount of the widow's pension is EUR 34.89 (15 % of the average retirement pension) as from 1 July 2023. The number of recipients of the widow(er)'s pension was around one third of the total number of old-age pensioners[363]. Furthermore a single person's allowance is paid to single pensioners who do not receive a widow(er)'s pension[364]. The amount of the single person's allowance is equal to the statutory widow(er)'s pension[365].

In addition, a small pension bonus introduced in 2019 is paid to recipients whose total social insurance pensions do not exceed the amount of the minimum consumption needs (EUR 354 per month in 2023).

State pensions are public unfunded pensions that supplement the social insurance pension scheme (the statutory pension). They are granted mainly to two rather large groups of the population. The first group includes post-war anti-Soviet resistance fighters and people who have suffered from the former Soviet regime. The second group covers military and police officers, judges, scientists, artists, and some other smaller professional groups. In addition, state pensions are paid to some other categories of people (former prime ministers; chairs of parliament and of the constitutional and supreme courts; honorary donors; and parents who have raised many children). Around 90,000 people, or 14 % of the pension-age population, received state pension benefits in 2022[366].

The **social assistance** pension is designed as a minimum-income pension for those not covered by the statutory old-age pension schemes. Social assistance pensions are paid to older people or people with disabilities who were not able to acquire social insurance rights because of insufficient contribution records. Most recipients of this pension are people disabled from childhood. Around 9,900 people, or 1.4 % of the pension-age population, received old-age social assistance pension benefits in 2022[367]. Social assistance pensions are non-means-tested, but cannot be combined with the statutory pension and state pensions.

The **statutory funded pension scheme** is a fully funded DC scheme. It is administered by private fund managers. Contributions into the statutory funded pension scheme comprise 3 % of the participant's personal salary. In addition, 1.5 % of the national average salary is paid as a supplementary contribution to the participant's pension account out of the state budget. Employers and employees can voluntarily contribute above 3 %, qualifying for further tax relief. Employees under 40 are enrolled automatically, with the right to opt out, defer or temporarily suspend contributions. Older employees can join the scheme voluntarily, but they cannot leave the scheme until they reach the pensionable age. About 60 % of employees contribute to the statutory funded pension scheme[368]. As the scheme will only mature in two or three decades, it does not play a significant role in the income protection of the current older population.

[363] Sodra (2023): Statistical data website (http://atvira.sodra.lt/en-eur).
[364] Law of the Republic of Lithuania on the Benefit for a Single Person [*LR Vienišo asmens išmokos įstatymas*], 27 June 2021, No XIV-352 (https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/03d87102c1e511eb91e294a1358e77e9/asr).
[365] Sodra (2023): Statistical data website (http://atvira.sodra.lt/en-eur).
[366] Statistics Lithuania (2023a), *Recipients of state social insurance old-age, disability and work incapacity pensions at the end of the year* (https://osp.stat.gov.lt/statistiniu-rodikliu-analize#/).
[367] Ministry of Social Security and Labour.
[368] Sodra (2023): Statistical data website (http://atvira.sodra.lt/en-eur).

The **personal pension scheme** (called the third-pillar pension scheme in Lithuania) is a fully funded DC scheme. It is financed by individual voluntary contributions, which are tax-deductible. Access to this scheme does not depend on the type of employment. However, some employers contribute to the personal pension schemes for their employees as these contributions are qualified as costs and thus deducted from taxable profits. It is the smallest component in the overall pension package. It covers only about 6.6 % of the working population[369].

There is no occupational pension scheme in Lithuania, even though the Law on Occupational Pensions was adopted in 2006 to implement Directive 2003/41/EC (on the activities and supervision of institutions for occupational retirement provisions).

2 REFORM TRENDS

There were no major pension reforms in Lithuania in the period from 1 July 2020 to 1 July 2023. However, several parametric changes in the statutory old-age pension were made, following a period of rather good economic performance and rapid wage growth, and in the light of the fact that pensions in Lithuania are low, pensioners face high poverty risks (see Section 3), and the very high inflation (at around 20 %) in the period under consideration.

Public pensions (statutory, state, and social assistance) were increased from 1 June 2022 as a response to high inflation. The average statutory old-age pension and state pensions for soldiers and officials were increased by 5 %. First- and second-degree pensions and pensions for scientists were increased by 10 %; and social assistance pensions by 15.3 %. Pensions were thus increased twice in 2022: in January (as a regular indexation) and in June. Overall pension growth reached 16-17 % in 2022[370]. Measures designed to mitigate the consequences of the energy crisis, such as subsidies and cost compensation, were applied to the entire population, not just pensioners.

Two changes were implemented in the field of statutory pension indexation. First, from 1 January 2022 the pension indexation mechanism was adjusted[371]. Until 2022 pensions could not be indexed if GDP growth in the current and subsequent calendar years or the change in the wage bill in the economy were negative[372]. The government decided that as of 1 January 2022 pensions would not be indexed only in cases where both above-mentioned indicators were negative (i.e. both the change in GDP and the change in the wage bill in the

[369] Bank of Lithuania (2022), *Lietuvos II ir III pakopos pensijų fondų rinkos apžvalga* [The Review of the Second-Pillar and Third-Pillar Pension Funds].
[370] Ministry of Social Security and Labour (2022a), *Seimas pritarė: nuo metų vidurio didės pensijos* [The Seimas approved: pensions will increase from the middle of the year] (https://socmin.lrv.lt/lt/naujienos/seimas-pritare-nuo-metu-vidurio-dides-pensijos).
[371] *Lietuvos Respublikos Socialinio draudimo pensijų įstatymo Nos I-549 2, 8, 17, 29, 33, 45 ir 49 straipsnių pakeitimo Įstatymas No. XIV-678. 2021 m. lapkričio 23 d* [Law No XIV-678 on Amending Articles 2, 8, 17, 29, 33, 45 and 49 of Law of the Republic of Lithuania on Social Insurance Pensions No I-549] (https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/51c0f5424c6911ec86bdcb0a6d573b32?jfwid=2r1m4yi6).
[372] Ministry of Social Security and Labour (2022b), *Jei nebūtų šio sprendimo, pensijos neaugų: Vyriausybė pritarė atnaujintai pensijų didinimo formulei* [Without this decision, pensions would not increase: The government approved the updated pension increase formula] (https://socmin.lrv.lt/lt/naujienos/jei-nebutu-sio-sprendimo-pensijos-neaugu-vyriausybe-pritare-atnaujintai-pensiju-didinimo-formulei).

economy). This amendment allowed for the indexation of pensions in 2022 despite a slight fall in GDP. Wages were growing and the NSIF was in surplus[373].

Second, additional indexation of the individual component of the statutory pension was introduced in 1 January 2022 on top of the regular indexation. This was done by increasing the value of the pension point. From 1 January 2022 the individual component was therefore increased by 12.15 %, instead of 7.93 % according to the former indexation procedure[374]. The additional indexation was introduced as a permanent measure. Indexation of the individual pension component applies annually until the at-risk-of-poverty (AROP) rate for people aged 65+ is higher than 25 % and/or the average pension replacement rate is lower than 50 %, provided that the NSIF is in surplus[375]. In 2022, the last year for which data are available, the AROP rate for people aged 65+ was 39.5 %[376] and the average pension replacement rate was 47.3 %[377]. The additional indexation factor must be calculated so that the additional funds to be used for indexation do not exceed 75 % of the projected budget surplus of the NSIF.

Since 1 January 2022, the full general (basic) component (i.e. the full basic pension) has been paid to all those pensioners who have completed at least the minimum contribution period. Previously only those who had completed the compulsory contribution period were eligible for the full general (basic) component. Pensioners who had completed the minimum, but not the compulsory, contribution period received only a part of the general pension component in proportion to their individual contribution period. However, those with more than the compulsory contribution period continue to receive an extra bonus for each year of contributions beyond the compulsory period even after the 2022 reform[378].

On 1 July 2021 a single person's allowance of EUR 28.63 per month was introduced for single pensioners (and single disabled people) with the lowest level of pensions, and who do not receive a widow(er)'s pension[379]. 60,000 single recipients of social pensions and low statutory pensions (10 % of old-age pensioners) were paid this allowance[380], which is equivalent to 7 % of the average statutory pension (EUR 413 per month in 2021). From 1 January 2022 the coverage of the single person's allowance was extended to all recipients of disability and old-age pensions – thus almost quintupling, with around 280,000 single people of pensionable age and disabled people becoming eligible (42 % of all old-age pensioners). In

[373] Ibid.

[374] Ministry of Social Security and Labour (2022c), 'Monika Navickienė: "Nauja pensijų indeksavimo sistema leis pensijas didinti sparčiau"' ['Monika Navickienė: "The new pension indexation system will allow pensions to be increased more quickly"'] (https://socmin.lrv.lt/lt/naujienos/monika-navickiene-nauja-pensiju-indeksavimo-sistema-leis-pensijas-didinti-sparciau).

[375] Law Amending the Law of the Republic of Lithuania on State Social Insurance Pensions No I-549, adopted on 23 November 2021, No XIV-678 (https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/b79c4442bd4a11e6a3e9de0fc8d85cd8?jfwid=-ji9gt565y).

[376] Eurostat (2023), At-risk-of-poverty rate by poverty threshold, age and sex – EU-SILC and ECHP surveys [ILC_LI02].

[377] Statistics Lithuania (2023b) (https://osp.stat.gov.lt/statistiniu-rodikliu-analize#/).

[378] Ministry of Social Security and Labour (2022c), 'Monika Navickienė: "Nauja pensijų indeksavimo sistema leis pensijas didinti sparčiau"' ['Monika Navickienė: "The new pension indexation system will allow pensions to be increased more quickly"'] (https://socmin.lrv.lt/lt/naujienos/monika-navickiene-nauja-pensiju-indeksavimo-sistema-leis-pensijas-didinti-sparciau).

[379] Law of the Republic of Lithuania on the Benefit for a Single Person [*LR Vienišo asmens išmokos įstatymas*] 27 June 2021, No XIV-352 (https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/03d87102c1e511eb91e294a1358e77e9/asr).

[380] In the second half of 2021 the single person's benefit was paid only to the pensioners with the lowest pensions (below the amount of minimum consumption needs).

January 2022, the amount of the single person's allowance was increased to EUR 32 per month, the same as the statutory widow(er)'s pension. Since 1 January 2023 the single person allowance has been indexed annually in line with the widow(er)'s pension. People receiving widow(er)'s pensions do not receive the single person's allowance; instead they continue to receive widow(er)'s pensions.

More favourable conditions for early retirement were introduced on 1 January 2021. Until 1 January 2021 the statutory old-age pension was reduced by 0.4 % for each month until the statutory pensionable age and, after reaching the pensionable age, for each month of receiving the early-retirement pension. In 2021 the reduction coefficient for the pension benefit was lowered to 0.32 %. Moreover, since 1 January 2022 the statutory old-age pension has not been reduced any longer for those who have received the early-retirement pension for no more than three years and who had a long contributory period (of at least 40 years and six months in 2023) at the time of the award of this pension. This seniority requirement for those newly awarded old-age pensions will be increased by three months annually to reach 42 years and six months in 2031. Currently about 7,700 pensioners (1.25 % of all old-age pensioners) receive early-retirement pensions[381].

A one-off payment of EUR 200 was paid to every pensioner during the COVID-19 pandemic in 2020. Other payments included temporary job-seekers' allowances, and lump-sum benefits for the self-employed. All these payments were non-contributory and had no impact on the future pensions of their recipients. Furthermore, wage subsidies were paid to employers to partially cover employees' wages during and after the quarantine-related downtimes[382]. This helped stabilise the levels of wages and social insurance contributions (including for pensions), as well as employment. In addition, social insurance contributions, including for pensions, could be deferred for up to five years. The deferrals did not affect social contribution records and the accrual of future pensions for the insured.

Discussions are ongoing, mainly related to the statutory funded pension scheme. The value of the scheme's assets fell by 14 % in 2022 due to the general decline in international capital markets[383]. The long-term return on investment is also low, about half the average annual growth of the statutory pension over the last two decades[384]. This has fuelled political discussions and public debates in 2023 about the existing restriction on withdrawing from the scheme before reaching the pensionable age and about the fairness of contributions to the scheme from state budget. On 13 April 2023 the Constitutional Court decided to examine the issue of whether the restriction on withdrawing from the scheme before reaching the pensionable age contradicts the constitutional right to private property[385]. Meanwhile, on 25

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[381] Sodra (2023): Statistical data website (http://atvira.sodra.lt/en-eur).

[382] The amounts of the subsidies varied in 2020 and 2021, and according to wage levels and age. For example, the amounts of the subsidies in 2020 were 90 % of an employee's salary, but no more than 100% of the minimum monthly salary (MMS) or 70 % of an employee's salary, but no more than 150 % of the MMS; for workers aged 60+ compensation rates were 100 % of an employee's salary, but no more than 100 % of the MMS or 70 % of an employee's salary, but no more than 150 % of the MMS.

[383] Bank of Lithuania (2022), *Lietuvos II ir III pakopos pensijų fondų rinkos apžvalga* [The Review of the Second-Pillar and Third-Pillar Pension Funds].

[384] tv3.lt (2023), 'Ekonomistas Romas Lazutka: II pensijų pakopa jau žlugusi' ['Economist Romas Lazutka: The second tier of pensions has already failed'] (https://www.tv3.lt/naujiena/verslas/ekonomistas-romas-lazutka-ii-pensiju-pakopa-jau-zlugusi-n1216333).

[385] LRT.lt (2023a), 'KT vertins, ar nepalikta galimybė pasitraukti iš pensijų kaupimo atitinka Konstituciją' ['The Constitutional Court will assess whether the missed option to withdraw from pension accumulation complies with the

May 2023 parliament debated a suspension of transfers from the state budget to the statutory funded pension scheme. However, the proposal was rejected and returned to the initiators for improvement[386].

The topic of the statutory funded pension scheme remains in the spotlight of debate, due to low accumulated amounts, and therefore low benefits afterwards, caused among other things by short participation periods, generally low contribution rates, and the possibility of suspending contributions for indefinite period during previous reforms. Most benefits are paid in a lump sum; programmed withdrawals average around EUR 30 per month; and lifetime annuities average only EUR 64 per month (about 5 % of the average salary and 11 % of the average pension)[387].

3 ASSESSMENT OF ADEQUACY

3.1 Current adequacy

The at-risk-of-poverty or social exclusion (AROPE) rate for older people (aged 65+) rose in 2022 by 4.5 pp compared with 2019 and reached 41.4 %. This figure was twice as high as the EU average[388].

The AROP rate for older people (aged 65+) in Lithuania was 18.6 pp higher than the national average in 2022 (i.e. 39.5 % for older people and 20.9 % for the total population)[389]. It was higher than the EU average for older people by 22.2 pp. The AROP rate for those aged 75+ was higher than that for all pensioners (65+) (i.e. 41.0 % in 2022). The AROP rate was 26.3 % for men and 46.9 % for women aged 65+ in 2022. The gender gap in the AROP rate for those aged 75+ was even wider (i.e. the AROP rate was 20.5 % for men and 50.3 % for women) (see Section 5 'Background statistics' here and beyond unless otherwise noted).

The AROP rate for older people (65+) increased by 7.9 pp between 2019 and 2022. Since the AROP rate is a measure of relative income poverty, this increase must be seen together with the wage growth of recent years linked to favourable economic conditions. During the same period the AROP threshold for single people increased overall by 34.6 % (from EUR 379 to EUR 510[390]). Statutory old-age pension benefits increased by 32.7 % (from EUR 311.50 to EUR 413.40 per month) from 2018 to 2021[391]. Nonetheless, the AROP threshold for single

Constitution'] (https://www.lrt.lt/naujienos/lietuvoje/2/1961917/kt-vertins-ar-nepalikta-galimybe-pasitraukti-is-pensiju-kaupimo-atitinka-konstitucija).

[386] LRT.lt (2023b), 'Algirdo Syso pasiūlymas dėl sotesnio pensininkų gyvenimo nesulaukė Seimo palaikymo, bet vilčių dar yra' ['Algirdas Sysas' proposal for a richer life for pensioners did not receive the support of the Seimas, but there is still hope'] (https://www.lrt.lt/naujienos/verslas/4/1999581/algirdo-syso-pasiulymas-del-sotesnio-pensininku-gyvenimo-nesulauke-seimo-palaikymo-bet-vilciu-dar-yra).

[387] LRT.lt (2022), '"Sodra" suskaičiavo kaupiančiųjų pensijai pinigus: senatvėje žmogus vidutiniškai prie pensijos prisiduria 64 eurus' ['"Sodra" calculated the money of the savers for pension: in old age, a person adds 64 euro on average to his or her pension'] (https://www.lrt.lt/naujienos/verslas/4/1728393/sodra-suskaiciavo-kaupianciuju-pensijai-pinigus-senatveje-zmogus-vidutiniskai-prie-pensijos-prisiduria-64-eurus).

[388] https://ec.europa.eu/eurostat/databrowser/view/ilc_peps01n__custom_9171615/default/table?lang=en

[389] The AROP rate is defined as the percentage of the population with an income after social transfers below the AROP threshold (60 % of the median household equivalised income).

[390] https://osp.stat.gov.lt/statistiniu-rodikliu-analize#/

[391] Average State social insurance pension (quarterly data) (https://osp.stat.gov.lt/statistiniu-rodikliu-analize#/).

people was 23 % higher than the average old-age pension according to the data on income for 2021.

The rate of severe material and social deprivation among people aged 65+ was 7.2 % in 2022. It fell by 4.9 pp between 2019 and 2022, mainly due to a rather rapid pension increase and relatively low inflation before 2022.

The relative median income ratio of older people[392] fell from 0.68 in 2019 to 0.63 in 2022, while the EU average was stable at 0.90. There was a substantial gender gap in the relative median income ratio of older people aged 65+: the ratio was 0.70 for men and 0.58 for women in 2022.

The aggregate replacement ratio (ARR)[393] was 33 % in Lithuania in 2022, the lowest in the EU-27, with the EU average being 58 %. It fell by 10 pp during 2019-2022. This sharp drop can be attributed to the reform of social insurance contributions implemented from 1 January 2019. Employers' social security contributions were assigned to employees, which caused an increase in pre-tax gross salaries (by a factor of 1.289). Comparing pensions with them resulted in a significantly lower ARR[394].

The high AROP rate of older people and the low ARR are accompanied by a short duration of pension payments due to low life expectancy in the country. The average life expectancy at age 65 was 17 years in 2022, whereas the EU average stood at 19.6. There has been no narrowing in this gap during the last decade. Life expectancy fell by 0.9 years between 2019 and 2022, probably because of COVID-19. The level of life expectancy is particularly low for men (i.e. only 14.1 years at 65). In Lithuania, the number of healthy life years at 65 was significantly below the EU average (6 years versus 9.7 in 2021).

The housing cost overburden rate for older people (aged 65+) in Lithuania was less than half that in the EU (3.9 % compared with 9.7 % for the EU) in 2022[395]. 91.3 % of Lithuanians lived in their own apartments or houses in 2021[396]. Most Lithuanians are therefore not rent- or mortgage-burdened in old age. Besides this, low-income pensioners may apply for compensation for the costs of heating, hot and drinking water under the general compensation scheme, provided they meet the qualifying conditions.

The low level of pension benefits motivates Lithuanians to stay in employment longer despite low healthy life expectancy. The employment rate for people aged 55-64 was 69.8 % in 2022 (7.5 pp higher than the EU average). The employment rate for women was among the five highest in the EU (at 70.1 %) and exceeded the EU average by 13.9 pp. The employment rate of women increased by 2.6 pp between 2019 and 2022, while it remained almost the same for men. At least in part this can be explained by the fact that the retirement age for women is rising more quickly than for men.

[392] Defined as the ratio between the median equivalised disposable income of people aged 65+ and that of people under 65.
[393] The median individual pension of those aged 65-74 relative to the median individual earnings of those aged 50-59.
[394] For the reform details see ESPN Country Profile: Lithuania 2019-2020.
[395] https://ec.europa.eu/eurostat/databrowser/view/ilc_lvho07a__custom_9172535/default/table?lang=en
[396] https://osp.stat.gov.lt/informaciniai-pranesimai?articleId=10194255

3.2 Future adequacy

After a 40-year career, net theoretical replacement rates (TRRs) are projected to increase from 44.2 % for men and 44.0 % for women in 2022 to 48.9 % in 2062 for both women and men. This is due to the expected extension and equalisation of the statutory pensionable age to 65 for both men and women. TRRs for low- and high-earners will remain unchanged. However, the projected growth in TRRs masks a structural change: (a) the gross TRR for the statutory pension is projected to fall from 23.9 % to 19.9 % due to the decline in the number of employed people, which is one of the criteria for the pension indexation; and (b) the gross TRR for the statutory funded pension is projected to increase from 2.8 % for men and 2.7 % for women to 10.5 % for both women and men due to the maturity of this scheme. However, the statutory funded pension scheme only covers about 60 % of employees (see Section 1).

Three changes in the statutory pension scheme introduced as of 1 January 2022 may have a positive effect on future TRRs (all of them are described in Section 2). First, pension indexation rules were made less strict. Second, additional indexation of the individual component of the statutory pension was introduced as a permanent measure with a precondition that the NSIF budget must be in surplus. Third, the full general (basic) component (i.e. the full basic pension) is paid to those pensioners who have completed at least the minimum (rather than compulsory) contribution period.

3.3 Developments in (in)equalities

There is a very low level of redistribution in Lithuania as a whole, with the Gini coefficient score being one of the highest in the EU for many years. This is despite the fact that the pension system helps reduce income inequality among older people compared with those of working age. However, the income quintile share ratio (S80/S20) for the population aged 65+ was 4.64 in 2022 (the sixth-highest in the EU). There was no substantial change in this indicator during 2019-2022.

The degree of redistribution within the statutory pension scheme is relatively strong due to the general (basic) component, which is not earnings-related. The general component comprises about 45 % of the average old-age pension.

The two changes in the calculation of the statutory pension presented in Section 2 had an impact on income inequalities among pensioners. On the one hand, additional indexation of the individual component of the statutory pension is more beneficial for those receiving higher pensions, as their individual pension component has a bigger weight in the total pension benefit. On the other hand, the full general (basic) component paid to those pensioners who have completed at least the minimum contribution period is more beneficial for recipients of low pensions. As a result of these changes, the average pension benefit increased by 11.8 % for those who had not completed the compulsory contribution period, and by 10.5 % for those who had completed the compulsory period, in 2022[397].

[397] Deveikis, J. (2021), 'Pensijų reforma naikina stažo skirtumus: dirbo 15 ar 32 metus, bazinę pensiją gaus vienodą' ['The pension reform eliminates differences in length of service: those who have worked for 15 or 32 years will receive the same basic pension'] (https://www.lrt.lt/naujienos/verslas/4/1455887/pensiju-reforma-naikina-stazo-skirtumus-dirbo-15-ar-32-metus-bazine-pensija-gaus-vienoda).

The gender pension income gap at ages 65-79 was 11.9 pp in 2022 (the fifth-narrowest in the EU). The indicator showed a narrowing of 6.9 pp since 2019. Two changes may have had an impact on the gap (see Section 2). First, from 1 January 2022 the full general (basic) component has been paid to those pensioners who have completed at least the minimum contribution period: women generally have shorter contributory periods, so their income is more affected. Second, the full general (basic) component was indexed by more, which is more significant for those receiving lower pension income.

As mentioned in Section 2, the additional pension supplement to the statutory pension benefit is too small to protect older people from poverty. The social assistance pension serves as a minimum-income pension for those not protected by the statutory pension scheme. Its amount is very low, only EUR 184 per month as of 2023 (29 % of the net minimum wage)[398].

The state pension scheme appears to increase income inequality, as such pensions are complementary to statutory pensions and are granted to some privileged groups of public employees. The state subsidies to the statutory funded scheme are progressive (lower-paid employees receive higher subsidies), which reduces inequality between participants in the scheme. However, it increases inequality between participants and non-participants, as the former will receive two pensions, and the latter only one. Moreover, the state subsidises future statutory funded pensions, even though, as we have seen, the poverty of current pensioners is widespread due to the insufficient funding of statutory pensions.

4 KEY CHALLENGES AND OPPORTUNITIES

Lithuania's economic development has been successful for the past few years, despite the COVID-19 pandemic and energy crisis (the average annual growth of GDP was 3.6 % in 2017-2022)[399]. On this basis, beyond indexation rules, several measures were adopted to increase pension benefits. However, pensions did not catch up with the growth of the median household income and average wages. The financial situation of pensioners therefore did not improve in relative terms between 2019 and 2022. A large proportion of retirees are at risk of poverty, their income falls sharply at retirement, and older people benefit from pensions for a relatively short period because of low life expectancy at age 65. The main challenge arises from the insufficient financing of pension schemes. As a share of GDP, the resources allocated by Lithuania to old-age social insurance pensions in 2022 were only about half the EU average (7 % versus 13 %).

The performance of the statutory funded scheme could be further improved: almost two thirds of newly enrolled participants decided to leave the scheme in the first half of 2023[400], and 9 out of 10 respondents agree that it should be made possible to leave the funded pension system before reaching retirement age[401]. The scheme faces challenges and needs further

398 Ministry of Social Security and Labour (2023d), *Pagrindiniai socialiniai rodikliai* [Main social indicators] (https://socmin.lrv.lt/lt/veiklos-sritys/socialine-statistika/pagrindiniai-socialiniai-rodikliai-1?lang=lt).

399 Statistics Lithuania (2023b) (https://osp.stat.gov.lt/statistiniu-rodikliu-analize#/).

400 Alonderytė-Kazlauskė, E. (2023), '"Sodros" atstovė: dalyvauti pensijų kaupime šiemet atsisakė 38 tūkstančiai gyventojų' ['"Sodra" representative: 38,000 residents refused to participate in pension accumulation this year'] (RLT.lt).

401 Sagaitytė, G. (2023), 'Gyventojai kategoriški: 9 iš 10 mano, kad turėtų būti leidžiama pasitraukti iš pensijų kaupimo ir atsiimti savo pinigus' ['Citizens are categorical: 9 in 10 think it should be allowed to withdraw money from pension savings']

rethinking to make it more attractive, or to be merged into a personal pension scheme. Subsidies could be also further improved in terms of intra- and inter-generational fairness. Finally, a set of measures for extending healthy life expectancy must be developed.

The minimum income study[402] commissioned by the Ministry of Social Security and Labour recommended a significant increase in social assistance pensions. The study is part of the Lithuanian Recovery and Resilience Plan and its recommendations are therefore expected to be at least partially implemented in law. However, a decision on implementing those recommendations has not yet been taken.

(https://www.lrt.lt/naujienos/verslas/4/2035964/gyventojai-kategoriski-9-is-10-mano-kad-turetu-buti-leidziama-pasitraukti-is-pensiju-kaupimo-ir-atsiimti-savo-pinigus).

[402] European Institute of Health and Sustainable Development (2022), *Minimalių pajamų sistemos adekvatumo studija: Galutinė ataskaita* [Study of the adequacy of the minimum income system: Final report] (https://socmin.lrv.lt/uploads/socmin/documents/files/Galutine%20ataskaita_20221223.pdf).

5 BACKGROUND STATISTICS

5.1. Relative income

	2022			Change 2019-2022		
	Total	Men	Women	Total	Men	Women
Relative median income ratio (65+)	0.63	0.70	0.58	-0.05	-0.05	-0.04
Income quintile share ratio (S80/S20) (65+)	4.64	5.20	4.09	-0.01	0.39	-0.15
Aggregate replacement ratio (ARR) (65-74) (%; change in pp)	33.0	33.0	34.0	-10.0	-11.0	-13.0

5.2. Poverty and material deprivation

	2022			Change 2019-2022 (pp)		
	Total	Men	Women	Total	Men	Women
At-risk-of-poverty or social exclusion (AROPE) (65+) (%)	41.4	28.3	48.7	4.5	5.8	4.3
At-risk-of-poverty (AROP) rate (65+) (%)	39.5	26.3	46.9	7.9	8.6	8.1
Severe material and social deprivation (SMSD) rate (65+) (%)	7.2	5.5	8.1	-4.9	-2.3	-6.3
At-risk-of-poverty or social exclusion (AROPE) rate (75+) (%)	42.8	22.4	51.9	2.7	1.8	3.3
At-risk-of-poverty (AROP) rate (75+) (%)	41.0	20.5	50.3	6.4	5.6	7.1
Severe material and social deprivation (SMSD) rate (75+) (%)	6.3	3.9	7.4	-5.9	-4.0	-6.7
Relative median at-risk-of-poverty gap (65+) (%)	22.1	22.2	21.9	1.6	2.5	1.2
At-risk-of-poverty (AROP) rate, 65+: 50 % threshold (%)	23.9	14.9	29.0	5.4	5.4	5.7
At-risk-of-poverty (AROP) rate, 65+: 70 % threshold (%)	52.9	40.9	59.6	7.2	8.1	7.2
Material and social deprivation (MSD) rate (65+) (%)	17.3	13.9	19.2	-10.2	-4.1	-13.2

5.3. Gender difference

	2022	Change 2019-2022 (pp)
Gender gap in pension income (65-79) (%)	11.9	-6.9
Gender gap in non-coverage rate (65-79) (pp)	-0.5	0.4

5.4. Housing and health situation

	2022			Change 2019-2022		
	Total	Men	Women	Total	Men	Women
Housing cost overburden rate (65+) (%; change in pp)	3.9	3.5	4.2	-0.8	-0.5	-0.9
Self-reported unmet need for medical exam 65+ (%; change in pp)	4.7	4.7	4.6	1.1	1.4	0.8
Healthy life expectancy (at age 65) (years) (1)	6.0	5.2	6.6	-0.2	-0.8	0.2
Life expectancy (at age 65) (years)	17.0	14.1	19.0	-0.9	-0.7	-1.0

	2022	2062
Receiving long-term care cash benefits (65+) (%)	14.0	16.6
Receiving long-term care in-kind benefits (65+) (%)	24.3	26.9

5.5 Sustainability and context

	2022			Change 2019-2022		
	Total	Men	Women	Total	Men	Women
Employment rate (55-64) (%; change in pp)	69.8	69.3	70.1	1.4	-0.1	2.6
Pension expenditure (% GDP; change in pp) (1)	7.0			0.0		
Retirement duration from first pension (years)	17.8	14.7	20.1	-1.5	-1.0	-2.0
Retirement duration from end employment (years) (2)	17.9	15.0	19.9	-1.7	-0.6	-2.5

Projections (3)	2022			2062		
Old-age dependency ratio (20-64) (%)	33.0	23.6	42.0	68.1	57.2	80.2
Economic old-age dependency ratio (20-64) (%)	37.2	23.7	51.3	85.7	89.2	83.0
Gross public pensions (% GDP)	6.4			10.1		
Benefit ratio (%)	23.9			27.0		
Coverage ratio (65+) (%)	165.8			122.3		
Gross pension ratio high/low earner		1.7	1.7		1.7	1.7

(1) 2021 instead of 2022

(2) Based on the assumptions of the 2024 Ageing Report for the 2023 average exit ages

(3) For the source of each of these six indicators providing projections by 2062, please see 'Indicators, definitions and abbreviations'.

5.6 Theoretical replacement rates

	Net (%)				Gross (%)			
	2022		2062		2022		2062	
	Men	Women	Men	Women	Men	Women	Men	Women
Standard pensionable age (SPA)	**64.3**	**63.7**	**65.0**	**65.0**				
AWG career duration (years)	**42.7**	**42.1**	**43.2**	**42.6**				
Average Earning (100 %)								
Base case: 40 years up to SPA	44.2	44.0	48.9	48.9	26.7	26.6	30.4	30.4
Increased SPA: from age 25 to SPA	43.5	42.7	48.9	48.9	26.3	25.8	30.4	30.4
AWG career length case	43.4	40.0	51.8	51.8	26.2	24.2	32.2	32.2
Longer career: 42 years to SPA			50.8	50.8			31.6	31.6
Shorter career: 38 years to SPA			47.1	47.1			29.3	29.3
Deferred exit: 42 years to SPA +2			50.8	50.8			31.6	31.6
Earlier exit: 38 years to SPA -2			47.1	47.1			29.3	29.3
Career break – unemployment: 3 years	39.5	39.4	46.5	46.5	23.9	23.8	28.9	28.9
Career break – childcare: 3 years	42.6	42.5	47.9	47.9	25.8	25.7	29.7	29.7
Career break – care for family dependant: 3 years	42.8	42.6	47.4	47.4	25.8	25.7	29.4	29.4
Short career (20-year career)	31.7	31.5	27.9	27.9	19.1	19.1	17.3	17.3
Work 35 years, disabled 5 years prior to SPA			40.3	40.3			25.0	25.0
Early entry in the labour market: from age 20 to SPA			53.8	53.8			33.4	33.4
Index: 10 years after retirement at SPA			45.0	45.0			28.0	28.0
Extended part-time period for childcare			45.8	45.8			28.4	28.4
Survivor ratio 1*		0.9		0.9		0.5		0.6
Survivor ratio 2*		0.8		0.7		0.5		0.4
Low earnings (66 %)								
Base case: 40 years up to SPA	53.7	53.6	53.7	53.7	34.2	34.1	36.0	36.0
AWG career length case	57.5	48.3	57.0	57.0	36.6	30.8	38.2	38.2
Career break – unemployment: 3 years	50.0	49.8	51.0	51.0	31.9	31.7	34.2	34.2
Career break – childcare: 3 years	54.8	54.7	52.2	52.2	34.9	34.8	35.0	35.0
Short career (20-year career)	41.5	41.4	30.4	30.4	26.5	26.4	20.4	20.4
Early entry in the labour market: from age 20 to SPA			59.3	59.3			39.8	39.8
High earnings (100->200 %)								
Base case: 40 years up to SPA	29.9	29.8	30.0	30.0	17.1	17.0	18.1	18.1

**Survivor ratio 1: man base case, woman base case*

**Survivor ratio 2: man base case, woman short career case*

LUXEMBOURG

Highlights

- Luxembourg is in a quite favourable situation as regards the several dimensions of pension adequacy, although account should also be taken of the high cost of living in Luxembourg (regarding especially housing). In addition, the situation is liable to deteriorate in the future due to the gradual impact of the 2012 pension reform and to additional measures likely to be adopted in order to deal with the large foreseen cost of ageing.
- A traditional weakness of Luxembourg, namely a wide gender gap, is becoming less acute, reflecting inter alia more complete careers in the younger generations of women.
- Luxembourg should build on the 2012 reform with further measures to protect the pensions of low-income earners and improve sustainability.
- Luxembourg could also raise the effective retirement age, one of the lowest in the EU[403] at present. The labour participation rate of older workers should be further encouraged.

1 GENERAL DESCRIPTION OF THE NATIONAL PENSION SYSTEM

Both employees and the self-employed are entitled to an old-age pension in Luxembourg[404]. The statutory pension scheme is divided into two different types of schemes: (a) the general scheme for employees and self-employed people in the private sector; and (b) special schemes for civil servants and other public sector employees[405]. Both systems are organised as mandatory pay-as-you-go schemes and jointly cover the whole economically active population. Despite the harmonisation of contributions and benefit determinants with the general scheme since the 1998 pension reform, the civil servants' scheme is still separate. Financing of the public pension is based on a contribution rate that is kept fixed for a period of 10 years with a mandatory mid-term evaluation envisaged after five years. For the current period (2023-2032), the total contribution rate is 24 % of gross salary, paid in equal shares of 8 % by employers, employees and the state (the self-employed pay 16 % contributions, also supplemented by the 8 % state intervention). Contribution rates to the general pension scheme are paid up to a maximum contributory income equal to 5 times the standard minimum wage[406].

For the general scheme, the law requires a minimum reserve of 1.5 times the yearly pension expenditure. As of the end of 2022 the accumulated reserve amounted to 4.29 times the yearly pension expenditure. The large reserves result from continuous economic growth in recent

[403] EU and EU-27 refer to the current 27 Member States of the European Union.
[404] For self-employed activities with an income below one third of the social minimum wage, coverage is voluntary.
[405] Ministère de la Sécurité Sociale, 'La sécurité sociale 2023: Droit de la sécurité sociale' (https://igss.gouvernement.lu/dam-assets/publications/droit-de-la-s%C3%A9curit%C3%A9-sociale/droit2023.pdf: downloaded on 8 February 2024).
[406] This maximum income amounted to EUR 12,854.64 per month as of 1 September2023.

decades and a relatively young active population (particularly driven by the large influx of cross-border workers and by sustained net migration).

To be eligible for an old-age pension at the legislated pensionable age (*pension de vieillesse*) of 65, the insured person needs a minimum of 120 months (i.e. 10 years) of contributions[407]. An early-retirement pension (*pension de vieillesse anticipée*) is possible at age 60 if a person has accumulated 480 months of contributory and credited non-contributory periods[408], of which at least 120 months must be contributory. Moreover, early retirement at 57 is possible if a person has 480 months of compulsory insurance contributions[409].

The old-age pension is calculated as the sum of three parts (pension formula): a lump-sum component depending on the length of career (*majorations forfaitaires*), an earnings-related component (*majorations proportionnelles*) depending on the total contributory income, and a (lump-sum) end-of-year allowance (*allocation de fin d'année*).

For new old-age pensions granted in 2023 the **lump-sum** component amounts to EUR 610.12 per month for 40 years of insurance[410]. For pensioners with shorter careers, the lump sum is reduced proportionately. The **earnings-related** component is calculated at an accrual rate of 1.782 % of total contributory income[411]. For people whose sum of pension age and career years exceeds a specific threshold (94 in 2023), that rate is increased by 0.015[412] percentage points (pp) for each additional year above the threshold (*majorations échelonnées*)[413]. Other things being equal, this is designed to increase the average retirement age (incentive approach).

In 2023 the **end-of-year allowance** equals EUR 79.02 per month in the case of a complete 40-year career.

Spouses and orphans of active (salaried or self-employed) people and pensioners entitled to a survivor pension under the same general regulations, and pension rights are calculated within similar parameters[414]. Survivor pensions are part of the statutory pension scheme financed by contributions.

Pension benefits are indexed to both the consumer price index (non-periodic[415]) and real wage evolution (yearly readjustment). However, full readjustment to real wages is conditional on the overall financial situation of the pension system and has to be partly (by at least 50 %) or fully reduced by a special law in defined adverse situations.

The pension system guaranteed in 2023 a minimum pension of EUR 2,219.71 per month in the case of a full 40-year career[416]. The pension could not exceed EUR 10,276.43 per month in 2023.

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407 Contributory periods = compulsory insurance, continuous insurance, optional insurance and retroactive purchase periods.
408 E.g. years of study or years taken off to bring up children.
409 Continuous insurance, optional insurance and retroactive purchase periods are not taken into account.
410 As of September 2023.
411 Value for 2023; to be gradually reduced to reach 1.6 % in 2052.
412 Value for 2023; to be increased to 0.025 by 2052.
413 However, the accrual rate is capped at 2.05 %.
414 Spouses and legal partners will receive the entire lump sum and three quarters of the earnings-related part of the actual or theoretical pension of the deceased.
415 An adjustment is performed each time prices increase by more than 2.5 % compared with the previous application.
416 As of September 2023.

Unemployment benefits are subject to pension contributions. Parents bringing up their children may be granted up to two years of contributory periods ('baby years') as well as additional credited non-contributory periods up to age 6[417]. Parents who have brought up their children but cannot benefit from the aforementioned baby years may be granted a 'mother's rent' (*forfait d'éducation – Mammerent*) of EUR 86.54 per month and per child after age 65.

The combination of pensions and professional activities is generally quite flexible in Luxembourg, at least for wage-earners. There are no restrictions after the legal retirement age of 65, or in case of a professional activity with an income below one third of the social minimum wage (i.e. EUR 856.98[418]). For early old-age pensions at 57 and 60, some constraints apply. If the sum of the pension and wage income exceeds a threshold equal to the average of the five highest yearly incomes earned during the career, the pension is reduced in order to offset the excess amount[419].

There are more restrictions on combining early old-age pensions and self-employed activities, as the pension payment is withdrawn if the annual revenue exceeds the aforementioned threshold of one third of the minimum wage.

Luxembourg has three types of pre-retirement schemes, listed in the labour law[420]:

(a) progressive pre-retirement (*préretraite progressive*): this scheme applies to full-time employees working in companies covered by a collective labour agreement providing for progressive retirement or by a specific agreement with the Labour Ministry;

(b) economic adjustment pre-retirement (*préretraite ajustement*), limited to employers who are affected by a business closure, after restructuring or after transformation following technological changes; and

(c) pre-retirement of shift and night workers (*préretraite des travailleurs postés et des travailleurs de nuit*): this pre-retirement scheme is targeted at workers in arduous jobs applies to employees aged at least 57, who have been working in shifts or on a fixed night shift for 20 years.

Occupational and personal pension schemes play a growing, yet still marginal, role in the pension system. Only 5.2 % of the working-age population in Luxembourg are covered by occupational pension schemes and the assets of private pension arrangements (occupational or personal pensions) amounted to only 2.9 % of GDP in 2020[421].

A major atypical dimension of the labour market in Luxembourg is the importance of cross-border and migrant workers. Cross-border work represented about 47 % of wage-earners in Luxembourg at the end of 2022. On top of that, in 2022, 59.1 % of current pensioners in the general pension regime had accumulated pension insurance periods in other countries. Finally, 30.7 % of the total amount of pensions paid by the general pension regime was transferred to 111,645 non-resident pensioners in 2022. According to the General Inspectorate

[417] Non-contributory but taken into account in calculating the reference 40 years.
[418] As of September 2023.
[419] If the wage (considered in isolation) exceeds the threshold, the pension is no longer paid.
[420] De Coninck, A. and Pacolet, J. (2016), *ESPN Thematic Report on retirement regimes for workers in arduous or hazardous jobs – Luxembourg,* European Social Policy Network, Brussels: European Commission.
[421] OECD (2021), *Pensions at a Glance 2021: OECD and G20 Indicators*, OECD Publishing, Paris, p. 207 (https://www.oecd.org/publications/oecd-pensions-at-a-glance-19991363.htm: downloaded on 11 June 2023).

of Social Security (IGSS), in its report on the financial situation of the general pension system, non-residents would receive about 55 % of total pension spending in 2070[422].

It has to be kept in mind that about 91 % of pensioners residing abroad and 27 % of pensioners residing in Luxembourg had a working career in more than one country, and thus only receive a partial pension from Luxembourg (and for most of them additional partial pensions in other countries).

All this partially explains the rather moderate expenditure ratio in Luxembourg on pensions (about 9.2 % of GDP in 2019 compared with an EU average of 11.6 %[423]).

2 REFORM TRENDS

The pension reform introduced as of January 2013 by a law of 21 December 2012 focused on modifying the parameters in the pension formula, within a long transition period of 40 years (2013-2052).

No systemic pension reform took place in Luxembourg during the period under examination (1 July 2020 to 1 July 2023). However, a temporary measure was announced on 19 March 2020 in the context of the COVID-19 pandemic, namely the possibility for companies to suspend their payments of social contributions (including pensions). Contributions were still due, but no default interest was applied (till 30 June 2021) and the related legal procedures were also temporarily suspended.

In addition, following a tripartite agreement (government, employers and employees) on 28 September 2022, the downpayments on social security contributions (including pension contributions) have been permanently abolished since 1 January 2023. This measure was adopted in order to preserve the cash situation of companies and self-employed people in a difficult context (due inter alia to inflation and the related wage indexations, higher input prices and surging interest rates). No measure with a direct impact on accrued pension rights was adopted during the COVID-19 crisis. For instance, the cost-of-living allowance (*allocation de vie chère*) was doubled in 2020, but this is not subject to pension contributions (with therefore no impact on future pension rights). Partial unemployment represented another significant public intervention during the COVID-19 pandemic, but this is a way to maintain incomes (and therefore future pensions, as partial unemployment is taken into account in the constitution of pensions rights) rather than an additional benefit.

A law proposal introduced in December 2021, and mostly welcomed, recommended the alignment of the rules on combining pensions and work activities for self-employed people with those of employees[424].

[422] IGSS (2022), *Bilan Technique du Régime Général d'Assurance Pension – 2022*, Ministry of Social Security.
[423] Ageing Working Group (2021), *The 2021 Ageing Report, Economic & Budgetary Projections for the EU Member States (2019-2070)*, Institutional Paper 148, May 2021 (https://economy-finance.ec.europa.eu/system/files/2021-10/ip148_en.pdf: downloaded on 11 June 2023).
[424] This would be included, among other measures, in the later coalition agreement of end-2023.

3 ASSESSMENT OF ADEQUACY

3.1 Current adequacy

Luxembourg pensioners are apparently in a favourable situation given the high replacement ratio and the low at-risk-of-poverty or social exclusion (AROPE) rate. In 2022 the AROPE rate for the population aged 65+ was 11.3 %, which was much lower than the EU average of 20.2 %.

The severe material and social deprivation rate for people aged 65+ remained very low (0.4 % in 2022 compared with the EU average of 5.5 %), possibly reflecting the high median income of people aged 65+ in Luxembourg, which was 10 % higher than the corresponding figure for those under 65 (the highest in the EU). This situation is in part a reflection of generous pensions in Luxembourg. The aggregate replacement ratio for 2022 reached 89 % in Luxembourg, which was the highest ratio in the EU (58 % on average). The Luxembourg figure increased by 3 pp compared with 2019.

Against this favourable background, it is also essential to consider the high cost of living in Luxembourg. The national statistical institute (STATEC) calculated in 2023[425], based on nine indicators, the reference budget – reflecting the essential needs – of retired people aged 65+ who are in good health as well as autonomous in all domains of everyday life, and live at home as tenants on the private housing market[426]. The inferred reference budget amounts to EUR 3,471 per month for a couple and EUR 2,551 for a person living alone. This is higher than the minimum pension (EUR 2,219.71 as of September 2023).

A low employment rate for older workers (in 2022, the employment rate of workers aged 55-64 was 46.6 %, compared with 62.3 % at EU level) can partly be explained by a relatively wide gap between the effective retirement age and the legal retirement age of 65. The effective age of retirement was 61.2 for men and 61.7 for women in 2022[427]. In 2022 the retirement duration from the end of employment reached 24 years for men and 26.4 years for women, and the duration from first pension receipt was 23.6 and 25.7 years respectively (Section 5.5). This was the highest in the EU.

The difference in life expectancy at 65 between men (19.6 years) and women (22.3 years) in 2022 in Luxembourg was slightly smaller than the corresponding value at EU level (17.8 and 21.2 years respectively). At the same time, healthy life expectancy was 10.7 years for men and 11.2 years for women in 2022, more than the EU average (9.5 and 9.9 respectively). This implies that women will experience substantially more non-healthy years (11.1 years – 22.3 minus 11.2) than men (8.9 years – 19.6 minus 10.7). This makes the provision of adequate and affordable healthcare and long-term care (LTC) services even more relevant, especially for women.

[425] STATEC (2023), *Le budget de référence des personnes âgées autonomes et en bonne santé,* Working Paper No 135 05/2023, May 2023 (https://statistiques.public.lu/fr/publications/series/economie-statistiques/2023/03-23.html).
[426] The STATEC paper indicates that 11 % of pensioners in Luxembourg are tenants, 84 % are owners without a mortgage, 5 % are owners with a mortgage.
[427] https://igss.gouvernement.lu/fr/statistiques.html

Luxembourg has one of the best developed LTC insurance systems, oriented especially to homecare. The Luxembourg health system also provides strong protection for older people. In 2022 only 1.4 % of them reported unmet needs for medical examination. This was the most favourable result among all EU Member States after Cyprus, Austria and Germany, but this rate increased significantly compared with 2019 (from 0.5 % to 1.4 %).

Private home-ownership, as a fourth pension pillar, is still an important instrument for private savings for older people (aged 65+) and an efficient shelter against poverty risks. In 2022 the housing cost overburden rate for people aged 65+ reached 6.1 % in Luxembourg, which was much lower than the EU average of 9.7 %.

3.2 Future adequacy

The theoretical replacement rates (TRRs) are projected to slightly decline for all earnings groups between 2022 and 2062. According to the projections, they will remain very high for low-income earners – the net TRR for a 40-year career (base case) will indeed stay above 100 % in 2062 – and for average-income earners. However, the TRR will fall for the higher-income group, as their net TRR will reach 70.4 % in 2062 (compared with 75.3 % in 2022). Credits for childcare breaks sustain pensions very well, although childcare-related part-time work can lead to a (mild) TRR reduction (3.6 pp for the net TRR). Credits for periods of unemployment also partially cushion the reduction in pensions.

The future replacement rates projected by the IGSS[428] would remain quite stable from 2020 to 2070 in spite of the 2012 reform; this result reflects the underlying assumption that the average length of careers would increase during this period.

In 2022 the old-age dependency ratio in Luxembourg (23 %) was much lower than the EU average (36 %) and that of neighbouring countries Belgium (33.6 %), France (37.9 %) and Germany (37.3 %).

3.3 Developments in (in)equalities

The 2012 pension reform contains a few semi-automatic measures, depending on the evolution of specific parameters. For instance, it is provided in the 2012 law that the end-of-year allowance, namely a lump sum of EUR 948.24 (as of 1 September 2023) paid once a year (see Section 1), would vanish as soon as the total contribution rate exceeds the current 24 %. In addition, the link between pensions and real wages would be loosened (i.e. would be limited to at most half of the wage development) when general pension primary revenues (i.e. excluding property incomes) become lower than general pension expenditure (in legal terms, when the '*prime de repartition pure*' exceeds the global contribution rate). The two impacts would contribute to reducing pensions, especially the lower ones since the end-of-year allowance is a fixed amount and therefore represents a higher proportion for lower pensions.

In addition, the 2012 reform will probably have to be supplemented by additional measures in the future – especially if the recent COVID-19 public health crisis and the adverse

[428] IGSS (2022), Bilan Technique du Régime Général d'Assurance Pension – 2022, Ministry of Social Security, p. 50.

geopolitical developments turn out to have a lasting impact on GDP and on the total wage bill[429].

Similarly, in its '*Bilan technique*' published in April 2022, the IGSS produced a projection indicating that under a prudent demographic scenario (with about 0.8 million residents in 2070), pension expenditure related to private sector employees only would go from 7.6 % of GDP in 2020 to 15.7 % in 2070 (plus 8.1 pp, irrespective of the 'public', 'special' regimes). Alternative simulations rest on higher social contributions, less generous retirement ages and average pensions, as well as a revised demographic scenario.

It is very difficult at this stage to identify the future measures most likely to be adopted in order to address this financial challenge. According to the Ageing Working Group figures, the average exit age from the labour market was 60.7 years in Luxembourg in 2022, about three years lower than the corresponding EU figure.

Long-term sustainability could be consolidated via higher social contributions, but their impact on the situation of lower-earners compared with the recipients of much higher pensions is controversial, if only because the contribution base is capped in Luxembourg (at least in the general pension scheme). The latter would therefore be less affected by higher contributions, as they would sacrifice a lower proportion of their total net incomes. Generally speaking, changes in overall parameters would be less efficient, from a pension adequacy perspective, than more targeted measures (see Section 4).

Regarding gender and adequacy, the difference in average pensions for women and men in 2022 was 38.3 % (the gender pension gap), having declined considerably (7.7 pp) since 2019. This decline indicates that women in younger generations tend to have working careers that are more complete. This gender pension gap in Luxembourg is still wider than the EU average (namely 26.1 % in 2022). The gap is mainly due to gender differences in career length and earnings profile, still prominent among current pensioners. The size of the gap is, among other things, a reflection of the relatively wide discrepancy between minimum and maximum pensions. According to IGSS 2022 figures, 18.5 % of all old-age pensions paid to men in the general regime exceeded EUR 4,500 per month, compared with only 6.2 % for women. Similarly, men accounted in 2022 for 90 % of the total number of pensions equal to or higher than EUR 7,000 per month. According to the IGSS, the average old-age pension of resident men and women in the general pension regime reached respectively EUR 4,063 and EUR 2,464 per month in 2022, showing that the gender gap is not a reflection of the high prevalence of cross-border labour, or of survivor and disability pensions.

The gender gap will probably continue to narrow in the future, at least if wages and career durations of women and men continue to converge.

Similarly, the pension adequacy of people in non-standard work and the self-employed could improve in the future, as the law adopted in August 2018 (see Section 2) made it easier for self-employed people to put in place their own occupational pension regimes. Finally, pension duration is not frequently mentioned in the political debate.

[429] The 2021 Ageing Report projections, in which the 2012 reform was taken into account, referred to gross public pension expenditure amounting to 18.0 % of GDP by 2070, or an increase of 8.7 pp (the largest projected increase among EU Member States).

4 KEY CHALLENGES AND OPPORTUNITIES

Luxembourg faces the challenge of preserving the current level of pension adequacy in the future. The magnitude of the budgetary challenges linked to ageing calls for a broad reflection on how to reconcile future financing needs and pension adequacy. One option, among others, might be to look at different financing sources and to reconsider the high level of the maximum pension in the general pension regime (EUR 10,276.43 per month[430]).

The 2012 pension reform rebalanced pensions after high and low earnings via a lump sum to moderate the impact of income-related benefit components. Luxembourg could build on the 2012 reform with further measures to protect the pensions of low-earners and improve sustainability. In addition, it is important to ensure that lower pensions in particular are protected. For instance, measures that mitigate the impact of two semi-automatic adjustments in the current legislation for a targeted group might be worth considering.

Finally, the Luxembourg authorities could take steps to increase the effective retirement age, one of the lowest in the EU at present. The retirement duration from the end of employment (25.3 years) as well as from the first pension payment (24.8 years) are the longest in the EU. The labour participation rate of older workers could be further encouraged, via new training schemes, new labour incentives, a more gradual transition to pensions and, possibly, additional incentives embedded in the calculation of pensions, although significant efforts were made in this respect in the 2012 pension reform (with higher '*majorations échelonnées*' than before the reform; see Section 1 above).

[430] Basis September 2023.

5 BACKGROUND STATISTICS

	2022			Change 2019-2022		
5.1. Relative income	Total	Men	Women	Total	Men	Women
Relative median income ratio (65+)	1.10	1.12	1.10	-0.15	-0.16	-0.11
Income quintile share ratio (S80/S20) (65+)	4.80	4.70	4.99	0.41	0.74	0.11
Aggregate replacement ratio (ARR) (65-74) (%; change in pp)	89.0	85.0	97.0	3.0	-3.0	22.0
	2022			**Change 2019-2022 (pp)**		
5.2. Poverty and material deprivation	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**
At-risk-of-poverty or social exclusion (AROPE) (65+) (%)	11.3	9.0	13.9	1.9	2.2	1.8
At-risk-of-poverty (AROP) rate (65+) (%)	11.0	8.6	13.6	1.7	1.8	1.8
Severe material and social deprivation (SMSD) rate (65+) (%)	0.4	0.4	0.3	0.0	0.2	-0.3
At-risk-of-poverty or social exclusion (AROPE) rate (75+) (%)	11.5	10.1	13.0	3.0	6.6	0.1
At-risk-of-poverty (AROP) rate (75+) (%)	11.5	10.1	13.0	3.0	6.6	0.1
Severe material and social deprivation (SMSD) rate (75+) (%)	0.0	0.0	0.0	0.0	0.0	0.0
Relative median at-risk-of-poverty gap (65+) (%)	19.5	22.0	13.9	-11.2	-2.7	-17.8
At-risk-of-poverty (AROP) rate, 65+: 50 % threshold (%)	5.8	5.0	6.6	-0.8	0.7	-2.3
At-risk-of-poverty (AROP) rate, 65+: 70 % threshold (%)	18.1	15.9	20.5	4.3	4.9	3.8
Material and social deprivation (MSD) rate (65+) (%)	1.6	1.8	1.3	0.5	1.3	-0.4
5.3. Gender difference	**2022**			**Change 2019-2022 (pp)**		
Gender gap in pension income (65-79) (%)	38.3			-7.7		
Gender gap in non-coverage rate (65-79) (pp)	7.3			0.3		
	2022			**Change 2019-2022**		
5.4. Housing and health situation	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**
Housing cost overburden rate (65+) (%; change in pp)	6.1	6.5	5.7	0.0	1.0	-0.9
Self-reported unmet need for medical exam 65+ (%; change in pp)	1.4	1.2	1.6	0.5	-0.3	1.4
Healthy life expectancy (at age 65) (years) (1)	11.0	10.7	11.2	0.6	0.6	0.6
Life expectancy (at age 65) (years)	21.0	19.6	22.3	0.1	0.4	-0.1
	2022			**2062**		
Receiving long-term care cash benefits (65+) (%)	4.3			4.7		
Receiving long-term care in-kind benefits (65+) (%)	9.9			11.5		
	2022			**Change 2019-2022**		
5.5 Sustainability and context	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**
Employment rate (55-64) (%; change in pp)	46.6	54.2	38.5	3.5	5.3	1.4
Pension expenditure (% GDP; change in pp) (1)	8.6			-0.1		
Retirement duration from first pension (years)	24.8	23.6	25.7	0.8	1.2	0.3
Retirement duration from end employment (years) (2)	25.3	24.0	26.4	0.5	1.3	-0.3
Projections (3)	**2022**			**2062**		
Old-age dependency ratio (20-64) (%)	23.0	20.4	25.7	52.0	48.4	55.9
Economic old-age dependency ratio (20-64) (%)	30.0	29.5	30.6	66.1	64.2	67.9
Gross public pensions (% GDP)	9.2			15.6		
Benefit ratio (%)	52.1			42.7		
Coverage ratio (65+) (%)	234.8			267.5		
Gross pension ratio high/low earner		2.1	2.1		2.1	2.1

(1) 2021 instead of 2022

(2) Based on the assumptions of the 2024 Ageing Report for the 2023 average exit ages

(3) For the source of each of these six indicators providing projections by 2062, please see 'Indicators, definitions and abbreviations'.

5.6 Theoretical replacement rates

	Net (%)				Gross (%)			
	2022		2062		2022		2062	
	Men	Women	Men	Women	Men	Women	Men	Women
Standard pensionable age (SPA)	**65.0**	**65.0**	**65.0**	**65.0**				
AWG career duration (years)	**38.7**	**38.3**	**38.9**	**38.4**				
Average Earning (100 %)								
Base case: 40 years up to SPA	99.7	99.7	94.5	94.5	88.7	88.7	82.1	82.1
Increased SPA: from age 25 to SPA	99.7	99.7	94.5	94.5	88.7	88.7	82.1	82.1
AWG career length case	95.4	95.4	90.0	89.8	85.4	85.4	78.5	78.3
Longer career: 42 years to SPA			98.9	98.9			87.8	87.8
Shorter career: 38 years to SPA			89.9	89.9			76.1	76.1
Deferred exit: 42 years to SPA +2			94.5	94.5			82.1	82.1
Earlier exit: 38 years to SPA -2			n/a				n/a	n/a
Career break – unemployment: 3 years	95.7	95.7	90.4	90.4	83.7	83.7	76.8	76.8
Career break – childcare: 3 years	100.7	100.7	95.5	95.5	90.0	90.0	83.3	83.3
Career break – care for family dependant: 3 years	97.0	97.0	92.1	92.1	85.3	85.3	79.1	79.1
Short career (20-year career)	62.0	62.0	60.3	60.3	43.9	43.9	42.2	42.2
Work 35 years, disabled 5 years prior to SPA			86.3	86.3			71.6	71.6
Early entry in the labour market: from age 20 to SPA			105.8	105.8			96.5	96.5
Index: 10 years after retirement at SPA			101.1	101.1			90.5	90.5
Extended part-time period for childcare			90.9	90.9			77.5	77.5
Survivor ratio 1*		0.8		0.8		0.7		0.6
Survivor ratio 2*		0.6		0.7		0.6		0.6
Low earnings (66 %)								
Base case: 40 years up to SPA	105.9	105.9	101.8	101.8	94.7	94.7	88.9	88.9
AWG career length case	99.7	91.1	94.5	94.3	99.7	91.1	85.0	84.7
Career break – unemployment: 3 years	102.2	102.2	97.4	97.4	89.5	89.5	83.4	83.4
Career break – childcare: 3 years	107.3	107.3	103.1	103.1	96.8	96.8	90.8	90.8
Short career (20-year career)	77.1	77.1	76.5	76.5	60.4	60.4	59.8	59.8
Early entry in the labour market: from age 20 to SPA			111.8	111.8			103.3	103.3
High earnings (100->200 %)								
Base case: 40 years up to SPA	75.3	75.3	70.4	70.4	63.6	63.6	58.3	58.3

**Survivor ratio 1: man base case, woman base case*

**Survivor ratio 2: man base case, woman short career case*

MALTA

Highlights

- Pension adequacy, relative to the income of the pre-retirement cohort, has declined steadily since 2018 as average wages have risen faster than average pensions. The situation of older women remains more precarious than that of men. Relative to the average wage more generally, adequacy is expected to decline further before starting to increase in 2025.
- The Malta pension action plan for 2021-2027 focuses primarily on pension adequacy and secondarily on the less imminent issue of sustainability. To address both aims, incremental changes have been introduced, which include, among other things: annual rises in pension rates and bonuses; allowing for contribution gaps to be remedied in certain circumstances; increasing the disregard of other income when calculating pension entitlement; incentivising longer working lives; and encouraging supplementary pensions through improved tax credits and personal savings through government bonds exclusively for those aged 62+.
- No increases in the pensionable age or in the social security contribution percentages are envisaged for the time being.

1 GENERAL DESCRIPTION OF THE NATIONAL PENSION SYSTEM

Statutory contributory pensions are funded on a pay-as-you-go basis. There are two types: the 'two-thirds pension' and the flat-rate pension. In 2023 the **pensionable age** is 64 for people born between 1959 and 1961; by 2027 it will rise to 65 for those born in or after 1962.

Early retirement is possible. A person may draw a pension at age 61 (irrespective of their formal pensionable age) if they have a full contributory record and are no longer in employment[431]. People who thus draw a pension at 61 may recommence gainful employment only upon reaching their formal pensionable age if they are to avoid losing their pension. Incentives exist to **defer a pension;** people who satisfy the eligibility conditions to claim their retirement pension before their pension age, as well as those who reach pensionable age but choose to continue to work, are entitled to a percentage increase in their pension rates depending on the duration of deferral[432]. Pensioners who work pay income tax but do not pay social security contributions.

Contributory conditions differ by year of birth. Weekly social security contributions must be paid throughout working life by employees and the self-employed[433] who earn more than

[431] A full record requires 35 years to be paid by those born between 1959 and 1961, rising to 40 for those born in/after 1962 and 41 for those born in/after 1969. A minimum contributory pension requires at least 10 years of contributions.
[432] See pension deferral incentives for the sliding scale of these incentives.
[433] In Maltese law, the self-occupied are those typically called self-employed, earning an income from a trade, business, profession, vocation or other economic activity. Conversely, the self-employed in Maltese law are those who have an

EUR 910 per annum. There are three classes of contributions, which differ by employment status. Amounts payable differ by the year of birth and income. Class 1 contributions are paid by employed people, generally at 10 % of their basic weekly wage up to a weekly cap[434]. Minimum contributory rates for employees are pegged to the national minimum wage. Class 2 contributions are paid by the self-employed every four months, most commonly at 15 % of their income up to a weekly cap[435]. Arrears may be paid for a maximum of five previous years, against a late-payment fine. Class 3 contributions [436] are paid by those not in employment but with income from (for example) rent, investments, and capital gains; these contributions only count towards a pension entitlement and not towards any other contributory benefit. The rates are the same as those for the self-employed, though at a lower rate when annual income is below EUR 9,901.80.

Contribution credits are given for: periods in receipt of unemployment, sickness, injury, or carer benefits; caring for young children; full-time studies; and voluntary work[437].

Part-time employees who earn less than the minimum wage may opt to pay a contribution of 10 % of their actual income. Similarly, self-employed people whose income falls below the minimum income threshold may opt to pay 15 % of their actual income instead.

The **indexation and calculation** of benefits depends upon whether the pension is a flat-rate or two-thirds pension. In the latter case, pensions can never exceed more than two thirds of a maximum pensionable income, which is indexed to prices, or to wages and prices, depending on a person's year of birth[438]. Those with a full contributory record can receive not less than the national minimum pension or the guaranteed national minimum pension (outlined in the next paragraph), while those without a full contributory record receive a reduced two-thirds pension accordingly.

There are different types of **flat-rate pensions**: the retirement pension (or increased retirement pension), and the national minimum pension (or increased national minimum pension). Both are lower than the two-thirds pension. The retirement pension is paid to those in receipt of what is known as a Treasury (or service) pension[439], and the national minimum pension is payable to those born before 1962 who have low pensionable income and who are not entitled to a service pension. From 2016, people born in or after 1962 who are not entitled to a service pension are entitled to a guaranteed minimum pension, initially benchmarked to 60 % of the national median equivalised income (NMEI).

independent income that is not linked to a job, such as from rent, investments, and capital gains. IMPORTANT NOTE: The use, hereafter, of the term 'self-employed' refers to those termed 'self-occupied' in Maltese law.

[434] This cap pertains to those born in or after 1962; for those born earlier, the weekly cap in 2023 is EUR 37.90.

[435] The self-employed pay the lowest possible rate in their first year of self-employment. Class 2 rates have lower caps for full-time farmers, full-time students who work, and part-time self-employed women. See: https://cfr.gov.mt/en/rates/Pages/SSC2/SSC2-2023.aspx.

[436] For Inland Revenue purposes, these are incorporated in the class 2 group; the Department of Social Security (DSS), however, calls these class 3 contributions. For the sake of clarity, the DSS categorisation is used here.

[437] See: contribution credits.

[438] At the inception of the two-thirds pension in 1979, pensions were capped at a maximum pensionable income (MPI) equivalent to two thirds of the salary of the President of Malta. The MPI formula was revised following the pension reforms enacted in 2007, in order to mitigate the projected decline in the pension replacement rate by 2050. These reforms meant that the pensions of people born in or after 1962 would be indexed annually to a new MPI based not only on price inflation but on 70 % wage inflation + 30 % price inflation.

[439] The Treasury (or service) pension was paid to people in the civil service before the introduction of the two-thirds pension scheme in 1979. A service pension is still paid to some groups such as the disciplinary corps, members of parliament and of the judiciary, and the Attorney General. See: Treasury Pensions Manual V3.

Survivor pensions (or widow/widower pensions) are paid to those whose spouse dies, whether death occurs before or after retirement. If the deceased spouse met the necessary contributory conditions for a pension, the survivor receives five sixths of the deceased spouse's pension (or of their pensionable income, if the spouse was not yet on a pension). However, from 2016, survivors eligible for a retirement pension in their own right became entitled to the full rate of their late spouse's retirement pension. If a survivor remarries, a flat-rate pension is still paid.

In addition to the above contributory pensions, there is a **non-contributory scheme** funded through taxation called the age pension, for residents of Malta over 60 who are not in employment, who have not paid sufficient contributions for a contributory pension, and who satisfy a means test[440].

Social security retirement and survivor pensions increase by the full cost-of-living allowance (COLA), and since 2014 from an additional, variable increase each year.

Supplementary pensions are at an early stage in Malta, and for most people the statutory pension is their main source of income in retirement. New incentivising tax rules for occupational pensions were introduced in 2017. By 2021, 2,000 people had applied under the occupational pension scheme, equivalent to 0.76 % of the employed population in 2021[441]. For personal pensions, a (capped) tax credit of 25 % of a person's investment in a qualifying personal pension scheme was introduced in 2014. By 2021, 11,000 people had applied for this incentive, equivalent to 4.2 % of the employed population or to 11 % of people in receipt of a pension in December 2021.

2 REFORM TRENDS

The Social Security Act[442] provides for regular pension scrutiny every five years[443]. The third strategic pension review was submitted to the government by the Pensions Strategy Group in 2021[444], following consultation. In November 2022 the government published the Malta pension action plan, outlining measures implemented since 2021, and others yet to be implemented before 2027[445].

Recent years have seen incremental measures to **improve pension adequacy**. *Pension increases* amounted to EUR 5 per week in 2021 and 2022[446], and an unprecedented EUR 12.50 per week in 2023 due to inflation. From 2023, pensioners whose income falls below the NMEI benefit from a new, additional COLA mechanism, which will be applied in any year when, in the preceding 12 months, inflation exceeded 2 % and prices of three of the five components of the retail price index exceeded the average of the previous three years.

[440] The weekly rates in 2023 are EUR 138.06 for a single person and EUR 170.83 for a married person (unless the spouse also qualifies for assistance in their own right, in which case this falls to EUR 124.45).
[441] Eurostat: LFS employment [LFSA_EGAN]. Last update 27 April 2023.
[442] The Social Security Act – Chapter 318 of the Laws of Malta
[443] It requires the minister responsible for social security to table in parliament, at least every five years, a report on the previous five years from the perspectives of adequacy, sustainability, and solidarity.
[444] Before 2013, the Pensions Working Group. The Pensions Strategy Group is made up of government experts but considers itself to be independent of government, in that its analysis is solely its own and its recommendations may, or may not, be accepted by government.
[445] Malta pension action plan
[446] Of which EUR 1.75 pertained to the COLA, and EUR 3.25 was additional to the COLA adjustment.

Furthermore, in 2022 *supplementary allowance*, paid to low-income households not in receipt of children's allowance, was increased by between EUR 3.47 and EUR 6.50 per week depending on income.

Tax exemptions have been introduced to increase the amount retained from people's pensions. In 2022 it was announced that pension income would gradually no longer be taxable, starting with a disregard of 20 % in 2022, rising to 40 % in 2023 and reaching 100 % by 2026. Each year the portion of the MPI that is exempt from income tax has been raised (to EUR 14,968 in 2023), such that pension increases would not be taxable.

Bonuses for pensioners have been increased. In 2022 it was announced that the cost-of-living bonus[447] paid to pensioners would gradually also be paid in full to those who retired after 2008. Furthermore, the annual bonus payable to people aged 63+ who have not accumulated enough contributions for a social security pension, mainly women, was raised each year to a maximum of EUR 550.

In 2022 it was announced that the *survivor pension* would gradually be raised to the full amount received by the deceased spouse, and weekly increases were granted in 2022 and 2023.

Changes have also been made to **improve eligibility** for pensions. In respect of *survivors*, widowed people who were in a civil union or were cohabiting with their late partner have since 2021 been granted legal recognition for the purpose of receiving a survivor pension. From 2023, people in receipt of a survivor pension also became entitled to contributory unemployment, sickness, or injury on duty benefits if their contributions permit this. In 2023 a five-year service pension was introduced for widows of disciplinary corps personnel who die in service or between the end of their service and the pensionable age.

In respect of *people with missing contributions*, from 2022, people not entitled to a pension because none of their (at least) 10 years of contributions was paid after January 1979 became eligible for the equivalent of the minimum two-thirds pension rate of EUR 50 weekly. Also from 2022, certain groups became entitled to pay up to five years of missing contributions, including those with missing social security records prior to 1990 and those aged 59 who receive an invalidity pension or carer's allowance. From 2023, two years of contribution credits are paid for those who did not work for some time between the ages of 18 and 30 and who, during that time, were certified to have received regular treatment from a psychiatrist employed in the public sector.

In respect of *non-standard employment*, from 2022, part-time workers will be allowed to pay social security contributions on more than one part-time job, up to a maximum of 40 hours per week, to enhance their contributory record. In respect of *non-contributory pension means-testing*, from 2022, people who receive an inheritance while in receipt of this pension saw the capital threshold double to EUR 50,000 for married people, and to EUR 30,000 for single people. Furthermore, formal donations made by people in receipt of non-contributory pensions to their children are now excluded from capital considerations. In cases of *marital*

[447] This bonus represents a payment of one third of the COLA; the other two thirds is added to the pension rate.

*separation***,** in March 2023 the promulgation of Act V of 2023 permits the court to order the transfer of social security contributions between spouses[448].

Changes have also been made to the **calculation of entitlement**. From 2021 the *contributions paid before age 19* by people born before 1962 will be taken into account when establishing entitlement to a pension. If the minimum contribution requirement is thus met, these people are eligible for a reduced minimum pension. In 2021, 2022, and 2023 the amount of *service pension that is not taken into account* when calculating pension entitlement was raised.

Tax incentives to **extend working lives** and to augment savings have been strengthened[449].

In relation to measures prompted by the **COVID-19 pandemic**, in 2021 a temporary measure was launched to ensure that the *pension calculation* of people born between 1956 and 1961 would not be affected by income lost due to the pandemic. As a result, for those whose best pensionable years included 2020, only the income of January and February 2020 was taken into account and annualised for all of 2020. This concession for 2020 will be extended to anyone retiring before 2041, including the self-employed.

Temporary *wage supplements*, available from the onset of the COVID-19 pandemic until May 2022 for companies in sectors badly hit by the pandemic, helped employers retain employees; the social security contributions of such employees were deducted at source prior to the supplement being passed to the employer, to ensure continuity in pension records[450]. The tax deferral scheme allowed the self-employed who were tax-compliant until December 2019 and whose turnover was significantly affected by the pandemic to defer their social security contributions due between August 2020 and December 2021 and to settle them between June 2022 and December 2024.

To turn to **retirement behaviour**, a 2022 study[451] used administrative data available up to 2021[452] to gauge the impact of changing the pensionable age on employment. It found evidence of longer working lives after each rise in the pensionable age, with the pension deferral incentives also likely to have had an effect. Early exit declined significantly after the pensionable age rose to 62, and again when it rose to 63. On both occasions the decline was stronger among women than men, which the study attributes to the possibility that women needed to improve their contributory record. While drop-out rates have declined on the Maltese labour market, early exit is not uncommon. Taking average rates for 2019-2021, of those working full time at age 60, 23 % of men and 12 % of women were no longer in full-time employment at age 61.

An ongoing debate relates to the fact that if people opt to receive a pension at age 61 after achieving a full contributory record, they cannot receive their pension if they remain in

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448 Act V of 2023 (scroll down for English version).

449 Government '62+' bonds (sold exclusively to people aged 62+) were issued in 2021. 15,531 applications were received, equivalent to 13.3 % of this cohort (https://nso.gov.mt/population/).

450 COVID wage supplement payroll implications

451 Grech, A.G. (2022), *The Impact of COVID-19 on Longer Careers – An Initial Assessment for Malta*, Central Bank of Malta (https://www.centralbankmalta.org/site/Publications/Economic%20Research/2022/The-impact-of-COVID-on-longer-careers.pdf?revcount=4590).

452 Employers and the self-employed are obliged to send engagement and termination forms to Jobsplus, the public employment service, when anyone starts and stops employment.

employment. Various social partners are lobbying for such people to be able to both work and receive their pension, or part thereof.

Another debate that occasionally arises relates to the fact that the MPI of those born after 1962 is higher than that of those born before 1962. However, it has been explained on different occasions that the younger cohort has more onerous contributory conditions and there is a need to preserve a link between contributions and benefits[453].

The policy focus until 2027, as reported in the Malta pension action plan referred to above, is anticipated to remain on: adequacy (particularly in relation to supporting couples with only one pension and to reducing gender disparities); encouraging people to work longer; and increasing financial planning for retirement. It is not envisaged that either the retirement age or the contribution percentage rates will be raised 'for the time being'[454].

3 ASSESSMENT OF ADEQUACY

3.1 Current adequacy

Expenditure on old-age and survivor pensions as a share of GDP rose by 0.4 percentage points (pp) between 2019 and 2022 to reach 7.7 %. People aged 65 in 2022 could expect, on average, to live another 20.9 years, with a gender gap of 2.8 years in favour of women. Out-of-pocket healthcare expenses were, at 34.1 % of healthcare expenditure in 2020, more than double the EU-27 average[455], and the average annual health expenditure of EUR 832.51 per inhabitant exceeds a month of guaranteed minimum pension. That said, it is also the case that the housing cost overburden rate of 2.2 % for those aged 65+ in 2022 was among the lowest in the EU-27.

Employment rates rose between 2019 and 2022 among those aged 55-64 (by 3.4 pp to 54.5 %), driven by a 7.9 pp rise in female employment This rise has many drivers, including: changing social norms; awareness of the benefits of having a pension entitlement in one's own right rather than depending upon one's spouse's pension; and institutional support to make good contributory gaps due to caring periods. The gender employment gap in this cohort narrowed from 30.9 pp to 21.9 pp. Retirement duration from first pension receipt in 2022 stood at 22 years; a notable change was a marked drop since 2019 among women (by 3.1 years). Retirement duration from the point of exiting employment fell by only 0.3 years to stand at 22.9 in 2022, falling among women (by 1.2 pp) while slightly increasing among men. The gender gap thus widened to reach 2.6 years.

The relative median income, which compares the (equivalised household) income of those aged 65+ with all those aged under 65, hardly changed from 2019 to 2022, when it stood at 0.72 (0.75 for men and 0.70 for women). However, the aggregate replacement ratio (ARR), which compares the pensions received by those aged 65-74 with the earnings of those aged

[453] DSG on pension reform and pre-post 1962
[454] Ministry for Social Policy and Children's Rights (2022), *Malta Pension Action Plan* (PAP 2022, p. 11: retrieved 11 June 2023).
[455] Eurostat: Healthcare expenditure [hlth_sha11_hf]. Last updated 26 July 2023.

50-59, declined by 5 pp to reach 53 % in 2022. The decline was steeper among men (by 7 pp to 50 %) than women (by 2 pp to 45 %). Thus, while the gender gap in ARR narrowed from 10 pp to 5 pp, this was due to the decline in men's ARR rather than an increase in women's ARR. This is hard to explain with certainty, especially given that the median income for men and women aged 50-64 is similar and has grown by similar proportions since 2019[456]. The gender pensions coverage rate has also declined, and gender pension gaps remain, as discussed in Section 3.3. The situation of older women remains more precarious than that of men.

In 2022 the at-risk-of-poverty or exclusion (AROPE) rate stood at 33.3 % of those aged 65+, and 32.5 % of those aged 75+, an increase over 2019 of 2.6 pp and 3.3 pp respectively. Compared with 2019, the AROPE rate rose most among women aged 75+ (by 4 pp), women aged 65+ (by 3.7 pp) and among men aged 75+ (by 2.6 pp). The AROPE gender gap had widened since 2019: in 2022 the rate of 36.5 % among women aged 65+ was 6.7 pp higher than among the male cohort (up from a gap of 4.5 pp in 2019), and the rate of 36.5 % among women aged 75+ was 9 pp higher than among the male cohort (up from a gap of 7.6 pp in 2019).

At the threshold of 60 % of the NMEI, the at-risk-of-poverty (AROP) rates rose among both those over 65 (by 2.3 pp) and those over 75 (by 3.3 pp) to stand at 30 % and 30.1 % respectively. The increases, and rates, were higher among women over 65 (up 3.5 pp to reach 32.8 %) and women over 75 (+4.5 pp to reach 34.2 %) than among men. The AROP gender gap among those over 65 widened from 3.4 pp in 2019 to 6 pp in 2022[457]. The risk of poverty rises with age due to the indexation of pensions to prices amongst older pensioners, rather than wages and prices as is the case with pensioners born in or after 1962. Women's lower pension rates (due to lifetime labour market inequalities) taken in relation to the increased income in recent years (including among the pre-retirement male and female cohorts) may explain the rise in the AROP rate among older women.

Between 2019 and 2022 both material and social deprivation (MSD) and severe material and social deprivation (SMSD) increased slightly among people aged 65+. The only increase in the MSD rate of more than 2 pp occurred among women aged 65+ (2.8 pp). In 2022 the MSD rate was 12.3 % (men 9.8 %, and women 14.5 %); and the gender gap widened from 2.9 pp in 2019 to 4.7 pp in 2022[458]. In 2022 the SMSD rate was 6.1 % among those aged 65+, and 4.7 % among those aged 75+. There had been no notable changes in the SMSD rate since 2019[459].

3.2 Future adequacy

For both men and women who retire after 40 years of full-time work, net theoretical replacement rates (TRRs) between 2022 and 2062 are set to increase among average-income earners (by 7 pp to reach 74.9 %), and also to a lesser extent among higher-income earners

[456] Eurostat: Mean and median income by age and sex. [ilc_di03]. Last updated 29 September 2023.
[457] Eurostat: At-risk-of-poverty rate (60 % of MEI). [ilc_li02]. Extracted on 19 June 2023.
[458] Eurostat: Material and social deprivation rate by age and sex. [ilc_mdsd07]. Extracted on 19 June 2023.
[459] Eurostat: Severe material and social deprivation rate by age and sex. [ilc_mdsd11]. Extracted on 19 June 2023.

(by 3.3 pp to reach 38 %), while they are projected to decline among low-income earners, but still to a higher level than for other earnings categories (by 1.4 pp to reach 82.8 %). The increases may reflect the change in the maximum pensionable income formula for those born in or after 1962 (see Section 1). The net TRR of average-income earners who will retire in 2062 is expected to increase by 11.9 pp between 2062 and 2072, rising from 74.9 % to 86.8 % over that 10-year period. While the survivor pension ratio is not available for 2022, in 2062 it is projected to stand at 0.5 (i.e. no additional pension to the surviving spouse with a 40-year career) and at 0.66 for those with a 20-year career[460].

Malta's 2020 strategic pension review (SPR) provided adequacy projections[461]. The ARR was expected to hit a low of 0.45 in 2025, increasing to 0.48 in 2026, and then to 0.55 by 2070. The 2015 SPR projected an ARR of 0.52 in 2060. Both SPRs were based on European Commission demographic projections from 2013 and 2019, respectively, with the latter envisaging a significantly larger population (693,613) than the former (476,982).

3.3 Developments in (in)equalities

The opportunity to accrue a pension has not been greatly affected by the COVID-19 pandemic due to measures outlined in Section 2. Unemployment has been low, and between 2020 and 2022 averaged 3 % among those aged 50-59[462]. Inflation may have affected the self-employed, whose AROP rate rose from 14.1 % in 2019 to 18.3 % in 2022 (unlike that of employees, which remained constant at an average of 5.6 %)[463]. Reduced earnings may have resulted in lower social security contributions, affecting the pension entitlement of the self-employed, which for current cohorts is calculated on the best 10 consecutive years in the 12 years prior to retirement.

Inequality among those aged 65+ increased between 2019 and 2022, when their S80/S20 ratio rose from 3.11 to 3.62. The rise was higher for women (by 0.67 to reach 3.65) than men (by 0.49 to reach 3.60). In 2022, women aged 65-79 in Malta received pensions that were on average 45 % lower than those of men. This gap widened by 2.4 pp over 2019, reflecting the fact that more women became entitled to a (low) pension and their pensions thus featured in this formula. The gap in pension coverage between women and men aged 65-79 narrowed by 4.5 pp over this period, to stand at 6.3 % in 2022. These two indicators reflect the wide gender employment gaps that prevailed during the working lives of those reaching pensionable age today, and the increasing number of women who have become entitled to a pension – although their entitlements are still likely to be lower due to traditionally interrupted careers and lower earnings.

[460] This refers to the pension(s) received by a female survivor as a share of what she would have received if her spouse were alive and also in receipt of a pension.
[461] Malta Pensions Strategic Review 2020. Projections were also made taking different sensitivity scenarios into account.
[462] Eurostat: Unemployment rates by age, sex and citizenship [lfsa_urgan]. Last updated 27 April 2023.
[463] Eurostat: At-risk-of-poverty rate by poverty threshold and most frequent activity [ilc_li04]. Last updated 26 July 2023.

4 KEY CHALLENGES AND OPPORTUNITIES

Older women continue to face higher risks of poverty and inequality in later life. To some extent these gender gaps are transitional, as female employment rates have increased markedly and pension entitlement should improve. There also remain opportunities to improve women's pension accrual and wealth through higher lifetime earnings and more working years, such as by: further investment in care services for children and dependent adults; narrowing the gender pay gap; promoting women's financial literacy; encouraging transitions from the informal to the formal labour market; and further family-friendly measures, particularly in the private sector, which lags behind the public one.

Current pension levels among those without supplementary savings do not allow for long-term care costs, whether of a full-time private carer or private residential care; the supply of public residential care is limited. Ensuring that pensioners who need long-term care can afford it, and that younger adults learn to plan for it, is becoming a compelling challenge in view of demographic ageing.

Early exit from employment needs to be closely studied and addressed. One opportunity is to remove the ban on employment among those with a full contributory record who draw an early pension at age 61. Introducing flexible pathways into retirement, such as those proposed by various social partners, would offer numerous social and economic benefits. Another opportunity is to extend the pension deferral incentive beyond its current maximum of four years, following a due study of the labour market impact and any impact on inter-generational equity.

The public subsidising of supplementary pensions can be a double-edged sword. Take-up remains relatively low at present, and it remains important to encourage private provision for old age. At the same time, the risk of widening income inequality between those who can, and cannot, access a supplementary pension must be borne in mind. Mandatory occupational pensions in larger enterprises could be considered, while allowing employees to opt out if they wish to, if for instance they have alternative supplementary pension arrangements. Use could be made of the collective bargaining process to encourage supplementary pension arrangements. In respect of personal pensions, the current tax rebate (which is flat, irrespective of income or investment levels) could be made more favourable for lower-income investors.

5 BACKGROUND STATISTICS

	2022			Change 2019-2022		
5.1. Relative income	Total	Men	Women	Total	Men	Women
Relative median income ratio (65+)	0.72	0.75	0.70	0.01	0.00	0.01
Income quintile share ratio (S80/S20) (65+)	3.62	3.60	3.65	0.51	0.36	0.67
Aggregate replacement ratio (ARR) (65-74) (%; change in pp)	53.0	50.0	45.0	-5.0	-7.0	-2.0
	2022			**Change 2019-2022 (pp)**		
5.2. Poverty and material deprivation	Total	Men	Women	Total	Men	Women
At-risk-of-poverty or social exclusion (AROPE) (65+) (%)	33.3	29.8	36.5	2.6	1.5	3.7
At-risk-of-poverty (AROP) rate (65+) (%)	30.0	26.8	32.8	2.3	0.9	3.5
Severe material and social deprivation (SMSD) rate (65+) (%)	6.1	5.2	6.9	1.2	1.0	1.3
At-risk-of-poverty or social exclusion (AROPE) rate (75+) (%)	32.5	27.5	36.5	3.3	2.6	4.0
At-risk-of-poverty (AROP) rate (75+) (%)	30.1	24.9	34.2	3.3	2.0	4.5
Severe material and social deprivation (SMSD) rate (75+) (%)	4.7	3.8	5.5	1.2	0.7	1.7
Relative median at-risk-of-poverty gap (65+) (%)	12.6	12.9	12.3	1.1	1.0	1.0
At-risk-of-poverty (AROP) rate, 65+: 50 % threshold (%)	10.8	10.4	11.1	0.9	0.7	1.0
At-risk-of-poverty (AROP) rate, 65+: 70 % threshold (%)	42.7	39.4	45.7	0.6	0.2	1.0
Material and social deprivation (MSD) rate (65+) (%)	12.3	9.8	14.5	1.9	1.0	2.8
5.3. Gender difference	**2022**			**Change 2019-2022 (pp)**		
Gender gap in pension income (65-79) (%)	45.0			2.4		
Gender gap in non-coverage rate (65-79) (pp)	6.3			-4.5		
	2022			**Change 2019-2022**		
5.4. Housing and health situation	Total	Men	Women	Total	Men	Women
Housing cost overburden rate (65+) (%; change in pp)	2.2	1.8	2.5	1.0	0.5	1.5
Self-reported unmet need for medical exam 65+ (%; change in pp)	1.4	1.4	1.3	0.6	0.2	0.8
Healthy life expectancy (at age 65) (years) (1)	11.9	12.2	11.6	-2.9	-2.2	-3.5
Life expectancy (at age 65) (years)	20.9	19.4	22.2	-0.2	0.0	-0.3
	2022			**2062**		
Receiving long-term care cash benefits (65+) (%)	0.9			1.1		
Receiving long-term care in-kind benefits (65+) (%)	22.7			24.3		
	2022			**Change 2019-2022**		
5.5 Sustainability and context	Total	Men	Women	Total	Men	Women
Employment rate (55-64) (%; change in pp)	54.5	65.2	43.3	3.4	-1.1	7.9
Pension expenditure (% GDP; change in pp) (1)	7.7			0.4		
Retirement duration from first pension (years)	22.0	22.0	21.4	-1.2	0.3	-3.1
Retirement duration from end employment (years) (2)	22.9	21.5	24.1	-0.3	0.3	-1.2
Projections (3)	**2022**			**2062**		
Old-age dependency ratio (20-64) (%)	30.4	26.1	35.3	54.7	51.5	58.6
Economic old-age dependency ratio (20-64) (%)	35.2	39.9	32.0	64.2	79.4	52.4
Gross public pensions (% GDP)	6.2			9.2		
Benefit ratio (%)	38.7			32.7		
Coverage ratio (65+) (%)	99.1			99.9		
Gross pension ratio high/low earner		1.2	1.2		1.4	1.4

(1) 2021 instead of 2022
(2) Based on the assumptions of the 2024 Ageing Report for the 2023 average exit ages
(3) For the source of each of these six indicators providing projections by 2062, please see 'Indicators, definitions and abbreviations'.

5.6 Theoretical replacement rates

	Net (%)				Gross (%)			
	2022		2062		2022		2062	
	Men	Women	Men	Women	Men	Women	Men	Women
Standard pensionable age (SPA)	**63.0**	**63.0**	**65.0**	**65.0**				
AWG career duration (years)	**43.2**	**42.9**	**43.8**	**43.3**				
Average Earning (100 %)								
Base case: 40 years up to SPA	67.9	67.9	74.9	74.9	51.4	51.4	58.9	58.9
Increased SPA: from age 25 to SPA	73.7	73.7	74.9	74.9	57.2	57.2	58.9	58.9
AWG career length case	67.9	67.9	78.1	73.9	51.4	51.4	62.1	58.9
Longer career: 42 years to SPA			74.5	74.5			58.0	58.5
Shorter career: 38 years to SPA			68.3	68.3			52.4	52.4
Deferred exit: 42 years to SPA +2			74.5	74.5			58.5	58.5
Earlier exit: 38 years to SPA -2			72.7	72.7			55.8	55.8
Career break – unemployment: 3 years	67.9	67.9	74.9	74.9	51.4	51.4	58.9	58.9
Career break – childcare: 3 years	67.9	67.9	74.9	74.9	51.4	51.4	58.9	58.9
Career break – care for family dependant: 3 years	67.9	67.9	74.9	74.9	51.4	51.4	58.9	58.9
Short career (20-year career)	36.1	36.1	34.3	34.3	27.9	27.9	27.3	27.3
Work 35 years, disabled 5 years prior to SPA			67.9	67.9			51.4	51.4
Early entry in the labour market: from age 20 to SPA			80.1	80.1			64.4	64.4
Index: 10 years after retirement at SPA			86.8	86.8			71.4	71.4
Extended part-time period for childcare			63.8	63.8			49.0	49.0
Survivor ratio 1*				0.5				
Survivor ratio 2*				0.7				
Low earnings (66 %)								
Base case: 40 years up to SPA	84.2	84.2	82.8	82.8	69.0	69.0	64.8	64.8
AWG career length case	84.2	84.2	87.3	82.8	69.0	69.0	68.3	64.8
Career break – unemployment: 3 years	84.2	84.2	82.8	82.8	69.0	69.0	64.8	64.8
Career break – childcare: 3 years	84.2	84.2	82.8	82.8	69.0	69.0	64.8	64.8
Short career (20-year career)	51.5	51.5	34.4	34.4	41.4	41.4	30.1	30.1
Early entry in the labour market: from age 20 to SPA			90.7	90.7			71.2	71.2
High earnings (100->200 %)								
Base case: 40 years up to SPA	34.7	34.7	38.0	38.0	25.8	25.8	29.5	29.5

**Survivor ratio 1: man base case, woman base case*
**Survivor ratio 2: man base case, woman short career case*

NETHERLANDS

Highlights

- The Dutch statutory pension system provides overall good protection against poverty and social exclusion. The income replacement capacity depends mainly on occupational pension schemes.
- The gender pension gap remains very wide due to women's lower overall earnings during working age as a result of fewer working hours compared with men.
- Few (solo) self-employed have occupational pension plans and are also more likely to experience gaps in pension entitlements.
- Since 2015, the pension age has gradually increased and is now at 67 years. The pension age rises in line with increases in life expectancy for 65-year-olds: for each year lived longer, the pension age increases by 8 months. For 2024 to 2027, the pension age will remain stable due to only small increases in life expectancy.
- After years of benefit freezes and, at times, benefit reductions, many occupational pension funds are again adjusting pension benefits and entitlements upward. In 2022, pension funds offered, on average, 7 % indexation of pension rights thanks to higher interest rates and new, more flexible rules on indexation.
- In May 2023, parliament adopted a major overhaul of the occupational pension system. The vote paved the way for the transition from a collective defined-benefit system to a collective defined-contribution system. After concerns from social partners and pension funds, the completion of the implementation of the reform was delayed to 1 January 2028.

1 GENERAL DESCRIPTION OF THE NATIONAL PENSION SYSTEM

The Dutch pension system is a multi-pillar system, with retirees drawing pension benefits from all three pillars.

The **statutory pension scheme,** known as *Algemene Ouderdomswet* (AOW), paid a flat-rate cash benefit to all people older than 66 years and 10 months in 2023 who have lived or worked in the Netherlands. Pensioners receive full benefits, if they have resided or worked in the Netherlands for 50 years between the ages of 17 and 67. The pension is reduced by 2 % for each year of non-residence. In 2022, 81 % of AOW pensioners received a full pension. In 2018, the AOW paid on average 46.27 % of the total pension income of those aged 65 and older. This provided effective protection against poverty and social exclusion in retirement.[464]

[464] Calculated from CBS (https://opendata.cbs.nl/statline/#/CBS/nl/).

Pensioners are allowed to combine AOW benefits with employment, provided that the employer agrees. Deferment of AOW benefits is not possible.

The pensionable age is tied to the remaining life expectancy at 65. For each year that those aged 65 years are projected to live longer, the AOW age increases by 8 months. By law, any increases in the pensionable age need to be announced five years in advance. In 2024, the AOW pensionable age will be 67 years. For the coming years, it will remain stable at 67 years due to lower increases in life expectancy; 67 years and 3 months as of 2028. The Central Bureau of Statistics projects that those who are 65 years old in 2028 will have a remaining life expectancy of 21.05 years.[465]

AOW pensions are pay-as-you-go (PAYG) financed: the contribution rate has been fixed at 17.90 % for both employees and the self-employed since 1997. The statutory maximum is 18.25 % and is integrated in the personal income tax system for those below the pensionable age. The contribution is paid on personal taxable income below the taxable income ceiling of EUR 37,149 (2023 figure). AOW contributions are paid through the income tax system for employees as well as the self-employed. AOW contributions cover 70 % of expenditure; general revenues finance the rest.

AOW benefits are coupled with the minimum wage. As of July 2023, single pensioners received EUR 1,458.15 per month (gross), equalling 70 % of the minimum wage. Married and cohabiting pensioners received EUR 993.16 monthly, equalling 50 % of the minimum wage. AOW benefits are indexed to the net minimum wage twice per year. In the most recent indexation in July 2023, pensioners received a 7 % benefit increase following an increase in the minimum wage. To cover the additional financial costs generated by this benefit increase, the government lowered income support for AOW recipients (IOAOW) to EUR 5 per month. In 2025, the IOAOW will be completely phased out.

Pensioners who do not qualify for a full AOW pension and have little or no other income are eligible for an AIO (*aanvullende inkomensvoorziening ouderen*) supplement that brings the monthly net benefit up to the minimum income determined by the government.

All Dutch residents qualify for a survivor pension under the ANW (*Algemene Nabestaandenwet*). Survivors' pensions are paid to surviving spouses and minor children, regardless of whether the deceased has reached the pensionable age. Occupational pension schemes may provide additional survivor benefits for surviving spouses and minor children.

Occupational pension schemes, except for schemes for the liberal professions such as medical specialists, are negotiated and managed by employers and unions as part of collective agreements. Legislation on the extension of collective agreements to entire sectors and the wide coverage (80 % of the population aged 15–64), of such agreements, ensure very high participation. In 2020, 24 % of workers did not save for an occupational pension. These were 1.7 million individuals, both in standard employment and the self-employed. Employed workers are much more likely to have an occupational pension plan (87 %) than self-employed workers (6 %) (AFM 2023). Those without an occupational pension plan are often

[465] Rijksoverheid (2022), 'AOW leeftijd in 2028 met drie maanden omhoog', *www.rijksoverheid.nl,* November 9, 2022. (https://www.rijksoverheid.nl/actueel/nieuws/2022/11/09/aow-leeftijd-in-2028-met-drie-maanden-omhoog – accessed 7 September 2023).

employed in sectors that do not (yet) have a collectively bargained pension plan or have employment contracts that do not include pension savings (e.g. payrolling), on-call workers, and the solo self-employed (*zzp'ers*). Coverage percentages have been stable over time.[466]

Most occupational schemes are organised as not-for-profit pension funds: there were 174 in 2022). The remainder are organised as life insurance products. Occupational pension schemes are collectively organised, quasi-mandatory, and solidaristic.[467] Pension schemes may be organised at the firm, sectoral, or professional level. Occupational pensions are closely integrated with the AOW. Specific pension targets vary but generally aim to pay a defined benefit, bringing the total pension (including a full AOW) up to 70 % of average wages for 40 years of service. Employers typically pay two thirds of the pension contribution, and employees pay the rest. All participants in the same scheme pay the same contribution rate (for recent changes, see Section 2). Contribution rates usually range from 15 % to 25 % of qualifying income above the AOW offset (*franchise*), which represents the income insured by the AOW scheme. There is a wide variation across schemes concerning the level of the income ceiling for contributions and benefit accrual. Participants may accrue up to 1.875 % of their eligible salary below EUR 100,000.

Current occupational pension schemes are typically nominally defined-benefit (DB) schemes, in that they typically promise a specific nominal benefit to participants. These pension schemes will soon change with the transition to a new occupational pension system (see below). In reality, most schemes are hybrid DB and defined-contribution (DC). The administrative boards of pension schemes may choose among several levers, including benefit cuts, to restore solvency if assets fall below a minimally required level. This minimally required level in most cases is around 104 % of liabilities. Pension funds are not legally required to index pension accrual and pay-outs to inflation and/or wages. Instead, the indexation of both accrual and benefits is conditional on pension fund solvency.

Occupational pension schemes are fully funded: the regulatory framework (*nieuw financieel toetsingskader* – nFTK) requires pension funds (in most cases) to have assets equal to their required own capital (*vereist eigen vermogen*, VEV). The VEV is individually determined for each pension fund and is based on the risk profile of the fund stemming from its investment policy. If the VEV drops below the fund's average funding ratio of the past 12 months (*beleidsdekkingsgraad*), the fund needs to submit a recovery plan to the Dutch Central Bank. The recovery plan should detail how the fund will restore solvency within the next 10 years.

At the end of December 2022, occupational pension fund assets totalled EUR 1.426 trillion. The funding ratio over the past 12 months was 120.2 % of liabilities: the risk-free discounted present value of accumulated pension rights reflecting a steady recovery of financial performance since 2020. The 12-month funding ratio is used for decisions regarding indexation and other entitlement adjustments.

[466] Hybrid workers, combining traditional employment with self-employment, do not save for an occupational pension in 24% of cases. Source: AFM 2023, *Fiscaal-gefaciliteerde opbouw van individueel pensioenvermogen in de derde pijler* (https ://www.afm.nl/~/profmedia/files/doelgroepen/pensioenuitvoerders/2023/pensioenopbouw-derde-pijler.pdf – accessed 7 September 2023).

[467] Collective bargaining coverage is very high (about 80%). Nearly all collective agreements include mandatory participation in an occupational pension scheme. Most occupational pension schemes provide collective benefits based on risk-pooling, so all occupational pension scheme members share the risks associated with investments and longevity.

After years of benefit freezes due to low solvency, many pension funds were able to restore pension accruals and payouts in 2022. Even though pension buffers were overall declining, rising interest rates and relaxed financial rules on indexation, in anticipation of the transition to the new occupational pension system, made it possible for pension funds to restore pension entitlements. In 2022 and 2023, pension funds that stated they would transit to the new pension system were able to award indexation if their 12-month funding ratio was 105 % or over instead of the earlier required 110 %. The rule will be in place until 2024. On average, pension funds were awarded 7 % indexation in 2022 which is still below inflation levels.[468]

Most occupational pension schemes phased out early retirement schemes, after the government introduced an additional tax of 52 % on early retirement benefits in 2005. However, the 2019 Pension Accord allowed for a temporary relaxation of the fiscal rules on early retirement for those working in arduous and/or hazardous jobs (*Regeling voor Vervroegde Uittreding – RVU*). Qualifying employees may retire a maximum of 36 months prior to the prevailing AOW age. They receive early retirement benefits (gross) equal to the AOW benefits (net). For this group of employees, employers do not have to pay the early retirement tax. The fiscal exemption is in place temporarily, between 2021 and 2025.

Social partners decide by collective bargaining agreement whether to offer a RVU to employees in their sector and which employees do qualify. Most collective bargaining agreements specify that employees qualify for early retirement only if their employment prevents them from reaching the AOW age in a healthy condition. Most collective agreements also require minimum years of service to qualify for early retirement: between 5 and 25 years the average is 18 years of service). The scheme has not proven popular so far; in 2022, only 15,000 employees made use of a RVU to retire early.[469] Union federation FNV notes that the relatively low benefit is a deterrent for eligible workers to make use of the scheme.[470]

Because of the coverage of the statutory and occupational pension systems, **personal pension schemes** are not widespread, except for the self-employed and those wishing to supplement their statutory and occupational pension benefits. In 2020, only 5 % of employees and 11 % of the self-employed made a financial contribution to pension products in personal pension schemes.[471] These percentages are similar to previous years (2014–2019). Contributions to these schemes are also relatively low. Workers over 50, high-income earners, the self-employed, and those expecting low replacement rates from the statutory and occupational pension schemes are most likely to have personal pension savings. The new Future Pensions Act (*Wet Toekomst Pensioenen*, see Section 2) seeks to incentivise personal pension savings by reducing the fiscal differences between occupational and personal pension savings.

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[468] I. Lendering (2023), *AWVN-pensioenbenchmark 2023: eindelijk indexatie!,* The Hague: AWVN (https://www.awvn.nl/pensioenregeling/publicaties/awvn-pensioenbenchmark-2023/#:~:text=Het%20is%20het%2013e,fors%20hoger%20dan%20in%202021 – accessed 7 September 2023).

[469] Ministerie van Sociale Zaken en Werkgelegenheid (2023), *Over RVU* (https://www.uitvoeringvanbeleidszw.nl/subsidies-en-regelingen/maatwerkregeling-duurzame-inzetbaarheid--eerder-uittreden-mdieu/over-rvu – accessed 7 September 2023).

[470] Nu.nl (2023), 'Meer mensen met zwaar beroep kunnen keer stoppen met werken', *www.nu.nl,* 5 June 2023 (https://www.nu.nl/economie/6264864/meer-mensen-met-zwaar-beroep-kunnen-eerder-stoppen-met-werken.html – accessed 7 September 2023).

[471] AFM (2023), *Fiscaal-gefaciliteerde opbouw van individueel pensioenvermogen in de derde pijler* (https://www.afm.nl/~/profmedia/files/doelgroepen/pensioenuitvoerders/2023/pensioenopbouw-derde-pijler.pdf – accessed 7 September 2023).

To deal with the negative economic consequences of the COVID-19 pandemic, the government offered financial support for employers struggling to make wage or benefit payments. The *Noodfonds Overbrugging voor Werkbehoud* (NOW) could be used for pension contributions. Some pension schemes also offer the possibility to halt or postpone pension contribution payments in the event of ‘a severe change of circumstances’ for the employer. (Solo) self-employed could qualify for income support under the *Tijdelijke Overbruggingsregeling Zelfstandige Ondernemers* (Tozo).

2 REFORM TRENDS

Following the adoption of the Future Pensions Act (Wet Toekomst Pensioenen –WTP), a major overhaul of the Dutch pension system will take place in the coming years.

With the entry into force of the (WTP) on 1 July 2023, a 5-year transition period started, during which large changes to the Dutch occupational pension system will be implemented. By far the largest change is the transition from collective defined-benefit (DB) occupational pensions to collective defined-contribution (DC) pensions. The new pension contracts will no longer foresee nominally fixed benefits but will make benefits depend more directly on pension funds’ investment performance. However, collective capital buffers to absorb financial market shocks will remain in place. While pension funds’ capital will continue to be collectively invested according to the ‘prudent person principle’, pension funds may implement different investment strategies for different age groups. Younger participants, with a longer investment horizon, are exposed to a higher risk or reward while older generations’ pension capital is allocated to relatively riskless investments and therefore more stable. To balance the risk throughout the economic cycle and thus ensure solidarity between generations, the new contracts will typically include a collective solidarity reserve to smooth large downfalls or upticks. The change applies to both existing and new members of the occupational pension schemes.

The reform seeks to solve several problems confronting the current occupational pension system. First, the new collective DC pensions give workers pension entitlements in terms of personal ‘pension capital’. By having workers accrue pension benefits on an individual basis, the government and social partners hope to create more transparency regarding workers’ future pensions. and – by extension – restores public confidence in the pension system that was lost after the losses incurred following the financial crisis of 2008. Second, the transition to collective DC pensions is expected to reduce the regulatory burden on pension funds, as the current DB system requires them to keep large buffers and only allows indexation under strict conditions. Because the new pension scheme no longer works with guaranteed nominal benefit levels, strict buffer requirements are no longer necessary, so less capital is needed for buffers. This also takes away the need to work with a risk-free rate for discounting future benefits and funding ratios. Another focus of the upcoming reform is intergenerational fairness. In the current system, called ‘*doorsneesystematiek*’, employees pay the same contribution (the uniform contribution rate) and accrue the same pension entitlements, independent of their age. This system may be considered disadvantageous for younger participants because their contributions have a longer investment horizon than those of older workers, yet their accrual rates are the same. This is especially a problem when workers change jobs or move into self-employment, which is becoming increasingly common. Under WTP, contributions will remain the same, however, the accrual rate of pension entitlements is expected to be higher for younger participants as their investment horizon is longer compared with their older colleagues.

Another legislative proposal that allows for the payment of a one-time lump sum at the time of retirement has been sent to parliament for approval. According to the proposal, the lump sum cannot exceed more than 10 % of the accrued pension among other conditions such as the remaining lifelong pension not being below a minimum amount. In the new WTP system, occupational pensions may start up to 10 years before the AOW age or up to 5 years after the AOW age. It also remains possible to retire part-time or temporarily receive higher or lower pension benefits.

The goal of the WTP is to adjust the occupational pension system to a more flexible labour market, in which fewer people enjoy life-long careers with one employer, and to more flexible forms of retirement. For this reason, the new pension system expands the possibilities for the (solo) self-employed to save for retirement. In a trial phase until 2028, occupational pension funds may start to offer voluntary pension schemes for the (solo) self-employed. As of 1 January 2023, the accrual rate for tax-deductible personal pension savings has been raised from 13.3 % to 30 % up to a maximum income of €128,810. The period over which 'catch-up payments' can be made to cover existing pension gaps has also been increased from 7 to 10 years. Under the new rules, it will be possible to contribute to personal pension schemes for up to five years after reaching the AOW age.

The WTP concludes a reform trajectory that started with the 2010 Pension Accord in the aftermath of the 2008 financial and economic crisis. The plans for the new system received broad societal support, as its main features were already decided on by the social partners in the 2019 Pension Accord and subsequently ratified by the three largest union confederations. These include the National Federation of Christian Trade Unions in the Netherlands (CNV), The Netherlands Trade Union Confederation (FNV), and The Trade Union Federation for Professionals (VCP). The new law faced opposition in both the first and second chambers of parliament from a number of political parties. Among them were the Socialist Party (SP), the pensioners' party 50PLUS, and various populist right-wing protest parties (BBB, FVD, JA21, PVV). A major concern for these political parties is the risk that the new collective defined contributions (CDC) pensions may result in occupational pensions being too variable, as the nominal guaranteed benefits will be terminated. Nevertheless, the new legislation was approved by the Second Chamber of Parliament on 22 December 2022 and the First Chamber of Parliament on 30 May 2023.[472]

While the legal framework of the new occupational pension system is clear, several issues remain in terms of implementation by pension funds and insurance companies. One issue is the termination of the '*doorsneesysteem*' (average system), which poses a potential problem for workers aged between 40 and 50 years. Their current and future contributions will, in fact, have less time to generate returns and accumulate adequate pension savings under the new

[472] Wet toekomst pensioenen (36.067) - Eerste Kamer der Staten-Generaal

system. Social partners are currently discussing whether there is a need for financial compensation for this group of workers to avoid pension outcomes below what is aimed for.

Another issue is the administration of the new pension contracts. The new pension contracts will give workers individual entitlements to pension, which requires major adjustments to pension funds' information and communication technology (ICT) systems. A June 2023 study by the pension regulator, De Nederlandsche Bank (DNB), shows that few pension funds are fully aware of how their administrative systems need to be adjusted to administer the new pension plans. While most pension funds have roadmaps in place, many of the plans assessed by DNB were still insufficiently detailed. Although the final deadline for finalising the implementation of new pension contracts under the WTP was postponed until January 2028, all pension funds will need to submit transition plans and implementation plans in 2025.

3 ASSESSMENT OF ADEQUACY

3.1 Current adequacy

While old-age poverty indicators are slightly better than the EU average, income replacement indicators are below average. The median income of those aged 65+ is 73 % of the median income of the 18 to 64 age group: 76 % for men and 71 % for women, against an EU average of 90 %. The aggregate replacement ratio for pensions is 52 %, stable since 2019, and slightly below the EU average of 58 %. Only 1.7 % of those aged 65 and older were in a situation of severe material deprivation in 2022. The EU average is 5.5 %, a reduction of 0.8 percentage points since 2019. The rate for those aged 75+ was 1.4 % and 1.5 % in 2019. The relative poverty gap for those aged 65+ has narrowed in recent years from 14.2 % in 2019 to 11.4 % in 2022.The EU average is 18.1 %. Women experienced a 3.6 percentage point decrease since 2019 (10.7 % in 2022) compared with a 0.7 percentage point decrease for men (12.3 % in 2022). Income differences between pensioners, despite remaining high, have also decreased: in 2022, the highest 20 % of the income distribution received 294 % of the income of the bottom 20 % .This is 9 percentage points lower than in 2019. The EU average is 410 %.

On some indicators, the situation has deteriorated for pensioners. The median income for those aged 65+ has shown a decline of 7 percentage points since 2019. Since 2019, the at-risk-of-poverty (AROP) rate for those aged 65+ has increased by 5.3 percentage points to 17.1 % in 2022. The EU average is 17.3 %. The AROPE rate for those aged 65+ also increased by 4.7 percentage points to 17.9 %. 20.2 % is the EU average. Women have a higher risk of poverty or social exclusion (19.7 %) than men (16.0 %). The AROPE rate for those aged 75+ was 23.3 % in 2022, showing a stark increase of 8.9 percentage points since 2019. The EU average is 21.3 %e. Again, women over 75 had higher AROPE rates (24.9 %) than men (21.4 %). The housing cost overburden rate among people aged 65+ increased very slightly between 2019 (12.5 %) and 2022 (13.1 %, i.e. 3.4 pp above the EU average of 9.7 %). This rate is much higher among women (15.6 %) than among men (10.2 %).

The Netherlands' performance in protection against poverty in old age is a direct consequence of the universal coverage of the AOW pension and the AOW's link to the net minimum wage. Although almost 20 % of pensioners do not receive a full AOW, the widespread coverage of occupational pensions helps to compensate for this, as do various income supplements for pensioners with insufficient income from sources other than the AOW. That said, the increased costs of living caused by high inflation has affected large segments of the population, including pensioners. According to the Central Bureau of Statistics, purchasing power improved for 60 % of the working population in 2021 thanks to wage increases and job mobility, yet deteriorated for 75 % of retirees. Retirees generally have fewer opportunities to improve their purchasing power, as they cannot easily find new sources of income.[473] Self-reported unmet needs for medical treatment continue to be below the EU average (at 1.2 % for women aged 65 and 2.0 % for men).

3.2 Future adequacy

According to the projections, the theoretical replacement rates (TRRs) for similar careers will experience a notable reduction between 2022 and 2062 for both men and women. In the base case (40-year career until the standard pensionable age [SPA]), the net TRR is projected to decrease by 25.9 pp, i.e. from 104.8 % in 2022 to 78.9 % in 2062. An increase in the SPA (70 years in 2062) will only modestly improve the net TRR compared with the base case (81.1 % in 2062, i.e. a 2.2 pp increase). Average-income earners with career breaks, and shorter careers, particularly those who exit the labour market prior to the SPA, have lower TRRs. High-income earners are projected to experience an above-average reduction in the net TRR (from 101.1 % to 63.3 %, i.e. a 37.8 pp decrease) by 2062, but are more likely to possess other sources of income or wealth during retirement, such as home ownership.

Future adequacy will depend on the affordability of the statutory pension scheme and the ability of the new occupational pension schemes to generate sufficient returns in the future. In 2021, pension expenditures were 11.5 % of GDP (against the 13.0 % EU average). Like other EU Member States, the Netherlands is facing an ageing population with a projected old-age dependency ratio of 51.0 % in 2059. Recent reforms of the statutory and occupational pension systems were aimed at offsetting the financial consequences of demographic ageing, yet additional changes to both types of schemes will likely be necessary.

Due to population ageing, expenditures on the statutory pension AOW are still expected to increase from EUR 43.5 billion (4.6 % of GDP, based on 2022 figures) to EUR 47 billion in 2027. Following the 2019 Pension Agreement between social partners and the government, the adjustment mechanism connecting the statutory pension age to longevity increases has been modified to lead to less stark increases in the retirement age than previously agreed upon. The proposal to abolish the link between the AOW and the minimum wage in 2022 failed to attract broad political support[474], but is likely to remain in the political debate.

The future affordability of the statutory pension scheme will also depend on workers' ability to stay in the labour market. As early retirement options have been phased out, the employment rate of those aged between 55 and 64 has improved in recent years and now stands at 73.1 %. It was at 69.7 % in 2019. Past increases in the statutory pension age have

[473] CBS (2022), 'Koopkracht in 2021 al onder druk door stijgende prijzen', *www.cbs.nl*. 13 September 2022 (https://www.cbs.nl/nl-nl/nieuws/2022/37/koopkracht-in-2021-al-onder-druk-door-stijgende-prijzen – accessed 7 September 2023).

[474] NOS Nieuws (2022), 'Eerste Kamer: Toch koppeling AOW met minimumloon', *www.nos.nl*, 15 February 2022 (https://nos.nl/artikel/2417523-eerste-kamer-toch-koppeling-aow-met-minimumloon – accessed 7 September 2023).

contributed to an increase in the average retirement age: from 60.7 years in 2002 to 65.8 in 2022.[475] There has also been a slight reduction in retirement duration from the first pension receipt: from 19.4 years in 2019 to 18.8 years in 2022. Women, on average, enjoy a longer retirement duration than men (19.9 years versus 17.7 years). The remaining life expectancy for those aged 65 was 19.8 years on average in 2022. The planned increase in the retirement age for 2028 will coincide with the introduction of new occupational pension contracts that allow for more flexible forms of retirement, including continued employment past the retirement age.[476]

The transition from DB to collective DC occupational pensions, whereby the new pension contracts will no longer provide nominally fixed benefits but will make benefits dependent more directly on pension funds' investment performance, may also affect future adequacy, although it is yet unclear to what extent.[477] That said, the new pension contracts are also aimed at making improvements to pension benefits easier resulting from market upswings since Dutch pension funds will no longer have to maintain high buffers.[478] Future adequacy will also depend on the financial compensation of workers aged 40 to 50, who may potentially incur in high transition costs (see Section 2).

3.3 Developments in (in)equalities

The new occupational pension scheme abandons the 'uniform contribution and pension accrual rates'. Under the current collective DB schemes, these uniform rates redistribute pension savings from younger to older workers. In the context of an ageing population, this is financially disadvantageous to younger participants, as they are not expected to similarly benefit from this redistributive mechanism as they age. The new collective DC occupational pensions are expected to reduce this source of intergenerational inequality, as pension rights will be accrued on an individual basis and pension funds will be able to adopt lifecycle investing.

The gender gap in pension income for those aged 65–79 was 40.0 % in 2022, a decrease of 2.1 percentage points since 2019, but still the 2nd highest in the EU. This very large gender gap reflects lower overall earnings due to the comparatively late entrance of women into the labour market and high levels of part-time work, compared with other EU Member States. In 2021, women accounted for 47 % of the working population. On average, they worked 29.2 hours per week (for men, this was 39.4 hours), while the number of women working full-time remained low, at 32.7 % in 2021.[479] These trends do not affect statutory pension income but have a significant influence on occupational pension income. In 2020, 68.3 % of women aged 65+ received an occupational pension, compared with 92.6 % of men. Women's occupational

[475] CBS (2023), 'Pensioenleeftijd werknemer gemiddeld 65 jaar en 8 maanden', *www.cbs.nl* (https://www.cbs.nl/nl-nl/nieuws/2023/20/pensioenleeftijd-werknemer-gemiddeld-65-jaar-en-8-maanden – accessed 7 September 2023).
[476] Rijksoverheid (2023), *Rijksbegroting 2023. XV Sociale Zaken en Werkgelegenheid* (https://www.rijksfinancien.nl/miljoenennota/2023/bijlage/1485637#:~:text=Met%20name%20door%20een%20toename,met%20circa%202%20miljard%20euro – accessed 7 September 2023).
[477] See for instance: Langley, P. (2004), 'In the eye of the "perfect storm": The final salary pensions crisis and financialisation of Anglo- American capitalism', *New Political Economy*, *9*(4), pp. 539-558.
[478] Pensioenfederatie (2023), *Nieuw pensioencontract* (https://www.pensioenfederatie.nl/website/publieke-landingspagina/nieuwe-pensioencontract – accessed 7 September 2023).
[479] CBS (2022), 'Emancipatiemonitor 2022', *www.cbs.nl* (https://longreads.cbs.nl/emancipatiemonitor-2022/werken/ – accessed 7 September 2023).

pension income also tends to be lower than men's: in 2020, they received 43 % of the men's median occupational pension.[480]

Women are catching up in terms of labour market participation, which should increase their earnings and therefore occupational pensions. Between 2016 and 2021, more women entered the labour market than men. Moreover, women's average number of hours worked per week is also increasing, particularly among younger generations, as is the number of women working full-time.[481] To support this trend, the government has introduced new legislation to expand parental leave for non-birthing parents and make it easier for women to return to work after pregnancy. At the same time, lack of access to affordable childcare remains an obstacle for women to increase their weekly working hours.

4 KEY CHALLENGES AND OPPORTUNITIES

The first challenge concerns the financial sustainability of the statutory pension system. Although the 2010 and 2019 pension agreements (*Pensioenakkoord*) between the government and the social partners allowed for gradual increases in the retirement age, AOW expenditures are nevertheless expected to increase, due to an increasing number of pensioners. Keeping older workers active in the labour market should therefore remain a top priority for future governments.

The implementation of the new occupational pension system is also a priority. The new system is expected to lead to more intergenerational equity, as pension rights will accrue on an individual basis, while the new schemes will maintain some mechanisms of collective risk-sharing through capital buffers. To what extent the collective DC pension schemes will be able to deliver adequate pensions is still uncertain. In the mid- to long-term, this will depend on still unknown financial market developments, while in the short-term, the administrative implementation of the new pension contracts as well as the remaining question of transition costs for workers aged 40 to 50 years constitute major challenges.

Without additional measures, it is uncertain whether the new occupational pension system will completely solve other existing inequalities. The new pension system, for instance, is designed to improve pension adequacy among the (solo) self-employed, but it does not require this group to participate in occupational pension schemes, nor does it directly deal with the too low contribution rates for the self-employed with occupational pension plans. Similarly, the new pension system does not tackle the underlying labour market causes of the gender pension gap. Maintaining and improving future pension adequacy will therefore require additional measures outside the pension system. For instance, the narrowing of the gender pension gap will depend on policies to improve women's labour market participation and close the gender employment gap, such as the accessibility of childcare.

[480] CBS (2022), 'De Materiële Welvaart van Nederland 2022', *www.cbs.nl* (https://longreads.cbs.nl/materiele-welvaart-in-nederland-2022/inkomen-van-personen/ – accessed 7 September 2023).
[481] CBS (2022), *Emancipatiemonitor 2022* (https://longreads.cbs.nl/emancipatiemonitor-2022/werken/ – accessed 7 September 2023).

5 BACKGROUND STATISTICS

	2022			Change 2019-2022		
5.1. Relative income	Total	Men	Women	Total	Men	Women
Relative median income ratio (65+)	0.73	0.76	0.71	-0.07	-0.07	-0.09
Income quintile share ratio (S80/S20) (65+)	2.94	3.04	2.83	-0.09	-0.13	-0.05
Aggregate replacement ratio (ARR) (65-74) (%; change in pp)	52.0	51.0	55.0	1.0	-3.0	0.0

	2022			Change 2019-2022 (pp)		
5.2. Poverty and material deprivation	Total	Men	Women	Total	Men	Women
At-risk-of-poverty or social exclusion (AROPE) (65+) (%)	17.9	16.0	19.7	4.7	3.5	5.9
At-risk-of-poverty (AROP) rate (65+) (%)	17.1	15.2	18.8	5.3	3.8	6.7
Severe material and social deprivation (SMSD) rate (65+) (%)	1.7	1.8	1.7	-0.8	-0.3	-1.2
At-risk-of-poverty or social exclusion (AROPE) rate (75+) (%)	23.3	21.4	24.9	8.9	8.1	9.7
At-risk-of-poverty (AROP) rate (75+) (%)	22.7	20.4	24.5	9.3	7.6	10.6
Severe material and social deprivation (SMSD) rate (75+) (%)	1.4	1.8	1.2	-0.1	1.2	-0.9
Relative median at-risk-of-poverty gap (65+) (%)	11.4	12.3	10.7	-2.8	-0.7	-3.6
At-risk-of-poverty (AROP) rate, 65+: 50 % threshold (%)	5.8	5.5	6.2	1.0	1.0	1.1
At-risk-of-poverty (AROP) rate, 65+: 70 % threshold (%)	36.3	32.6	39.6	10.2	8.3	11.9
Material and social deprivation (MSD) rate (65+) (%)	4.9	4.9	4.9	-0.5	0.1	-1.0

5.3. Gender difference	2022	Change 2019-2022 (pp)
Gender gap in pension income (65-79) (%)	40.0	-2.1
Gender gap in non-coverage rate (65-79) (pp)	-0.4	-0.5

	2022			Change 2019-2022		
5.4. Housing and health situation	Total	Men	Women	Total	Men	Women
Housing cost overburden rate (65+) (%; change in pp)	13.1	10.2	15.6	0.6	0.5	0.7
Self-reported unmet need for medical exam 65+ (%; change in pp)	1.6	2.0	1.2	0.5	0.5	0.5
Healthy life expectancy (at age 65) (years) (1)	9.4	9.2	9.7	-0.5	-1.0	0.1
Life expectancy (at age 65) (years)	19.8	18.7	20.9	-0.5	-0.3	-0.5

	2022	2062
Receiving long-term care cash benefits (65+) (%)	1.2	2.1
Receiving long-term care in-kind benefits (65+) (%)	22.8	30.1

	2022			Change 2019-2022		
5.5 Sustainability and context	Total	Men	Women	Total	Men	Women
Employment rate (55-64) (%; change in pp)	73.1	80.1	66.3	3.4	1.8	5.1
Pension expenditure (% GDP; change in pp) (1)	11.5			0.3		
Retirement duration from first pension (years)	18.8	17.7	19.9	-0.6	-0.5	-0.7
Retirement duration from end employment (years) (2)	19.9	18.7	21.1	-0.5	0.3	-1.1

Projections (3)	2022			2062		
Old-age dependency ratio (20-64) (%)	34.1	31.6	36.7	51.0	47.4	54.6
Economic old-age dependency ratio (20-64) (%)	37.3	37.7	37.3	51.1	48.4	53.6
Gross public pensions (% GDP)	6.5			8.1		
Benefit ratio (%)	67.3			65.3		
Coverage ratio (65+) (%)	114.3			99.4		
Gross pension ratio high/low earner		3.0	3.0		2.5	2.5

(1) 2021 instead of 2022

(2) Based on the assumptions of the 2024 Ageing Report for the 2023 average exit ages
(3) For the source of each of these six indicators providing projections by 2062, please see 'Indicators, definitions and abbreviations'.

5.6 Theoretical Replacement Rates	Net (%)				Gross (%)			
	2022		2062		2022		2062	
	Men	Women	Men	Women	Men	Women	Men	Women
Standard Pensionable Age (SPA)	**66.6**	**66.6**	**70.0**	**70.0**				
AWG career duration (years)	**45.2**	**44.1**	**46.3**	**45.5**				
Average Earning (100 %)								
Base case: 40 years up to the SPA	104.8	104.8	78.9	78.9	95.7	95.7	69.8	69.8
Increased SPA: from age 25 to SPA	106.1	106.1	81.1	81.1	97.9	97.9	71.8	71.8
AWG career length case	104.8	104.6	82.2	81.7	95.7	95.4	72.8	72.3
Longer career: 42 years to SPA			80.0	80.0			70.8	70.8
Shorter career: 38 years to SPA			77.7	77.7			68.8	68.8
Deferred exit: 42 years to SPA +2			80.0	80.0			70.8	70.8
Earlier exit: 38 years to SPA -2			28.9	28.9			25.6	25.6
Career break – unemployment: 3 years	101.6	101.6	76.9	76.9	91.6	91.6	68.1	68.1
Career break due to child care: 3 years	101.6	101.6	77.0	77.0	91.6	91.6	68.2	68.2
Career break care to family dependent: 3 years	101.6	101.6	76.3	76.3	91.6	91.6	67.5	67.5
Short career (20-year career)	80.9	80.9	64.1	64.1	67.9	67.9	56.8	56.8
Work 35 years, disabled 5 years prior to SPA			75.9	75.9			67.2	67.2
Early entry in the labour market: from age 20 to SPA			83.8	83.8			74.2	74.2
Index: 10 years after retirement at SPA			75.3	75.3			66.7	66.7
Extended part-time period for childcare			71.9	71.9			63.7	63.7
Survivor ratio 1*		0.8		0.5				0.5
Survivor ratio 2*		0.8		0.4				0.4
Low earnings (66 %)								
Base case: 40 years up to the SPA	102.4	102.4	76.8	76.8	100.1	100.1	74.8	74.8
AWG career length case	102.4	102.3	77.5	77.4	100.1	99.9	75.8	75.7
Career break – unemployment: 3 years	100.4	100.4	75.9	75.9	97.2	97.2	74.2	74.2
Career break due to child care: 3 years	100.4	100.4	75.9	75.9	97.2	97.2	74.2	74.2
Short career (20-year career)	88.7	88.7	71.8	71.8	81.2	81.2	70.3	70.3
Early entry in the labour market: from age 20 to SPA			78.0	78.8			76.3	76.1
High Earnings (100->200 %)								
Base case: 40 years up to the SPA	101.1	101.1	63.3	63.3	91.5	91.5	49.5	49.5

**Survivor ratio 1: man base case, woman base case*
**Survivor ratio 2: man base case, woman short career case*

NORWAY

Highlights

- The reformed Norwegian statutory pension system is based on the notional defined-contribution framework, but the system is fully integrated into the state budget and flanked by comparatively generous minimum protection.
- The indexation rules were changed from 2021, so that old-age pensions in payment are now indexed to an average of changes in wages and prices. The new indexation rule helps to better cushion pensioners against the effect of high inflation and low real wage development.
- The relative income position of old-age pensioners has improved very significantly over recent decades, and the poverty rate among the population aged 65+ is now slightly lower than in the general population. However, a significant gender gap in pensions persists and women in single households are particularly exposed to relative income poverty.
- A government-appointed commission proposed amendments to the 2011 reform, linking all the relevant age limits in the pension system to future developments in longevity. It also proposed changes in the adjustment of minimum pensions and in the calculation of old-age pensions for disability pensioners.

1 GENERAL DESCRIPTION OF THE NATIONAL PENSION SYSTEM

The statutory pension scheme – the national insurance (NI) scheme – is the main provider of income security in old age. Due to a major reform legislated in 2009, which started to take effect in 2011, two versions of the system are currently in operation. The old NI system, which will be fully phased out for individuals born in 1963 or later, is a traditional defined-benefit (DB) scheme consisting of three benefit components: a flat-rate universal benefit; an earnings-related second tier requiring 40 years of contribution to receive full benefits; and a targeted supplement that provides an effective minimum benefit for individuals with little or no earnings-related benefits.

The new reformed NI system consists of two parts. The backbone of the new system is a notional defined-contribution (NDC) scheme providing income-smoothing between the economically active life phase and the retirement phase, while an individually targeted guarantee pension provides minimum protection. For each year in employment an amount equivalent to 18.1 % of yearly earnings is credited an individual NDC account; yearly earnings (and self-employment income) count up to a ceiling currently fixed at NOK 842,202 (around EUR 72,430); and pension accrual can start from age 13 and continue to age 75. Accumulated deposits on the notional accounts are automatically indexed to the development in average wages, and the deposits are converted to a life annuity upon retirement, based on a unisex annuity divisor. The guarantee pension provides targeted minimum protection. It is fixed at a comparatively high level – from 1 May 2023 at NOK 227,468 (around EUR 19,600) for a single pensioner – and the benefit is tested against NDC pension benefits with a taper of 80 %[482]. To receive full benefits, 40 years of residency in the country is required. Immigrants and other individuals with a shorter residency record are eligible for a means-tested supplementary benefit.

Individuals who do not participate in employment for a set of particular (legally recognised) reasons also accrue pension rights in the NDC system. Parents with small children (under age 6) are guaranteed a minimum annual pension accrual equivalent to a modest full-time wage. Young people on obligatory military service receive pension rights equivalent to about half an average full-time wage. Social security benefits (but not social assistance benefits) are as a main rule counted as earnings, while recipients of unemployment benefits and disability benefits have their annual pension accrual calculated on the basis of their annual earnings prior to becoming unemployed or disabled.

The reform of 2011 introduced three important changes that were applied to the old and the new systems alike, as follows.

i. A fixed statutory retirement age was removed and replaced by a flexible system where pension take-up can start at age 62 and be deferred until 75 with full actuarial adjustments. The introduction of actuarial neutrality is combined with a complete removal of any earnings tests. It is therefore possible to draw a full old-age pension from age 62 while at the same time continuing to work full time. In order to be able to start taking out a pension before age 67, people need to have enough accumulated pension wealth to allow the adjusted annual benefit to be on a par with the guaranteed minimum benefit.

ii. Accrued pension rights (including the guarantee pension) are subject to a life expectancy adjustment, implying that annual old-age benefits for each new cohort of pensioners are reduced in proportion to the observed increase in longevity of the Norwegian population.

iii. Old-age benefits in payment are not fully indexed to the development in wages (see details in Section 2).

The new NI system is fully integrated into the general state budget and financed through a mixture of payroll taxes, an unspecified social security contribution (basically just another income tax), and general taxation. The individual taxpayer’s contribution to the financing of the statutory pension system is therefore not defined and specified by an earmarked pension contribution. While the pension reform of 2011 implies that the pension costs of increasing longevity are to be carried by each pensioner cohort, the remaining demographic and economic risks associated with the pay-as-you-go pension system are still carried by the taxpayers.

For surviving spouses below age 67, the NI system now only provides a transitional allowance, and the previously existing possibility of taking over part of the old-age pension rights of a deceased spouse has been removed in the reformed NI system and will be

[482] Pedersen, A.W. (2021), ‘Approaches to minimum-income protection in old age: comparing the three Scandinavian countries’, in J. Aidukaite, S.E. Hort and S. Kuhnle (eds), *Challenges to the Welfare State: Family and Pension Policies in the Baltic and Nordic Countries*, Edward Elgar Press.

gradually phased out among those covered by the old accrual system. The new system also entails an increased child pension for children of deceased parents.

In both the public and the private sectors, occupational pension schemes exist that supplement benefits from the NI scheme. All public sector employees have traditionally been covered by generous occupational pension schemes of the DB type. After negotiations with the public sector unions in 2018 it was decided to transform these schemes into the NDC format, with an annual accrual rate of 5.7 % on top of the 18.1 % accrual rate in the general NI system, giving a combined accrual rate of 23.8 %. For earnings above the ceiling in the NI scheme, the accrual rate in the occupational scheme is raised to 23.8 % and applied to earnings up to a level currently corresponding to NOK 1,423,440 (around EUR 122,420).

In the private sector, both DB and defined-contribution (DC) occupational pension schemes enjoy favourable tax treatment. Coverage used to hover around 50 % of the private sector workforce, but since 2006 it has been obligatory for private employers to establish occupational pension schemes with a minimum contribution rate of 2 % of annual earnings. The maximum contribution rate in a tax-favoured DC scheme is 7 % for earnings up to the ceiling in the NI scheme and 25.1 % for earnings above the ceiling. While coverage is now virtually complete, the quality of schemes varies significantly between companies and industries[483].

In connection with the 2011 pension reform, a former negotiated early-retirement scheme (the 'AFP' scheme) was transformed into a supplementary old-age pension scheme where benefits can be drawn on actuarially neutral terms from age 62. For those wage-earners covered – mostly in the unionised sectors – the scheme adds a significant component to their total pension wealth. Pension rights obtained in this scheme are not vested, however, and they can easily be lost if, for instance, an employee becomes unemployed or starts receiving disability benefits[484].

In the public sector the old AFP scheme was maintained after 2011 as a strongly subsidised early-retirement option from age 62. However, in 2018 it was also agreed to transform the public sector AFP scheme into a supplementary old-age pension scheme paying lifelong benefits on actuarially neutral terms. The AFP scheme in the public sector has, for cohorts born in 1963 and later, an annual accrual rate of 4.21 % that comes on top of the NDC scheme and the occupational public pension. With the transformation of the private sector AFP scheme, and later of the public sector AFP scheme, the most important subsidised early-exit options have been effectively removed in Norway.

Legislated employment protection is terminated at age 70 in the public sector and at 70 or 72 in the private sector. However, in the public sector a number of occupations – including military personnel, policemen, firefighters and nurses – continue to be subject to special regulations giving them the right to retire earlier at 60, 63 or 65. It is a duty for military personnel. In the private sector, two small early-retirement schemes persist, covering seamen and fishermen.

[483] Actecan (2023a) (https://actecan.no/wp-content/uploads/2023/06/2023-02-Innskuddspensjon-i-ulike-naeringer-i-2022.pdf).
[484] Actecan (2023b) (https://actecan.no/wp-content/uploads/2023/08/2023-02-Privat-AFP-Ikke-for-alle.pdf).

Personal pension schemes play a very limited role in Norway.

2 REFORM TRENDS

Over the last three years only minor adjustments have been made to the Norwegian pension system.

Arguably the most important is that the mechanism for *the indexation of old-age benefits in the statutory NI* system was changed by a series of decisions by parliament in 2020 and 2021. The mechanism implemented with the pension reform from 2011 implied that old-age pensions in payment were indexed to wage growth with a deduction of 0.75 percentage points (pp). This deviation from full wage indexation was motivated partly as a retrenchment measure and partly as a mechanism for a very mild front-loading of pension benefits from the reformed pension system, where this deduction of 0.75 pp in the annual indexation is also reflected in the annuity divisor. In the first years after the pension reform took effect in 2011 annual real wage growth was relatively high, and the rule therefore was compatible with a positive development in the real value of old-age benefits. In 2015 and 2016, however, real wages stopped growing and even started to fall slightly. In this context the indexation rule meant that the purchasing power of old-age pensioners declined, and this created considerable political discontent. In order to avoid this, the rule was changed from 2021, so that old-age pension benefits in payment are now indexed to an average of the observed annual growth in wages and prices, or in other words to half of the real growth in wages. Compared with the old mechanism, the new rule is less generous towards pensioners in ‘good times’ when the real growth in wages exceeds 1.5 %, while it is more generous in ‘bad times’ where real wages grow by less than 1.5 %. In periods where real wages decline the new rule will provide better protection for old-age pensioners, since they will only be exposed to half of any real decline in wages. In Norway real wages fell again in 2022 and are also likely to fall in 2023, and in cases of falling real wages the new rule is more beneficial to pensioners than both the old rule and a hypothetical full wage indexation of pensions in payment.

The law that since 2006 has made it mandatory for private sector companies to run occupational pension schemes for their employees was changed from 1 January 2022. In the previous version, the minimum contribution rate of 2 % of wages did not have to be applied to annual earnings below a threshold fixed at a level that roughly corresponded to one quarter of a full-time wage in a low-wage occupation. Under the amended law, pension accrual is also secured for small annual earnings.

As mentioned in Section 1, a number of occupational groups, particularly in the public sector, have specific retirement age regulations. The previous government decided to remove the obligation to leave the job when reaching the relevant age limit for most of the affected occupations, and this change took effect from 1 July 2021. Groups covered by special age limits receive a separate pension until age 67 and are then transferred to the ordinary pension system. To compensate for early withdrawal, an agreement to give occupations with special age limits an add-on in the ordinary pension system of 5.8 % of wages (given certain conditions) was reached in summer 2023. A process is also planned to discuss which occupational groups should have access to special age limits in the future.

No special pension-related measures were introduced to cushion the effects of the COVID-19 pandemic, with the exception of the introduction of regulations making it more financially attractive for retired nurses and doctors to return to work in the public health service. However, the contribution requirement and eligibility rules for receiving unemployment benefits were temporarily relaxed during the pandemic[485], and this has helped to secure uninterrupted pension accrual among all categories of workers hit by unemployment during the pandemic.

3 ASSESSMENT OF ADEQUACY

3.1 Current adequacy

Over recent decades the median incomes of old-age pensioners have increased much more quickly than the median incomes of the general population, and currently the median income of people aged 65+ has stabilised at a level close to the population median. This is confirmed by the relative median income ratio (65+), which was 0.92 for the total older population in 2022. The relative median income ratio (65+) was somewhat higher for men (0.94) than for women (0.90). The main explanation for the lower ratio for women is historical increases in female educational attainment and female labour force participation. The median incomes of the present cohorts of female pensioners are low compared with younger age groups of women with higher education and a higher labour force participation.

The income position of old-age pensioners tends to become less favorable with age. This is mainly due to a cohort effect (caused by historical increases in female labour force participation and pension system maturation), but it is also to some extent driven by the less than full wage indexation of NI benefits, the tendency for employment income to decline with age, and the fact that many private sector occupational pension schemes only pay out benefits for a fixed period of 10 years. Furthermore, the income position of old-age pensioners varies strongly between pensioner couples and single pensioners. While the median equivalised household income of pensioner couples amounted to 102 % of the general population median in 2021, the corresponding figure for pensioners living in single-member households was 73 %[486].

The relative median income ratio (65+) has increased slightly since 2019, by 1 pp for men and women taken together. Although the longevity adjustment of NI benefits that was introduced from 2011 clearly exercises a downward pressure on the income position of older people, this is likely to have been countered by a tendency to postpone withdrawal from the labour market. In fact effective retirement ages have increased quite substantially in Norway since 2011, but at the same time many older workers (particularly men) choose to start taking out old-age pensions from age 62 while continuing to work full time. The latter behaviour will

[485] Heggebø, K. and Pedersen, A.W. (2023), 'The Norwegian welfare state adjusting to crisis: Temporary changes in unemployment benefit regulations during the COVID-19 pandemic and their long-term implications', in M. Takle et al. (eds), *Citizenship and Social Exclusion at the Margins of the Welfare State*, Routledge, pp. 48-63.

[486] Pensjonspolitisk arbeidsgruppe (2023) (https://www.regjeringen.no/contentassets/f1094d6dda2f44fab02f24d83c34e454/ppag-endelig-rapport-2023.pdf: p. 105)

result in lower annual pensions throughout the retirement phase. The retirement duration since first pension receipt was 19.7 years in 2022, having fallen by 0.7 years since 2019 (i.e. a bit more than the life expectancy at 65, which fell by 0.5 to 20.3 years in 2022).

Individual-level (gross) replacement rates as measured by the aggregate replacement ratio (ARR) are significantly lower, at 0.55 in total and 0.54 and 0.56 for men and women, respectively. The ARR figures are less influenced by cohort effects related to the long-term trend towards higher female labour force participation, and pension system maturation. Furthermore, they do not take account of the (increasing) employment income of younger old-age pensioners, and the effect of milder and more progressive taxation of old-age pensioners compared with the general population. Two factors are likely to contribute to the fact that the ARR figure is somewhat higher for women than for men: (a) the benefit profile of the NI system is moderately progressive, benefiting women with their lower lifetime earnings than men; and (b) women are strongly over-represented in public sector employment, where occupational pension schemes have traditionally been more generous than in the private sector. If we had information on replacement rates calculated for members of a particular birth cohort, we would probably see even higher figures, particularly for women, due to the mildly progressive benefit profile of the NI system[487].

The incidence of relative income poverty among older people, as measured by the at-risk-of-poverty (AROP) indicator, has declined sharply over the last two decades. While the AROP rate among the population aged 65+ exceeded 20 % in the late 1990s, it has in recent years stabilised at 7.7 %, which is slightly below the level found among the general population in Norway. The AROP rate for people aged 75+ is somewhat higher at 9.5 %. Presumably this is partly a cohort effect and partly an effect of pensions in payment not fully keeping pace with general wage increases.

The relative median AROP gap (65+) is also currently relatively modest, at 7.4 %. This reflects the fact that the level of minimum pensions provided to pensioner couples is currently higher than the corresponding AROP threshold for a couple household, while the minimum pension offered to single pensioner is somewhat lower than the corresponding AROP threshold.

Since 2019 the AROP rates have seen a non-trivial fall, particularly among women; historical increases in female labour force participation rates are likely to be the main driver.

Only 0.8 % of older people (65+) in 2022 were reported to suffer from severe material and social deprivation, and the at-risk-of-poverty or social exclusion rates for those aged 65+ and 75+ were only marginally higher than the corresponding AROP rates.

3.2 Future adequacy

The theoretical replacement rates (TRRs) show a significant decline from 2022 to 2062 for workers retiring at 67, due to the longevity adjustment mechanism introduced in 2011. For the

[487] Halvorsen, E. and Pedersen, A.W. (2022), 'Bidrar folketrygdens pensjonssystem til inntektsutjevning i et livsløpsperspektiv?', *Søkelys på arbeidslivet* 39(1), pp. 1-17.

base case, the net TRR is projected to fall by 6.4 pp from 59.6 % to 53.2 % in 2062. For the low-income earner case, the TRR is projected to fall from 72.5 % to 65.9 %, while the corresponding figures are 43.2 % and 33.3 % for the high-income earner case. However, the decline can be reduced by workers who adapt by prolonging their working careers and postponing retirement by two years from 67 to 69 ('deferred exit'), in which case the net TRR for the average-income earner will be 57.5 % in 2062. The survivor ratios are projected to decline to 0.50 (ratio 1) and 0.47 (ratio 2) in 2062, due to the removal of survivor supplements in the reformed NI system.

The longevity adjustment introduced in 2011 will seriously reduce the future generosity of NI benefits, unless younger cohorts respond by working longer and postponing the take-up of benefits – beyond age 67 and eventually beyond age 70. A source of worry in this context is the tendency observed since 2011 for older workers (particularly men) to start taking out full benefits from age 62 (even if they continue working full time) and thereby expose themselves to a very significant reduction in the annual benefits they will receive over the retirement phase. For those who take advantage of the increased flexibility in this way, there is a real danger that they end up with very low incomes in the later stages of their retirement.

The introduction of mandated occupational pension schemes (with a recently reinforced minimum contribution requirement) will to a very limited degree help compensate for declining benefit levels from the NI scheme in the coming decades. However, for workers who are covered by one of the generous occupational pension schemes (public sector employees clearly belong to this category), and who in addition are covered by the reformed AFP scheme, total benefit levels are much more likely to be fully adequate.

From 2022 both the income pension and the guarantee pension in Norway have been indexed to a mix of 50 % wages and 50 % prices. This means that although the minimum protection offered to old-age pensioners is presently comparatively generous and close to the AROP threshold, a gap up to the threshold could be expected to widen over the coming years given continuous real wage growth. According to a recent projection, the level of the guarantee pension is estimated to decline by 24 % relative to wages in 2060, and as a result relative income poverty among older people could once again be expected to increase[488].

3.3 Developments in (in)equalities

Income inequality among older people is somewhat lower than among the general population, primarily thanks to the comparative high level of minimum protection offered in the Norwegian pension system. The richest 20 % of older people (65+) enjoy equivalised incomes that are on average 3.06 times higher than the incomes of the poorest 20 %.

The tendency, among men in particular, to start taking out old-age pensions early and combine benefit uptake with full-time employment is in the short run likely to lead to higher income inequality among older people, because rather privileged wage-earners aged 65+ start

[488] Pensjonsutvalget (2022) (https://www.regjeringen.no/contentassets/de89ff1348ab4754a64d08b9ce77a584/no/pdfs/nou202220220007000dddpdfs.pdf: p. 276).

receiving old-age benefits on top of their relatively high earnings. However, in the longer run when they eventually retire from the labour market, they will end up with lower annual pension income and this is likely to have an equalising effect on the distribution of annual incomes across the 65+ population[489].

The gradual replacement of the old (DB) NI system by the new NDC system over the coming decades is not expected to result in major changes in the degree of income inequality among old-age pensioners. The reformed NI system has a modestly progressive profile that is quite closely aligned with the profile of the old system[490]. However, the expected increasing role for occupational pension schemes in the coming years is likely to contribute to increasing inequality in pensioner incomes, as the accrual profiles of occupational pension schemes tend to be quite strongly regressive[491]. In addition, the expected (and intended) effect of the longevity adjustment to stimulate longer working careers is likely to contribute to increased income inequality among the population aged 65+, because the opportunities for postponing retirement tend to be better among more privileged groups[492].

A particularly vulnerable group will be those wage-earners who have left the labour market early to take up disability benefits. Currently just below 30 % of each new old-age pensioner cohort are former disability benefit recipients[493]. According to the present rules, disability benefit recipients do not accumulate new pension rights after reaching age 62, and they are forced to start taking out old-age pensions on actuarially neutral terms when they reach age 67. The replacement rates for this group are therefore destined to decline over the coming decades given the current rules, as a result of the longevity adjustment mechanism, since disability benefit recipients cannot compensate by working longer and postponing old-age benefit take-up. It adds to the disadvantage of this group that disability benefit recipients automatically lose any rights to supplementary benefits from the negotiated AFP schemes.

The gender gap in individual pension income has been narrowing very rapidly over time, primarily due to the historical increase in women's labour force participation and a resulting higher pension accrual among younger cohorts of women pensioners. Currently the gender gap in pension income (65-79) is 19.9 % and the figure has fallen by 2.9 pp since 2019.

The AROP rates vary very significantly between older men and older women. While only 4.7 % of men aged 65+ live in households with incomes below the AROP threshold, 10.3 % of women aged 65+ do the same. The gender differences are even more pronounced among those aged 75+, with AROP rates at 14.2 % among women and 3.4 % among men in 2022.

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489 Stølen, N.M. and Nicolajsen, S. (2016), 'Fordelingsvirkninger av pensjonsreformen', *Søkelys på arbeidslivet*, 33, pp. 24-44.

490 Christensen, A.M., Fredriksen, D., Lien, O.C. and Stølen, N.M. (2012), 'Pension Reform in Norway: Combining an NDC Approach and Distributional Goals', in R. Holzmann, E. Palmer and D. Robalino (eds), *Nonfinancial Defined Contribution Pension Schemes in a Changing Pension World, Volume 1: Progress, Lessons and Implementation*, Washington, DC: World Bank, pp. 129-154; and Halvorsen, E. and Pedersen, A.W. (2022), 'Bidrar folketrygdens pensjonssystem til inntektsutjevning i et livsløpsperspektiv?', *Søkelys på arbeidslivet* 39(1), pp. 1-17.

491 Grødem, A.S. (2021), 'Vinneren tar alt? Fordelingsvirkninger av det nye norske pensjonssystemet', *Søkelys på arbeidslivet*, 38, pp. 99-114 (https://doi.org/10.18261/issn.1504-7989-2021-02-02).

492 Halvorsen, E. and Pedersen, A.W. (2022), 'Bidrar folketrygdens pensjonssystem til inntektsutjevning i et livsløpsperspektiv?', *Søkelys på arbeidslivet* 39(1), pp. 1-17.

493 Pensjonspolitisk arbeidsgruppe (2023) (https://www.regjeringen.no/contentassets/f1094d6dda2f44fab02f24d83c34e454/ppag-endelig-rapport-2023.pdf).

The persistent gender gap in poverty rates must be seen in connection with the fact that women pensioners are much more likely than men to survive a spouse/partner and hence to live for a significant part of their retirement in single-person households.

Over the coming years the narrowing of the gender gap in pensions can be expected to slow down as increasing female labour force participation between successive cohorts will gradually cease to be a driving force, while persistent differences in lifetime wages and earnings between men and women, and the risk of spending a larger share of old age in single households, will perpetuate the gap[494]. The decision to remove survivor supplements in the reformed NI system will contribute to widening the gender gap, and the same can be said for the potential relative decline in the guarantee pension, which has stronger repercussions for women pensioners due to their lower accrual of NDC benefits.

4 KEY CHALLENGES AND OPPORTUNITIES

The main mechanism for longevity adjustment is currently that benefits are reduced in line with increases in longevity, while the relevant age limits in the system (such as the age of early take-up at 62 and the 'normal retirement age' at 67 when the guarantee pension is stipulated to be taken out and disability pensioners are transferred to old-age benefits) are kept constant. A government-appointed commission with a mandate to evaluate the 2011 pension reform published their report in June 2022[495]. A key recommendation in the report is to let all the relevant age limits in the pension system be raised in line with longevity developments. According to the proposal, the age limits of the pension system should be raised by two thirds of the increase in longevity from one year to the next, which could imply an increase in age limits of one or two months every year. The underlying rationale is to let the fraction of the adult life course spent in retirement remain unchanged as longevity increases. A main purpose of the reform is to send a clearer signal to the population that younger cohorts are expected to work longer as longevity increases. The proposal also has an important social motivation. The proposed reform would make sure that the level of minimum protection (the guarantee pension) keeps pace with the growth in wages, and hence with the general level of prosperity in society, and prevent a gradual widening of the gap between minimum benefits and the poverty threshold that is projected to emerge under the existing system. The proposed reform would also help shield disability pensioners against the projected negative effects of the longevity adjustment. The Pension Commission was composed of representatives of the parliamentary parties (together with independent pension experts), and the political reception to the proposals of the commission indicates the that they are likely to be accepted by a broad majority in parliament.

By July 2023 the government was preparing legislative proposals following up on the report from the commission. Neither the commission nor the expected follow-up would address design issues of the negotiated AFP schemes. The fact that participation is restricted to

[494] Halvorsen, E. and Pedersen, A.W (2019), 'Closing the gender gap in pensions: a microsimulation analysis of the Norwegian NDC pension system', *Journal of European Social Policy*, 29(1), pp. 130-143.
[495] Pensjonsutvalget (2022) (https://www.regjeringen.no/contentassets/de89ff1348ab4754a64d08b9ce77a584/no/pdfs/nou202220220007000dddpdfs.pdf).

workers in companies with a collective wage agreement, and that eligibility is further restricted to those workers who remain in employment with an affiliated company at age 62, clearly raises issues about fairness and labour market distortions. In addition, the lack of vesting rights means that the scheme has loopholes in providing income security in old age. The social partners published a report on the AFP scheme in 2021 in which they jointly recognised the need for a reform of the scheme[496]. However, to patch up the loopholes in the scheme would be very costly, and the social partners strongly disagree about how the costs should be covered: by raising employer contributions or by lowering the benefits for those employees who currently benefit from the scheme? There has so far not been an agreement on a reformed AFP in the private sector.

The poverty risks that single pensioners, most of them women, are facing also merit consideration of policy responses.

[496] https://www.nho.no/siteassets/arbeidsliv/utredning-av-en-mulig-reformert-afp-ordning-i-privat-sektor.pdf

5 BACKGROUND STATISTICS

	2022			Change 2019-2022		
5.1. Relative income	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**
Relative median income ratio (65+)	0.92	0.94	0.90	0.01	-0.03	0.03
Income quintile share ratio (S80/S20) (65+)	3.06	3.14	2.95	-0.05	-0.16	0.09
Aggregate replacement ratio (ARR) (65-74) (%; change in pp)	55.0	54.0	56.0	-2.0	-3.0	-1.0
	2022			**Change 2019-2022 (pp)**		
5.2. Poverty and material deprivation	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**
At-risk-of-poverty or social exclusion (AROPE) (65+) (%)	8.2	5.2	11.0	-0.6	0.7	-1.5
At-risk-of-poverty (AROP) rate (65+) (%)	7.7	4.7	10.3	-0.4	1.0	-1.6
Severe material and social deprivation (SMSD) rate (65+) (%)	0.8	0.7	0.9	-0.3	-0.5	0.0
At-risk-of-poverty or social exclusion (AROPE) rate (75+) (%)	9.9	3.6	14.8	-1.7	-0.3	-2.4
At-risk-of-poverty (AROP) rate (75+) (%)	9.5	3.4	14.2	-1.8	-0.1	-2.7
Severe material and social deprivation (SMSD) rate (75+) (%)	0.4	0.2	0.6	-0.2	-0.2	-0.1
Relative median at-risk-of-poverty gap (65+) (%)	7.4	10.4	7.2	-0.6	-7.9	0.0
At-risk-of-poverty (AROP) rate, 65+: 50 % threshold (%)	2.1	2.3	1.8	0.5	0.2	0.5
At-risk-of-poverty (AROP) rate, 65+: 70 % threshold (%)	15.9	11.1	20.2	-3.0	-2.7	-3.1
Material and social deprivation (MSD) rate (65+) (%)	2.0	1.8	2.2	-0.6	-0.9	-0.2
5.3. Gender difference	**2022**			**Change 2019-2022 (pp)**		
Gender gap in pension income (65-79) (%)	19.9			-2.9		
Gender gap in non-coverage rate (65-79) (pp)	0.7			0.0		
	2022			**Change 2019-2022**		
5.4. Housing and health situation	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**
Housing cost overburden rate (65+) (%; change in pp)	7.9	7.1	8.7	1.6	2.1	1.4
Self-reported unmet need for medical exam 65+ (%; change in pp)	5.0	4.2	5.8	3.7	3.4	4.2
Healthy life expectancy (at age 65) (years) (1)	15.2	15.5	14.9	-0.7	-0.3	-0.9
Life expectancy (at age 65) (years)	20.3	19.2	21.4	-0.5	-0.4	-0.5
	2022			**2062**		
Receiving long-term care cash benefits (65+) (%)	5.4			6.8		
Receiving long-term care in-kind benefits (65+) (%)	16.1			21.2		
	2022			**Change 2019-2022**		
5.5 Sustainability and context	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**
Employment rate (55-64) (%; change in pp)	74.5	79.6	69.3	1.7	2.8	0.6
Pension expenditure (% GDP; change in pp) (1)	9.9			-0.6		
Retirement duration from first pension (years)	19.7	19.2	20.3	-0.7	-0.6	-0.7
Retirement duration from end employment (years) (2)	20.3	19.2	21.4	0.0	0.0	0.0
Projections (3)	**2022**			**2062**		
Old-age dependency ratio (20-64) (%)	30.9	28.3	33.7	47.9	45.0	50.9
Economic old-age dependency ratio (20-64) (%)	33.8	34.7	33.3	56.5	57.0	56.1
Gross public pensions (% GDP)	10.8			12.2		
Benefit ratio (%)	56.6			35.9		
Coverage ratio (65+) (%)	138.2			160.0		
Gross pension ratio high/low earner						

(1) 2021 instead of 2022
(2) Based on the assumptions of the 2024 Ageing Report for the 2023 average exit ages
(3) For the source of each of these six indicators providing projections by 2062, please see 'Indicators, definitions and abbreviations'.

5.6 Theoretical replacement rates

	Net (%)				Gross (%)			
	2022		2062		2022		2062	
	Men	Women	Men	Women	Men	Women	Men	Women
Standard pensionable age (SPA)	**67.0**	**67.0**	**67.0**	**67.0**				
AWG career duration (years)			**46.2**	**45.4**				
Average Earning (100 %)								
Base case: 40 years up to SPA	59.6	59.6	53.2	53.2	50.4	50.4	41.1	41.1
Increased SPA: from age 25 to SPA	60.1	60.1	54.4	54.4	50.9	50.9	42.7	42.7
AWG career length case	56.5	56.2	57.2	56.3	46.2	45.8	46.6	45.3
Longer career: 42 years to SPA			54.4	54.4			42.7	42.7
Shorter career: 38 years to SPA			52.0	52.0			39.4	39.4
Deferred exit: 42 years to SPA +2			57.5	57.5			47.0	47.0
Earlier exit: 38 years to SPA -2			49.5	49.5			36.1	36.1
Career break – unemployment: 3 years	59.4	59.4	52.3	52.3	50.1	50.1	39.8	39.8
Career break – childcare: 3 years	58.4	58.4	52.7	52.7	48.8	48.8	40.3	40.3
Career break – care for family dependant: 3 years	59.1	59.1	52.6	52.6	49.8	49.8	40.3	40.3
Short career (20-year career)	50.0	50.0	43.2	43.2	37.3	37.3	31.4	31.4
Work 35 years, disabled 5 years prior to SPA			49.4	49.4			36.0	36.0
Early entry in the labour market: from age 20 to SPA			58.6	58.6			48.5	48.5
Index: 10 years after retirement at SPA			51.2	51.2			38.4	38.4
Extended part-time period for childcare			50.3	50.3			37.1	37.1
Survivor ratio 1*		0.5		0.5		0.5		0.5
Survivor ratio 2*		0.5		0.5		0.5		0.5
Low earnings (66 %)								
Base case: 40 years up to SPA	72.5	72.5	65.9	65.9	56.9	56.9	50.5	50.5
AWG career length case	N.A.	N.A.	66.2	65.7	N.A.	N.A.	50.7	50.3
Career break – unemployment: 3 years	72.4	72.4	65.2	65.2	56.9	56.9	48.9	48.9
Career break – childcare: 3 years	72.5	72.5	65.6	65.6	56.9	56.9	50.2	50.2
Short career (20-year career)	71.3	71.3	58.2	58.2	55.3	55.3	44.6	44.6
Early entry in the labour market: from age 20 to SPA			66.3	66.3			50.8	50.8
High earnings (100->200 %)								
Base case: 40 years up to SPA	43.2	43.2	33.3	33.3	34.6	34.6	24.2	24.2

**Survivor ratio 1: man base case, woman base case*
**Survivor ratio 2: man base case, woman short career case*

POLAND

Highlights

- Poland has one of the lowest pensionable ages in the EU, including a lower pension age for women. While the old defined-benefit pension system offered generous benefits at an early age, the new pensions granted according to the defined-contribution principle for people born after 1948 are far less generous. The gender pension gap remains wide.
- Funded pension savings are relatively low, but the occupational employee capital plans introduced in 2019 are dynamically growing, with more than 3 million participants (20.3 % of the socially insured population) in 2023.
- The inflow of migrants to Poland, following Russia's war of aggression against Ukraine, combined with the shrinking of the working-age population, contributes to the growing share of foreigners among people covered by social insurance.

1 GENERAL DESCRIPTION OF THE NATIONAL PENSION SYSTEM

The largest general statutory pension scheme in Poland covers employees and the self-employed outside agriculture. It is administered by the Social Insurance Institution (*Zakład Ubezpieczeń Społecznych* – ZUS). The scheme covers 71.25 % of people of working age, including around 6.5 % who are foreigners, predominantly from Ukraine[497].

Within this system, people born before 1949, as well as those who accrued full pension rights before 2009, receive old pay-as-you-go defined-benefit (DB) pensions. Those born after 1948 are covered by the new pension system based on the defined-contribution (DC) principle.

The statutory old-age pension system is financed from contributions (19.52 % of gross salary) paid in equal shares by employees and employers. The contribution is divided into two or three accounts. There are two accounts in the non-financial DC scheme managed by the ZUS, as follows.

(a) The NDC1 account (12.22 % of gross salary), which is revalorised according to wage growth. Pension rights accrued before 1999 were recalculated into initial capital and credited to that account.

(b) The NDC2 account (7.3 % of gross salary – or 4.38 % for those who decided to save part of their pension contribution in a funded account), revalorised in line with average five-year GDP growth. In cases of death, the value of this account can be transferred to the account of an heir.

[497] For data on the number of insured people, see: ZUS Statistical Portal (https://psz.zus.pl/kategorie/platnicy-skladek/ubezpieczenia-emerytalne-i-rentowe). Working-age population: Eurostat, Population on 1 January by age group and sex, extracted on 13 June 2023.

Self-employed people pay contributions that include both the employer and employee parts based on the declared income, which cannot be lower than 60 % of the projected average wage in the economy (the latter adjusted and announced quarterly by Statistics Poland). Some of the self-employed can declare a lower basis, as described below.

Insured workers can also have a third account in a statutory funded scheme. This is a voluntary personal funded DC pension account (FDC) in open pension funds (*otwarty fundusz emerytalny* – OFE), which was mandatory until 2014. Since 2011 this account has been supplemented with 2.92 % of gross wages, paid from the mandatory social insurance contribution. The FDC option is voluntary for new entrants to the labour market. Starting 10 years before reaching pensionable age, assets accumulated by an individual in the FDC account are gradually transferred to the NDC2 account, according to the 'slider' mechanism. Pensions are paid from NDC1 and NDC2 accounts. Some 91.5 % of the insured have FDC accounts, and around one fifth of them contribute to these funds.

In December 2022 the assets accumulated in FDC accounts amounted to PLN 156.4 billion (EUR 34.76 billion), PLN 1.6 billion (EUR 355 million) more than in 2019, mostly invested in shares of companies listed on the regulated market[498].

Old-age pensions are calculated by dividing the value of pension accounts by unisex life expectancy at individual retirement age. The pensionable age is equal to 60 for women and 65 for men. The life expectancy factor is calculated by Statistics Poland and adjusted annually. Immediately after the COVID-19 pandemic, life expectancy declined (to increase again in 2023), leading to higher newly granted pensions in 2021 and 2022[499]. In 2020 and 2021 more than 98 % of all newly granted pensions were calculated according to the new system.

There is no minimum insurance period for claiming a pension. However, to have a right to the guaranteed minimum pension, a minimum insurance period of 25 years for men and 20 years for women is required. The minimum pension amounted to PLN 1,588.44 (EUR 353) per month in March 2023. In 2022, 6 % of old-age pensioners received pensions below the minimum, of which 80.2 % were women, due to shorter than required insurance periods[500].

Since 2009 early retirement has been possible in the form of a bridging pension for workers who worked before 1999 in arduous or hazardous conditions, as well as teachers. Fewer than 2 % of workers are covered by this system[501]. In 2022 fewer than 55,000 people received such

[498] Financial Supervision Authority (2023), *Financial situation of open pension fund societies in 2022* (https://www.knf.gov.pl/knf/pl/komponenty/img/Raport_o_sytuacji_finansowej_powszechnych_towarzystw_emerytalnych_w_2022_82339.pdf).

[499] Statistics Poland, *Communication of the President of the Statistics Poland dated March 27, 2023 on the table of life expectancy for men and women* (https://stat.gov.pl/sygnalne/komunikaty-i-obwieszczenia/lista-komunikatow-i-obwieszczen/komunikat-w-sprawie-tablicy-sredniego-dalszego-trwania-zycia-kobiet-i-mezczyzn,285,11.html) and earlier communications.

[500] See: ZUS (https://www.zus.pl/baza-wiedzy/statystyka/opracowania-tematyczne/emerytury-nizsze-niz-najnizsza-emerytura).

[501] ZUS (2022), *Information from ZUS ZSWA for 2021* (https://www.zus.pl/documents/10182/39617/Informacje+z+ZUS+ZSWA+za+2021.pdf/2b483453-ff0a-dd0e-e016-bf39e125e385?t=1663734440384); and ZUS, *Basic Information on Social Insurance, 2022* (https://www.zus.pl/documents/10182/167633/Wa%C5%BCniejsze+Informacje+z+zakresu+ubezpiecze%C5%84+spo%C5%82ecznych+2022.pdf/feeaf91b-c89f-16ad-1c56-f97d051663ff?t=1684835088374).

benefits[502]. In 2023 parliament adopted a change that extended the bridging pensions to younger workers, and converted it to a permanent solution. Furthermore, miners, who are covered by the rules of the old DB scheme, are covered by permanent early retirement.

After reaching the pensionable age, people can combine old-age pensions with earnings from work without any restrictions; additional pension contributions further increase the pension benefits[503].

Farmers have a separate Agricultural Social Insurance Fund (*Kasa Rolniczego Ubezpieczenia społecznego* – KRUS) with 1.09 million contributors and 994,000 pensioners in 2022[504]. The KRUS is financed mainly from taxes and only in small part from contributions. KRUS pensions are calculated on the basis of contributory years, with the reference level related to the minimum pension.

For other non-contributory pensions, benefits are based on DB principles: these include tax-financed systems for uniformed services (such as the military, police and prison services) as well as state provision for judges and prosecutors. Access to benefits in these systems is based on seniority. For those who entered the armed forces before 2014 the minimum service for claiming a pension is 15 years, and for those who joined the military or police services after 2014 it is 25 years.

Overall social insurance coverage is high in Poland. In 2022 the ZUS and KRUS schemes together covered 76.0 % of the working-age population (aged 20-64), which was slightly below the employment rate in this age group (76.7 % in 2022). Self-employed people and workers on non-standard contracts are covered according to general rules, with the exception of those working under a civil law contract for a specific task. Mandatory social insurance contributions on the income from civil law mandate contracts (*umowa-zlecenie*) are paid regardless of salaries, unless there are circumstances that exclude this obligation [505].

All pensions in payment are indexed once a year according to the consumer price index (general or pensioner households, whichever is higher) – topped up by 20 % of the real growth of average earnings in the previous year. Indexation can be higher if agreed by the social partners. In 2020 and 2023, indexation rules also included a minimum nominal increase in pensions (see Section 2). Pensions are subject to personal income tax.

Supplementary pension schemes include both occupational and personal pension schemes. These are DC savings schemes, which allow different types of pay-outs (lump-sum payments,

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[502] ZUS, *Basic Information on Social Insurance, 2022* (https://www.zus.pl/documents/10182/167633/Wa%C5%BCniejsze+Informacje+z+zakresu+ubezpiecze%C5%84+spo%C5%82ecznych+2022.pdf/feeaf91b-c89f-16ad-1c56-f97d051663ff?t=1684835088374).

[503] ZUS, *Working Old-Age Pensioners*, *XII 2022* and *Working Disability Pensioners, XII 2022* (https://www.zus.pl/baza-wiedzy/statystyka/opracowania-tematyczne/pracuj%C4%85cy-emeryci-i-renci%C5%9Bci).

[504] KRUS quarterly information, 4th quarter 2022 (https://www.krus.gov.pl/fileadmin/moje_dokumenty/dokumenty/statystyki-BE/KIS/2022/KWARTALNA_INFORMACJA_STATYSTYCZNA_IV_kwartal_2022_r.pdf).

[505] Agency agreements, contracts of mandate, or any other contract for the provision of services, to which, in accordance with the civil code, the provisions on mandate apply, have been subject to compulsory social insurance (old-age, disability and accident insurance, voluntary sickness insurance) since 1999. In the case of performance of several mandate contracts, the limit amount of the basis for the assessment of pension and disability insurance contributions is applied. The total basis for the assessment of contributions serves to determine the obligation of pension and disability insurance in the event of a concurrence of insurance titles. Thus, as a rule, the first mandate contract is subject to compulsory insurance (old-age, disability and accident insurance), while the second such contract does not give rise to the obligation of such insurance.

or scheduled withdrawals) after reaching the pensionable age for supplementary pension schemes (60 for both men and women). The pay-out options do not include annuities, due to the lack of adequate products on the market.

Occupational pension schemes include employee pension plans (*pracownicze programy emerytalne* – PPEs) introduced in 1999, and employee capital plans (*pracownicze programy kapitałowe* – PPKs) introduced in 2019. The PPKs are the first schemes that are based on auto-enrolment[506]. The PPEs and the PPKs cover 2.8 % and 14.4 % of the working-age population respectively[507].

Personal pension schemes in Poland comprise individual retirement accounts (*indywidualne konta emerytalne* – IKEs) and individual pension protection accounts (*indywidualne konta zabezpieczenia emerytalnego* – IKZEs). Their coverage is low: in 2021 IKE accounts were held by 3.5 %, and IKZE accounts by 2.1 %, of the working-age population[508]. In 2022 payments were only made into around 54.2 % and 65.4 % of the IKE and IKZE accounts respectively.

2 REFORM TRENDS

The most important changes introduced in the pension system in 2020-2023 affected both the expenditure and revenue side of the pension system.

First, there were changes in the pension indexation formula, with the introduction of a mixed quota (guaranteed minimum increase) and percentage formula that led to relatively higher pensions increases for those with lower benefits, which were important during the worsening economic situation. In 2020 the pensions were increased by 3.56 %, but by not less than PLN 70 (EUR 15.50) monthly, which means that pensioners with lower pensions received relatively higher increases; this was a poverty-protection measure during the crisis. In 2021 and 2022 indexation followed the general rules. In 2023 pensions were increased by 14.8 %, but by not less than PLN 250 (EUR 55.60) monthly. The general rules for pension indexation in a given year are defined by law, and the indexation rate is based on the inflation rate in the previous year increased by at least 20 % of the real wage growth in the previous year. The proposed indexation is discussed with social partners and finally decided once inflation and wage growth for the past year are known; however, there is no requirement to reach a consensus. The actual indexation rate is known in mid-February of the year in which the indexation is carried out. Pensions are indexed from March.

Second, on top of pensions paid from the ZUS, KRUS, MON, and ZER MSWiA systems[509], the government introduced additional benefits for pensioners – the **'13th' and '14th' pensions**. The 13th pension is a lump-sum benefit paid at the amount of the minimum monthly pension to all pensioners. It was first paid in 2019, and since 2020 it has continued annually. The 14th

[506] The PPK is a long-term savings vehicle, which participants can use for a variety of purposes at pay-out, including upgrading their pension level, paying off a mortgage or providing better healthcare.
[507] Polski Fundusz Rozwoju (2023), *Konferencja prasowa PPK po autozapisie* [Press Conference PPK after autoenrolment] (https://www.mojeppk.pl/aktualnosci/podsumowanie-autozapisu-2023.html).
[508] The membership of IKEs and IKZEs partially overlaps, so the total coverage of personal pension schemes is hard to estimate (https://www.knf.gov.pl/aktualnosci?articleId=69084&p_id=18).
[509] Systems for uniformed services such as the military, police and prison services.

pension depends on the amount of the old-age pension and is paid in the amount of the lowest monthly old-age pension for benefits up to PLN 2,900 or, in the case of old-age pensions exceeding PLN 2,900, in the amount lower than the lowest pension (zloty-for-zloty principle)[510]. It was introduced in 2021 as a one-off benefit, paid again in 2022 and converted to a permanent benefit in 2023. In 2023 the 14th pension is paid in September, in the amount of PLN 2,200[511] (EUR 489) net of taxes. Both the 13th and 14th pensions are financed by the Solidarity Fund and the state budget[512]. The Solidarity Fund receives funds from employer contributions (1.45 % of wages that were previously paid to the Labour Fund), a solidarity tax – 4 % of income paid above the annual revenue of PLN 1,000,000 or EUR 222,222, and a loan from the Demographic Reserve Fund (PLN 11.5 billion or EUR 2.56 billion). Both benefits were initially an ad hoc measure, but they were changed into permanent ones. These additional benefits contributed to the reduction of the poverty risk among pensioners (see Section 3).

Third, the earlier changes in the rules for the **payment of contributions** by the self-employed, to increase coverage and reduce the contribution burden for those with lower incomes, were extended[513]. Namely, from February 2020 the possibility to pay lower social insurance contributions, proportionally to revenue, was given to self-employed people with revenue in 2019 below PLN 120,000 (EUR 26,667) for up to 36 months. This possibility was extended for an additional 12 months from August 2023. In 2023 around 200,000 self-employed people used this opportunity (‘Mały ZUS+’).

During the COVID-19 pandemic several measures were introduced under the ‘anti-crisis shield’, related to social insurance contributions payments. These included direct and non-refundable support for micro-companies (including self-employed people) and SMEs (as well as NGOs), including: job-protection subsidies from the Employee Benefit Guarantee Fund; co-financing of the wages and employer social security contributions of employees on economic downtime or reduced working time; and financial support for the payment of social insurance contributions, which means that future pensions were also protected. Additionally, self-employed people, companies reporting fewer than 50 people to social security, social co-operatives and clergy could also be exempt from paying social security contributions and several other mandatory non-insurance contributions for up to three months if their income fell. Employers in selected industries were exempted from paying contributions for December 2021. People conducting (self-employed) non-agricultural business activities could receive an idle-time benefit (*świadczenie postojowe*) for three months, and in the case of individual industries for a longer period. For people performing civil law contracts, it was also possible to obtain an idle-time benefit for up to three months; in the case of some industries it was possible to obtain this benefit for a longer period[514]. The purpose of this benefit was to

[510] The amount of the 14th old-age pension is reduced by the amount of the difference between the amount of the benefit received (gross) and PLN 2,900. If the amount of the 14th old-age pension is lower than PLN 50, this benefit will not be granted.
[511] This is the net amount. The gross amount was PLN 2,650.
[512] From 2024, the 13th and 14th pensions will be financed from the state budget.
[513] In 2019, self-employed people whose annual revenue was below PLN 63,000 (EUR 14,000) could pay contributions using the declared basis, but not lower than 30 % of the minimum wage (compared with the regular basis of 60 % of the average wage).
[514] Exemption from paying social security contributions did not mean that the contribution was not paid. On the basis of the insurance documents submitted, these premiums were recorded and financed from the COVID-19 Prevention Fund. The

compensate for the loss of funds due to the inability to perform such contracts during the COVID-19 pandemic.

In August 2023 parliament adopted a change to the early-retirement bridging pension system, which initially covered only workers who started employment before 1999. The bridging pensions were converted to a permanent scheme, also covering those who started to work in 1999 and later. The law will come into force on 1 January 2024. Bridging pensions can be claimed from age 55 (women) and 60 (men) by people doing work in special conditions or of a special character for at least 15 years and having a total experience of 20 years (women) and 25 years (men). According to ZUS estimates, 7,300 people will claim such pensions in 2024, and in 2029 it will be around 4,000 people.

Finally, an important development in pension savings was the gradual implementation of the PPKs. Between 2019 and 2021 the obligation to establish PPKs gradually covered all employers, including medium and small ones, and public employers. As a result the number of participants increased 10-fold between the end of 2019 and March 2023. Participation in the PPKs reached 44 % of the target population (workers in public and private companies). Total assets under management amount to PLN 14.9 billion (EUR 3.3 billion).

One of the issues in the pension debate in Poland is **the growing complexity of the pension system**. Currently, people working in Poland have:

- two or three sub-accounts in the NDC scheme, including the initial capital (for people who worked before 1999), an initial NDC account and a NDC sub-account, on which contributions diverted from the initial OFE savings and contributions are accumulated (non-farmers), or KRUS insurance (farmers);
- one OFE account (if they participated in OFE);
- PPE or PPK accounts – there can be more than one, depending on the employment history of individuals;
- an IKE account; and
- an IKZE account.

In order to improve access to information on pension savings, the government proposed in April 2023 a draft law that envisages the development of a central pension information service (*Centralna Informacja Emerytalna* – CIE). The CIE will provide access to pension information, including on pension products held, the current state of accumulated pension funds and their estimated impact on the amount of future pension benefits – that is, pensions from public systems (ZUS, including OFE and KRUS), and the benefits paid by financial institutions and other private entities (IKE, IKZE, PPE and PPK). The law was adopted by parliament in July 2023.

exemption periods were treated in the same way as the periods of payment of contributions, so that this did not affect the entitlement to, and the amount of, future benefits.

3 ASSESSMENT OF ADEQUACY

3.1 Current adequacy

Recent reforms involving the granting of benefits according to the new rules and higher indexation, as well as the payment of the 13th and 14th pensions, mean that the **relative income** of pensioners did not change, and even increased slightly for women[515]. In 2022 the ratio of the median income of people aged 65+ to that of people aged 18-64 was 0.89 – an increase of 1 percentage point (pp) compared with 2019; it was higher for older men than for women (0.93 versus 0.87).

The aggregate replacement ratio (ARR) in 2022 was 61 % (66 % for men and 58 % for women), close to the EU average and similar to the values in 2019. The gender gap in ARR reflects differences in career histories. The ratio between average old-age pensions and average wages between 2019 and 2022 declined from 54.8 % to 52.1 % (ZUS, 2023).

Poverty and material deprivation among older people in Poland is close to the EU average. The at-risk-of-poverty or social exclusion (AROPE) rate of people aged 65+ was 16.8 % in 2022, a 2.0 pp fall since 2019, mainly thanks to a reduction in the at-risk-of-poverty (AROP) rate from to 17.4 % to 15.2 % (down 2.2 pp). It was higher for women than men (19.9 % versus 12.2 %). The severe material and social deprivation rate among people aged 65+ was 3.6 % in 2022, 0.3 pp lower than in 2019. People aged 75+ in Poland have lower AROPE and AROP rates than those aged 65+. People aged 75+ receive a care supplement to their pension of PLN 294.39 (EUR 65.42), which contributed to a lower AROP rate for people in this age group in 2022 (at 14.3 %, it was 0.9 pp lower than for people aged 65+).

The relative median AROP gap of people aged 65+ in 2022 was 16.1 %, below the EU average (by 2 pp). It declined compared with 2019 by 2 pp. The relative poverty gap is sensitive to the threshold limit. The increase in the AROP rate at the 70 % threshold in Poland is high (+8.7 pp). This indicates that changes in the pension system gradually shift pension levels below 70 % of median income, particularly in the case of women.

The **housing situation** of older people is relatively favourable; 7.2 % of people aged 65+ experienced housing cost overburden in 2022 (compared with 10.7 % in the EU on average), an increase of 0.4 pp from 2019. Among women, 9.0 % faced housing cost overburden, which was twice as high as among men (4.5 %). The increase in the share of women experiencing housing cost overburden was greater for women than for men.

The **health situation** among people aged 65+ is worse than the EU average. Life expectancy at 65 in 2022 was 15.5 years for men and 19.7 for women, below the EU average by 2.3 and 1.5 years respectively. The number of healthy life years (7.7 for men and 8.9 for women) was also below the EU level. A large group of people aged 65+ reported unmet need for health examination (6.8 %), which was above the EU average (5.4 %). During the COVID-19 pandemic Poland experienced one of the largest shares of excess mortality, particularly between August 2020 and March 2022, which affected mainly older people. As a result both life expectancy and healthy life expectancy at 65 declined compared with 2019 (despite some

[515] See Section 5 for detailed data.

recovery in 2022): life expectancy by around 0.7 years, and healthy life expectancy by 0.3 years on average.

Older people who require **long-term care** (LTC) may request a stay in public LTC facilities. Residential LTC is available in the health sector and social services sector[516]. The provision of LTC places in Poland is nevertheless limited (around 1 % of the 65+ population is covered by residential LTC) and most of the care is provided by the family.

When looking at the **sustainability and context**, with demographic changes and a shrinking working-age population, the employment rate increases, including people in the 55-64 age group. In 2022 the employment rate of women in this age group rose to 44.6 % (up by 5.4 pp since 2019) and the distance to the EU average reduced. For men the employment rate increased to 69.5 % (by 8.5 pp compared with 2019), the highest in the EU. Retirement duration from the first pension in 2022 was 13.9 years for men and 21.7 years for women, a decline of around 2.5 years for both. From the end of employment, it was 15.0 years for men and 22.2 years for women, which was also a decline. This can be attributed to the decline in life expectancy, and therefore a shorter period of receiving benefits.

In 2021 total pension expenditure in Poland was 11.4 % of GDP, below the average EU level (13.0 %). In 2020 old-age pension expenditure relative to GDP was 10.1 %, and in 2021 it was 9.9 %.

3.2 Future adequacy

The 1999 pension reform led to a decline in replacement rates in Poland. In the base case scenario, net theoretical replacement rates (TRRs) are expected to fall from 76.3 % in 2022 to 54.0 % in 2062 for men and from 63.3 % to 45.0 % for women. The lower net TRR for women is due to their earlier retirement (at 60) than men (at 65). Women therefore have both shorter working careers and longer life expectancies when they retire, which both lead to lower pensions under Poland's NDC system. In the case of 'increased SPA: from age 25 to SPA', net TRRs are projected to drop from 54.8 % to 39.0 % (for men these figures are 76.3 % and 54.0 % respectively). Career breaks also lead to lower TRRs. The projected drop in TRRs will be considerably greater in the low-earnings group as income redistribution is phased out in the NDC pension system: for people with low earnings, 32.4 pp for men and 26.4 pp for women; and for people with high earnings, 13.1 pp for men and 10.1 pp for women.

One of the most important challenges that the pension system in Poland faces is population ageing. A shrinking working-age population (aged 20-64), and an increasing number of people aged 65+, will lead the old-age dependency ratio to more than double from 31.6 in 2022 to 67.3 in 2059.

The Polish pension system is currently in a transitional phase to the new system, which was introduced to meet the demographic challenges. An analysis of indicators related to the situation of current pensioners shows clearly that the pensions paid provide sufficient

[516] For details see: Sowa-Kofta, A. (2020), *ESPN Thematic Report on Contribution to the 2021 SPC-COM report on long-term care for older people in the EU*, European Social Policy Network, Brussels: European Commission.

protection against income poverty. The transition to future pensions is gradual, as people who worked before 1999 have their pension rights accumulated until the end of 1998 based on the old DB pension formula. Currently granted pensions are based on the new system rules, but still include a part related to the old system. However, the level of pension granted according to the new rules is lower than under the old rules and this tendency will become more pronounced in the future.

Future theoretical replacement rates (TRRs) for Poland reflect the projected outcomes of the pension system, which closely links benefits to contributions and the remaining life expectancy at retirement age. The declining size of the labour force, due to population ageing, will have an impact on the growth of the wage bill used for the revalorisation of the NDC1 accounts. At the same time, life expectancy at retirement age will be increasing, given that there are no plans to increase the pensionable age. These factors will result in a strong decline in TRRs for all income groups. In the case of low-earners, reduced income redistribution in the DC system may increase the risk of poverty.

Important considerations also concern pension adequacy for women. A large share of the low-benefit risk for women stems from their labour market career. Both shorter working lives and lower wages lead to lower pension savings for women, which, combined with a lower pensionable age by five years, will contribute to widening the gender pension gap.

3.3 Developments in (in)equalities

The reforms introduced in 2019-2022 have led to a reduction in income inequalities under the pension system in Poland. The S80/S20 income quintile ratio of people aged 65+ in Poland in 2022 was below the EU average (3.20 versus 4.10) and had declined since 2019 by 0.36.

The benefit policy in recent years also contributed to a narrowing of the **gender gap** in pension income for people aged 65-79. It was 17.8 % in 2022, 3.9 pp less than in 2019 and well below the EU average (26.1 %). The pension gap between men and women is caused by differences in life course earnings and the lower retirement age of women, as benefits are linked to accumulated contributions and life expectancy at retirement age. For women, average newly granted pensions are about 66 % of those of men. The average pension in payment from March 2023 was PLN 2,792.86 (EUR 621) for women and PLN 4,103.72 for men (EUR 912).

There is also a negative (1.7 %) gender gap in non-coverage rate, which indicates slightly poorer access to pensions for men. This may be explained by the fact that women more frequently work in the public sector, while men more frequently are self-employed or work in the informal sector.

The narrowing of the gender pensions gap in recent years stems from two developments described earlier. First, mixed quota-factor pension indexation led to the relatively higher increases in lower benefits. Second, payment of the flat-rate 13th pensions to all pensioners and 14th pensions, addressed mainly to pensioners with low benefits, also led to reduced income inequalities. However, the additional quota increase applied to the lowest pensions is not regulated by law and depends on ad hoc political decisions. Payment of the 13th and 14th pensions is also a non-systemic solution, introduced on the top of the pension system. Though it reduced the poverty risk and income inequalities, at the same time it might have reduced incentives to prolong working lives.

The current design of the pension system, which is based on a close link between pensions and lifetime contributions, means that the pension system reflects to a large extent gender inequalities in labour income, which result from the lower labour market participation of women, gender pay gaps, and the lower retirement age of women. Equalising the retirement age and promoting gender equality in the labour market are, therefore, crucial for reducing inequalities.

4 KEY CHALLENGES AND OPPORTUNITIES

Given the pension system design, the most effective policies to increase the adequacy of pension payments are related to increasing lifetime earnings and working lives as well as postponing the retirement age, as pensions depend mainly on lifetime contributions and life expectancy (unisex) at the age of retirement.

The policies that would mitigate the risk of low adequacy could therefore include promoting longer working lives, particularly in the case of people with lower qualifications and low earnings through lifelong learning and investment in human capital. Raising the employability of workers aged over 50 could be achieved through promoting better working conditions and adequate age-management in companies, especially targeted towards low-skilled workers.

In the case of women it is also important to work on improving the reconciliation of work and family lives, including better access to early childhood education and care, and promoting equal roles of mothers and fathers. Additionally, many women decide to retire earlier due to the need to care for their older parents and family members. Improving access to LTC for older people would therefore reduce the pressure of reconciling work and care obligations, particularly for older women. Finally, raising and equalising pensionable ages for men and women would contribute both to narrowing gender pension gaps and increasing pensions.

In order to improve the adequacy of pensions, it would be also important to introduce systemic policies focused on poverty-protection among low-income pensioners, instead of ad hoc measures.

Last but not least, promoting higher participation in various forms of supplementary, employer-based or personal pension savings, and support for the development of an annuities market enabling the use of the supplementary old-age savings to purchase lifetime annuities, would help supplement pensions paid from the mandatory system, including the PPE, PPK, IKE and IKZE.

5 BACKGROUND STATISTICS

5.1. Relative income

	2022			Change 2019-2022		
	Total	Men	Women	Total	Men	Women
Relative median income ratio (65+)	0.89	0.93	0.87	0.01	-0.01	0.03
Income quintile share ratio (S80/S20) (65+)	3.20	3.11	3.24	-0.36	-0.29	-0.35
Aggregate replacement ratio (ARR) (65-74) (%; change in pp)	61.0	66.0	58.0	1.0	1.0	0.0

5.2. Poverty and material deprivation

	2022			Change 2019-2022 (pp)		
	Total	Men	Women	Total	Men	Women
At-risk-of-poverty or social exclusion (AROPE) (65+) (%)	16.8	12.2	19.9	-2.0	-1.2	-2.4
At-risk-of-poverty (AROP) rate (65+) (%)	15.2	10.8	18.0	-2.2	-1.8	-2.6
Severe material and social deprivation (SMSD) rate (65+) (%)	3.6	2.6	4.2	-0.3	0.2	-0.6
At-risk-of-poverty or social exclusion (AROPE) rate (75+) (%)	15.6	9.8	18.6	-2.5	-2.0	-2.8
At-risk-of-poverty (AROP) rate (75+) (%)	14.3	8.8	17.1	-2.7	-2.6	-2.8
Severe material and social deprivation (SMSD) rate (75+) (%)	2.7	1.9	3.1	-0.4	0.6	-0.9
Relative median at-risk-of-poverty gap (65+) (%)	16.1	17.5	15.4	-2.0	-0.7	-2.5
At-risk-of-poverty (AROP) rate, 65+: 50 % threshold (%)	7.4	5.7	8.5	-1.8	-1.1	-2.3
At-risk-of-poverty (AROP) rate, 65+: 70 % threshold (%)	24.8	19.1	28.6	-2.3	-1.3	-2.9
Material and social deprivation (MSD) rate (65+) (%)	8.3	5.9	9.9	-2.1	-0.8	-2.9

5.3. Gender difference

	2022	Change 2019-2022 (pp)
Gender gap in pension income (65-79) (%)	17.8	-3.9
Gender gap in non-coverage rate (65-79) (pp)	-1.7	-0.5

5.4. Housing and health situation

	2022			Change 2019-2022		
	Total	Men	Women	Total	Men	Women
Housing cost overburden rate (65+) (%; change in pp)	7.2	4.5	9.0	0.4	0.1	0.7
Self-reported unmet need for medical exam 65+ (%; change in pp)	6.8	6.3	7.1	-1.7	-2.1	-1.5
Healthy life expectancy (at age 65) (years) (1)	8.3	7.7	8.9	-0.3	-0.4	-0.1
Life expectancy (at age 65) (years)	17.8	15.5	19.7	-0.7	-0.6	-0.7

	2022	2062
Receiving long-term care cash benefits (65+) (%)	0.8	1.1
Receiving long-term care in-kind benefits (65+) (%)	4.6	6.3

5.5 Sustainability and context

	2022			Change 2019-2022		
	Total	Men	Women	Total	Men	Women
Employment rate (55-64) (%; change in pp)	56.4	69.5	44.6	6.9	8.5	5.4
Pension expenditure (% GDP; change in pp) (1)	11.4			0.3		
Retirement duration from first pension (years)	20.1	15.4	23.9	-0.5	-1.0	-0.4
Retirement duration from end employment (years) (2)	19.9	16.0	23.1	-0.2	-0.2	-0.2

Projections (3)

	2022			2062		
Old-age dependency ratio (20-64) (%)	31.6	25.2	37.9	67.3	58.5	76.5
Economic old-age dependency ratio (20-64) (%)	39.0	34.1	43.3	82.1	81.1	82.9
Gross public pensions (% GDP)	10.2			10.5		
Benefit ratio (%)	44.5			25.4		
Coverage ratio (65+) (%)	132.7			114.8		
Gross pension ratio high/low earner		1.9	1.9		2.4	2.4

(1) 2021 instead of 2022

(2) Based on the assumptions of the 2024 Ageing Report for the 2023 average exit ages

(3) For the source of each of these six indicators providing projections by 2062, please see 'Indicators, definitions and abbreviations'.

5.6 Theoretical replacement rates

	Net (%)				Gross (%)			
	2022		2062		2022		2062	
	Men	Women	Men	Women	Men	Women	Men	Women
Standard pensionable age (SPA)	**65.0**	**60.0**	**65.0**	**60.0**				
AWG career duration (years)	**42.6**	**37.9**	**42.4**	**37.5**				
Average Earning (100 %)								
Base case: 40 years up to SPA	76.3	63.3	54.0	45.0	73.2	60.6	39.2	33.0
Increased SPA: from age 25 to SPA	76.3	54.8	54.0	39.0	73.2	52.3	39.2	28.5
AWG career length case	79.8	63.1	55.0	42.0	76.7	60.4	39.8	31.0
Longer career: 42 years to SPA			57.0	48.0			41.4	34.9
Shorter career: 38 years to SPA			51.0	43.0			37.0	31.2
Deferred exit: 42 years to SPA +2			61.0	51.0			44.7	37.3
Earlier exit: 38 years to SPA -2								
Career break – unemployment: 3 years	76.3	63.3	50.0	42.0	73.2	60.6	36.3	30.6
Career break – childcare: 3 years	76.3	63.0	52.0	44.0	73.2	60.3	38.1	32.5
Career break – care for family dependant: 3 years	72.8	60.5	51.0	43.0	69.9	57.8	37.6	31.6
Short career (20-year career)	41.9	34.9	27.0	26.0	39.7	33.0	19.9	19.2
Work 35 years, disabled 5 years prior to SPA			36.9	32.6			26.3	22.5
Early entry in the labour market: from age 20 to SPA			56.0	45.0			40.9	33.0
Index: 10 years after retirement at SPA			52.0	44.0			38.1	32.1
Extended part-time period for childcare			47.0	40.0			34.7	29.5
Survivor ratio 1*		0.5		0.5		0.5		0.5
Survivor ratio 2*		0.6		0.6		0.6		0.6
Low earnings (66 %)								
Base case: 40 years up to SPA	84.4	70.4	52.0	44.0	81.5	67.8	39.2	33.0
AWG career length case	88.4	70.2	53.0	41.0	85.5	67.5	39.8	31.0
Career break – unemployment: 3 years	84.4	70.4	48.0	48.0	81.5	67.8	36.4	30.7
Career break – childcare: 3 years	84.4	69.1	51.0	43.0	81.5	66.5	38.3	32.6
Short career (20-year career)	48.3	40.7	26.0	38.0	46.0	38.5	19.9	29.0
Early entry in the labour market: from age 20 to SPA			54.0	44.0			40.9	33.0
High earnings (100->200 %)								
Base case: 40 years up to SPA	54.1	45.1	41.0	35.0	51.6	42.9	29.0	24.4

**Survivor ratio 1: man base case, woman base case*

**Survivor ratio 2: man base case, woman short career case*

PORTUGAL

Highlights

- A sustainability factor has been introduced in 2007, and since 2014 the pensionable age has changed in line with life expectancy, standing at 66 years and 4 months in 2023.
- Although pension adequacy indicators show an improvement, benefits are often low and do not ensure adequate protection for all older people against poverty and social exclusion.
- Labour market segmentation and the generally low levels of wages characterising the Portuguese labour market affect future pension adequacy, including by hampering people's financial capacity to contribute to supplementary pension schemes.
- A commission on the sustainability of the social security system has been tasked with presenting proposals by 2024 to ensure a proper balance between pension adequacy and system sustainability.
- It could be beneficial to place the adequacy and sustainability of the pension system within the framework of an overall comprehensive national strategy, including increased support for more flexible pathways into retirement.

1 GENERAL DESCRIPTION OF THE NATIONAL PENSION SYSTEM

The pension system in Portugal consists of different schemes.

The statutory pension scheme (public pension system) includes two distinct schemes: the first covers private sector workers (with the exception of lawyers and solicitors, who remain covered by their own scheme) and public sector employees registered since January 2006; the second is the general retirement fund (*Caixa Geral de Aposentações* – CGA), which covers civil servants who had started working in the public sector before 2006.

In 2022 the general social security scheme represented around 82 % of statutory pensions. Old-age pensions represented 69.6 % of the total of pensions in this scheme. The CGA represented around 18 % of statutory pensions.

There are also supplementary pension schemes – the public capitalisation personal scheme; voluntary occupational pension schemes; and private personal pension schemes.

The **statutory pension scheme** has two branches: an earnings-related public pension working on a pay-as-you-go (PAYG) financing basis, and a non-contributory regime (subject to means-testing) for those whose contributory records do not qualify them for the earnings-related scheme. Both schemes include old-age and disability pensions. There are also survivor pensions. In general a spouse is entitled to 60 % of their deceased spouse's pension or the pension they would be entitled to at the time of death.

The PAYG scheme is a mandatory regime based on earnings and financed by **contributions**, complemented by a small fraction of the value added tax (‘social’ VAT), both earmarked revenues for the contributory regime. Currently the global contribution rate is 34.75 % of gross earnings for employees in general (11 % to be paid by the worker and 23.75 % by the employer), and between 21.4 % and 25.2 % for the self-employed.

There is also a **contributory voluntary insurance scheme** covering some categories, such as high-performance athletes, volunteers, or research fellows; usually, these workers pay a contribution rate of between 26.9 % and 29.6 %.

When determining the qualifying period and for the calculation of the pension, the following are considered to be actual working time and are taken into account: periods of sickness, maternity, unemployment, military service, and jury service; periods of reduced activity or periods when the labour contract is suspended on account of an economic crisis; and periods spent caring. There is also compensation for inherent work risks.

For people insured since January 2002 the **monthly amount** of the old-age pension is based on the reference earnings of the best 40 years in the individual’s contributory career. For people insured before January 2002 the monthly amount is set according to the proportional implementation of the calculation rules applying to the previous system (based on the best 10 years out of the last 15), and of the current rules, to the contribution period[517].

In general, retirement conditions for the self-employed and for people in non-standard employment are similar to those of the general scheme for the employed.

Pensions are increased at least once a year taking into account the evolution of GDP and the consumer price index (excluding housing). There are specific favourable rules for the lowest pensions.

Since 2014, the **pensionable age has increased** in line with the life expectancy indicator. In 2022 the legal age for access to an old-age pension was 66 years and 7 months. In 2023, following changes in life expectancy linked to the COVID-19 pandemic, it fell to 66 years and 4 months and it will remain unchanged in 2024.

Early retirement can be claimed if the insured person is at least 60 and has 40 years of contributions. Overall, early retirement is subject to a penalty of 0.5 % for each month prior to the normal age of retirement, and also to the sustainability factor introduced in 2007 (involving a reduction of 13.83 % in 2023)[518], which takes into account the average life expectancy indicator. Each contributory year above 40 years reduces the penalty by four months. The sustainability factor is not applied if applicants have at least 40 years of contributions at age 60.

There is a special pathway to retirement for long-term unemployed people aged at least 57 (with penalties) or 62 (without penalties) who became unemployed after the ages of 52 and 57, respectively, and used the maximum length of time of unemployment benefit.

[517] Available at: https://www.seg-social.pt/pensao-de-velhice# (all hyperlinks accessed 7 September 2023).
[518] Pensions subject to the application of the sustainability factor are thus cut by the respective percentage on a permanent basis.

There are also **special retirement conditions** for people with arduous or hazardous jobs. These professionals may request early retirement within specific conditions but they must always have at least a 15-year (successive or not) record of contributions.

Retirement may be **deferred** without any age limit. However, when the worker turns 70 their employment contract (regardless of type) automatically becomes a temporary contract for a period of six months. In these cases the employer choosing not to renew the contract should notify the worker 60 days in advance.

Old-age pensions can be **combined with income from work**, except if the pension is a result of the replacement of a previous (total) disability pension. An early-retirement pension may not be combined with income from work during the first three years after the old-age pension has been accessed, whenever that income is a result of any activity or work undertaken in the same company or group where the beneficiary previously worked. Accrual of pension rights is possible up to age 70.

The **public capitalisation scheme** (*regime público de capitalização*) is a regime of individual voluntary adhesion, whose organisation and management are the responsibility of the Institute for the Management of Social Security Capitalisation Funds. In 2022 the number of subscribers represented less than 1 % of the working population aged 16-64.

As regards **supplementary pension schemes**, the occupational pension market in Portugal is provided by a few privately funded schemes, which may be set up at the initiative of a company, and groups of social or professional associations. According to the Social Security Framework Law, the complementary schemes of collective initiatives must treat women and men equally. 4.5 % of the working-age population (aged 16-64) are covered by a voluntary occupational scheme, and approximately 13 % are covered by voluntary personal schemes[519]. These beneficiaries enjoy a tax deduction of up to EUR 400 per year[520].

2 REFORM TRENDS

In the last few decades the Portuguese pension system has undergone changes aimed at increasing its **sustainability**. In overall terms recent Portuguese governments have been publicly highlighting the challenges that the sustainability of the public pension regime faces, namely the need to **diversify its funding sources**. Since 2020, an additional solidarity revenue supported by the banking sector has been assigned to the Social Security Financial Stabilisation Fund (FEFSS), which steps in if the social security budget comes under pressure. This has also been the case since 2022 with the personal income tax collection amount corresponding to the mandatory income aggregation. These are added to other allocations made in previous years.

Despite recent improvements, the prospect of the FEFSS being depleted is still a reality, with several studies emphasising its impacts on the overall sustainability of social security[521] or of

[519] OECD (2021), *Pensions at a Glance 2021: OECD and G20 Indicators*, OECD Publishing: Paris (https://doi.org/10.1787/ca401ebd-en).

[520] For a person under 35; EUR 350 if a person is aged 35-50; and EUR 300 if over 50.

[521] E.g. Pedroso, P., Pedroso, J., Simões, C. and Teixeira, A. (2022), *Segurança social – a sustentabilidade, a diversificação de fontes de financiamento e o desafio dos regimes profissionais em Portugal*, Lisboa, UGT

the pension system specifically[522]. Even if with varying timescales and degrees of severity, they point out the risk of an increase in the deficit of the contributory pension system within a few decades, and also of an exhaustion of the stabilisation fund a few years after.

A recent study addressed jointly the issues of adequacy and sustainability, emphasising that '*there are reasons to keep assessing the performance of the system but it should not only include financial sustainability but rather be multidimensional.* [further adding that] *Benefit adequacy is the twin sister of financial sustainability; without it there is no social sustainability*'[523].

In mid-2022 the Portuguese government created a commission on the sustainability of the social security system, appointed to '*elaborate a Green Paper on the Portuguese social security system, notably regarding pensions*'[524]. The commission's main task is to present proposals for ensuring a proper balance between pension adequacy and sustainability. The commission is expected to present the results of its work by March 2024.

In recent years there have been **extraordinary increases** in pensions. In 2022, for instance, all pensioners with pension entitlements up to 1.5 times the social support index (EUR 664.80 per month in 2022) received an increase of EUR 10 per month.

As a response to the **COVID-19** pandemic crisis, there was an automatic continuation, between 20 March and 30 June 2020, of the benefits under the solidarity supplement for older people (CSI) that were scheduled to end before 30 June 2020. The CSI was amended in November 2020, removing the income of the pensioners' descendants (up to the third income bracket) considered in the means test.

Also as a response to the pandemic crisis, specific measures have been put in place targeting workers. A revised (simplified) temporary unemployment scheme was available for employees. The measure included credits towards pension rights accrual. Additionally, workers covered by the simplified lay-off scheme and members of statutory bodies (in the case of companies), as well as the self-employed with employees, were exempted from the payment of social security contributions. The exemption applied to the contributions due from the employer, but not to the contributions due from the employee or a member of a statutory body.

Several income-replacement measures (benefits calculated on previous earnings) aimed at helping the self-employed with the fall in economic activity were also in place, along with a partial deferral (two thirds of the total amount) of mandatory contributions and their subsequent payment in the following (up to six) months. The latter was not compensated by the state and none of these measures affected the future pensions of the workers concerned.

(https://www.ugt.pt/Seguranca%20social_a%20sustentabilidade,%20a%20diversificacao%20de%20fontes%20de%20financiamento%20e%20o%20desafio%20dos%20regimes%20profissionais%20em%20Portugal.pdf).

[522] E.g. Moreira, A., Azevedo, A.B., Manso, L.P. and Nicola, R. (2019), *Financial and Social Sustainability of the Portuguese Pension System*, Lisboa, Fundação Francisco Manuel dos Santos (https://www.ffms.pt/sites/default/files/2022-08/estudo-completo-financial-and-social-sustainability-of-the-portuguese-pension-system.pdf).

[523] Pedroso, P., Pedroso, J., Simões, C. and Teixeira, A. (2022), *Segurança social – a sustentabilidade, a diversificação de fontes de financiamento e o desafio dos regimes profissionais em Portugal*, Lisboa, UGT (https://www.ugt.pt/Seguranca%20social_a%20sustentabilidade,%20a%20diversificacao%20de%20fontes%20de%20financiamento%20e%20o%20desafio%20dos%20regimes%20profissionais%20em%20Portugal.pdf).

[524] *Despacho No 9126/2022 do Gabinete da Ministra do Trabalho, Solidariedade e Segurança Social, Diário da República, 2.ª série – No 143 – 26 de julho de 2022* (https://files.dre.pt/2s/2022/07/143000000/0008500086.pdf).

At the beginning of 2022 a new early old-age pension scheme was created for people with disabilities aged over 59, with an 80 % or more reduction in capacity for work and at least 15 years of a contributory career. This pension benefit is not subject to the sustainability factor and penalties.

In October 2022 a one-off payment corresponding to 50 % of the amount of the person's monthly pension was made to old-age, disability and survivor pensioners with monthly pensions up to EUR 5,318.40 – that is, 12 times the social support index (*indexante dos apoios sociais* – IAS) in 2022. This was the 'extraordinary supplement' for pensioners, announced as a response to the **spiking inflation and energy costs**. At the same time, linked to this decision, the Portuguese government decided to suspend the automatic pensions indexation mechanism in 2023. Rather than increasing fully in line with inflation and economic performance, the annual uprating of pensions in January 2023 was below the inflation rate. Monthly pensions up to EUR 5,765.16 (i.e. 12 times the IAS in 2023) were uprated by between 3.89 % and 4.83 %. Monthly pensions above EUR 5,765.16 were not uprated.

In its opinion regarding the major budgetary options for 2023-2026, the Portuguese Economic and Social Council (CES) highlighted that the suspension resulted in pension increases below inflation and below the salary uprate of civil servants and '*thus the need for a medium-run recovery of the pensioners' purchasing power*', further highlighting that '*the extraordinary supplement for pensioners, applied in 2022, was not considered since it regards a one-off measure while the increase in prices is permanent*' (CES, 2023: 10).

The Portuguese government approved a mid-year increase of 3.57 % to take place in July 2023 and applied to all pensions. The aim is that the overall increase matches the inflation rate as regards the lowest pensions, which were increased by 4.83 % in January 2023.

3 ASSESSMENT OF ADEQUACY

3.1 Current adequacy

In 2022 the at-risk-of-poverty or social exclusion (AROPE) rate for those aged 65+ was 20.5 % in Portugal (17.5 % for men and 22.7 % for women), which represented almost no change since 2019. The AROPE rate for those aged 65+ in Portugal was only slightly higher than the EU[525] average of 20.2 % (16.7 % for men and 22.9 % for women). In addition the at-risk-of-poverty (AROP) rate for those aged 65+ changed only slightly between 2019 and 2022, when it stood at 17 % (14.7 % for men and 18.7 % for women), similar to the EU average (see Section 5 'Background statistics'). However, it should be mentioned that the AROP rate for those aged 65+ in 2022 was still higher than in 2013, when it stood at 14.6 %[526].

Old-age income, deriving mostly from pensions, tends to be relatively stable. In 2022 the relative median AROP gap (65+), measuring the depth of poverty, stood at 17.7 %,

[525] EU refers to the current 27 Member States of the European Union.
[526] Source: Eurostat, table ILC_LI02.

representing an increase of 1.9 percentage points (pp) since 2019 and with only slight differences between women and men.

The severe material and social deprivation rate for those aged 65+ rose by 1.2 pp between 2019 and 2022, when it stood at 7.1 % (5.5 % for men and 8.2 % for women), which reflects the challenges posed by the COVID-19 pandemic and the spike of inflation. The housing cost overburden rate for those aged 65+ varied only slightly, standing at 3.5 % (2.7 % for men and 4.1 % for women), compared with an EU average of 9.7 % (7.2 % for men and 11.6 % for women) (see Section 5 'Background statistics').

The relative median income ratio (65+) for women stood at 0.92 and the aggregate replacement ratio (ARR) stood at 63 % compared with 1.03 and 70 %, respectively, for men. In total the figures were 0.96 and 66 %, respectively (see Section 5 'Background statistics').

It should be kept in mind that in 2022 the average pension in Portugal (including old-age, disability and survivor pensions) was EUR 6,063 per year, below the poverty threshold, which stood at EUR 6,608 per year in 2021. In 2022 the average old-pension pension stood at EUR 6,978 per year, slightly above the poverty thresholds[527].

All these figures are above the ceiling defined for the CSI, a measure designed to provide a basic safety net for older people (non-contributory or general scheme) based on the principle of social justice, and to increase the effectiveness of anti-poverty initiatives in this segment of the population by closing the gap between the level of old-age income and the (national) poverty line. In 2023 the CSI ceiling is set at EUR 5,858.63 per year for one person and EUR 10,252.60 per year for a couple.

A national study[528] in 2020 attempted to define the levels of income that would be necessary for different strata of population to live with dignity in Portuguese society. For the population aged 65+, as well as for other groups, the levels of income that were defined as an 'adequate income' are clearly above the poverty threshold.

In 2022, pension expenditure (on old-age and survivor pensions) as a percentage of GDP was 13.7 %, slightly higher than both in 2019 and the EU average of 13 %. Also in 2022, the old-age dependency ratio (20-64) stood at 40.5 %, above the EU average of 36 %. While the ratio is expected to increase both in Portugal and in the EU, the gap between them is expected to widen. In 2059 the ratio is expected to reach 68.3 % in Portugal compared with 59.2 % in the EU (see Section 5 'Background statistics').

The sustainability and context indicators show that in 2022 the employment rate in the 55-64 age group in Portugal (65.9 %) was higher than in the EU (62.3 %). While the employment rate in this age group was still higher among men (71 %) than among women (61.5 %), the gender gap had narrowed since 2019 because the rise in the employment rate among women aged 54-64 was higher (6.4 pp) than among men (4.5 pp), reflecting the progressively more

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527 https://www.ine.pt/xportal/xmain?xpid=INE&xpgid=ine_indicadores&indOcorrCod=0004347&contexto=bd&selTab=tab2&xlang=pt

528 Pereirinha, J. (co-ord.) (2020), *Rendimento Adequado em Portugal – Um estudo sobre o rendimento suficiente para viver com dignidade em Portugal*, Coimbra, Almedina.

gender-balanced employment rate in younger generations (see Section 5 'Background statistics').

In 2022 the retirement duration from first pension payment stood at 19.9 years while the retirement duration from the end of employment stood at 21.1 years. This is generally in line with life expectancy. In 2022, women aged 65 could expect to live 7.4 healthy years (9.9 in the EU, on average), which meant that 66.5 % of their additional 22.1 years of life expectancy would be spent with some kind of illness or limitation (the EU average is 53.3 % and 21.2 years, respectively). As for men, they could expect to live 8.4 healthy years (9.5 in the EU, on average), which meant that 54.8 % of their additional 18.6 years of life expectancy would be spent with some kind of illness or limitation (the EU average is 46.6 % and 17.8 years, respectively). Within this context it is worrying that the self-reported unmet need for medical examination (65+) increased by 2.5 pp between 2019 and 2022, standing at 6.2 %, higher than the EU average (5.4 %) (see Section 5 'Background statistics').

This increase probably reflects the challenges posed to the health system by the COVID-19 pandemic. A study by the Portuguese Council of Public Finance concluded that in healthcare '*there is a significant deviation between actual activity and the activity that would be needed considering the needs of the population calculated according to socio-demographic and morbidity criteria*'[529].

Access to long-term care (LTC) is therefore of the utmost relevance, especially in a country with one of the oldest populations in the world[530]. Pension benefits are not taken into account either when determining eligibility for the dependency supplement or when determining eligibility for LTC services. Users are expected to co-pay for these services, subject to means-testing that varies according to personal or family income (including pension benefits) and to the level of care and dependency. In 2023 the amount of the dependency supplement ranged between EUR 100.91 and EUR 201.82, depending on the regime and the beneficiary's level of dependency recognised by the social security services[531]. It may represent a significant increase in the income of pensioners with (very) low pensions. However, it will barely have an impact on poverty.

3.2 Future adequacy

The analysis of the theoretical replacement rates (TRRs) tends to confirm the long-run fall arising from the redesign of the sustainability factor in 2013 and its application from 2014. During the 40-year period under scrutiny (2022-2062), the highest projected fall regards people with a three-year career break due to unemployment: their net TRR drops from 92 % to 80.8 %, compared with a fall from 93.2 % to 87 % in the base case. In 2062 the net replacement rates (NRRs) are projected to remain higher than the gross replacement rates, which reflects fiscal impacts on income in the transition into retirement. The 2062 NRR for disability pensions is most penalising for those compelled to leave the labour market five

[529] Conselho das Finanças Públicas (2022), *Evolução do desempenho do Serviço Nacional de Saúde em 2021*, Relatório No 07/2022, p. 12 (https://www.cfp.pt/uploads/publicacoes_ficheiros/cfp-rel-07-2022.pdf).

[530] UN Department of Economic and Social Affairs (2023), *DESA World Social Report 2023: Leaving No One Behind In An Ageing World*, United Nations (https://desapublications.un.org/publications/world-social-report-2023-leaving-no-one-behind-ageing-world).

[531] https://www.seg-social.pt/complemento-por-dependencia

years prior to the national standard pensionable age due to disability: 75.7 % compared with 87 % for the base case.

A 2019 study of the financial and social sustainability of the Portuguese pension system[532] emphasised that cutting future benefits would not delay future deficits but could reduce their size. However, cutting future benefits would bring negative consequences for adequacy. In comparison, increasing social security contributions of workers and employers by 1.5 pp would be more effective in extending the term of the FEFSS but would not have an impact on the future ability of the pension system to provide adequate pensions and protect pensioners against a significant drop in income or the risk of poverty (*social sustainability*). Increasing the pensionable age by three years would extend the term of the FEFSS beyond 2070, while the introduction of a 'Swedish-style' notional defined-contribution scheme, complemented by a mandatory funded pension scheme and a guaranteed pension, would result in an improvement in the financial situation of the social security contributory regime and a reduction in the size of deficits in the system. However, the authors warned that the success in improving the financial situation of the social security contributory regime would be achieved at the expense of a considerable reduction in the adequacy of pensions and, above all, in the scheme's ability to protect pensioners from an abrupt drop when retiring.

Another recent study[533] emphasised the need to monitor the increase in poverty among older people. It argued that indexing pensions almost exclusively to inflation may lead to the relative degradation of the lowest pensions, pushing them below poverty line.

In its opinion on the state budget for 2023, the CES recalled existing estimates that point to a '*progressive degradation of pensions in Portugal as from 2025, with the new pensions representing less than half of the last salary as from 2045. Besides the financial aspect, this may compromise the social sustainability of the system*'[534]. As mentioned above, the government appointed a commission to prepare a green paper on the sustainability of social security.

3.3 Developments in (in)equalities

A core element of pension income inequalities in Portugal is the persistence of a significant number of (very) low pensions (e.g. arising from short or interrupted years of contributions, and from low and/or irregular salaries). The relative prevalence of these (very) low pensions has been falling, pushed by the entering into the pension system of workers for whom most or all their working life came after the establishment of the current social security system in the 1970s. Additionally, extraordinary upratings of the lowest pensions have taken place in recent years with the aim of increasing their adequacy (see Section 2). The relative median income ratio (65+/18-64) increased from 0.92 in 2019 to 0.96 in 2022 (see Section 5 'Background

[532] Moreira, A., Azevedo, A.B., Manso, L.P. and Nicola, R. (2019), *Financial and Social Sustainability of the Portuguese Pension System*, Lisboa, Fundação Francisco Manuel dos Santos (https://www.ffms.pt/sites/default/files/2022-08/estudo-completo-financial-and-social-sustainability-of-the-portuguese-pension-system.pdf).

[533] Pedroso, P., Pedroso, J., Simões, C. and Teixeira, A. (2022), *Segurança social – a sustentabilidade, a diversificação de fontes de financiamento e o desafio dos regimes profissionais em Portugal*, Lisboa, UGT (https://www.ugt.pt/Seguranca%20social_a%20sustentabilidade,%20a%20diversificacao%20de%20fontes%20de%20financiamento%20e%20o%20desafio%20dos%20regimes%20profissionais%20em%20Portugal.pdf).

[534] Conselho Económico e Social (2022), *Parecer sobre a Proposta de Orçamento do Estado para 2023* (https://ces.pt/wp-content/uploads/2022/11/Parecer-do-CES-sobre-OE-2023_Aprovado-Plenario_7nov.pdf).

statistics'). The increase is even sharper compared with 2008, when it stood at 0.83, and with 1995, when it stood at 0.71[535].

The impact of these changes seems evident in the fall in the number of recipients of the CSI. The number in 2022 was 7.7 % lower than in 2019 and over 30 % lower than in the late 2000s and early 2010s when the maximum number of recipients was reached, following gradual increases after the measure was put in place in 2006[536].

In any case, in 2022 the income quintile share ratio (S80/S20) of older people (65+) remained high without much variation since 2019, standing at 5.5 compared with the EU average of 4.1. Even if falling by 2.7 pp since 2019, which reflected the entrance into retirement of women with more robust contributory careers, the gender gap in pension income (65-79) still stood at 24.4 % in 2022, just below the EU average (26.1 %). The gender gap in non-coverage rate (65-79) stood at 6 pp (see Section 5 'Background statistics').

Several measures were put in place to address the challenges arising from spiking inflation and energy costs, including some specifically for pensioners (see Section 2). However, those have only contributed to mitigate the impacts of overall inflation on available income.

Indirectly, the loss of purchasing power also affects the possibility of accruing pension rights, notably in personal pension schemes, and especially for workers with the lowest incomes, who represent a significant proportion of Portuguese workers. According to statistics recently released by the government, by the end of the second quarter of 2023, 20.8 % of the workers in Portugal received the statutory minimum wage[537]. According to Eurostat, in 2022 the in-work AROP rate in Portugal stood at 10.3 %[538].

A recent study[539] emphasised that in Portugal the distribution of the investment in personal pension schemes is more strongly biased towards the upper income quintiles than in a set of other European countries. It therefore stressed that personal pension schemes tend to increase income inequality among pensioners.

4 KEY CHALLENGES AND OPPORTUNITIES

A coherent and holistic approach to addressing challenges in the Portuguese pension system is called for, which should lead to consistent and continuing reforms towards relieving old-age poverty and supporting extended working lives. Other possible directions of action include assessing the effectiveness of the existing means-tested benefits relative to their main goal of tackling poverty among older people, as well as improving the adequacy of the pension system in the long run through a serious commitment towards reducing labour market segmentation and wage inequalities throughout working lives. This could also allow broader and more inclusive supplementary pension savings.

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[535] Eurostat, table ILC_PNP2.
[536] https://www.seg-social.pt/estatisticas-detalhe/-/asset_publisher/GzVIhCL9jqf9/content/csi?filter=anual
[537] https://www.portugal.gov.pt/pt/gc23/comunicacao/noticia?i=peso-do-salario-minimo-no-nivel-mais-baixo-dos-ultimos-sete-anos
[538] Eurostat, table ILC_IW01.
[539] Lagoa, S. and Barradas, R (2022), *Modelos de organização e desafios dos sistemas de pensões em Portugal numa perspetiva Europeia*, WP No 2022/01, Lisboa, Dinâmia-CET/ISCTE (https://repositorio.iscte-iul.pt/bitstream/10071/24695/1/workingPaper_hdl24695.pdf).

5 BACKGROUND STATISTICS

	2022			Change 2019-2022		
5.1. Relative income	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**
Relative median income ratio (65+)	0.96	1.03	0.92	0.04	0.07	0.03
Income quintile share ratio (S80/S20) (65+)	5.49	5.60	5.37	0.28	0.24	0.32
Aggregate replacement ratio (ARR) (65-74) (%; change in pp)	66.0	70.0	63.0	-2.0	-2.0	2.0
5.2. Poverty and material deprivation	**2022**			**Change 2019-2022 (pp)**		
	Total	**Men**	**Women**	**Total**	**Men**	**Women**
At-risk-of-poverty or social exclusion (AROPE) (65+) (%)	20.5	17.5	22.7	0.1	0.0	0.3
At-risk-of-poverty (AROP) rate (65+) (%)	17.0	14.7	18.7	-0.3	-0.4	-0.2
Severe material and social deprivation (SMSD) rate (65+) (%)	7.1	5.5	8.2	1.2	1.1	1.2
At-risk-of-poverty or social exclusion (AROPE) rate (75+) (%)	22.0	17.5	25.0	-1.2	-2.1	-0.5
At-risk-of-poverty (AROP) rate (75+) (%)	19.0	15.1	21.6	-1.2	-1.7	-0.7
Severe material and social deprivation (SMSD) rate (75+) (%)	7.0	5.7	7.9	1.0	0.6	1.4
Relative median at-risk-of-poverty gap (65+) (%)	17.7	18.0	17.6	1.9	2.6	1.3
At-risk-of-poverty (AROP) rate, 65+: 50 % threshold (%)	8.8	7.7	9.7	0.4	0.5	0.4
At-risk-of-poverty (AROP) rate, 65+: 70 % threshold (%)	25.9	22.2	28.7	-2.8	-3.6	-2.1
Material and social deprivation (MSD) rate (65+) (%)	15.2	13.0	16.8	0.4	1.1	-0.1
5.3. Gender difference	**2022**			**Change 2019-2022 (pp)**		
Gender gap in pension income (65-79) (%)	24.4			-2.7		
Gender gap in non-coverage rate (65-79) (pp)	6.0			0.8		
5.4. Housing and health situation	**2022**			**Change 2019-2022**		
	Total	**Men**	**Women**	**Total**	**Men**	**Women**
Housing cost overburden rate (65+) (%; change in pp)	3.5	2.7	4.1	0.3	0.2	0.4
Self-reported unmet need for medical exam 65+ (%; change in pp)	6.2	5.2	7.0	2.5	2.4	2.7
Healthy life expectancy (at age 65) (years) (1)	7.9	8.4	7.4	0.6	0.5	0.5
Life expectancy (at age 65) (years)	20.5	18.6	22.1	-0.1	0.1	-0.2
	2022			**2062**		
Receiving long-term care cash benefits (65+) (%)	0.3			0.3		
Receiving long-term care in-kind benefits (65+) (%)	1.7			2.2		
5.5 Sustainability and context	**2022**			**Change 2019-2022**		
	Total	**Men**	**Women**	**Total**	**Men**	**Women**
Employment rate (55-64) (%; change in pp)	65.9	71.0	61.5	5.5	4.5	6.4
Pension expenditure (% GDP; change in pp) (1)	13.7			0.5		
Retirement duration from first pension (years)	19.9	18.2	21.3	-0.3	-0.3	-0.4
Retirement duration from end employment (years) (2)	21.1	19.0	22.9	0.0	0.1	-0.2
Projections (3)	**2022**			**2062**		
Old-age dependency ratio (20-64) (%)	40.5	35.8	44.8	68.3	59.6	76.1
Economic old-age dependency ratio (20-64) (%)	48.6	42.3	54.9	77.1	69.6	84.5
Gross public pensions (% GDP)	12.2			11.3		
Benefit ratio (%)	54.3			37.2		
Coverage ratio (65+) (%)	112.5			99.9		
Gross pension ratio high/low earner		2.6	2.6		2.4	2.4

(1) 2021 instead of 2022
(2) Based on the assumptions of the 2024 Ageing Report for the 2023 average exit ages
(3) For the source of each of these six indicators providing projections by 2062, please see 'Indicators, definitions and abbreviations'.

5.6 Theoretical replacement rates

	Net (%)				Gross (%)			
	2022		2062		2022		2062	
	Men	Women	Men	Women	Men	Women	Men	Women
Standard pensionable age (SPA)	**66.6**	**66.6**	**68.7**	**68.7**				
AWG career duration (years)	**42.0**	**41.5**	**43.7**	**43.1**				
Average Earning (100 %)								
Base case: 40 years up to SPA	93.2	93.2	87.0	87.0	75.2	75.2	69.4	69.4
Increased SPA: from age 25 to SPA	95.9	95.9	90.6	90.6	77.1	77.1	72.8	72.8
AWG career length case	100.3	98.6	98.2	98.2	82.7	79.5	80.3	80.3
Longer career: 42 years to SPA			86.2	86.2			76.5	76.5
Shorter career: 38 years to SPA			84.0	84.0			66.6	66.6
Deferred exit: 42 years to SPA +2			105.6	105.6			87.7	87.7
Earlier exit: 38 years to SPA -2								
Career break – unemployment: 3 years	92.0	92.0	80.8	80.8	74.2	74.2	63.4	63.4
Career break – childcare: 3 years	92.4	92.4	84.6	84.6	73.8	73.8	67.2	67.2
Career break – care for family dependant: 3 years	87.5	87.5	80.8	80.8	69.2	69.2	63.4	63.4
Short career (20-year career)	48.0	48.0	43.2	43.2	34.9	34.9	31.7	31.7
Work 35 years, disabled 5 years prior to SPA			75.7	75.7			56.2	56.2
Early entry in the labour market: from age 20 to SPA			92.9	92.9			75.0	75.0
Index: 10 years after retirement at SPA			66.7	66.7			57.7	57.7
Extended part-time period for childcare			80.7	80.7			63.3	63.3
Survivor ratio 1*		0.8		0.8		0.8		0.8
Survivor ratio 2*		0.8		0.8		0.7		0.7
Low earnings (66 %)								
Base case: 40 years up to SPA	96.2	96.2	88.4	88.4	75.8	75.8	70.3	70.3
AWG career length case	100.7	100.9	102.5	102.5	82.7	79.5	80.3	80.3
Career break – unemployment: 3 years	94.9	94.9	80.4	80.4	74.8	74.8	63.9	63.9
Career break – childcare: 3 years	94.4	94.4	85.4	85.4	74.4	74.4	67.9	67.9
Short career (20-year career)	44.3	44.3	39.8	39.8	34.9	34.9	31.7	31.7
Early entry in the labour market: from age 20 to SPA			94.3	94.3			75.0	75.0
High earnings (100->200 %)								
Base case: 40 years up to SPA	83.3	83.3	71.5	71.5	63.6	63.6	52.6	52.6

**Survivor ratio 1: man base case, woman base case*
**Survivor ratio 2: man base case, woman short career case*

ROMANIA

Highlights

- Measures undertaken between 2020 and the beginning of 2023 were mainly aimed at protecting current and future pensions. While some of these measures were temporary and thus limited in scope, the indexation of benefits was significant, though it hardly exceeded the increase in prices.
- A range of major reforms endorsed through the National Recovery and Resilience Plan are expected to be enacted by the end of 2023. They are designed to address the inequities between beneficiaries and to enforce a transparent indexation mechanism, which will also allow the rising pension costs to be contained. Though most of the measures are currently on the political agenda, gathering support is difficult, thus limiting the choices for reform.
- The successive indexations of pension benefits between 2019 and 2022 reflected a significant appreciation of older people's welfare. Nevertheless older people's health situation deteriorated over this period.
- The context of COVID-19 pandemic and of the recent inflation and energy prices crises triggered measures in the pension system designed to tackle the increase in the current and future pension inequalities. However, there remain a series of aspects related to distributional equity between men and women, occupational categories, and low-income and high-income pensioners, and these are expected to be addressed by the announced pension reforms.

1 GENERAL DESCRIPTION OF THE NATIONAL PENSION SYSTEM

The Romanian social insurance pension system combines a pay-as-you-go (PAYG) earnings-related public scheme (i.e. the statutory pension scheme) with two privately managed funded components: a statutory funded scheme and a personal pension scheme. Along with the main social insurance PAYG scheme, several special schemes exist. There are also a few professional groups (such as lawyers, solicitors, public notaries, and the clergy) who have alternative, separate pension schemes in place.

Participation in the public pension scheme is mandatory for most types of contracts and employment categories and voluntary for those participating in alternative pension schemes, for self-employed people with monthly incomes lower than the gross minimum wage, or for anyone who might want to enrol. In 2022 almost 76 % of the employed population were insured under the PAYG scheme[540].

[540] Ministry of Labor and Social Solidarity (2022), Statistical bulletin (Buletin Statistic (mmuncii.ro)).

The statutory funded scheme is compulsory for all those under 35 and optional for those aged 35-45, while opting out is not permitted. In December 2022 the number of participants with payments during the current month amounted to 68 % of the total number of those insured in the public scheme[541].

Finally, the number of participants in the personal pension schemes, based on voluntary and privately managed pension funds, has increased steadily in recent years, representing approximately 11 % of the total number of people insured within the PAYG public pension scheme[542].

The social contribution is 25 % of gross wages for normal working conditions. It is paid entirely by employees and is divided between the PAYG scheme (21.25 %) and the statutory funded scheme (3.75 %). Additional contributions (of 4 % and 8 %) are requested from employers for arduous and hazardous working conditions. Contribution to personal pension schemes is elective, and tax-deductible up to EUR 400 per year per participant, for both employer and employee.

The statutory pension scheme grants benefits for old age, early retirement, invalidity, and survivorship. *The old-age pension* is granted upon reaching the pensionable age and meeting the minimum contributory period. The pensionable age has been 65 for men since January 2015 and 62 for women since January 2023 – the plan is to raise it to 63 by 2030. The minimum contribution period required to draw a pension is 15 years. Entitlement to a full pension is reached after a standard contribution period of 35 years for men (since 2015) and 32 years for women (in January 2023; increasing to 35 years by 2030), while pension credits are given for certain periods of child-rearing, disability, university studies, military service and incapacity for work due to occupational injury. Individuals can take early retirement five years prior to the pensionable age, provided they have completed the standard contributory period (SCP). While early retirement reduces benefits, there are no penalties for longer work careers (i.e. when the SCP has been exceeded by at least eight years). Deferring retirement (beyond the pensionable age) is encouraged through a 50 % increase in the number of monthly pension points. However, maintaining the employment contract after reaching the pensionable age is limited to three years and it has to be approved by the employer[543]. Working after this period is allowed without any age limit; however, a renewal of the employment contract is required. Cumulating incomes from pension with work income is permitted for old-age pensioners and for invalidity pensioners who are still able to work, while being limited to self-employment for all other categories of pensioners. *The survivor pension* is granted to the insured person's children and/or spouse when they reach the pensionable age and if the marriage lasted for at least 10 years. The benefit ranges between 50 % and 100 % of the deceased spouse/parent's benefit, depending on the number of entitled survivors.

The PAYG component provides benefits based on a points system. The benefit is calculated by multiplying the lifetime average number of points (i.e. the relation between an individual's gross income and the average gross salary in a given year) by the point value. The pension

[541] The Romanian Association for Private Pensions (Statistici – APAPR).
[542] Ibid.; National House of Public Pensions data.
[543] Law No 93/2019.

point value is supposed to increase annually based on an indexation mechanism that takes into account 100 % of the average inflation rate and an additional 50 % of the real increase of the average gross salary[544].

The self-employed and non-standard employees (including day labourers and platform workers) benefit from the same contribution rate and retirement conditions as those with standard employment. Unlike employees, the self-employed are allowed to choose the insured income, with minimum levels depending on earnings, while the vast majority are paying social contributions at the minimum insurable level[545]. Self-employed activity can be reclassified as standard employment contract if the tax revenue service finds that the self-employed person is in a dependent relationship with the service beneficiary[546]. In this case, the self-employed will be assimilated as employees and will pay the social contribution on the actual incomes. Platform workers' access to pension benefits derives from their employment status, as the platform work can be carried out either as self-employment or as employment by a third party (which has, in turn, a contract with the platform).

Special pension rights are granted to several occupational categories in the public sector[547], with benefits calculated as a percentage (between 65 % and 80 %) of the average monthly gross income earned before retirement (the reference period ranges from one month to one year before retirement), and with shorter contribution periods and lower retirement ages than under the PAYG scheme.

For all pensioners, *a minimum level of the pension benefit* (social indemnity for pensioners – SIP) is guaranteed, payable from the general budget, and indexed on an ad hoc basis by governmental decision.

2 REFORM TRENDS

The reforms undertaken between 2020 and 2023 were mainly aimed at: (a) protecting pensioners' incomes; (b) adjusting the fiscal rules; (c) strengthening the statutory funded component; and (d) preserving the pension entitlements for workers directly affected by the COVID-19 crisis. Moreover, a range of important reforms are expected to be enacted by the end of 2023, within the Recovery and Resilience Plan (RRP) framework. The RRP endorses a significant reform of the statutory pension scheme, adjustments to the special pension schemes, and measures to further strengthen the statutory funded scheme.

The level of benefits has increased constantly over the last few years. The value of the pension point increased by 41 % between January 2020 and January 2023, while the level of the SIP was raised by about 60 % over the same period of time. However, the benefits were increased

[544] Law 263/2010, Governmental Ordinance, GO 125/2021.
[545] Eurostat and National House of Public Pensions data.
[546] The activities undertaken by members of liberal professions or by people deriving incomes from author's rights are exempted from being reclassified as a dependent employment activity (HG1/2016 regarding the methodological norms for the implementation of the fiscal code Law 227/2015).
[547] The special pension schemes cover the following occupational categories: (a) military personnel, police and national security system personnel; (b) magistrates; (c) specialised auxiliary personnel from the courts and prosecutor's offices; (d) workers in civil aeronautics; (e) parliamentary civil servants; (f) Court of Accounts personnel; (g) diplomats; (h) deputies and senators; and (i) public officials at local and county level.

in an ad hoc manner and even frozen in 2021, after the indexation mechanism was halted between 2017 and 2022. Despite reinforcing the indexation mechanism in 2022[548], the government continued to increase the benefits on an ad hoc basis in 2022 and 2023. In addition to increasing SIP and as a means to offset the rise in prices, the government gave pensioners with lower benefits a series of one-off payments[549] and food vouchers in 2022 and 2023. A temporary one-off payment to compensate for energy prices was granted to low-income pensioners in 2023[550].

The rules regarding social security contributions for pensions have been amended, with a positive impact on both budgetary revenues and future pension entitlements. The monthly minimum insurable income for part-time employees has been set at the level of the minimum wage since August 2022, regardless of the number of hours worked[551]. The regulation was introduced as a means to discourage tax evasion through the use of part-time contracts in order to cover full-time work[552], equally strengthening part-time employees' pension protection. The annual minimum insurable income of the self-employed with incomes higher than 24 times minimum gross wages per year doubled in 2023, to 24 times minimum gross wages. In 2023, employees paid the minimum wage were exempted from paying social contributions on RON 200 (EUR 40) out of their salary, while being granted pension credits on account of the exempted amount[553].

Social security contributions for the statutory funded scheme are optional for workers in agriculture with monthly incomes lower than an amount equivalent to 10 times minimum wages, between 2022 and 2028[554]. While workers in the construction sector were exempted from contributions to the statutory funded component in 2019, the law was amended in 2022 and, similar to workers in agriculture, they are currently allowed to participate in the statutory funded scheme if they choose so[555]. It is unclear how many of the 750,000 employees in construction, exempted in 2019[556], will choose to resume their participation in this scheme.

In the context of the COVID-19 pandemic, the state took responsibility for paying social security contributions for employees and self-employed people whose work had been temporarily suspended or reduced. The self-employed benefited from contributions granted at an insured level set at 75 % of the national gross average wage, whereas employees were granted contributions at an insured level proportional to previous income and capped at a percentage of the national gross average salary[557]. Additional pension credits were granted to beneficiaries of unemployment and child-rearing allowances in order to cover the entire

[548] Governmental Emergency Ordinance (GEO) No 8/2022.
[549] GEO 132/2021, GEO 74/2022 GEO 168/2022.
[550] GEO No 166/2022.
[551] GO No 16/2022.
[552] Workers cumulating several part-time work contracts with total incomes exceeding the level of the minimum wage, along with students, pensioners and people with disabilities, are exempted.
[553] GEO 168/2022.
[554] Law 135/2022.
[555] Law 135/2022.
[556] The response of the General Secretariat of the Government to questions addressed by representatives of the Chamber of Deputies (r3682A.pdf (cdep.ro)).
[557] The insured income ranged between 41.5 % and 75 % of the previous income, within a cap limit of 41.5 % or 75 % of the national gross average salary, depending on the type of financial support (GEO 30/2020, GEO 92/2020).

period of the state of emergency[558]. In addition, during the state of emergency both employers and the self-employed were allowed to defer the payment of social contributions, as the state cancelled the penalties accumulated during this period.

The government has raised the contribution to the statutory funded component to 4.75 % of gross wages starting from 2024[559], 1 percentage point (pp) more than its previous value. Moreover, the government reduced the fees in 2022[560], by cancelling the fee on contributions (of a maximum of 0.5 %) while setting the fee on total net assets at a maximum of 0.07 % per month, depending on the rate of return of the fund. The statutory funded component is no longer exempted from the tax on dividends (set at 8 % since January 2023[561]). Representatives of the pension funds opposed the measure, warning of the risk of double taxation (on both contributions and pension benefits).

The new law on pensions, enacted in 2019 and planned to be enforced incrementally by 2021, has been suspended till January 2024[562]. As it was expected that the law will result in a significant increase in pension costs, the government pledged to draft new legislation by the end of 2023, under the RRP framework. The new legislation is supposed to introduce a new pension formula designed to tighten the link between contributions and benefits, and to enforce an indexation mechanism that will prevent ad hoc increases in the future. This would eventually allow expenditure on pensions to be kept within a cap of 9.4 % of GDP between 2022 and 2070. However, this last provision is currently strongly opposed by the new government and social partners[563].

Finally, the reform of the special pension schemes endorsed through the RRP and planned to be completed by the end of 2022 remains pending. A series of draft laws adopted by parliament in June 2023 was aimed at: (a) scrapping parliamentarians' special old-age benefits[564]; (b) amending the special pension schemes; and (c) forbidding the cumulation of incomes from pensions with incomes from employment in the public sector. The main amendments to special pension schemes, planned to be enforced incrementally by 2043, concern an increase in the pensionable age, stricter eligibility conditions, longer reference periods for the calculation of benefits, and additional taxes. However, it is expected that the laws will be revised, as they have been challenged before the Constitutional Court. Representatives of both current beneficiaries of the special schemes and employees are strongly opposed to the reform. Moreover, there is evidence that the number of employees who retire at an early age has increased over recent months, perhaps as people eligible for pensions choose to retire in order to secure the current pension rights[565].

558 Law 59/2020, GEO 30/2020.
559 GEO No 23/2022.
560 GEO 174/2022.
561 GEO 16/2022.
562 GEO 168/2022.
563 PSD cere renegocierea plafonului de 9,4% din PIB pentru pensii din PNRR. Marius Budăi: Premierul a agreat | adevarul.ro
564 Law 192/2023.
565 More than half of the judges and prosecutors who retired in the last three years asked for retirement in January 2023, supposedly motivated by the debates regarding the reform of special pension schemes ('Specialii' produc criză în instanțe: numărul cererilor de pensionare din ultimele 3 luni – jumătate din numărul celor din ultimii 3 ani (cursdeguvernare.ro)).

3 ASSESSMENT OF ADEQUACY[566]

3.1 Current adequacy

The at-risk-of-poverty or social exclusion (AROPE) rate improved constantly over recent years, standing at 37.2 % in 2022, 7.3 pp lower than in 2019. The rate of decline was among the highest across Europe: however, Romania was still among the countries with the highest proportion of the older population exposed to severe material and social deprivation (SMSD). Between 2019 and 2022 the percentage of people aged 65+ suffering from SMSD fell by 6.6 pp (reaching 25.8 % of total population in 2022).

The at-risk-of-poverty (AROP) rate for the population aged 65+ improved significantly between 2019 and 2022, after several years of deterioration. It fell to 19.5 % in 2022, compared with 25.1 % in 2019, though it was still higher than the EU level (of 17.3 %). Similarly, the level of material and social deprivation fell by 8.7 pp and reached 41.1 % in 2022. The poverty level is more pronounced for people aged 75+, and for women compared with men. Nevertheless, the poverty indicators fell to a greater extent for these categories. Older women's (65+) risk of poverty fell by 7.9 pp between 2019 and 2022 (compared with 2.4 pp for men) with a more pronounced change in case of women aged 75+, for whom the poverty was almost 11 pp lower in 2022 than in 2019. Similarly, the fall in the AROPE rate for women was twice that for men (9.2 pp compared with 4.5 pp). This is partly explained by the successive indexation of the SIP during recent years, as older women are among the main beneficiaries of the SIP. Despite the falling percentage of women affected by poverty, in 2022 the intensity of poverty (i.e. the relative poverty gap) was 7 pp higher for women than for men, compared with a gender gap of 1 pp at EU level.

In line with the improvements in the level of poverty, the housing cost overburden rate was on a downward trend, reaching 8.4 % in 2022, below the EU average of 10.7 %.

The relative median income (RMI) ratio (65+ age group) increased by 14 pp between 2019 and 2022, placing Romania among the countries with the highest median disposable income of older people compared with the younger population. In 2022, older men's median disposable income was higher than younger men's (RMI ratio 1.02), while the gender gap narrowed from 12 pp in 2019 to 6 pp in 2022. This holds true for ARR. After a dramatic fall in 2019, partly triggered by an increase in gross earnings resulting from a reconfiguration of social contributions[567], the ARR rose to 52 % in 2022, 10 pp more than its value in 2019.

The factors explaining the improvements in the level of poverty and income replacement among older people are twofold. First, the impact of pensions on poverty started to increase after 2019, given the successive indexation of benefits – in 2022 there was a 75 % poverty-reduction rate for pension benefits, compared with 68 % in 2019[568]. The increase in the

566 For most of the indicators employed in this part of the analysis, see Section 5 'Background statistics'.
567 Idem, p. 304.
568 Calculated as the reduction in the AROP rate after social transfers compared with before.

minimum benefit was reflected in an improvement in the welfare of low-income pensioners and, especially, among women aged 75+ with low incomes. Second, the increase in benefits exceeded the increase in the net minimum wage, contrary to the trend dominant in previous years. Between 2019 and 2021 the pension point increased by 22 %, whereas the minimum net wage rose by less than 10 %[569]. While the EU-SILC[570] data for 2022 (see Section 5) reflect the incomes from 2021, it is expected that the distribution of income changed in 2022 and 2023 as the indexation of the minimum wage again started to exceed the increase in pension benefits.

Conversely, most health indicators showed a dramatic deterioration over the last four years. In 2022 the average number of years that a person aged 65+ was expected to live was 0.6 years lower than in 2019. Life expectancy at 65 fell to 14.1 years for men and 18.2 for women, 0.8 years and 0.4 years lower respectively than in 2019. While the number of healthy life years at 65 fell by 1.4 years between 2008 and 2019[571], the weak coverage of medical services, especially in rural areas, resulted in a dramatic deterioration in the following years. The indicator fell by 2.6 years between 2019 and 2021. It reached 4 years in 2021, significantly below the EU average of 9.7 years. At the same time, the percentage of older people declaring unmet needs for medical examination was higher than the EU level (17.3 % compared with 5.4 %), though rather stagnant over the last four years.

Retirement duration[572] is shorter than in most EU Member States. Contrary to the fall of life expectancy at age 65, the retirement duration from first pension remained stable – 19.5 years in 2019 compared with 19.6 in 2022. However, it was 6.2 years longer for women than men. In addition, the retirement duration from exiting employment remained almost unchanged, indicating that the age of exiting employment fell during this period. This is also confirmed by the evolution of the duration of working life[573], which fell from 33.8 years in 2019 to 31.5 in 2022. The working life duration was also among the shortest across Europe, five years less than the EU average. Thus, given the week incentives to extend the working life duration, Romania was below the EU average in terms of the working life/retirement duration ratio.

3.2 Future adequacy

Between 2022 and 2062 the theoretical replacement rates (TRRs) will fall under all scenarios and, to a much higher extent, for women compared with men. For average-income earners with a career of 40 years up to the standard pensionable age (SPA), the TRRs among men will fall from 80.9 % to 69.8 %, and those among women from 88.4 % to 66 %. Similarly, the TRRs for low-wage-earners with a 40-year career up to the SPA are set to fall (by 10.8 pp for men and 22.8 pp for women), though they will also preserve slightly higher values compared with average-earners. In the AWG career length case, women's shorter careers triggered

[569] Calculations based on GEO 114/2018, GEO 135/2020, Government Decision (GD) 935/2019, GD 4/2021.
[570] European Union statistics on income and living conditions.
[571] European Commission (2021), Directorate-General for Employment, Social Affairs and Inclusion, *2021 pension adequacy report – Current and future income adequacy in old age in the EU. Volume 2, Country profiles*, Publications Office of the European Union (https://data.europa.eu/doi/10.2767/765944, p.306).
[572] The 2022 data on retirement duration from first pension and retirement duration from exiting employment are based on a provisional calculation.
[573] Eurostat database, indicator LFSI_DWL_A.

slightly lower TRRs compared with men in 2022 (81.4 % compared with 82.6 %, a gap of 1.2 pp). But these TRRs are expected to fall at a much faster pace among women, resulting in a wider gender gap in 2062: 61.1 % compared with 72.4 % (i.e. a gap almost 10 times wider, of 11.3 pp).

As a new law on pensions is expected to be adopted in the near future, it is difficult to predict the evolution of TRRs. However, taking into consideration the debates around the planned reforms, it is expected that the low-income benefits will be especially addressed. Such measures are likely to temper the decline in the TRR for low-income pensioners. However, it is unclear whether incentives to defer retirement will be included within the reforms. Sustaining a longer working life therefore remains a priority for future policies on pensions.

3.3 Developments in (in)equalities

Despite the improvement in poverty and income replacement indicators, inequality among older people (the S80/20 ratio) was stagnant during 2019-2022 and remained slightly higher than the EU average (4.4 as compared with 4.1). During the recent crises the government increased the minimum benefit at an accelerated pace and broadened the scope of pension credits, as a means to tackle the current and future pension inequalities. However, a series of discrepancies remain and these are rather inherent to the pension system.

Within the main statutory scheme, structural parameters related to gender, work conditions, and year of retirement are reflected in different retirement conditions for different socio-economic groups and/or cohorts, while a range of redistributive elements (such as the minimum benefit, the survivor pension, and pension credits for several non-contributory periods) may alter the link between contributions and benefits. In addition there are significant differences between the main statutory scheme and the special pension schemes, in terms of retirement conditions and level of pension replacement rates.

Women rely more on the SIP, they are more numerous among survivors, and they are the main beneficiaries of pension credits for childcare. Given the lower SCP in place till 2030, they can accrue a full pension more quickly than men. For those aged 65-79, women’s pensions were 18.6 % lower than men’s in 2022. The gender gap in pensions was below the EU average and narrowed by 3.2 pp between 2019 and 2022. In addition, the difference between the percentages of women and men not covered by pensions was rather small (2.7 compared with 5.3 at EU level) and almost halved between 2019 and 2022, most likely as a result of an increased participation in the labour market of the more recent cohorts of women retirees. However, the gender gap in pension widens dramatically when looking within the categories of pension benefits. The gender gap reaches 28 % for old-age benefits, 14 % for early-retirement benefits, and 20 % for invalidity benefits[574]. The benefits granted for old age are the most differentiated between men and women. These are clear indicators that the shorter careers and lower pensionable age have a negative impact on women’s pension benefits. With only 36 % of women aged 55-64 employed in 2022, women’s participation in

[574] National House of Public Pensions data. The gender gap was calculated as the difference between the average man's pension and the average woman's pension, expressed as a percentage of the man's.

the labour market in this age group was the weakest in the EU, and had not improved over recent years. In this context, the equalisation of the SCP for men and women by 2030, along with allowing women to retire two years earlier than men, is likely to have a negative impact on women's benefits. The planned reforms are expected to tackle this accordingly.

The differences in the level of benefits and retirement conditions between the main statutory scheme and the special pension schemes have become increasingly relevant, given the need to contain increasing pension expenditure. An analysis conducted by the World Bank, at the request of the Ministry of Labour, revealed that the replacement rates vary between 65 % for military and security personnel to 80 % for the other special pension benefits granted in the public service sector, compared with 41 % in the main statutory scheme. While the social contributions paid for pensions cover between 10 % (magistrates) and 60 % (military and security personnel) of the final benefit[575], the payment of benefits triggered a cost from the state budget amounting to 13 % of the pension budget, or 60 % of the pension budget deficit in 2022[576].

Employment status is another source of inequality, in addition to occupation. Access to pension rights, though in principle equal for all categories of employed people, depends on a minimum insurable income – set at the level of the gross minimum wage. Access to pension insurance by employees in standard and non-standard forms of employment has been improved recently by ensuring full pension entitlements for part-time work. However, given that the minimum wage increased rampantly after 2015, the cost of social insurance is higher for the self-employed with lower incomes and for any other individual who might want to voluntarily enrol in the pension system. This is replicated in a low share of insured self-employed people, many of them remaining in an undeclared form of work activity. While the self-employed represent around 12 % of the working population, only about a quarter of them were insured in 2022, with 86 % of them insured at the minimum wage level[577]. The increase in the minimum insurable income for the self-employed on higher incomes is likely to change this to a certain extent.

The gap in access to pension rights between formal and informal forms of employment became more pronounced during the COVID-19 crisis and the more recent inflation and energy crisis. The state-provided indemnities, along with the pension credits granted during these crises, mostly addressed employees and the self-employed with declared incomes. The number of employees increased slightly between 2019 and 2022. However, the number of the insured self-employed remained relatively constant, as the impact of these measures was limited to the (few) already insured self-employed people.

4 KEY CHALLENGES AND OPPORTUNITIES

In order to preserve a good level of adequacy and to prevent a large fall in the replacement rates in the long term, a series of aspects need to be addressed related to: (a) working life duration; (b) access to social insurance by people employed in informal economic activities or

575 World Bank (2023), *Report on the analysis, impact assessment and recommendations on the reform of special pensions*.
576 Fiscal Council (2021), *The Annual Report*, pp. 63 (RA CF 2021.pdf (consiliulfiscal.ro)).
577 Eurostat and National House of Public Pensions data.

with low incomes; (c) the distributional equity of the pension system; and (d) a transparent mechanism for the indexation of benefits.

The duration of working life can be increased through policies aimed at improving the employment rate among older people, equalising the pensionable ages for men and women, and creating incentives to extend work beyond the pensionable age. This would also reduce women’s reliance on the minimum benefit and prevent a future increase in the pension gender gap.

Self-employed people’s access to insurance for old-age pensions could be improved by adjusting the contribution requirements to incentivise those on low incomes to enrol in the pension system.

The distributional equity of the pension system could be addressed through a policy reform to diminish the disparities between the beneficiaries of the main statutory pension scheme and those of the special pension schemes, while eventually managing to gather support and to prevent the resort to retirement at young ages.

And finally, systematic indexation of pension benefits instead of discretionary changes would increase the adequacy of retirement incomes and the overall stability of the pension system.

5 BACKGROUND STATISTICS

	2022			Change 2019-2022		
5.1. Relative income	Total	Men	Women	Total	Men	Women
Relative median income ratio (65+)	0.97	1.02	0.96	0.14	0.10	0.16
Income quintile share ratio (S80/S20) (65+)	4.40	4.17	4.50	0.01	0.17	-0.03
Aggregate replacement ratio (ARR) (65-74) (%; change in pp)	52.0	53.0	52.0	10.0	10.0	11.0

5.2. Poverty and material deprivation	2022			Change 2019-2022 (pp)		
	Total	Men	Women	Total	Men	Women
At-risk-of-poverty or social exclusion (AROPE) (65+) (%)	37.2	31.9	40.7	-7.3	-4.5	-9.2
At-risk-of-poverty (AROP) rate (65+) (%)	19.5	14.9	22.5	-5.6	-2.4	-7.9
Severe material and social deprivation (SMSD) rate (65+) (%)	25.8	23.4	27.4	-6.6	-4.0	-8.4
At-risk-of-poverty or social exclusion (AROPE) rate (75+) (%)	42.8	35.6	47.1	-9.1	-5.9	-10.5
At-risk-of-poverty (AROP) rate (75+) (%)	24.6	18.2	28.4	-8.7	-4.0	-10.9
Severe material and social deprivation (SMSD) rate (75+) (%)	28.2	24.8	30.2	-8.0	-4.9	-9.5
Relative median at-risk-of-poverty gap (65+) (%)	22.8	17.9	24.8	-0.7	-0.5	0.6
At-risk-of-poverty (AROP) rate, 65+: 50 % threshold (%)	11.3	7.5	13.7	-4.2	-1.7	-6.0
At-risk-of-poverty (AROP) rate, 65+: 70 % threshold (%)	25.8	21.3	28.8	-7.4	-4.3	-9.5
Material and social deprivation (MSD) rate (65+) (%)	41.1	36.7	44.1	-8.7	-8.0	-9.1

5.3. Gender difference	2022	Change 2019-2022 (pp)
Gender gap in pension income (65-79) (%)	18.6	-3.2
Gender gap in non-coverage rate (65-79) (pp)	2.7	-2.4

5.4. Housing and health situation	2022			Change 2019-2022		
	Total	Men	Women	Total	Men	Women
Housing cost overburden rate (65+) (%; change in pp)	8.4	6.7	9.6	-2.3	-0.8	-3.3
Self-reported unmet need for medical exam 65+ (%; change in pp)	17.3	15.2	18.7	1.3	2.5	0.4
Healthy life expectancy (at age 65) (years) (1)	4.0	4.0	4.0	-2.6	-2.7	-2.5
Life expectancy (at age 65) (years)	16.3	14.1	18.2	-0.6	-0.8	-0.4

	2022	2062
Receiving long-term care cash benefits (65+) (%)	5.4	7.6
Receiving long-term care in-kind benefits (65+) (%)	9.2	12.8

5.5 Sustainability and context	2022			Change 2019-2022		
	Total	Men	Women	Total	Men	Women
Employment rate (55-64) (%; change in pp)	46.7	58.0	36.1	-1.1	-2.1	-0.4
Pension expenditure (% GDP; change in pp) (1)	9.0			1.2		
Retirement duration from first pension (years)	19.6	16.5	22.7	0.1	0.1	0.1
Retirement duration from end employment (years) (2)	18.5	15.9	20.7	0.6	0.5	0.3

Projections (3)	2022			2062		
Old-age dependency ratio (20-64) (%)	33.1	26.3	40.0	64.6	54.3	76.2
Economic old-age dependency ratio (20-64) (%)	47.9	44.8	50.3	80.7	88.0	75.7
Gross public pensions (% GDP)	8.5			9.2		
Benefit ratio (%)	34.0			32.6		
Coverage ratio (65+) (%)	133.8			101.2		
Gross pension ratio high/low earner		2.1	2.1		2.3	2.3

(1) 2021 instead of 2022
(2) Based on the assumptions of the 2024 Ageing Report for the 2023 average exit ages
(3) For the source of each of these six indicators providing projections by 2062, please see 'Indicators, definitions and abbreviations'.

5.6 Theoretical replacement rates

	Net (%)				Gross (%)			
	2022		2062		2022		2062	
	Men	Women	Men	Women	Men	Women	Men	Women
Standard pensionable age (SPA)	**65.0**	**62.0**	**65.0**	**63.0**				
AWG career duration (years)	**40.8**	**36.6**	**41.1**	**37.2**				
Average Earning (100 %)								
Base case: 40 years up to SPA	80.9	88.4	69.8	66.0	48.4	53.3	42.5	40.0
Increased SPA: from age 25 to SPA	80.9	82.2	69.8	61.7	48.4	32.9	42.5	37.2
AWG career length case	82.6	81.4	72.4	61.1	49.5	48.7	44.2	36.9
Longer career: 42 years to SPA			69.6	65.9			42.6	40.0
Shorter career: 38 years to SPA			64.4	61.0			39.1	36.9
Deferred exit: 42 years to SPA +2			74.0	69.7			45.3	42.5
Earlier exit: 38 years to SPA -2			65.7	62.5			39.9	37.9
Career break – unemployment: 3 years	75.6	82.6	64.8	61.4	44.9	49.5	39.3	37.1
Career break – childcare: 3 years	76.3	83.3	65.3	61.9	45.4	49.9	39.6	37.4
Career break – care for family dependant: 3 years	75.3	82.2	65.2	61.6	44.7	49.3	39.6	37.3
Short career (20-year career)	41.4	45.5	34.4	32.7	24.2	26.6	20.0	19.1
Work 35 years, disabled 5 years prior to SPA			66.5	65.8			40.4	38.0
Early entry in the labour market: from age 20 to SPA			83.1	73.0			51.2	44.6
Index: 10 years after retirement at SPA			72.3	68.0			44.2	41.4
Extended part-time period for childcare			60.1	57.0			36.3	34.3
Survivor ratio 1*		0.6		0.6		1.5		1.5
Survivor ratio 2*		0.4		0.5		1.4		1.3
Low earnings (66 %)								
Base case: 40 years up to SPA	82.7	91.0	71.9	68.2	48.4	53.3	42.5	40.0
AWG career length case	84.6	83.3	74.6	63.1	49.5	48.7	44.2	36.9
Career break – unemployment: 3 years	76.8	84.6	67.0	63.4	44.9	49.5	39.3	37.1
Career break – childcare: 3 years	77.5	85.3	67.5	63.9	45.4	49.9	39.6	37.4
Short career (20-year career)	42.0	45.8	35.8	34.1	24.2	26.6	20.0	19.1
Early entry in the labour market: from age 20 to SPA			85.3	75.2			51.2	44.6
High earnings (100->200 %)								
Base case: 40 years up to SPA	59.1	64.7	55.8	52.1	36.3	39.9	34.9	32.4

**Survivor ratio 1: man base case, woman base case*
**Survivor ratio 2: man base case, woman short career case*

SLOVAKIA

Highlights

- The adequacy of old-age pensions increased between 2019 and 2022, both in terms of relative median income and the aggregate replacement ratio. These two indicators are above the EU average.
- From January 2023 the cap on the pensionable age was removed, and the pensionable age was linked to average life expectancy.
- In 2023 the 'parental pension' was established as a part of the statutory pension scheme. It allows pensioners to receive additional pension amounts financed from the social contributions of their working children.
- In 2023, changes in the indexation rules were adopted, addressing high inflation. The new rules are more flexible and better adapted to the evolution of consumer prices.

1 GENERAL DESCRIPTION OF THE NATIONAL PENSION SYSTEM

The pension system in Slovakia consists of three elements. The statutory pension scheme is represented by the insurance-based mandatory defined-benefit pay-as-you-go (PAYG) pension scheme administered by a statutory public body – the Social Insurance Agency. The statutory funded pension scheme is based on individual accounts. The supplementary pension scheme (personal pension scheme) is designed for supplementary savings and is voluntary (except for certain professional groups). Pension benefits from the statutory pension scheme still represent the main source of old-age income.

The **statutory pension scheme (PAYG)** is financed primarily through pension insurance contributions paid by the economically active part of the population. Two modalities of contributing are used, depending on whether insured people are covered only by the statutory scheme or by both the statutory scheme and the statutory funded scheme. Employees presently contribute 4 %. Employers contribute 14 %. If employees also participate in the statutory funded pension scheme, part of the employers' contributions (5.5 % in 2023) is transferred into this scheme[578]. The minimum contribution period for pension entitlements is 15 years. The pension component has a mixed content based on restricted solidarity and earnings-related principles.

The following periods are taken into account when it comes to assessment of pension entitlements and calculation of pension benefit: caring for a child up to age 6 or for a long-

[578] There is no compulsory insurance for self-employed people with an annual income less than EUR 7,266 from 1 July 2023 (50 % of national average wage in 2021) and university or college students in apprenticeship or traineeship.

term severely disabled child up to age 18; receiving personal assistance benefit (*Peňažný príspevok na osobnú asistenciu*) for at least 140 hours per month; receiving attendance service benefit (*Peňažný príspevok na opatrovanie*); receiving invalidity pension (until reaching the retirement age or taking early retirement); receiving maternity benefit (*Materské*); being absent from work due to sickness; receiving the benefit for the care of a sick relative (*Ošetrovné*); receiving injury annuity benefit (*Úrazová renta*); or receiving the compensation allowance for former miners (*Kompenzačný príspevok baníkom*).

Since 2017 the pensionable age has been linked to changes in life expectancy at the reference age, with the goal of improving the long-term sustainability of the pension system. In 2019 a cap on the rise in the pensionable age was introduced (at 64). It was expected that this threshold would be reached in 2030. In addition, from January 2020 the pensionable age was based on the year of birth, sex and the number of children raised. A maximum pensionable age of 64 was set for both men and women without children (men and women with children benefited from a lower pensionable age). From 2023 the pensionable age is not capped and its increase is linked to the average life expectancy (see Section 2 for details). The pensionable age differs among the various demographic categories. For example, as of March 2023 the pensionable age for men and women without children, who were born in May 1960, is 63. The pensionable age is lower for women who raised child(ren), and for men who raised child(ren) alone, as follows: (a) by six months in the case of one child; (b) by 12 months in the case of two children; and (c) by 18 months in case of three or more children.

Early retirement is possible two years prior to pensionable age, conditional on a 15-year insurance record and an entitlement of at least 1.6 times the subsistence minimum. The amount of an early old-age pension is reduced by 0.5 % for every 30 days before pensionable age. Alternatively, insured people can retire early if they have worked for at least 40 years: the pension amount is reduced by 0.3 % for every 30 days before pensionable age (the condition of a minimum level at 1.6 times the subsistence level also applies). In principle it is not possible to combine early retirement and earnings.

A minimum old-age pension (within the statutory scheme) was introduced in 2015. The conditions allowing beneficiaries to boost their pension to the level of the minimum pension include a 30-year pension insurance record and having a total pension income below the amount of the minimum pension. Old-age beneficiaries who reached the pensionable age qualify for the minimum pension even if they had been awarded an early old-age pension or an invalidity pension.

In addition to the regular pension benefit, specific transfers were introduced within the statutory pension scheme. In 2006 the Christmas bonus was established, representing a form of special supplement to pensions (old-age pension, early old-age pension, invalidity pension, social pension, and widow/widower pension), funded from the state budget. Since 2020 the Christmas bonus has been replaced by the '13th pension', which is paid each year in a maximum amount of EUR 300 and minimum amount of EUR 50 (its amount depends on the level of the pension). From 2023 the parental pension (*Rodičoversuský bonus*) becomes part of the statutory pension scheme, with the aim to strengthen solidarity between parents and their children (see Section 2 for details). Parental pension allows pensioners to receive a pension supplement financed from the social contributions of their working children.

Under the statutory pension scheme, unlimited deferment is possible. The amount of a deferred old-age pension is increased by 0.5 % for every complete 30 days of deferment. However, the cumulation of an old-age pension with earnings is also possible, and a much more popular option than a deferred pension. The cumulation of an old-age pension with earnings gives the right to a recalculation of the pension, whereby only half of the earnings are taken into account.

The **statutory funded pension scheme** was introduced in 2005. Since then the scheme has undergone several changes. From 1 May 2023 onwards people who have started working for the first time (and, as a consequence, have entered the statutory pension scheme) will automatically participate in the statutory funded pension scheme. New pension insurees in the statutory funded pension scheme will be able to choose a pension fund management company within the first 180 days. If no choice is made, the Social Insurance Agency will decide after that period. Insurees, who will automatically enter into the statutory funded pension scheme, will be able to leave the scheme within the period of two years. It is worth noting that individuals are able to re-enter the system until age 40.

In 2023 the contribution rate for saving was 5.5 % (financed from the employer's pension insurance contributions). More than half of the economically active population participated in the scheme in 2022 (1,736,378 people as of 31 December 2022).

The pay-out phase started effectively in 2015, 10 years after the launch of the pension reform. Payments are made in the form of a life annuity, time-limited annuity or a programmed withdrawal. After an amendment to the law in 2018, if the total retirement income is above the average monthly old-age pension paid from the statutory scheme[579], the saver can apply for a one-off withdrawal of their statutory funded pension entitlement. As a result of these changes, up to 63 % of savers were eligible for a one-off withdrawal in 2019 (compared with 9 % of savers before the change). The average level of a life annuity was EUR 22.10 per month in 2022. Pensions in the form of annuities from the second pillar are now paid to 22 % of (mainly low-income) savers.

The **personal pension scheme** is open to employees, the self-employed and other voluntary savers. Employee contributions into supplementary pension plans are tax-deductible, up to EUR 180 per year. Employers who contribute to their employees' supplementary pension savings can benefit from tax deductions on up to 6 % of the employee's gross wage. Although there are no classic occupational pensions, participation in supplementary pension insurance is mandatory for specified categories of employees, such as those in certain arduous jobs (for example, miners) and artistic professions. The employer is obliged to contribute in this case[580]. Conditions for the entitlement are 10 years of working in this category and reaching age 55 [581]. Supplementary pensions covered 948,281 people in 2022, representing approximately 35 % of the working-age population.

The **amount of old-age benefit** in the statutory scheme depends on an individual's average earnings and the length of the contribution period. It is calculated as the product of the

[579] EUR 508.90 in 2022; EUR 521.30 in 2023; EUR 651.70 in 2024.
[580] Obligations are on the employers' side, but employees may also contribute.
[581] For other employees, a condition for the entitlement is reaching retirement age.

average personal pension point, the contributory period, and the current pension point value. The personal pension point for a given year represents the ratio of individual earnings to economy-wide average earnings; the current pension point value is regularly established by the Social Insurance Agency and in 2023 was EUR 16.48.

Since 2018, pensions have been **indexed** to the year-on-year growth in consumer prices for pensioner households. A minimum rate of pension benefit increase was defined based on increased general public concern about the adequacy of pensions. In 2018-2021 it was 2 % of the average sum of the pension benefit under the statutory pension scheme. The minimum 2 % increase was terminated in 2022, followed by the planned changes in indexation that addressed rising inflation (see Section 2) coming into force in 2023. Self-employed and non-standard workers do not show coverage gaps in terms of old-age pensions. The problem arises from the fact that a significant proportion of the self-employed (approximately 80 % in 2022) pay only minimum social contributions, which will lead to low future pensions from the statutory pension scheme. This was supported by the introduction of the minimum pension (see Section 2 for details).

2 REFORM TRENDS

In the period under scrutiny pension reforms have affected three aspects of the pension system: the sustainability of the statutory pension scheme; the adequacy of pensions from the statutory funded pension scheme; and cost reduction in the supplementary pension scheme. Some of the reforms were adopted as responses to the COVID-19 pandemic and the energy crisis.

The following reforms modified the design of the pension system: changes in the pensionable age; a minimum pension; indexation of old-age pensions; and the introduction of the parental pension.

A rise in the pensionable age, achieved by removing the cap on it (adopted in 2022 and in force since 2023) and linking it to average life expectancy (it applies to people born in 1967 and later)[582], enhanced the sustainability of the statutory pension scheme.

Further, the rate of increase in the current pension point value, a key element for calculating pension entitlements, was slowed down (adopted in 2022). The current pension point value remains indexed to average gross earnings growth, based on a comparison of the third quarters of the two preceding years, but only 95 % of the growth is taken into consideration. This new rule has been already applied to the pension point value for 2023.

The parental pension was introduced in 2023[583], having consequences in terms of both sustainability and adequacy. It is provided to recipients of old-age pensions (as well as to recipients of invalidity pensions who have reached pensionable age) whose children pay old-age insurance contributions. The amount of the parental pension is 1.5 % of the child's

[582] People born before 1967 are not affected by this change.
[583] The author of the idea of the parental pension, ex-minister of interior Vladimír Palko, declared that the intention was to reward parents who raised children. Among the inspirations, he cited the proposal in the report *Starke Familie* (2005), published by Robert Bosch Stiftung. However, the design of the parental pension is different and does not resemble any existing measure.

assessment base from the previous two years, with a maximum of 3 % for one child[584]. Additionally, the maximum amount of the parental pension is determined as 1.5 % of 1.2 times the general assessment base, which is based on the average wage. Importantly, the parental pension does not affect the (future) pension entitlements of the child. The benefit is calculated and paid automatically (as a one-off total amount from 2023[585]), without requiring the consent of the child. However, each child can declare that they do not want to provide a parental pension to one or both parents.

Parental pensions will cost an extra 0.23 % of GDP in each coming year, increasing significantly the expenses of the Social Insurance Agency, which has to find additional resources for this extra spending. A slowdown in the growth rate of the current pension point value, which is expected to offset the costs of the parental pension, will only deliver its full effect later, creating an imbalance between actual costs and postponed savings[586].

When it comes to adequacy, the parental pension has increased the disposable income of old-age pensioners with children and disability pensioners, after reaching the pensionable age with children.

In 2023, changes to indexation were adopted, addressing high inflation. Previously, adjustments were made annually at the beginning of the calendar year (1 January), taking into account inflation (the growth in consumer prices) for pensioner households in January to June of the previous year. After the recalculation of the pension benefits, the new amount is paid during the whole calendar year. The amendment introduced in February 2023 makes the indexation more flexible and more sensitive to the evolution of consumer prices. Extraordinary indexation due to high inflation was first applied in July 2023. From January 2024 indexation can occur several times during the calendar year, depending on the growth in consumer prices for pensioner households. If the rise in the index (growth of consumer prices) exceeds 5 % since the last increase in old-age pension benefits, the Social Insurance Agency will have to recalculate old-age pension benefits and provide new amounts within a two-month period. While the original indexation took into account the period from January to June (applicable for indexation in January 2024), the new one will consider a longer period – from January to September (from 1 January 2025). Changes in the indexation of old-age pensions represented a policy reaction to high inflation. Some experts point to the fact that the flexibilisation of the indexation mechanism comes into play in the situation where pensioners' incomes have grown faster than inflation[587]. Similarly, new rules for the minimum pension also address the growth in consumer prices.

When it comes to the adequacy of the minimum pension introduced in 2015, its indexation was suspended for two years. The minimum pension was linked (again) to the subsistence minimum in 2023. From July 2023 the basic amount of the minimum pension will amount to

[584] The assessment base represents a basis for the calculation of insurance contributions.
[585] On 4 December 2023 the government approved a legislative proposal that amends and supplements some laws in connection with improving the state of public finances, and revises 17 acts. The amendment to the social insurance law also concerns the parental pension, which according to this proposal remains in its original form. However, the amendment changes the method of payment from a monthly basis to a one-off payment to be made annually in June.
[586] Information retrieved from the blog of the Chairman of the Council for Budget Responsibility (https://www.rrz.sk/dochodkova-reforma-1-piliera-zmena-dobrym-smerom-ale-bez-ustavneho-ukotvenia-blog/#_ftn7).
[587] https://www.rrz.sk/valorizacia-dochodkov-v-sirsom-kontexte-celkove-prijmy-dochodcov-v-priemere-rastu-rychlejsie-ako-inflacia-aj-pocas-kriz/

1.36 times the subsistence minimum. Each additional year up to 39 qualified years of insurance will bring an increase of 2 % of the subsistence minimum (determined for adults). From October 2023 it increased to 1.45 times the subsistence minimum, and each additional year between 31 and 39 years brought an additional increase of 2.5 % of the subsistence minimum; between 40 and 49 years of 3 %; between 50 and 59 years of 5 %; and from 59 years and more of 7.5 %.

As regards the statutory funded pension scheme, attention was paid to the level of future pensions by changing the default investment options. From May 2023 the default investment options for new insurees and those under 54 will change from guaranteed-return bond funds to non-guaranteed-return index funds. After reaching age 50, the proportion of the index funds will decrease in favour of bond funds by 4 % per year. This change is expected to stimulate the growth of returns for passive insurees who did not make any decisions after entering the statutory funded pension scheme.

When it comes to personal pension schemes, the focus was on lowering administrative fees. The maximum annual fee that pension management funds can charge savers will gradually fall from 1.2 % of assets to 1.15 % in 2023, 1.05 % in 2024 and 1 % in 2025. The commission for signing the contract with the pension management fund also falls – from 10 % to 8 % of the monthly average wage.

In relation to the COVID-19 pandemic, a number of measures were adopted for employers and self-employed people with employees, who, despite being forced to shut down their operations, preserved jobs for at least two months and could claim reimbursement of employees' wages. This measure therefore had no impact on pension entitlements. Furthermore, self-employed people and employers were allowed to defer payment of social contributions, provided they were faced with a fall-off in revenue of more than 40 %. Those who were forced to shut down for more than 15 days did not have to pay any social contributions in April 2020. This measure had no effect on the pension entitlements of self-employed people and employees.

Some changes in the pension system reflected the consequences of the energy crisis and high inflation. Addressing the high and increasing inflation rate for pensioner households in 2022, an earlier payment of the 13th pension (usually paid in November each year) was approved. The intention was to help pensioners with higher living costs by making additional financial resources available earlier. The measure, approved in May 2022, came into force in June and pensions were already paid in July 2022. In October 2022 additional support for old-age pensioners was introduced. A new *one-off* benefit, the '14th pension', was approved unanimously by parliament and paid in December 2022. It follows the logic of the 13th pension but is provided at lower levels. Both changes have been temporary in nature.

3 ASSESSMENT OF ADEQUACY

3.1 Current adequacy

The proportion of people aged 65+ at risk of poverty or social exclusion (AROPE) was 11.9 % in 2022, well below the EU average (20.2 %). The AROPE rate did not change significantly between 2019 and 2022. Among people aged 75+, the AROPE rate was lower in 2022, at 10.8 %. In general, women were more frequently exposed to the risk of poverty or social exclusion: the AROPE rate among women aged 65+ was 13.4 %, compared with 9.7 % among men. The AROPE rate among women aged 75+ was 11.9 %, compared with 9.1 % among men.

Income poverty (the at-risk-of-poverty – AROP – rate) affected 8.1 % of people aged 65+ in 2022, including 6.1 % of men and 9.5 % of women. The severe material and social deprivation (SMSD) rate among people aged 65+ was 5.8 % in 2022. Although in terms of the SMSD rate Slovakia was close to the EU average (5.5 %), the AROP rate in Slovakia was lower than in the EU as a whole (17.3 %) in 2022. The situation of people aged 75+ was better when it comes to income poverty (AROP) and SMSD: 6.9 % of them faced income poverty and 4.8 % SMSD in 2022.

The lower AROPE and AROP rates among people aged 75+ in 2022, compared with those aged 65+, resulted from the fact that the situation of women aged 75+ improved more significantly than that of women aged 65+ between 2019 and 2022. However, it is difficult to find a policy-relevant explanation. There was no single measure that could be identified as a main contributor to the process.

The (average) income situation of people in poverty in Slovakia is better than the situation in the EU as a whole. The relative poverty gap was 12.7 % in 2022 in Slovakia, compared with 18.1 % in the EU.

The housing cost overburden rate for people aged 65+ was very low, at 2.0 % in 2022 (the EU average was 10.7 %). As regards health conditions, the incidence of unmet need for medical care among older people increased slightly in 2019-2022, by 2.8 percentage points (pp), reaching 11.2 % in 2022. Men had to cope with unmet need for medical care more frequently (13.1 %) than women (9.9 %). Life expectancy at age 65 was below the EU average in 2022 (17.2 years in Slovakia; 19.6 in the EU). Men (15.1) and women (18.9) differed significantly in this respect in Slovakia. Slovakia also reported a much lower number of healthy life years at age 65 (5) than the EU (9.7) in 2022. However, unlike life expectancy, the number of healthy life years at age 65 did not differ significantly between men (4.8) and women (5.1).

To sum up, old people in Slovakia show a below-average exposure to social risks, with very low threats from SMSD and housing costs. However, they are worse off (in relation to the EU average) when it comes to life expectancy and healthy life years. The current reforms of the pension system have mostly focused on its adequacy and sustainability. Further, they have also taken into account life expectancy as a key factor in the rise in the pensionable age.

The relative median income ratio (for the 65+ category), which compares the overall income situation of older people with the income situation of the younger age group, increased markedly between 2019 and 2022, by 11 pp, reaching 96 % in 2022. As result, it rose above the EU average (90 %). The aggregate replacement ratio (ARR), which compares retired people's pensions with the earnings of people in the decade before retirement, was 60 % in 2022. It rose markedly by 7 pp between 2019 and 2022 and exceeded the EU average (58 %) in 2022. Unlike the EU, there were no differences between men and women in terms of the ARR in 2022. However, this is only a new phenomenon, as in 2019 the ARR was 50 % for men and 58 % for women.

The retirement duration from first pension receipt was 20.1 years in Slovakia in 2022. The retirement duration from exiting employment was 19.8 years. This was among the lowest values in the EU. The values of both indicators fall between 2019 and 2022, by 0.5 years and 0.6 years respectively.

3.2 Future adequacy

In 2022-2062 the net theoretical replacement rate (TRR) for the base case is projected to fall by 4.5 pp (for both men and women). A longer career will lead to a significantly smaller loss, of 0.3 pp. The net TRR for a shorter career will fall by 8.1 pp. While career breaks due to unemployment will reduce the net TRR by 9.6 pp, career breaks due to childcare will reduce it by 6.3 pp. The timing of retirement has massive implications for TRRs: deferring retirement by only two years will result in a gain of 9.9 pp compared with the base case, whereas retiring two years before the standard pensionable age will trigger a loss of 9.6 pp. For workers with low earnings, the current and prospective net TRRs in the base case scenario will remain higher than those for workers with average earnings, but the difference will narrow slightly between these two categories by 2062 (from 4 pp to 2.3 pp).

3.3 Developments in (in)equalities

Slovakia is among the most equal countries in the EU when it comes to income distribution. The income quintile share ratio (S80/S20) for people aged 65+ was 2.38 in 2022, which was far below the EU average (4.1). Slovakia also belongs to those EU Member States with small gender differences in pensions. The gender gap in pensions was 11.1 % in Slovakia in 2022, being significantly narrower than the EU average (26.1 %)[588]. The gap in Slovakia results from the shorter working lives of women (the pension age is still lower for women with children), lower employment rates, and prevailing employment in less remunerative jobs and sectors, with a lower share in higher management positions.

4 KEY CHALLENGES AND OPPORTUNITIES

Sustainability and adequacy seem to be the two topics most discussed in relation to the pension system in Slovakia. Although several steps have been taken in order to enhance the sustainability of the system, the introduction of the parental pension and the 13th pension within the statutory pension scheme could contribute to its weakening. In terms of adequacy,

[588] Three factors may contribute to the fact that the gap is well below the EU average. In general, Slovakia shows one of the lowest income inequalities in the EU. As a result, income differences among inhabitants are smaller than in the majority of EU Member States. Furthermore, women's employment rate – although lower than that of men – is above the EU average. The low proportion of women on part-time contracts also contributes to this.

the parental pension contributes to an increase in pensions, although only for the pensioners with children (who are willing to contribute to the pensions of their parents) – in line with the officially declared objective of the reform, which was to compensate old-age pensioners for the costs of raising children (which childless people do not have to face). Questions may be raised as to whether, and to what extent, the design of the parental pension will remain unchanged, taking into account negative developments in the public finance deficit. The 13th pension represents a widely accepted measure across the political spectrum. The fact that adequacy has attracted a lot of attention by policy-makers in recent years is reflected in the development of the key indicators. Both the relative median income ratio and the ARR rose between 2019 and 2022 and exceeded the EU average.

5 BACKGROUND STATISTICS

	2022			Change 2019-2022		
5.1. Relative income	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**
Relative median income ratio (65+)	0.96	0.95	0.98	0.11	0.08	0.13
Income quintile share ratio (S80/S20) (65+)	2.38	2.29	2.43	-0.10	-0.05	-0.12
Aggregate replacement ratio (ARR) (65-74) (%; change in pp)	60.0	60.0	60.0	7.0	10.0	2.0

5.2. Poverty and material deprivation	2022			Change 2019-2022 (pp)		
	Total	**Men**	**Women**	**Total**	**Men**	**Women**
At-risk-of-poverty or social exclusion (AROPE) (65+) (%)	11.9	9.7	13.4	-0.4	0.8	-1.2
At-risk-of-poverty (AROP) rate (65+) (%)	8.1	6.1	9.5	-0.6	0.0	-1.0
Severe material and social deprivation (SMSD) rate (65+) (%)	5.8	5.0	6.3	0.5	0.7	0.3
At-risk-of-poverty or social exclusion (AROPE) rate (75+) (%)	10.8	9.1	11.9	-1.6	1.9	-3.6
At-risk-of-poverty (AROP) rate (75+) (%)	6.9	5.0	8.1	-1.8	0.5	-3.2
Severe material and social deprivation (SMSD) rate (75+) (%)	4.8	4.4	5.1	-0.8	1.1	-1.9
Relative median at-risk-of-poverty gap (65+) (%)	12.7	14.4	11.2	0.3	2.3	-1.4
At-risk-of-poverty (AROP) rate, 65+: 50 % threshold (%)	3.2	2.7	3.5	0.0	0.6	-0.4
At-risk-of-poverty (AROP) rate, 65+: 70 % threshold (%)	12.3	10.4	13.6	-7.2	-4.4	-9.1
Material and social deprivation (MSD) rate (65+) (%)	10.6	9.3	11.5	-2.7	-1.2	-3.7

5.3. Gender difference	2022	Change 2019-2022 (pp)
Gender gap in pension income (65-79) (%)	11.1	-0.5
Gender gap in non-coverage rate (65-79) (pp)	-1.0	-0.3

5.4. Housing and health situation	2022			Change 2019-2022		
	Total	**Men**	**Women**	**Total**	**Men**	**Women**
Housing cost overburden rate (65+) (%; change in pp)	2.0	1.4	2.4	-2.0	-0.1	-3.2
Self-reported unmet need for medical exam 65+ (%; change in pp)	11.2	13.1	9.9	2.8	4.9	1.3
Healthy life expectancy (at age 65) (years) (1)	5.0	4.8	5.1	0.3	0.2	0.4
Life expectancy (at age 65) (years)	17.2	15.1	18.9	-0.7	-0.6	-0.8

	2022	2062
Receiving long-term care cash benefits (65+) (%)	8.2	11.3
Receiving long-term care in-kind benefits (65+) (%)	11.1	16.2

5.5 Sustainability and context	2022			Change 2019-2022		
	Total	**Men**	**Women**	**Total**	**Men**	**Women**
Employment rate (55-64) (%; change in pp)	64.1	66.7	61.6	7.1	6.4	7.7

Pension expenditure (% GDP; change in pp) (1)	8.5			0.6		
Retirement duration from first pension (years)	20.1	17.5	22.2	-0.5	-0.5	-0.4
Retirement duration from end employment (years) (2)	19.8	17.3	21.8	-0.6	-0.3	-0.8
Projections (3)	**2022**			**2062**		
Old-age dependency ratio (20-64) (%)	28.2	22.4	34.1	65.9	58.4	73.8
Economic old-age dependency ratio (20-64) (%)	35.4	30.1	40.2	74.9	70.6	78.8
Gross public pensions (% GDP)	8.5			12.1		
Benefit ratio (%)	37.9			33.0		
Coverage ratio (65+) (%)	144.8			115.7		
Gross pension ratio high/low earner		2.1	2.1		2.2	2.2

(1) 2021 instead of 2022

(2) Based on the assumptions of the 2024 Ageing Report for the 2023 average exit ages

(3) For the source of each of these six indicators providing projections by 2062, please see 'Indicators, definitions and abbreviations'.

5.6 Theoretical replacement rates

	Net (%)				**Gross (%)**			
	2022		**2062**		**2022**		**2062**	
	Men	**Women**	**Men**	**Women**	**Men**	**Women**	**Men**	**Women**
Standard pensionable age (SPA)	**62.8**	**62.8**	**67.7**	**67.7**				
AWG career duration (years)	**40.6**	**38.0**	**43.7**	**40.9**				
Average Earning (100 %)								
Base case: 40 years up to SPA	66.6	66.6	62.1	62.1	50.6	50.6	47.3	47.3
Increased SPA: from age 25 to SPA	63.0	63.0	69.5	69.5	47.9	47.9	52.9	52.9
AWG career length case	67.6	64.5	71.4	67.1	51.4	49.0	54.3	51.0
Longer career: 42 years to SPA			66.3	66.3			50.4	50.4
Shorter career: 38 years to SPA			58.5	58.5			44.5	44.5
Deferred exit: 42 years to SPA +2			72.0	72.0			54.7	54.7
Earlier exit: 38 years to SPA -2			52.5	52.5			39.9	39.9
Career break – unemployment: 3 years	66.6	66.6	57.0	57.0	50.6	50.6	43.4	43.4
Career break – childcare: 3 years	66.6	66.6	60.3	60.3	50.6	50.6	45.8	45.8
Career break – care for family dependant: 3 years	62.2	62.2	58.4	58.4	47.9	47.9	45.7	45.7
Short career (20-year career)	33.3	33.3	31.0	31.0	25.3	25.3	23.6	23.6
Work 35 years, disabled 5 years prior to SPA			60.3	60.3			45.9	45.9
Early entry in the labour market: from age 20 to SPA			76.9	76.9			58.4	58.4
Index: 10 years after retirement at SPA			56.7	56.7			41.5	41.5
Extended part-time period for childcare			55.7	55.7			42.4	42.4
Survivor ratio 1*		0.7		0.7		0.7		
Survivor ratio 2*		0.6		0.5		0.6		
Low earnings (66 %)								
Base case: 40 years up to SPA	70.6	70.6	64.4	64.4	55.9	55.9	50.9	45.6
AWG career length case	71.7	68.4	73.9	69.4	56.7	54.1	58.4	54.9
Career break – unemployment: 3 years	70.6	70.6	59.2	59.2	55.9	55.9	46.7	46.7
Career break – childcare: 3 years	70.6	70.6	63.6	63.6	55.9	55.9	50.3	50.3
Short career (20-year career)	35.3	35.3	32.1	32.1	27.9	27.9	25.4	25.4

Early entry in the labour market: from age 20 to SPA			79.5	79.5			62.8	62.8
High earnings (100->200 %)								
Base case: 40 years up to SPA	49.8	49.8	46.5	46.5	36.4	36.4	34.0	25.1

**Survivor ratio 1: man base case, woman base case*

**Survivor ratio 2: man base case, woman short career case*

SLOVENIA

Highlights

- The design of the Slovenian pension system prevents significant negative pressures on future pension adequacy and inequality. Nonetheless, an important challenge remains – the adequacy of benefits for pensioners with incomplete or short working careers, the self-employed, people working in intermittent jobs, and those with a low level of contributions.
- The 2021 amendments to the Pension and Disability Insurance Act improved the adequacy of old-age benefits, particularly for low-income pensioners.
- Several temporary measures taken in response to the COVID-19 pandemic, high inflation and energy price increase, had positive effects on current and future pension adequacy.
- By the end of 2024 a reform ensuring the public financial sustainability of the system and adequate pensions is planned to be adopted.

1 GENERAL DESCRIPTION OF THE NATIONAL PENSION SYSTEM

The Slovenian statutory pension and disability insurance system is a defined-benefit pay-as-you-go one. It is uniform and mandatory for all employed and self-employed people and other people generating income from employment or other gainful activity. Most non-standard work contracts are covered by social security insurance (particularly pension, disability, and health insurance, as well as insurance against accidents at work and occupational injuries), and the same or similar contribution rates apply for workers on permanent full-time employment contracts. Inactive people may join the system on a voluntary basis. They are all included in the insurance scheme under the same act – the Pension and Disability Insurance Act (2012) (henceforth: ZPIZ-2) – and are covered by the same insurance provider (the Pension and Disability Insurance Institute of Slovenia – PDIIS)[589].

The system is financed through social security contributions and direct transfers from the central state budget (which covers the deficit). The total contribution rate for pension and disability insurance is 24.35 % of a gross salary, without a ceiling (the employee's contribution is 15.50 % and the employer's 8.85 %). Transfers from the central government budget amounted to 16.5 % of the total 2022 revenues of the PDIIS. The scheme includes: (a) the right to a pension (old-age, early-retirement, disability, survivor and partial pension); (b) disability insurance entitlements (such as occupational rehabilitation and temporary benefits);

[589] Pension and Disability Insurance Act [Zakon o pokojninskem in invalidskem zavarovanju (ZPIZ-2)], *Official Gazette of the Republic of Slovenia*, No 48/22 – officially consolidated text, 40/23 – ZČmIS-1, 78/23 – ZORR, 84/23 – ZDOsk-1 and 125/23 – odl. US (http://pisrs.si/Pis.web/pregledPredpisa?id=ZAKO6280 – accessed 21 December 2023).

(c) the right to an annual allowance; and (d) the right to an assistance and attendance allowance[590]. There are also some special schemes[591] covering workers in arduous and hazardous jobs (including those working in mines, ironworks, coke ovens, non-ferrous metallurgy, transport, nuclear installations, arts, textiles, defence, and the police), farmers, war veterans and war disabled, blind people, recipients of administrative pensions, and some others[592].

The legislated pensionable age is 65 for both women and men, while the minimum age requirement for early retirement is 60. The pension qualifying period is equal for men and women: 15 years if aged 65+, or 40 years (without a purchased period) if aged 60-64.

The accrual rates are the same for women and men in 2023: 29.5 % for the first 15 years of work and 1.36 % for each additional year of work. There is also an additional accrual rate of 1.36 % for taking care of each child in its first year (up to a maximum of three children).

There are additional conditions regarding special provisions that enable retirement at a lower age without incurring a reduced pension. The most important one (in practice limited to women) is related to child-rearing. The retirement age can be lowered in the case of people who started working before age 18. For men it can be reduced by two thirds of the military service period. With a sufficiently long insurance period (40 years of the pension qualifying period without a purchased period), the lowest age at retirement is 56 for women and 58 for men[593].

The minimum pension is set in July 2023 as a fixed amount (EUR 310.11) and adjusted in the same way as other pensions (in force since 1 May 2021). On 1 May 2021 the amount of the guaranteed pension was increased from EUR 500 (set in 2017) to EUR 620 per month. As it is adjusted in the same way as other pensions, in July 2023 it amounts to EUR 687.75.

The permanent deductions for early retirement amount to 3.6 % per year of retirement prior to age 65 (up to a maximum of 18 %). The accrual rates for deferred retirement amount to 3 % per additional year for up to three years. A deferred pension is thus allowed and is not limited in time. If a person who fulfilled the conditions for an old-age pension continues to work with full-time insurance, they may apply for and receive a special income amounting to 40 % of their old-age pension per month in addition to current earnings. In the fourth and all subsequent years, the proportion of the pension received is reduced to 20 %, and the accrual rate returns to its normal level of 1.36 %. It is also possible to combine a pension with work. People may receive a ‘partial pension’ while they remain in compulsory insurance for at least

[590] The assistance and attendance allowance is a cash benefit granted to people unable to independently meet all or the majority of their basic vital needs.

[591] The mandatory funded pension scheme provides an occupational pension to bridge the gap between labour market exit and the start of an old-age pension. An added pensionable period, equal to one quarter of the person’s period of membership in the occupational retirement provision, replaced the previous insurance period with a bonus.

[592] Articles 198-213č (ZPIZ-2) cover the entitlement to an occupational pension for workers in arduous and hazardous jobs, while Article 161 deals with the rights arising from the ZPIZ-2 under special conditions or due to the default in payment of contributions. The Republic of Slovenia provides funds from the national budget to settle the liabilities based on Article 161.

[593] It is also possible to take advantage of this provision with at least a 38-year pension qualifying period without a purchased period, in which case the retirement age of 65 may be lowered (the minimum age is 61).

two hours per day or 10 hours per week. In some special cases retired people may work (with or without some time and earnings limitations), receiving a full amount of pension[594].

The 24 best-paid consecutive years are taken into account for the calculation of the pension assessment base. Valorisation coefficients used in computing the pension assessment base reflect the growth in the average national nominal salary. The pension assessment base is computed from net earnings. Pensioners do not pay healthcare insurance contributions from their pensions – these contributions are paid from the state budget through transfers to the PDIIS. With generous tax allowances, only a small number of pensioners pay personal income tax. Pensions are indexed to 60 % of the average national salary growth and 40 % of the consumer price index growth.

Supplementary pensions include mandatory occupational schemes for public employees and people employed in hazardous or arduous occupations, various collective voluntary occupational schemes organised by employers, and personal pension schemes. A special scheme for workers employed in hazardous or arduous occupations offers these workers bridging pensions up to their standard pensionable age should they retire early. Mandatory and voluntary schemes cover 66 % of all insured people (mostly public sector employees). At the end of 2021 as many as 58.6 % of insured people were included in occupational schemes, while personal pension schemes covered only 2.2 % of insured people. The total amount of savings reached EUR 3,833 million, with an almost equal split between mandatory and voluntary pension funds. The average monthly contribution to voluntary pension funds was EUR 77.83 (or 4.0 % of the average national gross salary).

2 REFORM TRENDS

The primary aim of the 2012 pension reform (ZPIZ-2) and subsequent amendments has been to support the system's short- and medium-term sustainability, as well as the adequacy of future pensions, rather than its long-term sustainability.

The latest amendments (ZPIZ-2I) − in force since 1 May 2021 − shortened the period of gradual equalisation of replacement rates for both women and men. From 1 January 2023 onwards the same replacement rate of 63.5 % applies to men and women after completing a 40-year pension qualifying period. The same amendments redefined the lowest pension (received for 15 years of service and computed from the minimum pension assessment base) to 29.5 % (from 27.5 %) of the minimum pension assessment base (EUR 279.56 per month since 1 May 2021). The lowest pension is now adjusted in the same way as pensions (and no longer annually determined for new beneficiaries). A new, higher amount of the guaranteed pension was set as well (at EUR 620.00 per month since 1 May 2021). It is adjusted in the same way as other pensions and it amounts in July 2023 to EUR 687.75. The amendments also increased the minimum amount of disability pension acquired in accordance with the ZPIZ-2 (2012). In 2021 it was set at 41 % of the minimum pension rating base. It is adjusted in the same way as other pensions and it amounts to EUR 431.00 per month. The minimum

[594] For more information regarding the work of pensioners that does not affect their amount of pension, see: https://www.zpiz.si/cms/content2019/delo-ki-ne-vpliva-na-pokojnino#x1 (accessed 10 August 2023).

amount of disability pension will continue being adjusted in the same way as pensions[595]. Altogether these amendments shortened the adjustment periods and increased the adequacy of pensions, particularly for low-income pensioners.

According to the amendments in force since 1 November 2021 (ZPIZ-2K), the period of voluntary inclusion in the compulsory pension insurance system since 1 January 2013 is also considered as a pension qualifying period without a purchased period, but only if the insured person was voluntarily included in the system prior to 1 January 2013 and only till the first interruption. This will have a positive effect on the level of pensions for 0.41 % of all pensioners.

The first 2022 amendments (ZPIZ-2L) exceptionally uprated pensions as of 1 January 2022 to eliminate the consequences of austerity measures (related to the global financial and economic crisis and in force from 2011 to 2016, when there was almost no indexation of pensions) or delays in the adjustment of pensions.

The second 2022 amendments (ZPIZ-2M), in force since 1 April 2022, enforced some new rights and established a legal basis for allocating funds for recreational, sports and cultural activities of old-age pensioners and recipients of disability benefits. The amendments: (a) enable, by mutual agreement, the imposition of an additional accrual rate for childcare for men; (b) regulate the adjustment of disability allowances and the allocation of proportional disability allowances, as well as non-payment of disability allowances during stays abroad; (c) equalise the rights of individual farmers with the rights of united farmers regarding the base for widow's or survivor pensions; and (d) determine the amount of the minimum pension for insured people and pension beneficiaries who performed agricultural activity and were insured mainly for a narrower range of rights.

The Recovery and Resilience Plan[596] contains the commitment that a pension reform proposal will be drafted in the second half of 2023. A number of activities have already been carried out. Within the framework of the European Commission's Structural Reform Support Programme, the integrated design of the pension and disability insurance reform project − fully funded by the European Commission and implemented by the OECD − was launched in early 2020 with a January 2022 deadline. The OECD presented its conclusions and proposals regarding sickness, disability and pension reform at the beginning of 2022[597].

On 11 July 2023 the Ministry of Labour, Family, Social Affairs and Equal Opportunities presented the starting points for the pension reform to the negotiating group of the Economic and Social Council and journalists[598]. By the end of 2024 the reform ensuring the public financial sustainability of the system and adequate pensions is planned to be adopted.

595 After adjustments, the new amounts for the lowest pension, guaranteed pension and minimum disability pension in 2023 are EUR 310.11, EUR 687.75 and EUR 431.00, respectively.
596 Government of the Republic of Slovenia (2021), *Načrt za okrevanje in odpornost* [Resilience and Recovery Plan], Ljubljana (https://www.eu-skladi.si/sl/aktualno/novice/vlada-sprejela-nacionalni-nacrt-za-okrevanje-in-odpornost – accessed 23 May 2023).
597 OECD (2022), *OECD Reviews of Pension Systems, Slovenia*, OECD Publishing, Paris (https://www.oecd-ilibrary.org/social-issues-migration-health/oecd-reviews-of-pension-systems-slovenia_f629a09a-en – accessed 12 June 2023).
598 See: https://www.rtvslo.si/slovenija/kaj-prinasajo-izhodisca-za-novo-pokojninsko-reformo/674784 (accessed 10 August 2023).

A debate regarding possible future sources of financing for the pension and disability insurance system is ongoing: however, no changes in the existing principle are envisaged. Social contributions will therefore remain the most important source of revenues and the supplementary pension insurance is intended to provide additional income at retirement.

In order to improve social protection during the COVID-19 pandemic, a solidarity allowance was paid to selected vulnerable population groups of Slovenia's permanent residents, including pensioners[599]. Also important were government measures related to unemployment benefits and job protection provided through support to employers, employees and the self-employed: temporary salary compensation was granted and social contributions were reimbursed from the central government budget[600]. These temporary measures had a positive impact on the accrual of pension rights, since people remained employed and continued to accumulate their pension qualifying period. The government also adopted measures to improve the financial situation of pensioners. A one-off solidarity energy bonus was paid (EUR 150) in mid-April 2022[601]. An occasional cash benefit, amounting to 4.5 % of the October 2022 pension, was paid to pensioners and recipients of disability insurance benefits twice, in November and December 2022[602]. On 23 May 2023 the government approved a 1.8 % increase in pensions and disability benefits for November and December 2023, introduced a guaranteed widow(er)'s pension, increased the insurance base for workers with disabilities who had worked part time, and introduced a winter annual allowance equal to 40 % of the existing annual (summer) allowance[603].

3 ASSESSMENT OF ADEQUACY

3.1 Current adequacy

The 2012 pension reform (ZPIZ-2) and subsequent amendments introduced several changes that had both positive and negative effects on the adequacy of new and future pensions (see Section 2). Furthermore, financial consolidation measures introduced during the years of the financial and economic crisis that started in 2008 have had an important negative impact on current pensions, the minimum income provision for older people, and future pensions. Changes in social assistance benefits, introduced by the Social Assistance Benefits Act (2010) and implemented in January 2012, had an additional negative impact on the adequacy of

[599] Stropnik, N. and Prevolnik Rupel, V. (2021), *ESPN Thematic Report on Social protection and inclusion policy responses to the COVID-19 crisis – Slovenia (2021)*, European Social Policy Network, Brussels: European Commission (https://ec.europa.eu/social/main.jsp?advSearchKey=%20ESPN_covid2021&mode=advancedSubmit&catId=22&policyArea=0&policyAreaSub=0&country=0&year=0 – accessed 23 May 2023).

[600] For more information, see Sections 2.2 and 2.5.4 in Stropnik, N. and Prevolnik Rupel, V. (2021), pp.19-23 and 30.

[601] Stropnik, N. (2022), 'Slovenia is fighting energy poverty', ESPN Flash Report 2022/47, European Social Policy Network, Brussels: European Commission (https://ec.europa.eu/social/main.jsp?pager.offset=10&advSearchKey=ESPNFlash&mode=advancedSubmit&catId=22&policyArea=0&policyAreaSub=0&country=0&year=0 – accessed 30 August 2023).

[602] Act on Urgent Measures to Increase the Income of Pensioners and Limit the Increase in User Fees in Social Care [Zakon o nujnih ukrepih za povečanje prihodkov upokojencev in omejitev dviga oskrbnin na področju socialnega varstva (ZNUPPU)], *Official Gazette of the Republic of Slovenia*, No 145/2022 (https://www.uradni-list.si/glasilo-uradni-list-rs/vsebina/2022-01-3605/zakon-o-nujnih-ukrepih-za-povecanje-prihodkov-upokojencev-in-omejitev-dviga-oskrbnin-na-podrocju-socialnega-varstva-znuppu – accessed 22 August 2023).

[603] For more information, see: https://www.gov.si/novice/2023-05-25-vlada-sprejela-predlog-ukrepov-za-vecjo-socialno-varnost-upokojencev/ (accessed 8 July 2023).

pensions for people with low pensions and on the incomes of older people with no pension. Relevant adequacy indicators (Section 5: 'Background statistics') are used to evaluate the joint effect of these factors on the current pension adequacy, as well as the developments since the PAR 2021. The amendments to the ZPIZ-2 implemented between 2020 and 2023 had some positive impact on these indicators.

Compared with the EU-27 average, the Slovenian pension system produces lower aggregate replacement ratios (43 % compared with 58 %) and lower median relative incomes of people aged 65+ (80 % compared with 90 %). The replacement rate for low-earners is the third-highest among EU Member States.

For older people in Slovenia, the risk of poverty and material deprivation is lower than or close to the EU-27 average. The Slovenian at-risk-of-poverty or social exclusion (AROPE) rates for the 65+ and 75+ age groups fell further in 2019-2022 (by 0.5 and 3.7 pp respectively; they amounted to 19.5 % and 20.1 % respectively in 2022) and were lower than the EU-27 average (20.2 % and 21.3 % respectively in 2022). There were no additional programmes to support people aged 75+. The reasons for a significant drop in the AROPE and at-risk-of-poverty rates may be found in the changed structure of age cohorts and pension types. A quick analysis of the structure of women pensioners reveals that the share of old-age pensioners rose while the share of widow pensioners fell (due to the deaths of older women and the inclusion of new cohorts). Further reasons could be a positive impact of the introduction of a guaranteed pensions (older pensioners had lower pensions due to the indexation rule) and measures introduced due to the COVID-19 pandemic. The proportion of older people in Slovenia experiencing severe material and social deprivation was also much lower than the EU-27 average for both age groups in 2022 (1.7 % and 1.7 % respectively in Slovenia; and 5.5 % and 4.7 % respectively in the EU-27). The relatively high material standard of living of older people in Slovenia is additionally confirmed by the average share of the population aged 65+ living in overcrowded households (3.6 % in Slovenia compared with 5.9 % in the EU)[604], and a much lower housing cost overburden rate (5.4 % in Slovenia and 9.7 % in the EU).

The health situation of people aged 65+ in Slovenia was close to the EU-27 average in 2022. Life expectancy at age 65 was 17.8 years for men and 21.5 years for women (compared with averages of 17.8 and 21.2 years respectively in the EU-27). The number of healthy life years (10 years for men and 11.4 years for women) in Slovenia was higher than the EU-27 average. Self-reported unmet need for medical examination was higher for men in Slovenia (6.3 %, compared with 4.6 % in the EU-27 on average), but lower for women (5.6 %, compared with 6 % in the EU-27 on average).

Relative income indicators, as well as indicators of poverty and material deprivation, show positive developments in pension adequacy. This proves an overall positive joint effect on pension adequacy of the ZPIZ-2 reform (2012) and subsequent revisions, exceptionally uprated pensions, and the financial consolidation measures.

[604] See: https://ec.europa.eu/eurostat/databrowser/view/ILC_LVHO05A__custom_7119591/default/table?lang=en (accessed 10 August 2023).

3.2 Future adequacy

The theoretical replacement rates (TRRs) for men and women in 2062 are projected to be lower than in 2022. For a 40-year career ending at the standard retirement age and with average earnings, the fall is expected to be 3.9 pp for men and 6 pp for women, reaching 62.6 % in 2062. All forms of career breaks (because of childcare, care of family dependants or unemployment) result in lower TRRs in 2062 – by around 4 pp. The TRRs for low-income earners are 2.7 pp higher than those for average-income earners. Extending the career by two years and entering retirement two years after the standard pensionable age increases the TRR in 2062 by 1.6 pp compared with the base case.

The current ZPIZ-2 introduced a radical change by completely decoupling the valorisation and indexation mechanisms[605]. This change, together with the incentives for extending working careers, can boost the adequacy of pensions, provided that both the effective retirement age and the career length are increased.

In November 2019 the Slovenian parliament approved amendments to the ZPIZ-2 that increased pension benefits and improved the status of pensioners who fully or partially combine work and pension receipt (see Section 1). These amendments increased the adequacy of pensions but weakened the long-term financial sustainability of the pension system: pension expenditure as a share of GDP is expected to increase by more than 2 pp by 2070[606]. Since no additional sources have been identified to cover this increase, higher expenditure will most probably have to be paid for by future generations.

However, there are provisions in the ZPIZ-2 that are likely to have a negative impact on the future adequacy of pensions.

The primary aim of the 2012 pension reform (ZPIZ-2) and subsequent amendments has been the system’s short and medium-term sustainability, as well as the adequacy of future pensions, rather than the system’s long-term sustainability. The sustainability indicators confirm these statements through: increased employment rates in the 55-64 age group (by 6.2 and 7.1 pp between 2019 and 2022 for men and women respectively); a slightly shorter total retirement duration from the first pension by 0.1 year (plus 0.1 and minus 0.7 years between 2019 and 2022 for men and women respectively); a higher benefit ratio (from 30.8 % in 2022 to 33.6 % in 2059); the introduction of a guaranteed pension; a higher old-age dependency ratio (20-64) (from 35.6 % in 2022 to 62.0 % in 2059); and a substantial increase in public spending on pensions as a share of GDP (from 10.7 % in 2022 to 16.1 % in 2059).

[605] The Pension Act adopted in December 2012 abolished the ‘horizontal equity’ principle applied to pensions. As a result the valorisation coefficients used in computing the pension assessment base reflect the average nominal wages growth and no longer depend, in addition, on pensions growth.

[606] MLFSAEO (2019), *Ocena javnofinančnih posledic predlaganih sprememb pokojninske zakonodaje* [Assessment of the fiscal impact of the proposed changes to the pension legislation], Ministry of Labour, Family, Social Affairs and Equal Opportunities, Ljubljana (https://www.gov.si/novice/2019-09-10-nadaljujejo-se-usklajevanja-predloga-sprememb-zakona-o-pokojninskem-in-invalidskem-zavarovanju/ – accessed 25 September 2023).

3.3 Developments in (in)equalities

There are quite important redistributive elements in the Slovenian public pension scheme. The minimum pension is set as an absolute amount and is adjusted (under the amendment to ZPIZ-2 – ZPIZ-2I − in force since 1 May 2021). The guaranteed pension provides a pension well above contributions for low-wage earners. Additionally, the guaranteed old-age and disability pension has been increased and is adjusted in the same way as other pensions (see Section 2)[607]. In 2022, 41 % and 33.4 % of all new old-age pensioners (women and men respectively) received a guaranteed pension or a pension calculated on the minimum pension base.

Pension provisions for people forced to leave the labour market early due to disability have an important positive impact on pension adequacy. The 'added period' (two thirds of the period between the onset of disability and age 60, plus one half of the period between the date when an insured person would have reached age 65 and the date when the insured person would have reached 60 – i.e. 2.5 years) mitigates a fall in the replacement rates. Maternity/paternity/parental leave does not have any impact on working careers and the gender pension gap because social security contributions are paid on the salary compensation, which is equal to the average monthly gross salary in the 12 months before the leave. Unemployed people receive unemployment benefit for up to 25 months (the maximum duration applies to those older than 58 and insured for more than 28 years) and are additionally credited with pension contributions if, after the cessation of entitlement to unemployment benefit, they have less than a year until retirement[608].

With various measures implemented since 2020 due to the COVID-19 pandemic, high inflation and energy crisis, the Slovenian government mitigated the negative consequences for the current and future adequacy of pensions and the opportunities to accrue pensions for different socio-economic groups and categories of workers (see Section 2).

All these redistributive elements are reflected in the income inequality indicators. The income quintile share ratio (S80/S20) for the 65+ age group in Slovenia is lower than the EU-27 average (3.27 and 4.1 respectively). The gender pension gap (5.9 % for people aged 65-79 in Slovenia) was 20.2 pp narrower than the EU-27 average in 2022. A steady trend can be observed: the mean pension gender gap narrowed from 25.3 % in 2008 to 5.9 % in 2022. The reasons for such a development may be found in the latest two reforms (implemented from 2000 and 2012), which increased the retirement age and working years for women as well as the number of best consecutive years for the calculation of the pension assessment base, and

[607] Pension and Disability Insurance Act [Zakon o pokojninskem in invalidskem zavarovanju (ZPIZ-2)], *Official Gazette of the Republic of Slovenia*, No 48/22 – officially consolidated text, 40/23 – ZČmIS-1, 78/23 – ZORR, 84/23 – ZDOsk-1 and 125/23 – odl. US (http://pisrs.si/Pis.web/pregledPredpisa?id=ZAKO6280: accessed 25 September 2023); Act Amending the Pension and Disability Insurance Act [Zakon o spremembah in dopolnitvah Zakona o pokojninskem in invalidskem zavarovanju (ZPIZ-2C)], *Official Gazette of the Republic of Slovenia*, No 23/2017 (https://www.uradni-list.si/glasilo-uradni-list-rs/vsebina/2017-01-1209/zakon-o-spremembi-in-dopolnitvah-zakona-o-pokojninskem-in-invalidskem-zavarovanju-zpiz-2c: accessed 25 September 2023); Mesečni statistični pregled, avgust 2023 [Monthly statistical overview, August 2023], Zavod za pokojninsko in invalidsko zavarovanje Slovenije [Pension and Disability Insurance Institute of Slovenia], Ljubljana, 2023 (https://www.zpiz.si/content2019/-mesecnistatisticnipregled-koledar-objav – accessed 25 September 2023).
[608] Pension and Disability Insurance Act [Zakon o pokojninskem in invalidskem zavarovanju (ZPIZ-2)], *Official Gazette of the Republic of Slovenia*, No 48/22 – officially consolidated text, 40/23 – ZČmIS-1, 78/23 – ZORR, 84/23 – ZDOsk-1 and 125/23 – odl. US (http://pisrs.si/Pis.web/pregledPredpisa?id=ZAKO6280 – accessed 25 September 2023).

abolished the added period[609]. There are additional restrictions regarding special provisions that enable a lower statutory retirement age without incurring negative accruals. The most important one is related to child-rearing: the ZPIZ-2 has practically limited this provision to women, shrunk the number of months for which the age condition is reduced, and brought in additional conditions such as a sufficient number of years of work. The current gender pay gap being substantially reduced, and taking into account the measures in the 2012 pension reform, a further narrowing of the gender pension gap can be expected[610]. There is also a small negative (minus 0.8 pp) gender gap in non-coverage rate, which indicates slightly poorer access to pensions by men.

It can be concluded that the design of the Slovenian pension and other social security systems prevents significant negative pressures on future pension adequacy and inequality. The adequacy challenge especially concerns pensioners with incomplete or short working careers, the self-employed, those working in intermittent jobs, and those with a low level of contributions. As the number of people working part time or on fixed-term employment contracts increased during the economic crisis that started in 2008, the adequacy problem will be more prevalent in the future.

The minimum pension assessment base acts as a minimum income protection mechanism for the self-employed and non-standard workers. In 2020 almost 82 % of the self-employed paid social security contributions on the minimum base (60 % of the national average salary) and will thus have their old-age pension assessed on the minimum pension assessment base. All this applies even more to non-standard workers, whose low level of time in work is an additional problem[611]. Special attention should thus be paid to the pensions of the self-employed, non-standard workers and those with a pension period of fewer than 40 years, as they do not benefit from the guaranteed pension that provides replacement rates above 100 %. The adequacy of their pensions is a serious problem, in particular. Relatively short insurance periods have negative consequences for the long-term social security of workers on fixed-term contracts, including casual and seasonal workers, temporary agency workers, workers on civil contracts, etc. If unable to earn a (decent) pension, they will live in poverty in their old age. The amendments to legislation regulating the labour market brought in measures that stimulate the conclusion of permanent employment contracts, support self-employment among the formerly unemployed, hinder the conclusion of non-standard contracts, detect and punish disguised employment/'bogus' work, and increase the social security of workers on non-standard contracts. Revisions based on the 'every work counts' principle have undoubtedly increased the social security of non-standard workers. For workers on civil

[609] Currently the standard pension gap (GPG) at retirement is even negative, as women are still eligible for higher accrual rates than men with the same length of pension contribution period. Taking into account that women in Slovenia mostly work full time, that the gender pay gap is narrower than in the EU on average, and that men and women retire with similar numbers of working years, higher pensions at retirement for women (compared with men) are not very surprising. Pension calculation rules will become gender-neutral in 2025, when the GPG at retirement will also become positive. For more information see reference in footnote 611 below.
[610] Estimates show that the GPG for the total statutory pension (old-age, survivor and disability pension) narrows until around 2050, when it amounts to only 0.7 %. It then widens and reaches 5.7 % in 2070 (due to lower women's employment rates in younger age groups compared with men's). For more information, see: Kump, N. and Stropnik, N. (2021), *Projections of the Gender Pension Gap in Slovenia using DYPENSI (project MIGAPE, Work Package 3)*, Ljubljana (https://www.migape.eu/pubs/MIGAPE_WP3_GPG_projections_SI.pdf – accessed 2 June 2023).
[611] Internal data obtained from the PDIIS.

contracts and students performing student work, the future total pension insurance period has been increased, which will result in higher pensions. On the other hand, the increased social security contribution base for the self-employed with fewer than 40 years of pension contributions will have no effect on their future pensions, since they remain below the minimum pension base. Those with 40 years of pension contributions will benefit from the minimum pension base and the guaranteed pension.

4 KEY CHALLENGES AND OPPORTUNITIES

The 2012 pension reform and subsequent amendments increased the importance of the statutory pension scheme, with positive effects on the future adequacy of pensions. However, the long-term sustainability of the system will deteriorate further due to an increasing dependency ratio. Possible solutions may be found in: extended working careers and a higher pensionable age; strengthening the link between contributions and benefits; additional ways of combining work and pensions, including for those aged 65+ with fewer than 40 years of contributions, while preserving distributive elements of the system; and adjusted indexation rules. Finding an optimum combination of the statutory pension scheme and occupational pension schemes is a challenge. Successful implementation of revisions possibly agreed upon in the future will crucially depend on: (a) timely results of in-depth analyses in many areas; (b) a continuous public debate among all relevant stakeholders on demographic changes and their effects on pensions, healthcare, long-term care and the educational system, as well as on the labour market: (c) co-ordinated action in all these areas based on the strategy for a long-lived society[612], which provides a framework for holistic action (concerning employment or work activity, healthy and safe living for all generations, inclusion in society, and creating an environment for lifelong activity), and preparation of action plans in the respective areas.

[612] Government of the Republic of Slovenia, Ministry of Labour, Family, Social Affairs and Equal Opportunities, and Institute of Macroeconomic Analysis and Development (2017), *Strategija dolgožive družbe* [Strategy for a Long-Lived Society], Ljubljana (https://www.umar.gov.si/fileadmin/user_upload/publikacije/kratke_analize/Strategija_dolgozive_druzbe/Strategija_dolgozive_druzbe.pdf – accessed 9 July 2023).

5 BACKGROUND STATISTICS

5.1. Relative income

	2022			Change 2019-2022		
	Total	Men	Women	Total	Men	Women
Relative median income ratio (65+)	0.80	0.84	0.78	-0.03	-0.03	-0.02
Income quintile share ratio (S80/S20) (65+)	3.27	3.35	3.17	-0.08	0.13	-0.20
Aggregate replacement ratio (ARR) (65-74) (%; change in pp)	43.0	41.0	45.0	0.0	-2.0	1.0

5.2. Poverty and material deprivation

	2022			Change 2019-2022 (pp)		
	Total	Men	Women	Total	Men	Women
At-risk-of-poverty or social exclusion (AROPE) (65+) (%)	19.5	15.1	22.9	-0.5	1.2	-1.8
At-risk-of-poverty (AROP) rate (65+) (%)	18.9	14.6	22.2	0.3	1.7	-0.8
Severe material and social deprivation (SMSD) rate (65+) (%)	1.7	1.1	2.1	-2.0	-1.9	-2.1
At-risk-of-poverty or social exclusion (AROPE) rate (75+) (%)	20.1	10.0	26.1	-3.7	-3.8	-3.8
At-risk-of-poverty (AROP) rate (75+) (%)	19.3	9.4	25.2	-3.0	-3.3	-2.9
Severe material and social deprivation (SMSD) rate (75+) (%)	1.7	1.0	2.0	-2.1	-1.2	-2.7
Relative median at-risk-of-poverty gap (65+) (%)	14.0	15.7	13.3	-2.1	0.3	-2.9
At-risk-of-poverty (AROP) rate, 65+: 50 % threshold (%)	7.5	6.5	8.2	-1.5	0.3	-3.0
At-risk-of-poverty (AROP) rate, 65+: 70 % threshold (%)	31.4	25.9	35.7	1.6	2.2	1.2
Material and social deprivation (MSD) rate (65+) (%)	5.5	4.5	6.3	-3.7	-2.3	-4.8

5.3. Gender difference

	2022	Change 2019-2022 (pp)
Gender gap in pension income (65-79) (%)	5.9	-6.4
Gender gap in non-coverage rate (65-79) (pp)	-0.8	2.9

5.4. Housing and health situation

	2022			Change 2019-2022		
	Total	Men	Women	Total	Men	Women
Housing cost overburden rate (65+) (%; change in pp)	5.4	4.8	6.0	0.5	0.5	0.6
Self-reported unmet need for medical exam 65+ (%; change in pp)	5.9	6.3	5.6	0.9	0.8	1.0
Healthy life expectancy (at age 65) (years) (1)	10.7	10.0	11.4	2.1	1.3	2.8
Life expectancy (at age 65) (years)	19.8	17.8	21.5	-0.3	-0.3	-0.3

	2022	2062
Receiving long-term care cash benefits (65+) (%)	7.1	10.2
Receiving long-term care in-kind benefits (65+) (%)	8.3	11.6

5.5 Sustainability and context

	2022			Change 2019-2022		
	Total	Men	Women	Total	Men	Women
Employment rate (55-64) (%; change in pp)	55.2	59.4	51.1	6.6	6.2	7.1
Pension expenditure (% GDP; change in pp) (1)	10.7			0.6		
Retirement duration from first pension (years)	23.3	20.8	25.4	-0.1	0.1	-0.7
Retirement duration from end employment (years) (2)	22.5	20.4	24.3	0.0	0.2	-0.2

Projections (3)	2022			2062		
Old-age dependency ratio (20-64) (%)	35.6	29.7	42.1	62.0	56.5	68.3
Economic old-age dependency ratio (20-64) (%)	44.1	42.5	45.6	72.2	78.8	67.0
Gross public pensions (% GDP)	9.8			13.7		
Benefit ratio (%)	31.6			34.3		
Coverage ratio (65+) (%)	140.0			117.1		
Gross pension ratio high/low earner		2.5	2.5		2.4	2.4

(1) 2021 instead of 2022
(2) Based on the assumptions of the 2024 Ageing Report for the 2023 average exit ages
(3) For the source of each of these six indicators providing projections by 2062, please see 'Indicators, definitions and abbreviations'.

5.6 Theoretical replacement rates

	Net (%)				Gross (%)			
	2022		2062		2022		2062	
	Men	Women	Men	Women	Men	Women	Men	Women
Standard pensionable age (SPA)	**65.0**	**65.0**	**67.0**	**67.0**				
AWG career duration (years)	**40.8**	**39.3**	**42.1**	**40.8**				
Average Earning (100 %)								
Base case: 40 years up to SPA	66.5	68.6	62.6	62.6	43.4	44.7	43.4	43.4
Increased SPA: from age 25 to SPA	66.5	68.6	62.6	62.6	43.4	44.7	43.4	43.4
AWG career length case	64.0	67.1	64.2	63.0	41.7	43.8	45.3	44.3
Longer career: 42 years to SPA			64.2	64.2			45.3	45.3
Shorter career: 38 years to SPA			61.1	61.1			41.8	41.8
Deferred exit: 42 years to SPA +2			64.3	64.3			45.3	45.3
Earlier exit: 38 years to SPA -2								
Career break – unemployment: 3 years	63.3	65.0	61.0	61.0	41.3	42.4	41.8	41.8
Career break – childcare: 3 years	65.0	67.1	61.7	61.7	42.4	43.8	42.4	42.4
Career break – care for family dependant: 3 years	62.6	64.6	60.2	60.2	40.8	42.1	40.9	40.9
Short career (20-year career)	40.1	41.4	54.1	54.1	26.1	26.9	35.0	35.0
Work 35 years, disabled 5 years prior to SPA			62.6	62.6			43.4	43.4
Early entry in the labour market: from age 20 to SPA			67.9	67.9			48.0	48.0
Index: 10 years after retirement at SPA			59.3	59.3			41.6	41.6
Extended part-time period for childcare			61.5	61.5			42.3	42.3
Survivor ratio 1*		0.5		0.6		0.5		
Survivor ratio 2*		0.5		0.5		0.5		
Low earnings (66 %)								
Base case: 40 years up to SPA	76.5	78.4	65.3	65.3	52.7	54.0	44.6	44.6
AWG career length case	73.4	76.7	63.8	63.1	50.5	52.9	46.1	45.5
Career break – unemployment: 3 years	72.6	74.9	62.6	62.6	50.0	51.6	42.7	42.7
Career break – childcare: 3 years	74.9	77.3	63.8	63.8	51.6	53.2	43.6	43.6
Short career (20-year career)	46.2	47.6	63.9	63.9	31.7	32.7	43.7	43.7
Early entry in the labour market: from age 20 to SPA			67.3	67.3			48.9	48.9
High earnings (100->200 %)								
Base case: 40 years up to SPA	63.8	65.7	51.7	51.7	43.8	45.2	34.9	34.9

**Survivor ratio 1: man base case, woman base case*
**Survivor ratio 2: man base case, woman short career case*

SPAIN

Highlights

- The adequacy of pensions has improved since Spain reintroduced, in 2023, automatic price indexation for contributory pensions and set a guaranteed minimum for non-contributory pensions.
- Pension Reform in Spain is included in the National Recovery, Transformation and Resilience Plan and formulated around 3 fundamental axes: equity, adequacy and sustainability.
- The pension reform (2021 and 2023) has established mechanisms to guarantee the adequacy of pensions, such as annual indexation to the consumer price index and a guaranteed minimum level for contributory and non-contributory pensions.
- Reducing the gender pension gap is among the objectives of the reforms. It has established a ‘new gender gap supplement’ and an increase in women’s benefits for calculating the regulatory base of the retirement pension.
- The inter-generational equity mechanism (MEI), which started in 2023, is an ad hoc financing instrument to endow the reserve fund and supplement the resources needed to meet pension expenditure in the period forecast to undergo the greatest stress, between 2025 and 2050. The MEI replaces the sustainability factor, a mechanism for automatically adjusting expenditure by reducing new pensions.

1 GENERAL DESCRIPTION OF THE NATIONAL PENSION SYSTEM

The statutory pension scheme constitutes the first and most important pillar of income security in old age. It provides a double level of protection: contributory and non-contributory pensions (means-tested). The contributory level of protection follows a defined-benefit model and is financed by social contributions and distributed through the pay-as-you-go system. It covers the contingencies of old age, invalidity, and survivorship. The non-contributory level of protection covers the contingencies of invalidity and old age for those individuals who are not entitled to contributory pensions. They are financed by the state. In order to benefit from a non-contributory old-age pension, recipients must have resided on Spanish territory for a minimum of 10 years.

The contributory pension scheme includes a general regime and special regimes, which have the same rules regarding access to benefits but with differences in contributions – except for civil servants (*clases pasivas*), who are covered under a different system. However, since 2011[613], new civil servants have had to adhere to the general regime.

[613] Royal Decree-Law (RDL) 13/2010, of 13 December, on actions in the fiscal, labour and liberalising fields to encourage investment and job creation.

The general regime is the largest and includes workers aged over 16, regardless of the type of contract. It includes some specific rules according to the characteristics of their activities (artists, domestic workers, bullfighters, sales representatives, and a few others). There are special schemes for self-employed workers, seafarers, coalminers, students, and civil servants.

In order to access the retirement pension contributory system, a minimum of 15 years of contributions are required, and two of them must be within the 15 years prior to the date of retirement. In 2023 the pensionable age is 66 years and 4 months for those who have contributed less than 37 years and nine months, and 65 for those who have contributed longer. The progressive application of the 2011 reform will bring the pensionable age to 67 in 2027 for those who have contributed less than 38 years and six months, and to 65 for those who have contributed longer. Some groups are eligible to retire early, such as people with disabilities, as well as those in arduous or hazardous jobs. From 2023 the eligibility to early retirement has been extended to workers with a degree of disability equal to or greater than 45 %[614].

In 2023 the retirement pension is calculated on the base of contributions in the 25 years prior to the date of retirement and updated according to the consumer price index (CPI) of the corresponding year, except for the 24 months prior to the date of retirement, which are taken at their nominal value. Leave to care for children and family members is recognised as a contributory period up to three years. Months worked under part-time contracts are considered as full-time for calculating the quoted period. However, the final amount of the pension is a percentage of the regulatory base, which increases according to the number of years of contributions. In 2023, 36 years and six months of contributions are required to receive 100 % of the pension.

If there are contribution gaps in the period used to calculate the pension, these are filled by a specified percentage of the minimum bases of contribution. The first 48 monthly payments with gaps are integrated with the minimum base established at each moment, and the rest of the years will be computed at 50 % of the minimum base. The filling of contribution gaps is not applied to the calculation of the pension of the special schemes except for the self-employed, up to a total of six months of contribution gaps, upon the cessation of their unemployment benefits.

The retirement pension under the general scheme is compatible with the survivor pension, with the invalidity pension or with another pension of the special pension scheme, provided that each of them fulfils the requirements for eligibility for a retirement pension. The sum of all pensions cannot exceed the maximum amount of the pension established by the government[615].

Public pensions are indexed at the beginning of each year according to the CPI (annual average of the CPI of the previous year). The amounts of the contributory pensions are capped

[614] Royal Decree 370/2023, of 16 May, which modifies Royal Decree 1851/2009, of 4 December, which develops Article 161.bis of the General Social Security Law regarding the early retirement of workers with disabilities to a degree equal to or greater than 45 %.

[615] In 2023 the total amount of pensions is EUR 42,823.34 per year.

at a value set annually by the Spanish government and a minimum amount for pensions is guaranteed[616].

In order to improve the balance between pension spending and contribution income, there are measures penalising early pensions and promoting later retirement. In the case of early retirement, reduction coefficients are applied to the full retirement pension. Early retirement in the case of an involuntary loss of employment may be taken four years before the pensionable age and with 33 years of contributions. In the case of early retirement through voluntary resignation, it may be taken two years before the pensionable age and with 35 years of contributions. The pension-reduction coefficients for early retirement depend on the number of months of early retirement. Law 21/2021 has updated these coefficients in order to increase the effective retirement age and to remove the privileged treatment given to those pensioners with the maximum contribution base.

The cumulation of the retirement pension with earnings from work (active retirement) is possible with a partial or full-time employment activity if the pensioner has reached the legal age of retirement and accrued the right to 100 % of the pension amount, and the pension has been granted at least one year before the cumulation. The pension is reduced to 50 % of the total amount, except if the pensioner has a self-employed activity and hires an employee. Since 2019 there has been the possibility of making 100 % of the pension compatible with income from work when 'artistic creation' activities are carried out and receive income derived from intellectual property rights.

During the period of active retirement, workers pay social security contributions only for temporary incapacity and professional contingencies and a special solidarity contribution of 9 % of the contribution base.

2 REFORM TRENDS

Spain has adopted an in-depth reform of the public pension system (from February 2021 to March 2023) in order to ensure its financial sustainability over the next 30 years in the face of the challenge of demographic ageing resulting from the retirement of the baby boom generation, and to ensure the adequacy and fairness of pensions.

The set of measures on pensions included in component 30 of the Recovery and Resilience Plan (RRP) is the result of intense negotiations within the framework of the social dialogue agreed in the Toledo Pact of November 2020[617].

The first block of reforms was approved in 2021[618/619]. Its objectives focus on the indexation of pensions according to the CPI in order to guarantee the maintenance of the purchasing

[616] The maximum contributory pension is EUR 42,823.34 per year. The minimum pension for retired pensioners aged 65+ without a dependent spouse is EUR 10,963.40 per year, and EUR 13,526.80 per year with a dependent spouse. The maximum non-contributory pensions for people aged 65+ is EUR 6,784.54 per year and the minimum pension is EUR 1,696.14 per year.

[617] The Toledo Pact was a compromise approved by the Spanish parliament on 6 April 1995 to analyse the structural problems of social security and the reforms needed to guarantee the public pension model. The pact functions as a parliamentary commission that makes recommendations to the government on pension reform.

[618] RDL 3/2021, of 2 February, adopting measures to reduce the gender gap and other matters in the social security and economic spheres.

power of pensions[620], to establish measures to favour the extension of working life, and to reduce the pension gender gap. The second block of reforms was approved in 2023[621], with the objectives of strengthening the financial capacity of the system and improving the fairness and adequacy of pensions. Other pieces of legislation have completed the reform of the public pension system: a gender gap supplement[622], the regulation of pension plans and funds[623], and a new contribution system for the self-employed[624].

Regarding the adequacy of pensions, there will be additional increases in the minimum contributory retirement pension, the widow's pension, and the non-contributory pension from 2024. The aim is that by 2027 the amount of a contributory pension should not be less than the poverty threshold for a household of two adults including a pensioner over 65 who has dependants (children and others). In the case of households with no dependants, the same criteria apply, but with a limit of 50 %. For non-contributory pensions, the reference indicator is set at 75 % of the income equivalent to that of a single-person household.

Law 21/2021 has included new reduction coefficients for voluntary early retirement depending on the number of months that the retirement is brought forward and the length of time that contributions have been paid. For voluntary early retirement the reduction varies from 2.81 % to 21 %, and for involuntary early retirement from 0.5 % to 30 %.

Law 21/2021 has improved the benefits for deferred retirement. A pensioner receives an additional 4 % of the pension for each full year of contributions after reaching the ordinary pensionable age, or alternatively a lump sum. Moreover, from 2023 onwards, those pensioners who defer their retirement for at least 2 years may opt for a “mixed” incentive that combines a percentage increase in their pension with a lump sum[625].

Since 2022 there has been a new supplement for early retirement with long periods of contribution[626]. The aim is to compensate for the difference between the initial amount of the pension and that which would result from applying the new reduction coefficients approved in 2021 by the new pension reform law. The recipients must prove at least 44 years and six months of contributions or 40 years of contributions if the pension is less than EUR 900 per month (in 14 payments annually).

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[619] Law 21/2021, of 28 December, on guaranteeing the purchasing power of pensions and other measures to reinforce the financial and social sustainability of the public pension system.

[620] In 2023 Spain reintroduced automatic price indexation in the public pension system. The 2014 pension reform had introduced a mechanism not exclusively linked to the evolution of inflation, which was in force until 2017. Prior to the 2023 reform, the 2014 indexation system had been suspended in 2018, de facto adjusting pensions to the increase in the inflation rate.

[621] RDL 2/2023, of 16 March, on urgent measures to extend pensioners' rights, reduce the gender gap and establish a new framework for the sustainability of the public pension system.

[622] RDL 3/2021, of 2 February, adopting measures to reduce the gender gap and other matters in the economic and social security fields.

[623] RDL 885/2022, of 18 October, amending the regulation of pension plans and funds approved by Royal Decree 304/2004, of 20 February.

[624] RDL 13/2022, of 26 July, establishing a new contribution system for self-employed workers and improving benefits for the cessation of activity.

[625] Royal Decree 371/2023, of 16 May, which completes the reform of delayed retirement incentives initiated in 2021.

[626] Law 21/2021 on the guarantee of the purchasing power of pensions and other measures to reinforce the financial and social sustainability of the public pension system.

With regard to the aim of reducing the pension gender gap, some measures favouring women have been approved, such as a new gender gap supplement and greater benefits in the treatment of gaps in the calculation of the retirement pension. In 2021 Spain introduced a new gender gap supplement[627] and replaced the maternity supplement introduced in 2016. Women and men who have had one or more children and who are beneficiaries of a contributory retirement pension, permanent disability or widowhood pension can apply for this supplement. The new allowance is granted to the parent who proves a detriment to their professional career after the birth of the child. In the event that both parents prove the detriment or if neither parent does so, the right will be granted to the mother. In 2023 the benefit amounts to EUR 425.60 per year per child up to a maximum of four children. It is an interim measure until the gender gap falls below 5 %. During 2024-2025 the gender gap supplement will undergo an increase of 10 % in addition to the annual pension revaluation.

Women will benefit from preferential rules[628] if there are contribution gaps in the period used to calculate the retirement pension. The number of months with 100 % of the minimum base will increase to 60 instead of 48, and 24 months of contribution gaps can be covered at 80 % of the minimum base, as opposed to the current 50 %. If there are additional years without contributions, they will be covered with 50 % of the minimum contribution base (as previously regulated).

The new model of the regulatory base of the retirement pension is designed to find a balance between equity and solidarity[629]. The period for calculating the regulatory base of the retirement pension is extended from the current 25 years to 27 years of contributions, with the novelty that the reference period to compute contributions is the 29 years prior to the retirement date, ruling out the 24 worst months of contributions. The new model will be implemented progressively over 12 years, from 2027 to 2038[630], coexisting with the current model until 2044[631]. From 2027 to 2044 a dual model will be applied, allowing the more advantageous model to be chosen out of the old and the new one[632]. This favours people with irregular professional careers, generally women and self-employed workers.

The expected increase in spending due to the retirement of the baby boom generation makes it necessary to establish mechanisms to increase revenues.

Increasing revenue from social security contributions will be achieved through the annual revaluation of the maximum contribution bases according to the CPI, and the establishment of a series of temporary surcharges on these contributions such as an additional surcharge on the contribution base between 2024 and 2050, a new solidarity surcharge on the highest incomes

[627] RDL 3/2021 adopting measures to reduce the gender gap and other matters in the fields of Social Security and economics.
[628] RDL 2/2023, on urgent measures to extend the rights of pensioners, reduce the gender gap and establish a new sustainability framework for the public pension system.
[629] RDL 2/2023, of 16 March, on urgent measures to extend pensioners' rights, reduce the gender gap and establish a new framework for the sustainability of the public pension system.
[630] The regulatory base will increase by four months per year and the monthly payments that can be discarded will increase by two per year.
631 From 2040 to 2044, the current model will increase the number of years used to calculate the regulatory base of pension at a rate of six months per year until 27 years of contributions will be reached.
[632] The comparison must consider the progressive evolution of the reference period in each of the models during the transitional period.

between 2025 and 2045, and a new 'inter-generational equity mechanism' (MEI) surcharge from 2023 until 2050. The new contribution regime for the self-employed is expected to contribute to increasing revenues.

The MEI is the new financial stability mechanism of the system: it replaces the sustainability factor, an automatic mechanism for reducing the initial amounts of the new pensions based on life expectancy, which was established by the 2011-2013 reform. Instead, the MEI is designed to create a reserve fund through a surcharge on contributions to cover the higher pension expenditure in the period of maximum stress in the system.

Since 2022 new rules on occupational pension funds have been aimed at boosting occupational employment schemes[633]. They envisage the creation of publicly promoted employment funds to facilitate the enrolment of all types of workers in occupational pension schemes. The creation of sectoral employment plans is also promoted, so that companies in a certain sector can directly join the pension plan of the corresponding sector.

In 2022 a new law on the social security regime for the self-employed[634] introduced a new system of contributions based on workers' net income, which was designed to improve the benefits available to this group by increasing their social contributions.

The key measures decreed by the government during the COVID-19 state of emergency were aimed at maintaining the income of workers who, due to the restrictions on economic activity, had to cease or reduce their activity. These measures comprised the following.

a) A contributory unemployment benefit derived from a 'coronavirus job retention scheme' (ERTE[635]). Workers affected by an ERTE were entitled to unemployment benefits, even if they did not achieve the minimum contribution period to access this benefit. The company benefited from a total or partial waiver[636] of social security contributions for the workers affected by such proceedings[637].
b) Extraordinary unemployment schemes for the self-employed. Any self-employed worker who was affected by the closure of their business (under certain conditions) was entitled to this extraordinary benefit for the cessation of their activity. The government exempted self-employed workers from social security contributions during the period of receipt of this benefit.
c) An extraordinary unemployment assistance benefit allowance for domestic workers whose contract was terminated or who had to temporarily stop, partially or totally, their activity due to the measures of suspension of activities or isolation.

[633] Law 12/2022, of 30 June, regulating the promotion of employment pension plans, which amends the revised text of the law regulating pension plans and funds.
[634] RDL 13/2022, of 26 July, establishing a new contribution system for self-employed workers and improving benefits for the cessation of activity.
[635] RDL 8/2020, of 17 March, on extraordinary urgent measures to address the economic and social impact of COVID-19.
[636] The percentage depends on the number of workers in the company, and it falls over the benefit period.
[637] Article 24 of RDL 8/2020, of 17 March.

All workers protected through the aforementioned measures, including the self-employed, earned pension contribution credits. The cost of these waivers of social security contributions and unemployment benefits was born by the state.

In 2022, as a consequence of the COVID-19 pandemic, the government allowed a temporary regime[638] (from 2022 to 2025) to enhance the cumulation of the retirement pension with earnings from work for primary care physicians over the retirement age. It allows a salary corresponding to 50 % of a working day to be combined with 75 % of the pension.

From the second quarter of 2022, because of Russia's war of aggression against Ukraine, the purchasing power of the most vulnerable households has been affected by a high inflation rate, which reached 8.4 % in 2022. The measures taken by the Spanish government[639] to contain inflation and other direct support measures for households, such as the increase in the minimum living income and the extraordinary increase in non-contributory pensions (15 %), has reduced the effects of inflation on people's incomes.

3 ASSESSMENT OF ADEQUACY

3.1 Current adequacy

Between 2019 and 2022 the aggregate replacement ratio (ARR) increased by 6 percentage points (pp), with the improvement being greater for women (9 pp) than for men (5 pp). The larger increase in the ARR ratio for women was primarily due to the reduction of the pension gender gap. The relative median income of people aged 65+ was slightly above that of the population under 65 (a ratio of 1.01, or 0.01 pp higher than in 2019).

Women aged 65+ had a higher at-risk-of-poverty or social exclusion (AROPE) rate than men in the same age group (23.4 % versus 18.6 %) in 2022. This rate was higher among those aged 75+ (19.9 % of men, 26.1 % of women), having increased between 2019 and 2022 by 6.1 pp for women, while falling by 0.7 pp among men. The COVID-19 pandemic was one of the main causes of the significant increase in the AROPE rate among women over 65 and those aged 75+. Between 2019 and 2022 the mortality rate due to COVID-19 was higher for men than for women[640]. When women become widowed[641] they have to face the entire household expenses with less income even if they receive the widow's pension, which generally amounts to half the amount of their husband's salary or pension[642], thus pushing them into a situation of vulnerability.

[638] RDL 20/2022, of 27 December, on measures to respond to the economic and social consequences of the war in Ukraine and to support the reconstruction of the island of La Palma and other situations of vulnerability. See Article 83.
[639] Ibid.
[640] The mortality rate related to COVID-19 was 55.3 % among men and 44.7 % among women. Source: Data Global Health 50/50 situation, December 2022.
[641] In 2020, 88.5 % of widow's/widower's pension claims were for women. Source: Ministry of Inclusion, Social Security and Migration, and Secretary of State for Social Security and Pensions (2022), Social Security Economic and Financial Report.
[642] The amount of the widow's/widower's pension is by default 52 % of the regulatory base of the deceased's salary or pension, but this percentage might reach 60 % or 70 % under certain circumstances, mainly related to the age of the beneficiary, the existence of dependent relatives, and the absence of other sources of income.

The AROPE rate for the population aged 75+ was tempered by a fall of 1 pp in the severe material and social deprivation rate. This fall was greater among women (1.2 pp) than among men (0.7 pp).

Government measures aimed at raising the age of retirement (including by promoting the deferral of retirement, and discouraging early retirement) have led to a reduction in the number of years spent receiving pensions. The retirement duration from the first pension was 21.8 years in 2022, one year less than in 2019, with a larger reduction among women (1.1) than men (0.9). Women tend to defer retirement less often than men, also due to family care.

Life expectancy at 65 fell between 2019 and 2022 by 0.7 years (0.6 for men and 0.7 for women). In 2022 it stood at 21.3 years (19.2 for men and 23.2 for women). According to the 2020-2021 report of the Ministry of Health on the healthcare system[643], one of the main causes of the fall in the value of the said indicator was deaths related directly or indirectly to COVID-19. Furthermore, the number of healthy life years at age 65 fell between 2019 and 2022 by 1.9 years, to a greater extent among women (2.0) than men (1.7). In 2022 it stood at 10.5 years (10.7 for men and 10.3 for women). Other reasons for the falls in these indicators include a high number of deaths due to cardiovascular diseases and cancer, which caused more than 50 % of deaths according to the Ministry of Health report.

The increase in the ratio of self-reported unmet needs for medical care for those aged 65+, which between 2019 and 2022 increased by 2.3 pp (2.7 pp for women and 1.9 pp for men), reflects the perception of restricted accessibility of healthcare during the COVID-19 period due to the work overload of health personnel and mobility restrictions.

The housing cost overburden ratio increased between 2019 and 2022 by 2.7 pp, and by more among women (4 pp) than among men (1.1 pp). The increase in the prices of basic food products due to the consequences of Russia’s war of aggression against Ukraine has a greater impact on people with lower incomes (generally women).

3.2 Future adequacy

The theoretical replacement rates (TRRs) for pensions are projected to fall between 2022 and 2062. For both men and women, the gross TRR for the base case (40 years up to the statutory pension age) will drop by 11.5 pp and the net TRR by 9.2 pp. When there are breaks of three years for childcare, the gross TRR is reduced by 12.7 pp for women and to a slightly lesser extent (11.5 pp) for men, due to the equalisation of maternity/paternity leave for both men and women. For people who had a disability during the five years prior to retirement age, the gross TRR in 2062 is expected to be 84.9 % and the net TRR 105.6 % (for both women and men) due to the interplay of more favourable fiscal rules.

[643] Ministry of Health (2021), *Annual report of the National Health System 2020-2021* (https://www.sanidad.gob.es).

3.3 Developments in (in)equalities

Between 2019 and 2022 the income quintile share ratio (S80/S20) for disposable income in the population aged 65+ showed an increase in inequality. This indicator increased by 0.42 pp, to a greater extent among women (0.5 pp) than among men (0.28 pp). The increase in the prices of basic goods derived from the Russia's war of aggression against Ukraine has a greater impact on people with lower incomes (generally women). This causes an increase in inequality.

The improvement in pension adequacy for women is shown in the gender gap in pension income ratio (ages 65-79), with a drop of 4.5 pp between 2019 and 2022. This ratio stood at 26.8 % in 2022. The supplement to reduce the pension gender gap contributes to reducing pension inequalities.

Spain has important solidarity supplements, such as the supplement to guarantee a minimum contributory pension, and the non-contributory pension. As of 1 January 2023 the number of people who received a supplement to guarantee a minimum retirement pension was 19.03 % of total pensions, with the percentage being higher for women (28.84 %) than for men (13.04 %)[644]. A total of 444,536 pensioners will benefit from a non-contributory pension[645].

4 KEY CHALLENGES AND OPPORTUNITIES

The projected ‘economic old-age dependency ratio (20-64)’ shows a significant increase of 31 pp over the next 40 years, from 46.3 % in 2022 to 77.3 % in 2062, with a consequent negative impact on social security scheme finances. The Spanish Government is working on different measures to improve the current regulation to combine work and pensions and to encourage pensioners to remain in the labour market after the pensionable age. These measures include improving the conditions for the cumulation of the retirement pension and income from work through ‘active retirement’. The temporary experience of active retirement for health professionals during the COVID-19 pandemic is a good example to follow. This implies getting rid of the one year pause after being granted a pension before the pensioner is allowed to work, and increasing the percentage of the pension compatible with earned income.

The structure of the labour market is evolving toward an increase in non-standard contracts due to an increase in the outsourcing of services, giving rise to a growth in bogus self-employment[646] and an explosion in the number of ‘on demand’ workers supported by IT platforms. Most people on non-standard contracts are registered under the special regime for the self-employed, which is characterised by low social contributions and lower pensions in the future. This is expected to change, since from January 2023 self-employed contributions will progressively converge to their net income. The increase in non-standard contracts makes

[644] MITES Statistical Yearbook (Social Security Benefits).
[645] IMSERSO, Informe annual 2022 (https://imserso.es/en/-/informe-anual-2022).
[646] Bogus self-employment occurs when a ‘self-employed’ worker does not have a standard employment contract with the company but follows the company’s orders.

it necessary to ensure compliance with the Rider Law[647], and the prevention of fraudulent dismissals of workers to increase social security contributions and better pensions in the future.

Growing automation in the industrial and service sectors threatens the disappearance of a significant number of jobs that can be automated[648], which may lead to a high number of people being made redundant. A key challenge is the continued improvement of social protection for vulnerable groups such as the self-employed, migrant workers and women by introducing and/or improving the recognition of contribution periods during periods of inactivity. Additional measures to ensure work-life balance and facilitate both the insertion and the continued presence of women in the labour market should be promoted, in order to narrow the pension gender gap.

[647] Law 12/2021, of 28 September, which modifies the consolidated text of the Workers' Statute Law, approved by Royal Legislative Decree 2/2015, of 23 October, to guarantee the labour rights of people dedicated to delivery in the field of digital platforms.

[648] According to the OECD, 28 % of employment in Spain is in occupations at a high risk of automation: see OECD (2023), *The impact of AI on the workplace: Main findings from the OECD AI surveys of employers and workers*.

5 BACKGROUND STATISTICS

	2022			Change 2019-2022		
5.1. Relative income	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**
Relative median income ratio (65+)	1.01	1.05	0.98	0.01	0.01	0.03
Income quintile share ratio (S80/S20) (65+)	4.92	4.83	4.94	0.42	0.28	0.50
Aggregate replacement ratio (ARR) (65-74) (%; change in pp)	76.0	79.0	64.0	6.0	5.0	9.0
5.2. Poverty and material deprivation	**2022**			**Change 2019-2022 (pp)**		
	Total	**Men**	**Women**	**Total**	**Men**	**Women**
At-risk-of-poverty or social exclusion (AROPE) (65+) (%)	21.3	18.6	23.4	3.2	0.7	5.1
At-risk-of-poverty (AROP) rate (65+) (%)	18.7	16.3	20.6	4.2	1.8	6.2
Severe material and social deprivation (SMSD) rate (65+) (%)	5.1	4.4	5.6	-0.9	-1.2	-0.6
At-risk-of-poverty or social exclusion (AROPE) rate (75+) (%)	23.6	19.9	26.1	3.3	-0.7	6.1
At-risk-of-poverty (AROP) rate (75+) (%)	21.4	18.2	23.6	5.0	0.9	7.8
Severe material and social deprivation (SMSD) rate (75+) (%)	4.8	4.1	5.3	-1.0	-0.7	-1.2
Relative median at-risk-of-poverty gap (65+) (%)	21.3	21.9	20.4	4.2	5.5	1.8
At-risk-of-poverty (AROP) rate, 65+: 50 % threshold (%)	10.8	9.9	11.4	3.5	3.0	3.8
At-risk-of-poverty (AROP) rate, 65+: 70 % threshold (%)	26.0	22.8	28.6	0.8	0.5	1.1
Material and social deprivation (MSD) rate (65+) (%)	11.3	9.9	12.3	-0.6	-0.8	-0.6
5.3. Gender difference	**2022**			**Change 2019-2022 (pp)**		
Gender gap in pension income (65-79) (%)	26.8			-4.5		
Gender gap in non-coverage rate (65-79) (pp)	23.6			-2.3		
5.4. Housing and health situation	**2022**			**Change 2019-2022**		
	Total	**Men**	**Women**	**Total**	**Men**	**Women**
Housing cost overburden rate (65+) (%; change in pp)	6.2	4.4	7.7	2.7	1.1	4.0
Self-reported unmet need for medical exam 65+ (%; change in pp)	2.7	2.2	3.2	2.3	1.9	2.7
Healthy life expectancy (at age 65) (years) (1)	10.5	10.7	10.3	-1.9	-1.7	-2.0
Life expectancy (at age 65) (years)	21.3	19.2	23.2	-0.7	-0.6	-0.7
	2022			**2062**		
Receiving long-term care cash benefits (65+) (%)	2.6			3.5		
Receiving long-term care in-kind benefits (65+) (%)	6.6			9.1		
5.5 Sustainability and context	**2022**			**Change 2019-2022**		
	Total	**Men**	**Women**	**Total**	**Men**	**Women**
Employment rate (55-64) (%; change in pp)	57.7	64.5	51.1	3.9	3.4	4.2
Pension expenditure (% GDP; change in pp) (1)	13.2			1.1		
Retirement duration from first pension (years)	21.8	20.0	23.4	-1.0	-0.9	-1.1
Retirement duration from end employment (years) (2)	22.3	20.2	24.2	-0.7	-0.7	-0.6
Projections (3)	**2022**			**2062**		
Old-age dependency ratio (20-64) (%)	33.1	28.8	37.3	64.5	57.6	71.3
Economic old-age dependency ratio (20-64) (%)	46.3	43.7	48.6	77.3	69.1	84.8
Gross public pensions (% GDP)	13.1			16.7		
Benefit ratio (%)	65.7			52.5		
Coverage ratio (65+) (%)	103.6			99.4		
Gross pension ratio high/low earner		2.5	2.5		2.6	2.6

(1) 2021 instead of 2022

(2) Based on the assumptions of the 2024 Ageing Report for the 2023 average exit ages
(3) For the source of each of these six indicators providing projections by 2062, please see 'Indicators, definitions and abbreviations'.

5.6 Theoretical replacement rates

	Net (%)				Gross (%)			
	2022		2062		2022		2062	
	Men	Women	Men	Women	Men	Women	Men	Women
Standard pensionable age (SPA)	**65.0**	**65.0**	**65.0**	**65.0**				
AWG career duration (years)	**41.7**	**40.9**	**43.9**	**43.0**				
Average Earning (100 %)								
Base case: 40 years up to SPA	98.6	98.6	89.4	89.4	90.2	90.2	78.7	78.7
Increased SPA: from age 25 to SPA	98.6	98.6	89.4	89.4	90.2	90.2	78.7	78.7
AWG career length case	94.0	94.0	91.6	91.6	85.7	85.7	81.9	81.9
Longer career: 42 years to SPA			88.4	88.4			79.1	79.1
Shorter career: 38 years to SPA			90.9	90.9			78.5	78.5
Deferred exit: 42 years to SPA +2			94.3	94.3			85.4	85.4
Earlier exit: 38 years to SPA -2			76.4	76.4			62.0	62.0
Career break – unemployment: 3 years	98.7	98.7	89.3	89.3	90.2	90.2	78.7	78.7
Career break – childcare: 3 years	98.7	101.8	89.4	90.9	90.2	93.5	78.7	80.8
Career break – care for family dependant: 3 years	94.7	94.7	88.0	88.0	86.0	86.0	76.8	76.8
Short career (20-year career)	53.4	53.4	36.2	36.2	42.9	42.9	29.1	29.1
Work 35 years, disabled 5 years prior to SPA			105.6	105.6			84.9	84.9
Early entry in the labour market: from age 20 to SPA			89.1	89.1			79.7	79.7
Index: 10 years after retirement at SPA			78.9	78.9			69.0	69.0
Extended part-time period for childcare			87.7	89.2			76.3	78.4
Survivor ratio 1*		0.9		0.9		0.8		0.8
Survivor ratio 2*		0.8		0.6		0.7		0.5
Low earnings (66 %)								
Base case: 40 years up to SPA	100.9	100.9	87.5	87.5	90.2	90.2	78.7	78.7
AWG career length case	95.8	95.8	91.0	91.0	85.7	85.7	81.9	81.9
Career break – unemployment: 3 years	100.9	100.9	87.3	87.3	90.2	90.2	78.6	78.6
Career break – childcare: 3 years	100.9	106.5	87.5	91.1	90.2	95.2	78.7	81.9
Short career (20-year career)	72.8	72.8	45.8	45.8	65.0	65.0	41.2	41.2
Early entry in the labour market: from age 20 to SPA			95.0	95.0			79.7	79.7
High earnings (100->200 %)								
Base case: 40 years up to SPA	85.7	85.7	76.6	76.6	76.4	76.4	67.2	67.2

**Survivor ratio 1: man base case, woman base case*
**Survivor ratio 2: man base case, woman short career case*

SWEDEN

Highlights

- Reforms since 2020 have targeted retirees with low income.
- Pensionable ages and rights to remain in employment are gradually being shifted upwards.
- High employment rates of older workers reduce pressures of increased pension expenditure.
- The good health status of the older population may facilitate prolonged working lives.

1 GENERAL DESCRIPTION OF THE NATIONAL PENSION SYSTEM

The Swedish pension system consists of three main components. The first component has two parts: a statutory contributory pension (income pension), which is a pay-as-you-go pension, and a statutory funded pension (premium pension – *premiepension*). Contributions are paid on earnings and social insurance benefits (such as paid parental leave, sickness benefits, and unemployment benefits, but also student grants). The second component is a residency-based guarantee pension, which provides a basic pension. The third component consists of the supplementary schemes, including occupational pensions (based on collective agreements between social partners) and personal pension plans.

The statutory pension contribution is 18.5 % of pensionable income: 16 % for the income pension and 2.5 % for the premium pension. Contributions are divided between insured people and employers. Employees pay 7 % of earnings up to a ceiling, while employers pay a contribution of 10.21 % on all earnings. Contributions on the part of earnings above the ceiling are transferred to the general state budget.

The income pension is a notional defined-contribution pension, based on lifetime earnings and social insurance income. Parents with young children up to age 4 may receive extra pension credits. The pension contributions are indexed annually to an income index (*inkomstindex*) based on average nominal wage growth for wage-earners aged 16-64. At the time of retirement this pension capital is converted into an annuity, which takes the average unisex life expectancy into consideration. Deferral of pension benefit withdrawal beyond the minimum pension age (63) increases the pension benefit. Benefits are indexed to average income growth minus 1.6 % (following that, the system is front-loaded). There is no early-retirement scheme in Sweden, only invalidity benefits.

The premium pension is individual and fully funded. Participants may place their premium pension assets in up to five investment funds from a catalogue. To minimise administrative costs, pension contributions and fund choices are centrally managed by the Swedish Pensions Agency. The capital of non-choosers is invested in a state-run default fund. The fund capital is annuitised at the time of retirement and paid either as a fixed (*traditionell försäkring*) or variable (*fondförsäkring*) annuity.

The guarantee pension provides basic income for those with no pension or with a low- or average-income pension. The guarantee pension is payable from age 66. A full guarantee pension requires residency of 40 years after the age of 25. The guarantee pension is reduced proportionately for missing years. The guarantee pension is indexed to prices. There is also an income-tested housing supplement for older people. Means-tested old-age income support (*äldreförsörjningsstöd*) is also available. It is a programme of last resort for those aged 66+. It is particularly important for people who have not lived in Sweden for 40 years and hence do not qualify for a full guarantee pension. Today there is also an income pension supplement (*inkomstpensionstillägg*) for those with moderately low pensions – equal in 2023 to an income pension between SEK 17,935 (EUR 1,563) and SEK 9,495 (EUR 827) per month before tax[649].

Besides the benefits above, there is a survivor pension (*efterlevandepension*), which includes different elements (child pension, survivor allowance, adjustment pension, and widow's pension). The child pension (*barnpension*) is based on the deceased's assumed future income pension. The survivor allowance (*efterlevandestöd*) is available for children with a low or no child pension. The adjustment pension (*omställningspension*) is paid to an adult (man or woman) under 66 whose spouse or registered partner has died. The adjustment pension is also based on the deceased's assumed future income pension. The widow's pension was phased out from the early 1990s, after which no new people were enrolled.

While statutory pensions continue to dominate, the relative importance of supplementary pensions – mainly occupational – has been increasing for decades. In 2021, public pensions corresponded to 67 % of the total pension income of older people, while the corresponding figures for occupational and personal pensions were 28 % and 5 % respectively[650]. More than 90 % of employees are covered by occupational pension plans, basically divided into four negotiated agreements (blue-collar private sector workers, white-collar workers in the private sector, state employees, and municipal employees). Employees who are not members of a trade union are covered by the collective agreements as long as their firms have signed agreements. Coverage gaps primarily exist in firms without collective agreements. Private insurance companies offer occupational plans to employers without collective agreements. Although parts of the non-unionised sector may have such non-collectively negotiated occupational pensions, this share is very small. The self-employed lack collectively agreed occupational pensions. Following the reform of the statutory income pension, most occupational pensions have been renegotiated from a defined-benefit to defined-contribution (DC) basis. Fewer than one third of the Swedish population aged 25-79 have a personal pension.

2 REFORM TRENDS

In December 2020 the Swedish parliament decided to introduce a new component, the income pension supplement. It is payable to people aged 66+ with an income pension between SEK 9,495 (EUR 827) and SEK 17,935 (EUR 1,563) per month and a long work history (at

[649] EUR 1 = SEK 11.4765 on average in 2023. Source: Swedish Riksbank.
[650] https://www.pensionsmyndigheten.se/

least 40 years for a full supplement for those born 1945 and later; in other cases proportionally reduced). The first payment of the supplement was in September 2021, and the maximum amount is currently SEK 600 (EUR 52) per month. The income pension supplement is financed via the state budget and not via pension contributions.

In 2022 the Pension Group (*Pensionsgruppen*)[651] agreed that the administration of the premium pension should be reformed. A new procured fund market has been introduced, which is expected to strengthen the premium pension system over the longer term. A new agency has been established (*Fondtorgsnämnden*) to procure and manage exchanges with the premium pension funds.

The pensionable age at which the income pension and the premium pension can be withdrawn at the earliest rose from 62 to 63 in 2023. This followed changes in 2020, when the pensionable age for withdrawal of the income pension and the premium pension was raised from 61 to 62, and the right to remain in employment was raised from 67 to 68. In 2023 the age required to have access to the guarantee pension, the income pension supplement, and the housing supplement rose from 65 to 66. A new mechanism for raising the pensionable age in accordance with longevity will be introduced in 2026. The right to remain in employment was also raised in 2023, from 68 to 69.

No temporary adjustments to Swedish public pensions were made in response to the COVID-19 pandemic, or in relation to the inflation and energy price spike following Russia's war of aggression against Ukraine. In Sweden pension credits are earned on all taxable benefits, including income from the major social insurance programmes, short-time job retention, and disease carrier allowances. All three types of benefits played major roles in securing incomes during the pandemic.

After the parliamentary elections in 2022 the situation of the financially worst-off older people became even more of a prominent issue (as it had already been during the government crisis in the summer of 2021). The debate was not about the need to increase the lowest pensions, but rather about how to do it. Because the issue could not be resolved by the Pension Group, various proposals were put forward during the election campaign. Following a cross-party agreement, the guarantee pension was increased by 1,000 SEK (EUR 87) per month starting from 1 August 2022 (i.e. before the elections). In addition the housing supplement was increased by a maximum of SEK 300 (EUR 26) for single people and SEK 150 (EUR 13) per month for married people. As part of the agreement these increases in benefits were funded by general tax revenue, not by social security contributions.

As the guarantee pension is indexed to prices, the recent rise in inflation has resulted in an additional increase for those with the lowest pension benefits. The Pension Agency has raised concerns about this steep rise in the guarantee pension, with price indexation resulting in an increase of 8.7 % in 2023. A higher guarantee pension will result in a more compressed distribution of benefits, which may create incentive problems since lifetime incomes will play a smaller role in the amount of pension benefits finally received.

[651] The Pension Group is a parliamentary working group that includes representatives of the parties responsible for the 1994 pension agreement (i.e. the Social Democrats, the Moderates, the Centre Party, the People's Party, and the Christian Democrats). The main task of the group is to maintain and develop the pension agreement when necessary. Decisions are usually made by consensus.

3 ASSESSMENT OF ADEQUACY

3.1 Current adequacy

With few exceptions (noted below) there have not been that many noteworthy changes in adequacy between 2019 and 2022. The relative median income ratio of the older population (65+) was 0.81 in 2022, slightly lower than the EU-27 average of 0.9. It was higher for men (0.87) than women (0.76). For women, the relative median income ratio of those aged 65+ was the same in 2019 and 2022. For men, the relative median income ratio was more or less stable.

The aggregate replacement ratio was 54 % in 2022, slightly lower than the EU-27 average of 58 %. Replacement ratios continue to be higher for men (56 %) than for women (53 %), although gender differences in replacement ratios have narrowed since 2008, primarily due to less favourable changes among men. Among men, the aggregate replacement ratio declined by 2 percentage points (pp) between 2019 and 2022, while it remained stable among women. Long-term trends in aggregate replacement ratios are due to a complex set of factors. In Sweden there is some indication that new cohorts of men entering retirement have suffered from more precarious forms of employment, while new cohorts of women entering retirement continue to report a higher number of work hours during economically active years. This is due largely to continued increases in the labour force participation of women, which at the aggregate level counteract the potentially negative effects of precarious employment [652].

In 2022 the at-risk-of-poverty (AROP) rate among older people (65+) was 15.7 %, and lower than the EU-27 average of 17.3 %. The AROP rate continued to be lower for men (12.6 %) than for women (18.5 %). As in many other EU Member States, the AROP rate in Sweden was higher for those aged 75+ (17.9 %). The gender gap in AROP rates among those aged 75+ narrowed by around 3 pp between 2019 and 2022. However, gender differences in relative poverty risks among the oldest old were still substantial (13.1 % for men and 21.8 % for women). The extent to which this narrowing in the gender gap of relative poverty risks among this age category is due to the introduction the income pension supplement in 2021 and the strengthening of the guarantee pension in 2022 is unclear and needs more detailed analysis. The severe material and social deprivation rate is exceptionally low among older people in Sweden. Only around 0.9 % of older people (65+) were severely materially and socially deprived in 2022. Consequently there is hardly any difference between the AROP rate and the at-risk-of-poverty or social exclusion rates in Sweden.

Housing and health statistics for the older population do not provide a coherent picture for Sweden. A larger share of people aged 65+ struggle to meet housing costs in Sweden than in the EU-27. On the other hand, older people in Sweden seem to have better health than in many other EU Member States. The housing cost overburden rate of older Swedish people (65+) was 13.6 % in 2022. In the EU-27 it was 10.7 %. Older women have more problems coping with housing costs than older men, which in Sweden is to some extent due to compositional factors. Older Swedish women are more likely to live alone than older Swedish

[652] Doctrinal, L. (2023), *Old and Unequal?: An Institutional Analysis of Pension Systems' Driving Forces and Outcomes in Affluent OECD Countries,* Department of Sociology, Stockholm University.

men, in part because the proportion of women among the oldest old (80+) is higher. It should also be noted that for many older people in Sweden who live in rented housing there is a recognised problem of incomplete take-up of housing benefits[653].

Housing costs are only one of several indicators often used to assess the housing situation in a country. Another important aspect is the quality of housing. In 2020 the severe housing deprivation rate among older people (65+) was only 0.4 % in Sweden, compared with 1.7 % for the EU-27 (these statistics are not shown in the tables below)[654]. The severe housing deprivation rate among older people in Sweden has fluctuated around 0.5 % for several years, and it is unlikely that it has changed dramatically since 2020. Severe housing deprivation is defined by Eurostat as an overcrowded dwelling with poor amenities (with at least one of the following: a leaking roof, no bath/shower, no indoor toilet, or a lack of natural light).

Life expectancy at age 65 was 19.6 years for men and 22.0 years for women in 2022, while healthy life years at 65 were 14.5 for men and 14.8 for women in 2021. Around 4.2 % of people aged 65+ reported that they had unmet needs for medical examination (3.9 % for men and 4.5 % for women) in 2022.

Pension expenditure (as a share of GDP) was 12.2 % in 2022, which was only 0.1 pp lower than its 2019 level. Pension expenditure as percentage of GDP seemed to be lower in Sweden than in many other EU Member States (note that this indicator is only available for men and refers to 2020). The employment rate in the 55-64 age group was substantially higher in Sweden in 2022 than in many other European countries, especially among women – 79.7 % among men and 74.9 % among women. The average employment rate in the 55-64 age group for the EU-27 was 62.3 % (68.7 % for men and 56.2 % for women). Retirement duration was about the EU average: retirement duration from first pension was 20.0 years for men and 22.3 years for women in 2022, while retirement duration from end of employment was 19.6 years for men and 22 years for women.

3.2 Future adequacy

When longevity increases, individuals need to work longer under a DC system if they are to maintain a constant replacement ratio. This is illustrated by the theoretical replacement rates (TRRs). Between 2022 and 2062 the TRRs fall for all cases reported in Section 5.6. For the base case – 40 years up to the standard pensionable age – the TRR (net of taxes) is expected to fall by 14.7 pp with a constant pension withdrawal age, from 66.5 % in 2022 to 51.8 % in 2062 for both men and women. For the gross TRR, the fall is 15.1 pp: from 62.8 % to 47.7 % (again for both women and men). For people with low or high earnings, the fall is considerable: the net TRR drops by 35.5 pp for low-income earners, and by 29.8 pp for high-income earners. Finally, in the case of a short career, net TRRs practically halve (from 57.9 % to 30.5 %)

[653] Nelson, K., Nieuwenhuis, R. and Alm, S. (2020), 'Sweden: Adjoining the Guarantee Pension with NDC', in*:* R. Holzmann, E. Palmer, R. Palacios and S. Sacchi (eds), *Progress and Challenges of Nonfinancial Defined Contribution Pension Schemes: Addressing Gender, Administration, and Communication,* Washington: World Bank Group.
[654] https://ec.europa.eu/eurostat/databrowser/view/ILC_MDHO06A__custom_7101921/default/table?lang=en (accessed 7 August 2023).

The poverty-reducing capacity of the Swedish pension system has strengthened due to recent increases in the guarantee pension as well as the housing supplement. Adequacy in the immediate future therefore does not appear to be an issue. However, over the long run, price indexation of the guarantee pension and the housing supplement may fall short of overall income growth, and weaken the poverty-reducing capacity of Swedish pensions.

3.3 Developments in (in)equalities

Old-age incomes have become slightly more unequal in Sweden. The income quintile share ratio (S80/S20) among people aged 65+ rose from 3.6 in 2019 to 3.9 in 2022. Income differences in old age are slightly more pronounced among men than women, which mirrors patterns observed in many other EU Member States. It is not possible at this stage to provide an explanation for this rise in income inequality among older people in Sweden. Over the long term, however, increases in old-age income inequality in Sweden have been linked to growing shares of capital income and declining shares of statutory pension benefits in disposable income[655].

Although there is a tendency for old-age incomes to become more unequal in Sweden (both in the short and long term), income differences are still smaller than in many other EU Member States. According to the average income quintile share ratio for the EU-27, the top quintile had 4.1 times the income of the lowest quintile in 2022. As noted above, the Swedish statutory pension scheme has several solidarity mechanisms that are supposed to reduce income differences in old age, including the guarantee pension and the housing supplement for older people. The possibility of earning pension credits on social security benefits, and the extra pension credits provided for families with young children, should also be mentioned in this context.

Gender differences in social and economic well-being among older people also appear to be less pronounced in Sweden than in many other EU Member States. For several of the outcomes used to assess current adequacy (see Section 3.1 above), Sweden has become slightly more gender equal since 2019. This is partly driven by the fact that younger cohorts of retirees have had smaller gender differences in labour force participation and wages. This development towards greater gender equality also appears when the focus is on indicators that supposedly are more directly linked to the design of old-age pensions. For example, the Swedish gender gap in pension income among those aged 65-79 narrowed by 2.2 pp between 2019 and 2022. In Sweden the gender gap in pension income was 24.8 % for those aged 65-79 in 2022, which can be compared with 26.1 % in the EU-27. The gender gap in pension non-coverage is almost negligible in Sweden. In 2022 the difference in non-coverage between women and men was only 0.2 pp. By comparison, the average gender gap in pension non-coverage was 5.3 pp in the EU-27.

[655] Nelson, K., Nieuwenhuis, R. and Alm, S. (2020), 'Sweden: Adjoining the Guarantee Pension with NDC', *in:* R. Holzmann, E. Palmer, R. Palacios and S. Sacchi (eds), *Progress and Challenges of Nonfinancial Defined Contribution Pension Schemes: Addressing Gender, Administration, and Communication,* Washington: World Bank Group.

4 KEY CHALLENGES AND OPPORTUNITIES

In the long term there appear to be some challenges in providing a basic income floor for retired people in Sweden: not least if guarantee pensions are not regularly adjusted to keep up with overall income growth, and the take-up of the income-tested housing benefit remains low among households above retirement age (note the issue of housing cost overburden among older people reported above).

Most tax and benefit systems in Sweden provide individual entitlements (i.e. they are not paid to the household or family), which strengthens incentives to work and promotes gender equality. However, advancements in gender equality are limited, as differences in lifetime earnings between men and women remain and spill over to retirement in the form of gender gaps in pension income.

Due to the high number of remaining healthy years at age 65, Sweden is well placed to sustain adequate pensions through longer working lives. However, older workers in poor health need to be able to access adequate sickness/invalidity benefits without having to withdraw from the labour market by claiming old-age pensions too early. The declining shares of statutory pension benefits in disposable income linked to continued improvements in life expectancy can be reversed, but will certainly require possible solutions – such as an increase in contribution rates or in retirement ages – to be explored.

It is important to recognise that the pension system cannot solve all the problems of securing adequate incomes during old age and reduce income differences later in life. Gender inequalities – as well as issues linked to hazardous jobs and non-standard work – should first and foremost be addressed in the labour market where these problems first appear. Some of these insights are also reflected in the initiatives of the Swedish Pension Group.

5 BACKGROUND STATISTICS

	2022			Change 2019-2022		
5.1. Relative income	Total	Men	Women	Total	Men	Women
Relative median income ratio (65+)	0.81	0.87	0.76	0.00	-0.01	0.00
Income quintile share ratio (S80/S20) (65+)	3.90	4.01	3.65	0.30	0.10	0.37
Aggregate replacement ratio (ARR) (65-74) (%; change in pp)	54.0	56.0	53.0	-1.0	-2.0	0.0
5.2. Poverty and material deprivation	2022			Change 2019-2022 (pp)		
	Total	Men	Women	Total	Men	Women
At-risk-of-poverty or social exclusion (AROPE) (65+) (%)	16.1	12.9	19.0	0.8	1.6	0.1
At-risk-of-poverty (AROP) rate (65+) (%)	15.7	12.6	18.5	0.5	1.4	-0.2
Severe material and social deprivation (SMSD) rate (65+) (%)	0.9	1.0	0.9	0.6	0.6	0.7
At-risk-of-poverty or social exclusion (AROPE) rate (75+) (%)	18.3	13.4	22.2	-3.4	0.9	-6.4
At-risk-of-poverty (AROP) rate (75+) (%)	17.9	13.1	21.8	-3.5	0.6	-6.4
Severe material and social deprivation (SMSD) rate (75+) (%)	0.7	0.7	0.7	0.4	0.5	0.2
Relative median at-risk-of-poverty gap (65+) (%)	14.2	17.8	12.0	3.4	3.6	1.6
At-risk-of-poverty (AROP) rate, 65+: 50 % threshold (%)	7.1	6.5	7.6	1.5	1.8	1.2
At-risk-of-poverty (AROP) rate, 65+: 70 % threshold (%)	31.4	23.6	38.3	-0.9	-0.5	-1.1
Material and social deprivation (MSD) rate (65+) (%)	2.0	1.9	2.2	0.4	0.4	0.5
5.3. Gender difference	2022			Change 2019-2022 (pp)		
Gender gap in pension income (65-79) (%)	24.8			-2.2		
Gender gap in non-coverage rate (65-79) (pp)	0.2			1.2		
5.4. Housing and health situation	2022			Change 2019-2022		
	Total	Men	Women	Total	Men	Women
Housing cost overburden rate (65+) (%; change in pp)	13.6	9.7	16.9	1.4	0.4	2.1
Self-reported unmet need for medical exam 65+ (%; change in pp)	4.2	3.9	4.5	0.8	1.2	0.5
Healthy life expectancy (at age 65) (years) (1)	14.6	14.5	14.8	-1.6	-1.4	-1.8
Life expectancy (at age 65) (years)	20.8	19.6	22.0	-0.1	0.0	-0.1
	2022			2062		
Receiving long-term care cash benefits (65+) (%)	14.4			17.1		
Receiving long-term care in-kind benefits (65+) (%)	13.3			16.3		
5.5 Sustainability and context	2022			Change 2019-2022		
	Total	Men	Women	Total	Men	Women
Employment rate (55-64) (%; change in pp)	77.3	79.7	74.9	-0.4	-0.1	-0.7
Pension expenditure (% GDP; change in pp) (1)	12.2			-0.1		
Retirement duration from first pension (years)	21.1	20.0	22.3	3.1	-0.1	-0.3
Retirement duration from end employment (years) (2)	20.8	19.6	22.0	0.0	0.4	-0.5
Projections (3)	2022			2062		
Old-age dependency ratio (20-64) (%)	35.9	32.8	39.2	47.8	44.7	51.2
Economic old-age dependency ratio (20-64) (%)	39.1	39.5	39.1	51.1	51.9	50.4
Gross public pensions (% GDP)	7.4			7.4		
Benefit ratio (%)	47.0			44.0		
Coverage ratio (65+) (%)	126.6			112.7		
Gross pension ratio high/low earner		2.6	2.6		2.7	2.7

(1) 2021 instead of 2022

(2) Based on the assumptions of the 2024 Ageing Report for the 2023 average exit ages
(3) For the source of each of these six indicators providing projections by 2062, please see 'Indicators, definitions and abbreviations'.

5.6 Theoretical replacement rates

	Net (%)				Gross (%)			
	2022		2062		2022		2062	
	Men	Women	Men	Women	Men	Women	Men	Women
Standard pensionable age (SPA)	**65.0**	**65.0**	**69.0**	**69.0**				
AWG career duration (years)	**44.3**	**43.7**	**46.2**	**45.4**				
Average Earning (100 %)								
Base case: 40 years up to SPA	66.5	66.5	51.8	51.8	62.8	62.8	47.7	47.7
Increased SPA: from age 25 to SPA	66.5	66.5	56.6	56.6	62.8	62.8	52.9	52.9
AWG career length case	70.3	69.8	59.1	57.9	66.9	66.3	55.5	54.2
Longer career: 42 years to SPA			54.2	54.2			50.3	50.3
Shorter career: 38 years to SPA			49.3	49.3			45.2	45.2
Deferred exit: 42 years to SPA +2			58.5	58.5			54.9	54.9
Earlier exit: 38 years to SPA -2			46.5	46.5			42.1	42.1
Career break – unemployment: 3 years	65.7	65.7	50.6	50.6	62.0	62.0	46.5	46.5
Career break – childcare: 3 years	66.7	66.7	53.0	53.0	63.0	63.0	49.0	49.0
Career break – care for family dependant: 3 years	63.9	63.9	48.4	48.4	60.2	60.2	44.1	44.1
Short career (20-year career)	57.9	57.9	30.5	30.5	40.2	40.2	26.4	26.4
Work 35 years, disabled 5 years prior to SPA			50.2	50.2			46.1	46.1
Early entry in the labour market: from age 20 to SPA			62.8	62.8			59.5	59.5
Index: 10 years after retirement at SPA			45.6	45.6			41.2	41.2
Extended part-time period for childcare			49.2	49.2			45.0	45.0
Survivor ratio 1*		0.5		0.5		0.5		
Survivor ratio 2*		0.5		0.4		0.4		
Low earnings (66 %)								
Base case: 40 years up to SPA	88.1	88.1	52.6	52.6	73.0	73.0	47.8	47.8
AWG career length case	89.7	89.6	60.4	59.1	76.7	76.4	55.5	54.2
Career break – unemployment: 3 years	87.8	87.8	51.6	51.6	72.5	72.5	46.9	46.9
Career break – childcare: 3 years	88.4	88.4	54.0	54.0	73.8	73.8	49.2	49.2
Short career (20-year career)	82.1	82.1	38.2	38.2	50.6	50.6	33.7	33.7
Early entry in the labour market: from age 20 to SPA			64.0	64.0			59.5	59.5
High earnings (100->200 %)								
Base case: 40 years up to SPA	77.0	77.0	47.2	47.2	64.8	64.8	38.4	38.4

**Survivor ratio 1: man base case, woman base case*
**Survivor ratio 2: man base case, woman short career case*

EU-27

BACKGROUND STATISTICS

5.1. Relative income	2022 Total	2022 Men	2022 Women	Change 2019-2022 Total	Change 2019-2022 Men	Change 2019-2022 Women
Relative median income ratio (65+)	0.90	0.93	0.88	0.00	-0.01	0.00
Income quintile share ratio (S80/S20) (65+)	4.10	4.11	4.03	-0.14	-0.14	-0.16
Aggregate replacement ratio (ARR) (65-74) (%; change in pp)	58.0	60.0	56.0	1.0	1.0	2.0

5.2. Poverty and material deprivation	2022 Total	2022 Men	2022 Women	Change 2019-2022 (pp) Total	Change 2019-2022 (pp) Men	Change 2019-2022 (pp) Women
At-risk-of-poverty or social exclusion (AROPE) (65+) (%)	20.2	16.7	22.9	0.8	0.5	0.9
At-risk-of-poverty (AROP) rate (65+) (%)	17.3	14.2	19.8	1.2	0.8	1.6
Severe material and social deprivation (SMSD) rate (65+) (%)	5.5	4.6	6.2	-1.0	-0.5	-1.4
At-risk-of-poverty or social exclusion (AROPE) rate (75+) (%)	21.3	16.6	24.4	0.9	0.6	0.8
At-risk-of-poverty (AROP) rate (75+) (%)	18.9	14.6	21.8	1.7	1.2	1.9
Severe material and social deprivation (SMSD) rate (75+) (%)	4.7	3.7	5.4	-1.6	-0.7	-2.3
Relative median at-risk-of-poverty gap (65+) (%)	18.1	17.3	18.3	0.7	0.3	0.7
At-risk-of-poverty (AROP) rate, 65+: 50 % threshold (%)	8.9	7.1	10.3	0.9	0.5	1.1
At-risk-of-poverty (AROP) rate, 65+: 70 % threshold (%)	27.6	23.6	30.7	1.2	1.0	1.3
Material and social deprivation (MSD) rate (65+) (%)	11.1	9.6	12.3	-1.3	-0.5	-2.0

5.3. Gender difference	2022	Change 2019-2022 (pp)
Gender gap in pension income (65-79) (%)	26.1	-3.4
Gender gap in non-coverage rate (65-79) (pp)	5.3	-1.1

5.4. Housing and health situation	2022 Total	2022 Men	2022 Women	Change 2019-2022 Total	Change 2019-2022 Men	Change 2019-2022 Women
Housing cost overburden rate (65+) (%; change in pp)	9.7	7.2	11.6	-0.3	-1.0	0.2
Self-reported unmet need for medical exam 65+ (%; change in pp)	5.4	4.6	6.0	1.7	1.5	1.8
Healthy life expectancy (at age 65) (years) (2)	9.7	9.5	9.9	-0.6	-0.7	-0.5
Life expectancy (at age 65) (years) (1)	19.6	17.8	21.2	-0.6	-0.5	-0.6

	2022	2062
Receiving long-term care cash benefits (65+) (%)	6.2	7.4
Receiving long-term care in-kind benefits (65+) (%)	8.7	11.4

5.5 Sustainability and context	2022 Total	2022 Men	2022 Women	Change 2019-2022 Total	Change 2019-2022 Men	Change 2019-2022 Women
Employment rate (55-64) (%; change in pp)	62.3	68.7	56.2	3.2	2.7	3.6
Pension expenditure (% GDP; change in pp) (2)	13.0			0.3		
Retirement duration from first pension (years) (3)	21.0	19.0	22.7	:	:	:
Retirement duration from end employment (years) (4)	21.0	19.0	22.7	-0.3	-0.1	-0.3

Projections (5)	2022			2062		
Old-age dependency ratio (20-64) (%)	36.0	31.0	41.0	59.2	52.5	66.0
Economic old-age dependency ratio (20-64) (%)	45.7	42.8	48.4	69.1	66.3	71.5
Gross public pensions (% GDP)	11.4			11.8		
Benefit ratio (%)	50.4			41.1		
Coverage ratio (65+) (%)	123.4			109.9		
Gross pension ratio high/low earner						

(1) 2021 instead of 2022 for DE and IE
(2) 2021 instead of 2022
(3) Change 2019-2021 for: BE, DK, IE; no data for EU for 2019
(4) Based on the assumptions of the 2024 Ageing Report for the 2023 average exit ages
(5) For the source of each of these six indicators providing projections by 2062, please see 'Indicators, definitions and abbreviations'.

INDICATORS, DEFINITIONS AND ABBREVIATIONS

Note: the list of indicators for Volume II – Country Fiches was agreed by the Indicators Sub-Group of the Social Protection Committee. This set of indicators and statistics is designed to measure: (a) relative income; (b) poverty and material deprivation; (c) gender differences; (d) the housing and health situation; and (e) financial sustainability and context.

Indicators glossary: definitions and sources of indicators in Volume II

(a) Relative income

Relative median income ratio (65+). This is the ratio of the median equivalised[656] disposable income of people aged 65+ to the median equivalised disposable income of people aged 0-64. Including all sources of income, and not just pensions, the indicator measures the overall income situation of older people relative to the income of the younger age group – those aged 64 or below (source: Eurostat, EU-SILC [ilc_pnp2]). *Note that in Volume I the relative median income ratio compares old age (65+) and working age (18-64), instead of old age (65+) and younger (0-64) – see Eurostat, EU-SILC [ilc_di03].*

Income quintile share ratio (S80/S20) of older people (65+). This is the ratio of total income received by the 20% with the highest income (top quintile) to that received by the 20% with the lowest income (lowest quintile). Income must be understood as equivalised disposable income (source: Eurostat, EU-SILC [ilc_di11]).

Aggregate replacement ratio (ARR). This is the ratio of the median individual gross pension of people aged 65-74 to the median individual gross earnings of people aged 50-59. By measuring the level of older people's pensions relative to the income from work of people in the decade before retirement, the ARR reflects the overall adequacy of pensions in the transition from work to retirement. It should be noted that the ARR indicator is not calculated at household level, but based on individual gross incomes. However, several other factors, such as household composition and size, and the taxes or social contributions paid on gross pensions, can have a strong influence on disposable incomes and the actual living standards of individuals. It should also be taken into account that the ARR compares the income situation of two different cohorts (before and after retirement in the same survey year) (source: Eurostat, EU-SILC [ilc_pnp3]).

(b) Poverty and deprivation

At-risk-of-poverty or social exclusion (AROPE) rate (65+ and 75+). The AROPE rate is the main indicator for monitoring the 2030 EU headline target on poverty and social exclusion. It combines measures of: (a) relative income; (b) severe material and social deprivation; and (c) work intensity in the household. However, the third indicator applies

[656] The equivalised disposable income equals the total income of a household, corrected for the number and age category of its members. See: https://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:Equivalised_disposable_income.

only to the working-age population and is not calculated for older people. As a result, AROPE rates for the older population and working-age population are not directly comparable. To compare those age groups, a separate look at AROP and SMSD indicators is more appropriate. There is no double-counting of people having low income and high deprivation. The index counts all the older people who are income-poor, plus those who are materially deprived but not income-poor. Data are expressed as a percentage of the total population by age groups (65+ and 75+) (source: Eurostat, EU-SILC [ilc_peps01]).

At-risk-of-poverty (AROP) rate (65+ and 75+). Those at risk of poverty are people who live in a household with an equivalised disposable income below an AROP threshold set at 60% of the national median equivalised disposable income (after social transfers) (source: Eurostat, EU-SILC [ilc_li02]).

Severe material and social deprivation (SMSD) rate (for age groups 65+ and 75+). The SMSD rate is an indicator that distinguishes between individuals who cannot afford certain goods, services or social activities. It is defined as the proportion of the population experiencing an enforced lack of at least seven out of 13 deprivation items (six related to the individual and seven related to the household). List of items at household level: (a) capacity to face unexpected expenses; (b) capacity to afford a one-week annual holiday away from home; (c) capacity to cope with being confronted with payment arrears (on mortgage or rental payments, utility bills, hire purchase instalments or other loan payments); (d) capacity to afford a meal with meat, chicken, fish or vegetarian equivalent every second day; (e) ability to keep the home adequately warm; (f) access to a car/van for personal use; (g) ability to replace worn-out furniture. List of items at individual level: (a) having an internet connection; (b) replacing worn-out clothes by some new ones; (c) having two pairs of properly fitting shoes (including a pair of all-weather shoes); (d) spending a small amount of money each week on oneself; (e) having regular leisure activities; (f) getting together with friends/family for a drink/meal at least once a month (source: Eurostat, EU-SILC [ilc_mdsd11]).

Relative median at-risk-of-poverty gap (65+). This shows the intensity of poverty, in other words how poor the poor are. It is calculated as the difference between the median equivalised disposable income of people below the AROP threshold (for people aged 65+) and the AROP threshold (for the total population), expressed as a percentage of the AROP threshold (threshold set at 60% of national median equivalised income) (source: Eurostat, EU-SILC [ilc_li11]).

At-risk-of-poverty (AROP) rate (65+) computed with a 50% and 70% threshold (instead of the 60% for the standard AROP rate). Here, those at risk of poverty are people who live in a household with an equivalised disposable income below an AROP threshold set at 50% or 70% of the national median equivalised disposable income (after social transfers) (source: Eurostat, EU-SILC [ilc_li02]).

Material and social deprivation (MSD) rate (65+). Similar to the SMSD, this counts people who could not afford at least five items on the same list (source: Eurostat, EU-SILC [ilc_mdsd07]).

(c) Gender differences

Gender gap in pension income (65-79). This shows how far women's pensions lag behind men's in the central age group. It is the difference (in %) between women's average pension income and men's average pension income. Pension income includes old-age benefits, survivor benefits, and regular pensions from individual private plans. Note that in 2020 Eurostat changed the way it computes the EU average, resulting in a break in the EU series (source: Eurostat, EU-SILC [ilc_pnp13]).

Gender gap in non-coverage rate (65-79). This is the extent to which women have less access to the pension system than men. It is the difference between the proportion of women aged 65-79 who do not receive a pension and the proportion among men (in pp) (source: Eurostat, EU-SILC [ilc_pnp14]).

(d) Housing and health situation

Housing cost overburden rate (65+). This is the percentage of the population living in a household where total housing costs (net of housing allowances) represent more than 40 % of total disposable household income[657] (net of housing allowances) (source: Eurostat, EU-SILC [ilc_lvho07a]).

Self-reported unmet need for medical examination[658] (65+). This concerns a person's own assessment of whether they needed an examination or treatment for a specific type of healthcare issue during the previous 12 months, but did not have it or did not seek it because of one of the following three reasons: "too expensive", "waiting list" and "too far to travel". Medical care refers to individual healthcare services (medical examination or treatment excluding dental care) provided by or under the direct supervision of medical doctors or equivalent professionals according to national healthcare systems (source: Eurostat, EU-SILC [hlth_silc_08]).

Healthy life expectancy at age 65. This is a composite indicator that measures the number of remaining years that a person aged 65 is expected to live in a healthy condition. It is calculated separately for women and men by combining mortality data from Eurostat's demographic database with data on self-perceived activity limitations from the EU-SILC survey. A healthy condition is defined by the absence of longstanding severe or moderate limitations in usual activities because of a health problem. Longstanding refers to a period of more than six months (source: Eurostat, tespm120 and tespm130).

Life expectancy at age 65 is the average number of additional years of life that a survivor to age 65 will live beyond the age of 65, on the basis of current mortality (source: Eurostat, demo_mlexpec).

Share of population 65+ receiving LTC cash/in-kind benefits. The respective proportions of those in the dependent population who receive LTC cash or in-kind benefits is derived by

[657] Disposable household income includes: all income from work (employee wages and self-employment earnings); private income from investment and property; transfers between households; and all social transfers received in cash, including old-age pensions.

[658] https://ec.europa.eu/eurostat/cache/metadata/en/hlth_silc_01_esms.htm

dividing the numbers of recipients for each care setting reported by the Member States by the overall dependent population derived from EU-SILC data. It is assumed that the difference between the total number of dependent people and the total number of people receiving formal care, either in-kind (at home or in institutions) or as cash benefits, is the number of people who rely exclusively on informal care. The proportion of the dependent population who receive informal care can therefore be calculated as a residual by subtracting from the total the proportions of those who receive other types of care (source: *2024 Ageing Report: Underlying Assumptions and Projection Methodologies*, Institutional Paper 257, November 2023, pp. 103-105).

(e) Financial sustainability and context indicators

Employment rate of older people (55-64). This is calculated by dividing the number of people aged 55-64 in employment by the total population of the same age group (source: Eurostat, EU LFS [lfsa_ergan]).

Pension expenditure as percentage of GDP. The pensions aggregate comprises part of periodic cash benefits under the old-age and survivor functions (source: Eurostat, ESSPROS [spr_exp_sum]).

Retirement duration from first pension. This is computed as life expectancy at the average age at which people start receiving an old-age pension. The latter is collected directly from Member States via a questionnaire as part of the preparation of the Ageing Report[659].

Retirement duration from end employment. This is computed as life expectancy at the average age of leaving the labour market (‘exit age’) for people who were at work at age 50. This exit age is also calculated as part of the Ageing Report assumptions[660].

Projections

Old-age dependency ratio (20-64). This shows the population aged 65+ relative to the population aged 20-64 (source: Eurostat, population projections [demo_pjangroup]).

Economic old-age dependency ratio (15-64). This is the ratio between the inactive older people (65+) and total employment (15-64)[661].

Gross public pensions as % of GDP. These are base case projections from the Ageing Report[662] (public pensions).

Benefit ratio (%). This is the average pension benefit relative to the economy-wide average wage. The average pension is calculated as public pension spending divided by the number of

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659 2024 Ageing Report. Underlying Assumptions and Projection Methodologies – European Commission (europa.eu).
660 2024 Ageing Report. Underlying Assumptions and Projection Methodologies – European Commission (europa.eu).
661 2024 Ageing Report. Economic and Budgetary Projections for the EU Member States (2022-2070) - European Commission (europa.eu)
662 2024 Ageing Report. Economic and Budgetary Projections for the EU Member States (2022-2070) - European Commission (europa.eu)

pensioners, whereas the average wage is computed as the sum of gross wages and salaries divided by the number of employees[663].

Coverage ratio (65+). This is the number of pensioners (who may be of any age) as a percentage of the population aged 65+, where a person may be a recipient of several types of pensions (source: Ageing Report[664]).

Pension ratio high/low-earner. This is the ratio between the first-year gross pension of a high-earning worker (ending the career at 200% of the average wage) and a low-earning worker (stable career at 66% of the average wage); both are after a standard 40-year career as in the theoretical replacement rate base case (source: TRR calculations; see Volume I, Chapter 3).

List of definitions

Defined-benefit (DB) schemes – pension schemes where the benefits accrued are linked to earnings and the employment career (the future pension benefit is pre-defined and promised to the member). It is normally the state (in public DB schemes) or scheme sponsor (in occupational DB schemes) that bears the investment risk and often also the longevity risk.

Defined-contribution (DC) schemes – pension schemes where the level of contributions, and not the final benefit, is pre-defined: no final pension promise is made. DC schemes can be public, occupational or personal: contributions can be made by the individual, the employer and/or the state, depending on scheme rules. The pension level will depend on the performance of the chosen investment strategy and the level of contributions. The individual member therefore bears the investment risk. PAYG-financed DC schemes are known as notional defined-contribution (NDC) schemes.

Funded scheme – a pension scheme whose benefit promises are backed by a fund of assets set aside and invested for the purpose of meeting the scheme's liability for benefit payments as they arise. Funded schemes can be either statutory, occupational or personal.

Pensionable age – legislated age at which a member of the pension scheme is eligible to receive full pension benefits, subject to meeting qualifying conditions.

Occupational pension schemes – a pension plan where access is linked to an employment or professional relationship between the plan member and the entity that sets up the plan (the plan sponsor). Occupational pension schemes may be established by employers or groups of employers (e.g. industry associations) or labour or professional associations, jointly or separately, or by self-employed people.

Pay-as-you-go (PAYG) schemes – pension schemes where current contributions finance current pension expenditure.

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663 2024 Ageing Report. Economic and Budgetary Projections for the EU Member States (2022-2070) - European Commission (europa.eu)

664 2024 Ageing Report. Economic and Budgetary Projections for the EU Member States (2022-2070) - European Commission (europa.eu)

Pension pillar – different types of pension schemes are usually grouped into two, three, four or more pillars of the pension system. There is however no universally agreed classification. The Pension Adequacy Report distinguishes between statutory, statutory funded, occupational and personal pensions.

Personal pension schemes – supplementary pension schemes, access to which does not depend on an employment relationship. The schemes are set up and administered directly by a pension fund or a financial institution acting as pension-provider without the involvement of employers. Individuals independently purchase and select material aspects of the arrangements. The employer may nonetheless make contributions to personal pension schemes. Some schemes may have restricted membership.

Statutory pension scheme – social security and similar programmes administered by the general government (that is central, state, and local governments, plus other public sector bodies such as social security institutions), access to which is based on legislation. Public pension plans can be financed from social security contributions or general taxation and have traditionally been of the PAYG type, but can also be funded (see also: Statutory funded pension schemes).

Statutory funded pension schemes – funded pension schemes, access to which is based on legislation. In statutory funded schemes, part of participants' social security contributions are converted into funded assets, typically administered by authorised private managers. Participation in these schemes can be mandatory or voluntary.

Supplementary pension schemes – occupational and personal pension schemes, generally providing additional retirement income to the statutory pension schemes.

Abbreviations

All indicators marked with an asterisk (*) are defined and explained in the indicators' glossary above.

AROP*	at risk of poverty
AROPE*	at risk of poverty or social exclusion
ARR*	aggregate replacement ratio
AWG	Ageing Working Group (of the EPC)
CEE	Central Eastern European countries
CSR	Country Specific Recommendation
DB	defined benefits
DC	defined contributions
EC	European Commission
EPC	Economic Policy Committee
EPSR	European Pillar of Social Rights

ESPAN	European Social Policy Analytical Network
ESSPROS	European system of integrated social protection statistics
EU	European Union
EUR	euro
EUROMOD	tax-benefit micro-simulation model for the European Union
EU-SILC	European Union statistics on income and living conditions
GDP	gross domestic product
HLE*	health life expectancy
ILO	International Labour Organization
LE*	life expectancy
LTC	long-term care
MISSOC	mutual information system on social protection
MSD*	material and social deprivation
NDC	notional defined contributions
OECD	Organisation for Economic Co-operation and Development
pp	percentage point(s)
PAR	Pension Adequacy Report
PAYG	pay-as-you-go
PIT	personal income tax
SMSD*	severe material and social deprivation
SPA	standard pensionable age
SPC	Social Protection Committee
TRR*	theoretical replacement rate

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