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From: The Social Protection Committee
To: Permanent Representatives Committee/Council

Subject: Key conclusions on 2024 Pension Adequacy Report of the Social
Protection Committee and the European Commission
- Endorsement

Delegations will find attached the key conclusions of the 2024 Pension Adequacy Report as finalised by the Social Protection Committee on 16 May 2024, with a view to their endorsement by the EPSCO Council on 20 June 2024.

The full Report can be found in doc. 10251/24 ADD 1.

The Country profiles are to be found in doc. 10251/24 ADD 2.

THE 2024 PENSION ADEQUACY REPORT

KEY CONCLUSIONS

The 2024 Pension Adequacy Report prepared jointly by the Social Protection Committee (SPC) and the European Commission supports national efforts to ensure adequate old-age income, in line with Principle 15 of the European Pillar of Social Rights. The report analyses the extent to which pension systems ensure adequate income in retirement – that is, **prevent old-age poverty** and **maintain the income of men and women for the duration of their retirement**, both currently and in the future. The three years preceding the current edition were marked by extraordinary challenges facing European societies and economies: the COVID-19 pandemic, followed by a period of high inflation, and spiking energy costs triggered by Russia's war of aggression against Ukraine. In the meantime, structural challenges linked to megatrends such as the demographic change and the changing world of work remain as pressing as ever. In this context, the report highlights the following key conclusions.

– The current picture of pension adequacy remains mixed –

1. **The risk of poverty and social exclusion for older people has continued growing since 2019, driven by the rising relative income poverty, despite decreasing material and social deprivation.** In 2022, more than one in five people aged 65 and above were at risk of poverty or social exclusion in the EU. This represents 18.5 million people, a number growing due to both the rising poverty rate and the ageing of population. While there remain significant differences between countries, older women face higher poverty risks than men in all countries. **People in advanced old age, in particular women, are generally at a higher risk of poverty.** In 2022 almost one in four women aged 75 and above in the EU were at risk of poverty or social exclusion.

2. **The income of older people in the EU remains below 90 % of working-age income on average**, with significant differences between women and men and between countries. Pension benefits amount, on average, to around three fifths of late-career work income. Income inequality among older people has receded since 2019, possibly reflecting the widespread measures to protect lower-income pensioners during the recent crises.
3. **The increase in life expectancy has been slowing down in the EU over the last decade.** This longer-term trend was exacerbated by excess mortality during the COVID-19 pandemic, as the number of older people declined between 2020 and 2022 and life expectancy at age 65 fell. The share of healthy years in the remaining life expectancy in old age has, however, remained stable in overall terms across the EU since the beginning of the century.
4. **On average, a European can expect to spend 21 years of their lives in retirement and receiving a pension.** This is slightly less than in 2019 due to the COVID-19 pandemic. The average period of receiving a pension ranges from 15 to 25 years, reflecting the national differences in pension age and in life expectancy. The relation between the duration of working life (41 years on average) and retirement is very diverse across the EU-27 and Norway.
5. **The need for health care and long-term care tends to increase with age and is associated with a higher risk of poverty. Covering care needs in old age remains a critical social challenge.** The total long-term care costs without public social protection can be very high compared to the pension income of older people, in particular for those with more severe needs. Women live longer in ill health than men and are more often in need of care, while having lower incomes. Social protection systems support the living standards of older people in Europe through different policy combinations of, in particular, pensions and long-term care provisions. Systems with low adequacy of pensions and low coverage of long-term care needs face particular challenges in upholding decent standards of living for older people in need of care.

*– Member States are taking further steps to safeguard adequacy,
but future adequacy remains under pressure –*

6. **During 2020-2023 the crisis context temporarily shifted the pension reform dynamics, as all Members States implemented exceptional and temporary measures. At the same time the overall trend towards permanently enhancing adequacy mechanisms continued.**

During this time, the main reform trends included: enhancing access and accruing entitlements; promoting longer working lives and later retirement through positive incentives and greater flexibility in retirement pathways; and strengthening anti-poverty safety nets through reforms of basic and minimum benefits. Some Member States also implemented reforms enhancing the role of funded pension schemes and fostering individual entitlements.

7. **Pension replacement rates for a given career are projected to decrease over the next four decades, reaffirming the results of previous analysis.** Even accounting for projected career length gains and legislated increases in the pensionable age, replacement rates are set to fall for both women and men in most countries, even if the projected size of the fall varies greatly. This is consistent with simulations showing that per capita pension income is projected to decline. The age of retirement remains a key factor explaining current and future pension benefits. While retiring two years before pensionable age mostly results in temporary or mild pension reductions, working beyond pensionable age generally brings substantial replacement rate gains.

– pension systems protect those in need, but gaps remain –

8. **Pension systems and taxation affect the level and (re-)distribution of retirement incomes and the future development of adequacy.** Pension income remains more equally distributed than income from work. Low earners have higher pension replacement rates in all countries, while having a short career reduces the replacement rate less than proportionally, though this may not always be enough to lift people out of poverty. Income inequality in old age is projected to remain stable in the decades to come.
9. **Career breaks are not all equally protected by pension systems.** In most countries, childcare breaks are relatively well protected, whereas the pension reduction for unemployment is slightly higher. The extent to which disability periods are credited varies across countries. Most countries would compensate for providing care to dependant family members and grant a pension which is only slightly lower than that for an uninterrupted career.

– Persistent inequalities raise challenges for pension policies –

10. **The majority of older people are women, making gender gaps in old age a particular social challenge.** Being single in old age further increases the poverty risk for women compared with men. Although the difference between the average pensions of men and women continues to narrow, the remaining gender gaps in old-age poverty, pension amount and pension coverage testify to persistent inequalities. The gender pension gap (26 % at EU level in 2022) has its roots in accumulated differences along the professional career: lower pay for women, shorter and/or interrupted careers, including due to care obligations; and more part-time work. Lower financial literacy can hamper women's retirement planning, calling for financial education and pension transparency measures.

11. **Addressing inequality in life expectancy is a challenge for pension policies.** Higher-educated people can expect to live longer in retirement, partially due to lifestyle factors, and this gap is particularly pronounced among men. People with high educational attainment both enter and leave the labour market substantially later than those with lower education. These differences in life expectancy and in labour market entry and exit ages can have a regressive distributional impact. As many countries are raising pensionable ages in response to increasing longevity, pension systems may need to adjust retirement pathways for different career profiles to prevent building of inequality.
12. **The way in which inequality in labour earnings translates into pension inequality depends to a large extent on the progressivity of the pension system.** In the EU-27 and Norway, pension systems on average offset one quarter of the earnings inequality cumulated over working lives. The progressivity of the pension system depends on such features as flat-rate and means-tested benefits, ceilings on contributory pensions, and reduced entitlements at high earnings.
13. **Pensions for the self-employed are projected to be on average a third lower than those of full-time employees with a similar career, due to differences in rules and in average earnings.** Flat-rate or lower contribution rates, a low contribution base or simplified pension or tax regimes often result in low projected pensions for the self-employed. Workers in non-standard forms of employment may in some countries struggle to access pensions due to minimum earnings or working time requirements or limited options to accumulate entitlements.

14. **European pension systems and anti-crisis measures cushioned the impact of the COVID-19 crisis on current and future pensions.** Pensions in payment were not reduced in nominal terms. The impact of the crisis on future pensions was limited, thanks to: the expanded use of job retention schemes, in which pension entitlements generally accrued; subsidised pension contributions; the extension of unemployment and sick leave protection; and specific measures benefiting the self-employed. However, funded pension schemes were subject to strong volatility during this period.
15. **While the inflation wave observed in 2022-23 reduced the real value of pensions in most Member States, the purchasing power of pensioners was still well protected compared with that of the working-age population.** Measures to support pensioners included regular indexation and extraordinary benefit increases, pension supplements and other cash benefits. As low-income pensioners are more vulnerable to high inflation, many countries prioritised their protection through minimum benefits or targeted support measures.
16. **Pension indexation is a key policy lever to protect pensioners against income erosion.** However, pension indexation in the long run does not fully keep up with increases in earnings from work in most countries. Whereas wage indexation is usually more beneficial to pensioners than price indexation, this situation was reversed during the recent period of high inflation. Frequency of indexation is also key to safeguarding adequacy during robust price growth.

In the light of these observations, the SPC and the Commission consider that efforts to implement the European Pillar of Social Rights need to continue. Inclusive and robust labour markets are key to maintaining adequate pensions in an ageing society. The EU should continue to support national policies to ensure adequate pensions through a broad policy mix, including by tackling gender inequalities during working life, mitigating the impact of care tasks, and ensuring social protection in respect of care needs. Sustained efforts to implement the [Council Recommendation on access to social protection](#) and the [Council Recommendation on affordable high-quality long-term care](#), including supporting and monitoring action within the SPC framework, are an important contribution to maintaining high living standards for older Europeans. As called for in the [Demography Toolbox](#), EU and national policies should help ensure that people in Europe can fulfil their aspirations, including by empowering older generations and sustaining their welfare.

The adequacy and sustainability of social protection in old age require continuous monitoring and analysis, including close coordination between the analysis of sustainability of ageing-related expenditure and the adequacy of pensions and long-term care. In this light, a joint reflection on the 2024 Pension Adequacy and Ageing Reports will be organised. The SPC and the Commission will again report on pension adequacy and on long-term care in 2027. In doing so, they will strive to develop coherent analysis of pension adequacy and long-term care, through a joint report if feasible, as well as to further strengthen synergies with the Ageing Report.