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Study 2

More inclusive labour markets for more adequate pensions– a key tool for achieving EPSR pension targets

SUMMARY

Georg Adam (FORBA), Magnus Brosig (Arbeitnehmerkammer Bremen)

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The first section of the study identifies and analyses the current shortcomings in terms of job quality and working conditions (items 1 to 4). Moreover, it identifies policy measures needed for improving the labour market integration in good quality jobs (items 5 to 8) and assesses the potential of existing EU instruments for achieving this objective (items 9 to 13). The second section is dedicated to pension systems and their interplay with (often poor) labour market integration (items 14 to 21) before outlining the potential of more inclusive labour markets for the achievement of the EPSR's old-age protection goals (items 22 to 27).

1. The EPSR Action Plan is ambitious – but lacks clarity in terms of job quality

In its Action Plan aiming at implementing the 20 principles of the EPSR, the European Commission does not only define a 78% employment rate target in the age group 20 to 64 years to be reached by 2030, but also links this target with the necessity of 'more forward-looking support to quality job creation and employment' (p.9). Although the Action Plan as such does not deal with preconditions and definitions of good job quality, there is plenty of official and academic literature indicating current shortcomings in terms of all aspects of working life and showing ways for improving job quality and working conditions.

2. Academic attempts to capture the 'quality of work'

The High-level Group on the Future of Social Protection and of the Welfare State in the EU (European Commission 2023) gives an indication of which dimensions are comprised by the term 'quality of work'. Accordingly, job quality includes 'decent and secure income, autonomy, physical and mental health, opportunities for career development and work-life balance' (p.3). In this context, also the opportunity of all people to improve their skills (lifelong learning) and the necessity of protecting income and jobs through job retention schemes and short-time working schemes in the case of crises are mentioned. In recent years, there have been serious attempts to develop a job quality index as a multidimensional measure of the quality of jobs, such as the European Job Quality Index developed by ETUI that assesses jobs in six dimensions (including wages; forms of employment/job security; working time/work-life balance; working conditions; skills and career development; and collective interest representation). Unfortunately, the most recent update of this index stems from 2015.

3. Employment growth during recent years, but youth unemployment and low wages persist

Employment as a percentage of the total population in the EU 27 in the age group 20 to 64 years grew from 66.8% in 2013 to 74.6% in 2022. However, there are enormous differences, not only from country to country but also between different groups of people. For example, the employment among people with an educational attainment according to ISCED (2011) 0-2 (low skilled) amounted to only 57.2% in 2022, whereas the corresponding percentage among high-skilled people (according to ISCED 5-8) was 86.0% (Eurostat). Youth unemployment is still a major issue in most Member States, in particular in southern and eastern European countries.

Many young people start in temporary jobs (among the age group of 15 to 24 years 47% of the employees had a contract of limited duration in the EU 27 in 2022), that are often low paid and insecure. About 12% of the EU 27 population aged 15 to 29 are neither employed nor in education and training (NEETS). Moreover, in 2018, about 15% of workers in the EU earned low wages, with notable differences between countries. Low paid jobs are mostly occupied by young, low-skilled people who are often third country nationals. The in-work at-risk-of-poverty rate for the age group 18 to 64 years amounted to 8.5% in the EU 27 in 2022 (Eurostat).

4. Spread of (new) atypical forms of work points to enhanced need of labour market integration

Standard employment contracts have been increasingly replaced or complemented by various evolving forms of work – a process accelerated by the digitalisation of the economy. Depending on national legislation, these new forms of work often carry the risk of inadequate social protection and labour rights. These new forms of work often overlap and comprise telework, working from home, part-time work, self-employment, platform work, working in the gig economy etc. Around 68% of the 27 million self-employed people in the EU are ‘solo’ self-employed (without employees), with a tendency to further rise. Many of them are supposed to be forced to work as self-employed by their main (quasi) employer, in line with the latter’s aim to circumvent social insurance contributions and labour rights. Especially new forms of internet-based work and platform work are frequently associated with (involuntary) self-employment. In several EU countries, a significant proportion of employees work only marginally part-time, which should be reported separately in employment statistics. Overall, given the current fragmentation of the EU labour market, there appears to be huge potential for improving labour market integration, both in quantitative and in qualitative terms.

5. Labour market integration requires effective worker protection systems

Sustainable labour market integration especially of vulnerable groups of the population, such as migrants, low-skilled persons, disabled persons, older workers etc., can only be successful if effective worker protection (safety and health protection at work) is provided for all of them. This also includes social security in terms of insurance coverage of the risks of illness, injuries, unemployment, and old age. In addition, child and elderly care facilities, special programmes for NEETs, the promotion of age-appropriate workplaces with the aim at retaining the older workforce in employment etc. should be established.

6. Active labour market policies are necessary – but cannot rectify bad working conditions

Active labour market policies must be generally enhanced and (further) training courses adjusted to the new requirements of the labour markets, especially against the background of the socio-ecological transformation of societies and the technological transformation of the economies (climate change and green transition). However, rising labour shortages reflect shifts in the structure of the economy and cyclical developments in the wake of the Covid-19



pandemic rather than the pure need for skills. Essentially, labour shortages tend to increase most in sectors and jobs with low wages and bad working conditions. As the Covid-19 pandemic showed, job retention schemes may be inevitable in extraordinary times of crises as a core means of preventing huge numbers of employees losing their jobs. Moreover, both the legitimacy and the effectiveness of measures to mitigate the negative employment effects of such crises tend to increase with greater social partner involvement.

7. Significance of social dialogue

Overall, well established and smoothly working social dialogue at micro, meso and macro level essentially facilitates to establish and implement initiatives and measures to improve the labour market integration in good quality jobs. This is most strongly manifested by the significance of collective agreements and jointly agreed minimum wages for guaranteeing decent wages, a fair distribution of productivity gains and preventing in-work poverty. Therefore, social dialogue and collective bargaining should be extended to areas of employment currently not yet covered, such as economically dependent 'solo' self-employed people and platform workers.

8. New metrics to capture the quality of work

The changing world of working life requires metrics that do not only capture the quantitative aspects of jobs and employment, but also the core aspects of working conditions and working environments. Tellingly, not any of the four headline indicators assigned to the goal of 'fair working conditions' included in the 'Revised Social Scoreboard' of the EPSR Action Plan is related to 'working conditions' in the true sense of the term. It is of key importance that the existing job quality indicators are given more attention. Furthermore, the establishment of additional meaningful indicators should be examined, developed and surveyed regularly, whereby recourse can be made – inter alia – to the ETUI Job Quality Index, the EWCS and various LFS ad hoc modules.

9. EU instruments to promote labour market integration: uncertain impacts

The EU has in recent years introduced various instruments to promote active labour market integration and decent work. Nevertheless, it has often remained unclear whether these instruments are adequate means to achieve the labour market goals stipulated in the EPSR Action Plan and especially the adequacy and effectiveness of social protection and namely pension rights.

10. Adequate minimum wages Directive and initiative for 'solo' self-employed

The 2022 Directive on adequate minimum wages in the EU has the primary goal of establishing a framework to improve the adequacy of statutory minimum wages and of enhancing effective access of workers to minimum wage protection, including through collective bargaining. The Directive explicitly promotes collective bargaining, recognising that encompassing collective bargaining systems are decisive in ensuring adequate minimum wage protection. Most experts

agree that this move is likely to bring some dynamics into the national industrial relations systems and the minimum wage setting mechanisms. The Guidelines on collective agreements by 'solo' self-employed people adopted by the European Commission in September 2022 clarify that 'solo' self-employed people that are in a situation comparable to workers can jointly negotiate pay and good working terms without infringing competition law. This means that about 25 million people in the EU are now entitled to collectively bargain their pay and working conditions. Some organisations of interest representation in the audio-visual sector have already announced to start negotiations.

11. Youth Guarantee programme and Disability Employment Package

The Youth Guarantee programme reinforced in October 2020 is a commitment by the EU 27 to ensure that all young people under the age of 30 receive a good quality offer of employment, continued education, apprenticeship, or traineeship within a period of four months of becoming unemployed or leaving education. Most of the public employment services participate in this programme. Whereas the 'old' scheme proved successful until the outbreak of the pandemic in 2020, for the reinforced scheme adjusted to the labour market context of the pandemic the evidence is vague. In 2021, the European Commission adopted the Disability Employment Package with the aim to support Member States in integrating persons with disabilities in the labour market. No evaluation of this programme seems to have taken place thus far, although that would be very important.

12. EU funds: revision of the rules necessary

With a view to the EU's large cohesion policy programmes and funds (ESF+, RRF, ERDF, JTF), the Commission has been urging the Member States to utilise the provided funds in line with the principles of the EPSR. An ETUC position paper adopted in December 2022 suggests that the existing rules governing the use of EU funds should be comprehensively revised, such that their use fully corresponds to the principles of the EPSR, the Sustainable Development Goals (SDGs) and the fundamental rights of workers.

13. Preliminary summary

Summarising, against the background of the EPSR's and the Action Plan's goal to improve employment integration and job quality, it becomes evident that more efforts are needed at both national and EU level. In this context, it is also very important to note that labour market policies must be coherent and accompanied by contiguous policy areas (social policy, economic and financial policy, industrial relations etc.) and must not be thwarted by neoliberal policy frameworks (austerity) as happened in the post-financial crisis era 2009ff.

14. Pension systems reflect presence – and absence

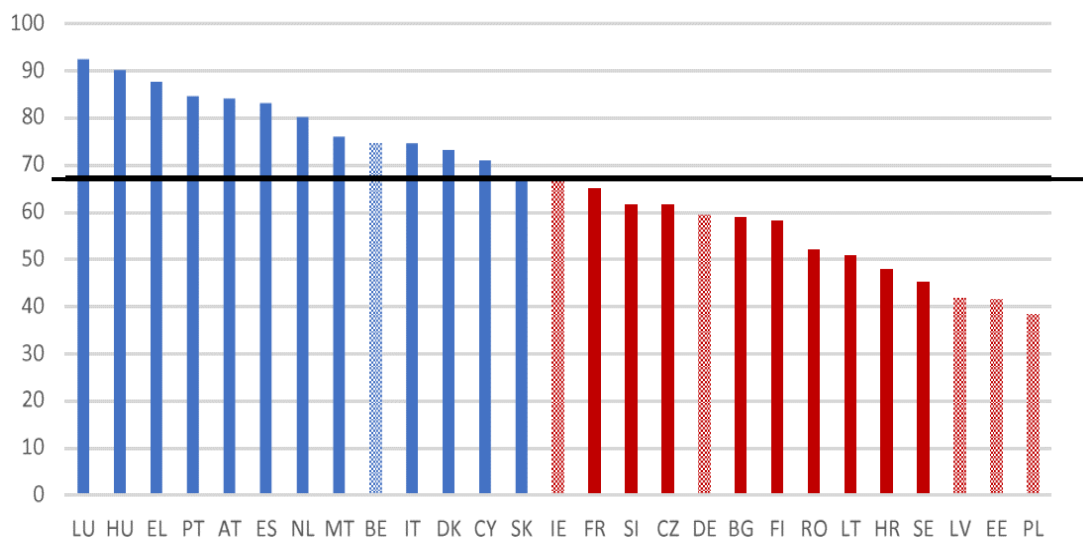


EPSR principle #15 stipulates that retirees should receive adequate incomes commensurate to their contributions and ensuring a life in dignity, reflecting pension systems' traditional tasks of income maintenance and poverty avoidance. Since they, by and large, mirror previous working lives and – compensatory measures notwithstanding – assume ‘impeccable’ careers, deviations such as part-time work, low wages, unemployment and unpaid care work will usually lead to lower or even insufficient pension entitlements. The same is true for non-insured employment in case of a system not including all modes of work and/or professions.

15. Pensions depend on working lives – but also on capable systems

Pensions are a product of individual achievements/properties and systemic capabilities. Even if comprehensive, well-paid careers have been achieved, this may thus not necessarily result in adequate old-age incomes if systemic theoretical replacement rates (TRRs) are too low. Setting the respective threshold at 2/3 net (nota bene: different taxation systems thus also play a role!) wage replacement after 40 years of employment, it becomes apparent that not even half of European pension systems may be classified as being structurally status-maintaining for workers with average earnings. Only four extend status-maintenance to ‘high-income’ earners as well.

Figure 1: TRR (net) achieved by workers (average wage) reaching respective standard pensionable ages after 40 years in 2059¹



16. Systematic capabilities: Don't be misled

It is important to note that TRRs such as those calculated for the Pension Adequacy Report only should be used with caution to assess and compare systemic strength across countries and should be updated on a regular basis. results may sometimes be exaggerated. For

¹ Source: Pension Adequacy Report 2021. Countries with TRRs exceeding 2/3 are highlighted in blue while those that don't are highlighted in red. Bars marking countries with possibly "inflated" TRRs due to non-universal systems (see #16) are dotted. TRRs are calculated for male workers; values for female workers are usually identical, only deviating slightly in a few EU member states.

example, this is the case where calculations take into account systems that may well be geared towards most or all workers but in fact do not cover many or even a majority of them (as is the case with so-called ‘Riester’ private pension plans in Germany, for instance). While other publications only consider systems objectively covering at least 85% of the working population, calculations for the Pension Adequacy Report so far rely on system designation provided by member states which is thus prone to merely assumed universality and skewed results.

17. High and rising pension ages: Good for the system, not for the people

When interpreting TRR results, it is also crucial to take into account widely differing standard pensionable ages (SPA) and their huge impacts. For one, assuming that workers will work for 40 years and invariably reach the SPA despite it being high (and often rising) is bold, considering many workers are not of good health and quite often (especially men) do not even live until the age of 65, let alone 70. Consequently, such TRRs tend to be higher than what is justified in countries that have legislated marked SPA increases, but where many or most workers will not reach those thresholds smoothly, instead accumulating less pension credits and having to sustain permanent deductions for having to claim their pensions ‘early’. What is more, such countries, by making their systems more ‘fiscally sustainable’, have also made them less effective by essentially decreasing total pension amounts paid from retirement until death. The problem of setting ever higher (and for many workers even unattainable) retirement age limits is obfuscated or even inverted by TRR data focused on monthly pensions payments.

18. Large differences in old-age income

Available statistics do show enormous differences between EU member states. For instance, aggregate replacement rates (ARRs) for current pensioner cohorts range from about 35% in some countries to around 80% in others. Also, at-risk-of-poverty rates (AROP) of pensioners are significantly higher than those for the entire population in some countries (predominantly central and eastern European nations) and significantly lower in others (predominantly in southern Europe). Severe material deprivation is a particularly widespread issue in various states in south-eastern Europe. These differences point to very different economic trajectories within and across countries and varying capabilities of pension schemes to transform former labour market integration (possibly compensating for deficits) into current income during retirement.

19. Career lengths differ, decades of work pay off

As cross-sectional data on labour market participation indicate, there have been and probably will be large differences between states in terms of career length. Looking back, longitudinal (though not administrative) information for pensioners born between 1919 and 1948 points to a wide range of actual participation with central and northern European states tending to rank substantially higher in terms of years spent in regular, full-time employment. Albeit



moderated by schemes' redistributive features, further analyses of these careers and resulting pensions show that standard participation has so far generally paid off and, respectively, welfare states have tended to 'punish' for non-standard employment.

20. Differences persist – large room for improvement

Looking ahead, patterns of participation seem to perpetuate: while particularly in northern Europe, average workers can expect to work (or at least to be registered as unemployed with a chance to receive benefits and pension credits in some systems) for more than 40 years, their colleagues in many countries of southern and south-eastern Europe are projected to reach barely 30 years. Consequently, actual pension rights accrued and paid there will, as of now, remain a great deal lower than TRR base calculations suggests, indicating the potential of and the need for more inclusive labour markets. Obviously, deviations tend to be caused rather by external factors than by real individual choice, one of them (among many others) being stressful or outright harmful working conditions. Governments and employers should be constantly reminded that alongside providing strong pension systems, adequate education and training, comprehensive caring systems et cetera, they also need to make sure that workers are not subjected to conditions that eventually force them to reduce hours or even quit working entirely far ahead of the standard pensionable age. After all, incapacity often (in well-developed welfare states, at least) leads to premature yet substantial benefit receipt and certainly reduces or entirely ends the payment of contributions, thus exacerbating the financial state of pension and related systems as well.

21. Statistics: Need for enhancement

While there is quite a range of international, comparable data on old-age income, it tends to be cross-sectional and relational, usually not allowing for analyses of actual careers and the resulting pensions. Views into current issues and inferences about the effects of specific labour market integration are thus structurally limited. Therefore, datasets should be complemented by longitudinal statistics, preferably based on administrative data. They should also include more information on nominal pension amounts paid out by public, occupational and private schemes, respectively, and the wages previously achieved by their respective recipients.

22. Creating opportunities for good careers that pay off

In line with the EPSR Action Plan, governments and companies need to ensure – among others – high-grade education and training, adequate wage structures (underpinned by collective agreements), good working conditions, elimination of precarious forms of work and provision of widely accessible infrastructure for child and long-term care, thus enabling (potential) workers to accrue pension credits they can 'cash in' at retirement.

23. Not working? Pension systems continue to ‘punish’

TRRs calculated for the Pension Adequacy Report 2021 clearly show the consequences of not being able to achieve ‘full careers’: in many countries, even the rather slight ‘deviation’ of spending three of presumed (base case) 40 working years in unemployment will lead to the ARR being reduced to about 90 to 95% of the TRR. In one particular case, the TRR would even be slashed to a mere 11.9%, meaning the pension would only amount to about 20% of the counterfactual one without unemployment. Unsurprisingly, ‘short careers’ defined as just 20 years spent in insured work have far more drastic consequences for those affected, with most pension systems reducing the TRR by more than 20 percentage points and others by even 50 or more. Resulting pensions would be very low, in many cases leading to poverty during retirement.

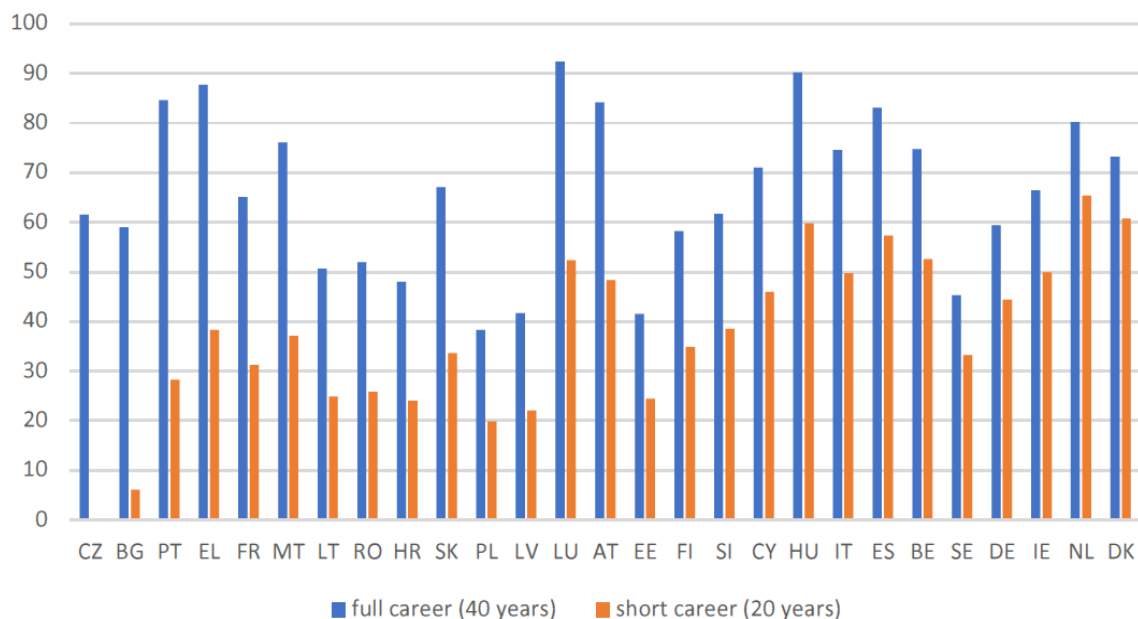
24. The flip side: Full careers would boost pension rights

Albeit daunting, large losses illustrated by TRR calculations also point to often huge potential of improving labour market integration: in about a third of EU member states – mostly to be found in southern and eastern Europe –, pensions after 40 instead of just 20 years of work would at least double (sometimes due to the fact that qualifying thresholds are quite high and not properly reached by ‘part-career’ workers). While many of those countries currently do rank high on poverty and deprivation scales, they often offer rather good TRRs for full careers and thus by all means possess the ‘systemic base’ needed for adequate pensions. To a lesser extent, this also holds true for closing smaller gaps of 3 years of unemployment.

Figure 2: TRR (net for average wages) after 40 / 20 years in 2059 (ranked by leverage)²

² Source: Pension Adequacy Report 2021. TRRs are calculated for male workers (cf. fn. 1).





25. TRR models tell a lot, but more realistic scenarios should be added

To better ascertain pension effects of improved integration, we advise to suggest that even more helpful true-to-life TRR calculations be carried out for the next edition of the Pension Adequacy Report. For example, the base case should reflect the fact that most workers tend to start with rather low wages only to improve their position during the following decades, with pensions often being comparatively low compared to the last wage. At least for countries where the SPA will be very high, TRRs should also reflect the high likelihood of labour market exit happening significantly earlier and with permanent deductions. Expected benefits from statutory, company or private systems should always be shown separately (with the respective coverage rates also noted). In the case of capital-based systems, cautious assumptions should be made about the underlying real return rate. Additionally, the compounding effects of annual return rates being 1 or 2 percentage points lower should be elaborated on.

26. Improving individual rights – reducing poverty and enhancing sustainability

Member states and employers should be encouraged to further improve employment opportunities and conditions as envisaged by the EPSR Action Plan, thereby not only helping individuals with reaching adequate pensions, but also making systems more sustainable and preventing/reducing skilled labour shortages. In countries where even less than 70% of the population aged 20 to 64 is in employment, poverty rates among pensioners – usually having incomplete careers as well – are currently quite high (in south-eastern Europe) or significantly reduced by generous pension systems (in southern Europe). Improving employment rates especially in those member states would thus likely either reduce old-age poverty or relieve pension systems from the costly burden of ‘smoothing out’ labour market problems.

27. Mind the system – ‘more and better jobs’ can help a lot, but will not solve problems on their own

It is crucial to keep in mind that even though ‘more and better jobs’ can very well improve pension entitlements, adequate pensions also depend on a strong and reliable system covering all kinds of gainful occupation and on financial participation of employers and state. As shown, many countries have weak systems not suited to transform even good careers into good pensions. In such cases, the EPSR pension objectives will only be achieved if, in addition to improving labour market integration, pension systems are (re)reformed and improved. In addition, all pension systems will continue to require compensation mechanisms (most effective and useful in public ones) for periods of low or no pay to make sure inevitable situations of life interfering with paid work do not lead to drastic disadvantages.



