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PRESS RELEASE

Pension system reforms in the EU15 countries

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All European countries are confronted with the challenges of an ageing population. Indeed, the old-age dependency ratio in the EU15 is expected to almost double by 2060. This trend calls into question pension systems based on a very different previous demographic situation. For that reason, almost all European countries, but not every one of them, have already carried out reforms – and quite major reforms in some cases – or are planning them in the short to medium term.

In dealing with the pensions problem, there are two major and indissociable aspects of population ageing that policy-makers must take into account. The first concerns the rising fiscal burden that will weigh on public finances, otherwise known as the "fiscal sustainability" aspect. The second is the "social sustainability" aspect, in the sense that pensions have a role to play as a safety net. On the one hand, they have to limit the specific risk of poverty affecting the elderly, while on the other hand, and more generally speaking, social sustainability aims to maintain living standards after retirement.

Among the reforms carried out in the EU15, some countries have made structural changes, involving either a partial capitalisation of the amounts that will be needed for paying out future pensions, or a switchover to a system of defined contributions rather than defined benefits. Moreover, the parameters used for calculating pension rights have generally been modified, either specifically or in the framework of a pension scheme change. These parameter changes have in fact been observed in all countries, with only very few states having taken no reform measures at all. However, since the reforms are staggered over sometimes very long periods of time, it is quite common that some of their consequences may not yet have fed through.

This study shows that most countries have tried to raise effective retirement ages. This has been done either in a coercive manner, by raising the statutory retirement age and by reducing opportunities for early retirement, or by using incentives, notably by setting up premium schemes for delayed retirement and penalties for early retirement, by increasing the length of service necessary for claiming a full career or by taking account of the increase in life expectancy when calculating annuity distributing accrued capital. The effect of these reform measures has been a rise in effective retirement ages in the majority of EU15 countries.

Another main line of reform that has been widely followed has involved a reduction in (future) pensioners' rights. To this end, some countries have made various changes to the parameters used for calculating these pension rights - such as a cut in the reference wage by applying a less favourable period, capping the wage taken into consideration, less generous pay rises or limits on indexation of existing pensions. However, reform measures of this kind have mainly been introduced in countries that had particularly generous replacement ratios to start with, and governments have usually made sure that the most needy would not be further undermined.

All EU15 countries have a specific and usually more generous pension scheme for (statutory) workers in the public sector. Apart from measures that are sometimes taken to limit this category of workers, such as a reduction in public employment, using subcontracting or hiring contractors rather than statutory workers, some countries have reformed pension systems for this group, too. These reforms have often taken the form of an alignment on private-sector workers' pension schemes, by limiting specific features, harmonising them further or even by abolishing this specific system.

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Following these reform measures (and assuming that they will be kept on), several countries seem to have managed to contain the growth of their expenditure on pensions. By the year 2060, Italy, Sweden and Denmark, for example, are likely to still have a pension cost figure broadly similar to what it was in 2007. Other countries like Luxembourg or Greece, on the other hand, have every reason to be worried about an explosion of these costs. A middle-range group of states, which includes Belgium, seems to have already gone ahead with reform measures to contain the rise in pension costs, but they are not sufficient to avoid a major increase in these costs.

Lastly, following the reforms, replacement ratios in the different EU15 Member States have converged or will do. So, the countries where these rates were lowest, such as the United Kingdom or Belgium, or even Germany for low-income earners, have higher post-reform replacement ratios than they had before. Conversely, the countries that had high replacement ratios have conducted sometimes substantial reforms which have brought these ratios down, while frequently ensuring the social sustainability of the new system.

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