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Study 1

EPSR 2030 Scenario – what would it mean for pensions if the Action Plan's 78% employment target was achieved

SUMMARY

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Building on the assumption of the implementation of the Action Plan's employment targets, the study shows the importance of an integrated approach to labour market and pension policy. Above all, it displays the enormous potential offered by better employment integration of people in the age group 20 to 64, as envisaged in the Action Plan, for coping with demographic change. Between 2019 and 2030, the number of people aged 65 and over is expected to increase by 18 million amid an 11.5 million decline in the working age population (2021 Ageing Report). In view of such figures, there are often calls to further raise the statutory retirement age in order to ensure the sustainability of public finances.

The Action Plan points out a different way: better use of the existing employment potential among people of working age. The study demonstrates that the feared drastic deterioration in the ratio between benefit recipients and contributors, or the economic dependency ratio, is by no means compelling. The deterioration of this relationship could be counteracted in a more meaningful way, both socially and economically, by implementing the Action Plan's objective of creating 'more and better' jobs for people of working age.

The Action Plan's employment targets

1. In spring 2021, the Action Plan was solemny adopted. As one of its key objectives it states the aim of achieving a 78% employment rate in the 20 to 64 age group to be reached by 2030, combined with the sub-goal of halving the gender employment gap.

   The creation of quality jobs is another integral part of the Action Plan's employment goals. Although, regrettably, the plan does not set a precise target for this, its wording is clear: "... more forward-looking support to quality job creation and employment is necessary in order to build a sustainable path towards the 2030 employment target of 78%." (p 16)

Close link between the labour market and pensions

2. All European pension schemes are closely intertwined with the labour market, both in terms of calculating benefit levels and in terms of financing. In view of this, the achievement of the Action Plan's ambitious employment targets would - in addition to pension policy, productivity growth, fair distribution, etc. – have tremendous (positive!) impact on the pension systems, and on the achievement of EPSR pension objectives.

3. In the context of demographic change, the question arises as to whether the improvement of the labour market integration among those of working age, as envisaged in the Action Plan, could serve as a strategy to prepare for population ageing. Could it serve as a countermeasure against the predicted sharp deterioration in the relationship between benefit recipients and contributors? Would the implementation of the Action Plan's employment targets provide a (better) alternative, from both a social and economic point of view, to the further increase in the statutory retirement age demanded by many? The key argument in favour of this demand

is the, otherwise, supposedly inevitable massive increase in dependency ratios in the future due to population ageing.

It should be noted that there have already been massive deteriorations in this relationship in the past and that they have been managed relatively easily, especially with increasing labour productivity and the opening of labour markets to women as well. Removing existing barriers to employment for people of working age, fair distribution of paid (and unpaid) work, and a further increase in labour productivity are also key to tackling further demographic change.

EPSR 2030 Scenario

Main assumptions / Comparison with the 2021 Ageing Report's projections for the year 2030

4. The study examines the effects of turning the Action Plan's employment targets into reality ("EPSR 2030 Scenario") mainly from a quantitative perspective by, first, comparing it with the EU Commission's 2021 Ageing Report's labour market assumptions and its assumption on the development of the number of pensions for persons under the age 65.

5. As its key component, the study, then, compares the EPSR 2030 Scenario's development of the 'economic dependency ratio' (as defined in the EU Commission's 2012 White Paper on Pensions: pensioners + unemployed / people in employment) with the usual representations of the future development of dependency ratios. On the one hand, it is shown that the achievement of the employment targets would have enormously positive effects and, on the other hand, how much this result is obscured by most 'dependency ratio' indicators in use.

6. The starting point for the calculations is the year 2019, which is the base year for the 2021 Ageing Report. As a first step towards achieving the Action Plan's 78% employment rate target, it is assumed that the gender employment gap will be halved by a corresponding increase in female employment. The remaining need for employment increases is mainly taken from increasing employment at the older working age (55-64) and decreasing unemployment. Better working conditions, especially in occupations with currently poor values, would help to attract more people into employment. In parallel with the increase in employment in the older working age, a corresponding decrease in early retirement is assumed.

   In contrast to the significant changes in the 20-64 age group, for those aged 65 and over, the 'EPSR 2030 Scenario' does not provide for any change compared to the Ageing Report's assumptions which implies that no further change in the statutory retirement ages is assumed.

7. In order to take into account, at least in part, the Action Plan's emphasis on job quality, the 'EPSR 2030 Scenario' assumes that the proportion of those in only marginal part-time employment, i.e. working less than 15 hours per week, can be reduced by about half (by sex

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and age groups between 20 and 64) by 2030. Since marginal part-time employment usually provides no or only a very low entitlement to social security benefits and no substantial financial contribution is made, this type of employment is excluded from the calculation of the 'economic dependency ratio'. It should be noted that marginal part-time employment can take diverse forms, such as 'on-call' work with only short real working hours in the Netherlands and in Denmark or so-called 'geringfügige Beschäftigung' in Germany and Austria. To give an example of the prevalence of this form of employment in some EU countries: in 2020, about 10% of the Danish workforce were marginal part-time workers.

EPSR 2030 Scenario: key calculations results - 1

→ 7 million additional employees in age group 20 to 64 instead of a 6 million decline

8. ‚EU 2030 Scenario' versus 2021 Ageing Report
Population / employment rate / people in employment (including / excluding marginal part-time) / unemployed people / pensioners (EU 27)

		2019	2030 Ageing Report	2030 EPSR 2030 Scenario	2030/2019 Ageing Report	2030/2019 'EPSR 2030 Scenario'
Age group 20-64	People aged 20-64	265.0 m	253.5 m		-11.5 m	
	Employment rate	73.1%	74%	78%	+ 0.9 p.p.	+ 4.9 p.p.
	Employed	193.7 m	187.6 m	197.8 m	- 6.1 m	+ 4.1 m
	of which: not less than 15 hours/week	187.0 m	181.0 m*	194.2 m	- 5.9 m	+ 7.2 m
	share of marginal part-time employment	*3.5 %*	*3.5 %**	*1.9 %*	no change	*- 1.6 p.p.*
	Unemployed (extended)**	21.7 m	22.4 m***	15.8 m	+ 0.7 m	- 5.9 m
	Pensioners (incl. disability)****	25.6 m	22.6 m	18.9 m	- 3.0 m	- 6.7 m
	People aged 65+	91.3 m	109.4 m		+ 18.1 m	
Age group 65+	Employed	4.6 m	8.0 m	8.0 m	+ 3.4 m	
	Pensioners***	90.9 m	106.6 m	106.6 m	+ 15.7 m	

* Constant proportion assumed (the Ageing Report does not include specifications referring to marginal part-time employment)
** Including jobless persons 'available for work but not actively seeking' and those 'seeking a job but not immediately available for work' (see Eurostat, Labour Market Slack)
***Constant proportion assumed
****The values given in the table differ from the Ageing Report's number of pensioners since there are some inconsistencies in the numbers in the Ageing Report (regarding France and Austria)

The 2021 Ageing Report, with its pessimistic assessment of labour market developments, assumes a decline in the number of persons employed between the ages of 20 and 64, to the extent of - 6.1 m between 2019 and 2030. On the other hand, the implementation of the EPSR 2030 Scenario's 78% employment rate target would lead to a substantial increase. In 2030, if the Action Plan's employment targets are met and if halving the proportion of those only

marginally employed is achieved, the number of people in employment with no fewer than 15 working hours per week within this age group would be 7.2 m higher than in 2019. At the same time, the number of people in unemployment or retirement below the age of 65 would significantly decrease.

EPSR 2030 Scenario: key calculation results - 2

➔ 3% decrease in the economic dependency ratio despite 25% increase in the old-age to working-age ratio

9. ‘EU 2030 scenario’ versus 2021 Ageing Report
Old-age to working-age ratio / Dependency ratios (EU 27)

	Definition	2019	2030 Ageing Report	2030 ‘EPSR 2030 Scenario’	2030/2019 Ageing Report	2030/2019 ‘EPSR 2030 Scenario’
Old-age to working-age ratio	*People aged 65+ per 100 people aged 20-64*	34.4	43.1		+ 25.3 %	
‘Economic old-age dependency ratio (20-64)	Inactive aged 65+ per 100 employed aged 20-64	44.8	54.0	51.2	+ 20.7 %	+ 14.5 %
Economic dependency ratio	Pensioners + unemployed per 100 people employed (not less than 15 hours per week)	72.7	81.2	70.8	+ 11.6 %	- 2.7 %

Against the background of massive population ageing and the EPSR 2030 Scenario’s assumption of no further increase in the statutory retirement age, the scenario’s impact on the evolution of the ‘economic dependency ratio’ is likely to come as a surprise to many. While the ‘old-age to working-age ratio’, which is usually the focus of attention, is expected to increase by 25% between 2019 and 2030 and the Ageing Report’s ‘economic old-age dependency ratio’ by more than 20%, implementing the ‘EPSR 2030 Scenario’ would allow the ‘economic dependency ratio’, as defined in the Commission’s White Paper on Pensions, to be reduced by almost 3 % over the same period.

Note on the ‘old-age to working-age ratio’

10. What the OECD correctly calls 'old-age to working-age ratio' since its 2019 ‘Pensions at a Glance’ edition is referred to in the Commission’s Ageing Report as 'old-age dependency ratio', a terminology susceptible to serious misinterpretation such as in the Commission’s Report on the Impact of Ageing, published in 2020. The number of people of working age there is erroneously equated with the number of people in employment and the number of older people

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with the number of benefit recipients, a common mistake with enormous socio-political relevance as shown by an often-quoted statement in the Commission's 2021 Green Paper on Ageing: "… the EU old-age dependency ratio in 2040 would only remain at the same level as in 2020 if working life were extended to the age of 70". Based on the misconception that only the number of people of a given age group counts, but not their economic status, the drastic increase in the statutory retirement age ('extension of working life to the age of 70') is presented as the lever for stabilising the 'dependency ratio'.

Note on the Ageing Report's 'economic old-age dependency ratio'

11. Almost as problematic as the misinterpretation of purely demographic relations is the widespread use of inappropriate definitions of the 'economic dependency ratio' as in the so-called 'economic old-age dependency ratio', referred to in the Ageing Report. "An important indicator to assess the impact of ageing on budgetary expenditure, particularly on its pension component, is the 'economic [old-age] dependency ratio'. This indicator expresses the inactive elderly population (+65) as a share of total employment (aged 20-64 or 20-74)." However, what is referred to as the 'economic [old-age] dependency ratio' is in fact only a mixture of demographic and economic considerations. Not counting benefit recipients below the age limit of 65 automatically means that the future development of their number is essentially determined solely by the (sharply increasing) number of older people. Thus, a large part of the positive effects of improved labour market integration among those of working age is ignored from the outset, that is the reduction in the number of benefit recipients (unemployed, early retirees) made possible by this. The values in the table above show this very clearly: The positive effects of the increase in employment that are reflected in the 2.7% decline of the 'economic dependency ratio' are largely masked in the so-called 'economic old-age dependency ratio'. If reference is made to this unfortunate indicator, there is an increase by 14.5% even in the EPSR 2030 Scenario.

EPSR 2030 Scenario: Economic impact

➔ **Boost for GDP and public revenues, decreasing expenditure on unemployment and early retirement**

12. The implementation of the EPSR 2030 Scenario would have a significant positive impact on public finances in several ways. The significant increase in the volume of employment would lead to significantly higher GDP growth and thus to greater scope for distribution. Even if productivity assumptions remain the same as in the Ageing Report 2021, additional real growth of around 7% would be expected in the EU 27. If it is taken into account that better job quality would in all likelihood also generate an additional increase in productivity, the positive growth effect would be even higher. Positive effects of a similar magnitude could also be expected on

public revenues. In addition, there is lower expenditure due to the reduced need for transfers in the areas of benefits for the unemployed and for retirees aged below 65.

EPSR 2030 Scenario: Impact at national level

➔ **Significant slowdown or even decline in the predicted increase in economic dependency ratios**

13. Additional calculations carried out for Germany, Italy and Croatia also show the very positive effects of the implementation of the Action Plan's employment targets, respectively, the derived national targets. Unsurprisingly, the effects are strongest in countries with very poor baselines for employment rates, unemployment rates, gender employment gaps, etc. In Italy, the implementation of the employment targets would even lead to 19% decrease of the economic dependency ratio between 2019 and 2030. In Croatia, this rate would fall by almost 9%. However, there is also considerable room for improvement in countries with significantly better baselines, especially by exploiting hidden potentials such as better labour market integration of those who have so far only been marginally employed. In Germany, the expected increase in the economic dependency ratio between 2019 and 2030 could be reduced from almost 22% to only 7% if the national employment target would be achieved and the share of only marginally employed persons significantly reduced.

EPSR 2030 Scenario: Long term effects

➔ **Massive support for achieving both EPSR pension goals and pension sustainability**

14. Achieving the Action Plan's 2030 employment targets would also have huge positive impact in the long term both on pension adequacy and on the sustainability of pension systems. If the EPSR 2030 Scenario is realised, it is likely that even the only 8% increase in the 'economic dependency ratio' between 2019 and 2070, which was calculated in the long-term oriented predecessor study's High Employment Scenario (see: ETUC/SociAll 2021, The impact of labour markets on Economic Dependency Ratios and on Pension Adequacy and Sustainability) could be significantly undercut.

On a personal level, improved labour market integration would have the most positive effects for today's younger people. The shockingly high 11.7% NEETs rate in the age group 15 to 29, ranging from 4.2% in the Netherlands to 18.5% in Romania, raises fears that many of those affected will at best be poorly integrated into working life even at an older age and will not have pensions that enable 'life in dignity' at old age.

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Anyway, improving the integration of groups into the labour market that have so far been poorly integrated or not integrated at all would contribute to a substantial improvement in their pension entitlements and thus to the achievement of the EPSR pension targets.

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