

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

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This report aims to relate the full achievement of the European Pillar of Social Rights (EPSR) principles on old age rights with the employment target of the EPSR Action Plan, by arguing that “more and better jobs” throughout the EU would immediately translate not only into more adequate pension benefits but also into more financially sustainable pension systems in the Member States.

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## 1 INTRODUCTION

According to principle 15 of the European Pillar of Social Rights (EPSR) Action Plan, retirees “have the right to a pension commensurate to their contributions and ensuring an adequate income.” Moreover, this principle stipulates that pension benefits should “ensure living in dignity, ” implying that the achieved standard of living during working life is largely maintained during retirement. In its EPSR Action Plan, the European Institutions also define a target of 78% employment rate in the age group 20 to 64 years to be reached by 2030 and link it with the necessity of “more forward-looking support to quality job creation and employment.”<sup>1</sup>

This report aims to relate the full achievement of the EPSR principles on old age rights with the employment target of the Action Plan by arguing that “more and better jobs” throughout the EU would immediately translate not only into more adequate pension benefits but also into more financially sustainable pension systems in the Member States.

The first section of this report identifies and briefly analyses the most crucial current shortcomings in terms of employment volume and job quality in the EU, which contribute to the insufficient capacity for old-age benefits of so many European pension systems. This section also identifies policy measures needed for improving the labour market integration in good quality jobs. It briefly assesses existing EU instruments' potential for achieving more inclusive labour markets.

The report's focus is adjusted to the pension systems and their interplay with, often poor, labour market integration (this will be in the second section of this report). In this context, the potential of more inclusive labour markets for achieving the EPSR old-age protection goals is outlined. While there usually is large room for improving pension entitlements by ensuring more complete careers, higher wages, and better coverage, one needs to keep in mind that pension systems often require fundamental change as well: In many countries, replacement rates are very insufficient and compensatory measures patchy, thus not providing workers with an ample base to build adequate entitlements on. Now and in the future, successful labour market integration and strong pension systems need to go hand in hand to ensure sufficient benefits substantially above mere poverty avoidance.

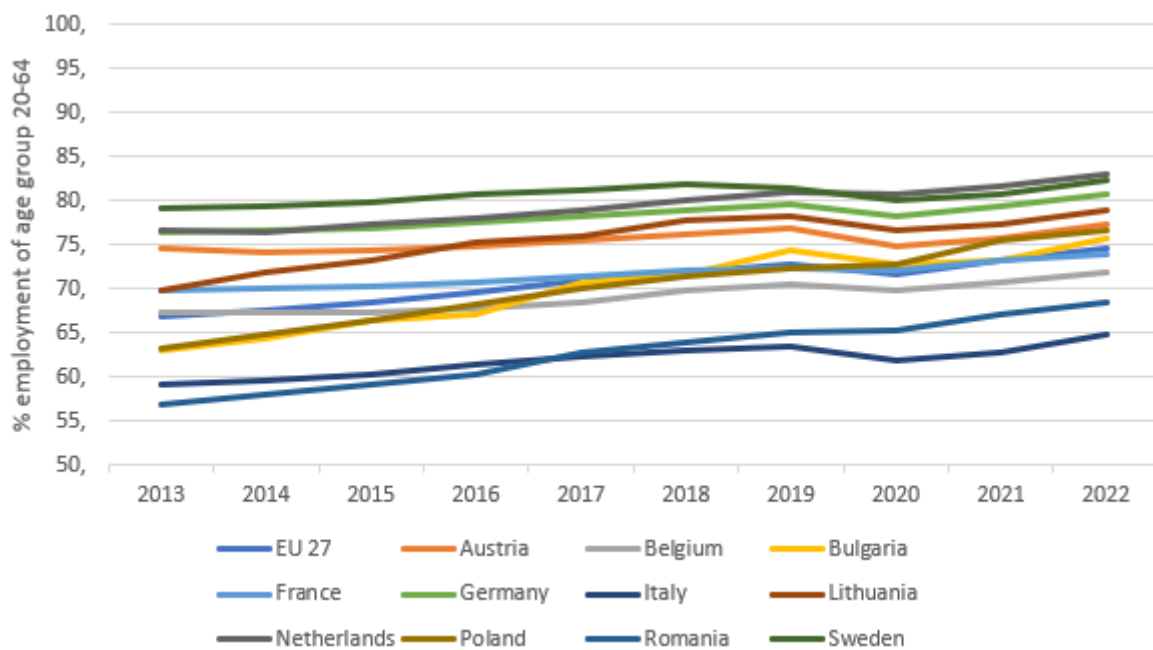
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<sup>1</sup> See COM(2021) 102 final: The European Pillar of Social Rights Action Plan: 9.

## 2 ONGOING EMPLOYMENT GROWTH, BUT YOUTH UNEMPLOYMENT, LOW WAGES AND THE SPREAD OF ATYPICAL FORMS OF WORK PERSIST

Employment as a percentage of the total population in the EU27 in the age group 20-64 grew from 66.8% in 2013 to 74.6% in 2022.<sup>2</sup> However, there are still enormous differences, not only from country to country (see fig. 1) but also between different groups. For example, the employment rate among people with an educational attainment 0-2 (low skilled)<sup>3</sup> amounted to only 45.8%<sup>4</sup> in 2022, whereas the corresponding percentage among high-skilled people was 86.0%<sup>5</sup> for the age group 15-64 (data for the age group 20-64 are not available).

Figure 1: Employment as a percentage of the total population in age group 20-64



Source: ESTAT [LFSI\_EMP\_A\$DEFAULTVIEW]

Youth unemployment is still a major issue in most Member States, especially the southern and eastern European countries. Many young people start in temporary jobs (in 2022, 47% of the employees in the age group 15-24 had a contract of limited duration in the EU27<sup>6</sup>), often low paid and insecure. These insecure jobs frequently do not initiate a transitional entry phase into the labour market but lead to a “mobility trap”.<sup>7</sup> About 12% of the EU27 population aged 15-29 are neither employed nor in education and training (NEET).<sup>8</sup> Moreover, in 2018<sup>9</sup>, about 15% of workers in the EU earned two-thirds or less of their national median gross hourly earnings,

<sup>2</sup> This is generally in line with the EU's Lisbon Strategy (2000-2010) and Europe 2020 Strategy, which set out the target of increasing the EU population's employment rate.

<sup>3</sup> According to ISCED (2011).

<sup>4</sup> See ESTAT [LFSI\_EDUC\_A\_\_custom\_6692873].

<sup>5</sup> According to ISCED 5-8; see ESTAT [LFSI\_EDUC\_A\_\_custom\_6692945].

<sup>6</sup> See ESTAT [TPS00073].

<sup>7</sup> See European Commission (2023): The future of social protection and of the welfare state in the EU: 17.

<sup>8</sup> See [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Statistics\\_on\\_young\\_people\\_neither\\_in\\_employment\\_nor\\_in\\_education\\_or\\_training](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Statistics_on_young_people_neither_in_employment_nor_in_education_or_training).

<sup>9</sup> Unfortunately, no more recent Eurostat data could be found.

with notable differences between countries.<sup>10</sup> Low-paid jobs are mostly occupied by young, low-skilled people, often third country nationals. The in-work at-risk-of-poverty rate for all age groups and the age group 15-29 years in the EU27 amounted to 21.6% and 24.5%, respectively in 2022.<sup>11</sup> Low-income earners often lack social protection, since income levels are frequently used to determine whether an activity is considered as “work” thus carrying social protection. For instance, marginal part-time workers and other non-standard workers are not covered by statutory pension schemes in Austria, Czechia, Lithuania, Luxembourg and Poland. In contrast, certain income thresholds must be exceeded in Austria, Ireland and the UK to be covered by the statutory survivors’ pension schemes. Moreover, low-income earners and some categories of non-standard workers (implying low and/or irregular income) are exempted from statutory unemployment schemes in Austria, Czechia, Germany, Latvia, Lithuania, Romania and Slovakia.<sup>12</sup> Even if a worker is covered by social protection, low income and thus low contribution rates result in low social benefits.

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. Non-standard forms of work often overlap and comprise telework, working from home, part-time work, “solo” and “bogus” self-employment, platform work, gig economy, job sharing, casual work, voucher-based work, and collaborative employment.<sup>13</sup> According to UNI-Europa estimates, there are around 24 million “solo” self-employed (without employees) people in the EU27<sup>14</sup>, with a tendency to further rise. Many of them are 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. Overall, self-employed persons and non-standard workers are often confronted with obstacles in accessing social protection and insurance systems, at least concerning specific social protection branches such as unemployment schemes, sickness benefits, health care, and old age benefits. In this respect, a differentiation between mandatory and voluntary social protection systems is to be made. The mandatory approach covers all workers qualifying for social protection access and is based on the solidarity principle, which tends to increase trust in the welfare state. On the other hand, the voluntary approach bears the risk that especially the most vulnerable groups of non-standard workers and self-employed tend to opt out. However, their participation is vital for the financial sustainability of the scheme.<sup>15</sup>

In several EU countries, many employees work only marginally part-time (often not subject to social insurance contributions), which should be reported separately in employment statistics.

<sup>10</sup> See <https://ec.europa.eu/eurostat/web/products-eurostat-news/-/ddn-20201214-1>.

<sup>11</sup> See ESTAT [ILC\_PEPS01N\_\_custom\_7868261] and [ILC\_PEPS01N\_\_custom\_7868277].

<sup>12</sup> See ICF (2019): Mutual Learning Workshop on Access to Social Protection. “Extending formal coverage. Mandatory versus voluntary approach”. Outcome Report: 27ff

<sup>13</sup> See Eurofound (2015): New forms of employment.

<sup>14</sup> See <https://www.uni-europa.org/news/eu-paves-the-way-for-collective-bargaining-for-solo-self-employed/>. However, the October 2023 Council Conclusions on social protection for the self-employed count only 18.9 million “solo” self-employed in 2022 (see <https://data.consilium.europa.eu/doc/document/ST-13934-2023-INIT/en/pdf>).

<sup>15</sup> See ICF (2019): Mutual Learning Workshop on Access to Social Protection. “Extending formal coverage. Mandatory versus voluntary approach”. Outcome Report: 4.

Given the current fragmentation of the EU labour market, there appears to be huge potential for improving labour market integration, both in quantitative and qualitative terms.

### 3 ATTEMPTS TO CAPTURE THE TERM “QUALITY OF WORK”

The EPSR Action Plan does not deal with preconditions and definitions of good job quality or quality of work. Nevertheless, there is plenty of literature on this issue. Recently, the High-level Group on the Future of Social Protection and of the Welfare State in the EU has indicated which dimensions may comprise 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”.<sup>16</sup> In this context, 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).<sup>17</sup> The ETUC has developed a Sustainable Growth and Decent Work Index (EUSDG8 index), including three dimensions/three main sub-domains: economic well-being; labour vulnerability; and employment quality. The three composite indicators have been developed to monitor the level of achievement of the three dimensions for the EU countries and to study the relationship between these dimensions. The latter dimension, that is employment quality, includes indicators such as: employment rate; collective bargaining coverage; annual growth rate of output per worker; labour income share as a percentage of GDP; gender employment gap; long-term unemployment rate; labour market slack; and employment rates of recent graduates.<sup>18</sup>

<sup>16</sup> See European Commission (2023): The future of social protection and of the welfare state in the EU: 3.

<sup>17</sup> See Piasna, Agnieszka (2017): „Bad jobs“ recovery? European Job Quality Index 2005-2015. ETUI Working Paper 2017.06; and Piasna, Agnieszka (2023): Job quality in turbulent times. An update of the European Job Quality Index. ETUI Working Paper 2023.05.

<sup>18</sup> See [https://est.etuc.org/?page\\_id=858](https://est.etuc.org/?page_id=858).



## 4 POLICY MEASURES NEEDED FOR IMPROVING THE LABOUR MARKET INTEGRATION IN GOOD QUALITY JOBS

Sustainable labour market integration, especially of vulnerable groups of the population, such as (female) migrants, (female) 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 regarding 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 to retain the older workforce in employment, etc. should be established.

In line with the Council Recommendation on access to social protection for workers and self-employed<sup>19</sup>, it is important to introduce as many workers and self-employed into mandatory (and – depending on circumstances – supplementary voluntary) social protection schemes as much as possible<sup>20</sup>. In several countries, particular groups of non-standard workers and self-employed are not covered by corresponding social protection schemes when it comes to old age and survivors' pensions. These schemes should be amended such that, for instance, casual workers in Malta and Lithuania, seasonal workers in Lithuania and Romania, apprentices in Belgium, Croatia and Malta, and trainees in France, Greece, Hungary, Italy, Lithuania, Malta and Portugal, who are not covered now, will be included in the respective national old-age insurance systems.<sup>21</sup>

Apart from improvements of the social protection systems, 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 (demographic and climate change and green transition).<sup>22</sup> However, rising labour shortages reflect shifts in the economy's structure and cyclical developments in the wake of the Covid-19 pandemic rather than the pure need for skills. Labour shortages tend to increase most in sectors and jobs with low wages and bad working conditions.<sup>23</sup> As the Covid-19 pandemic showed, job retention schemes may be inevitable in extraordinary crises as a core means of preventing huge numbers of employees from losing their jobs. Moreover, the legitimacy and the effectiveness of measures to mitigate the negative employment effects of such crises tend to increase with the extent of social partners' involvement.<sup>24</sup>

<sup>19</sup> See [https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.C\\_.2019.387.01.0001.01.ENG&toc=OJ:C:2019:387:TOC](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.C_.2019.387.01.0001.01.ENG&toc=OJ:C:2019:387:TOC).

<sup>20</sup> See 2023 EPSO Council Conclusions: <https://www.consilium.europa.eu/en/press/press-releases/2023/10/09/social-protection-for-the-self-employed-council-calls-for-action-to-address-remaining-gaps/>.

<sup>21</sup> See Schoukens, Paul (2019): Mutual Learning on Access to social protection for workers and the self-employed. 1<sup>st</sup> Workshop: Extending formal coverage. Thematic Discussion Paper: 22.

<sup>22</sup> See European Commission (2023): The future of social protection and of the welfare state in the EU: 1f.

<sup>23</sup> See Zwysen, Wouter (2023): Labour shortages – turning away from bad jobs. ETUI Policy Brief 2023.03; Eurofound (2023): EU lack of labour won't be solved by skills alone: Improving job quality is key, see: <https://www.eurofound.europa.eu/en/blog/2023/eu-lack-labour-wont-be-solved-skills-alone-improving-job-quality-key>.

<sup>24</sup> See Adam, Georg, Allinger, Bernadette (2021): From the COVID-19 emergency measures to defend employment and health and safety in the workplaces, to a new strengthened system of industrial relations, FORBA research project commissioned by the European Economic and Social Committee Workers' Group.

Overall, well established, and smoothly working social dialogue at micro, meso and macro level essentially facilitates establishing and implementing initiatives and measures to improve the labour market integration in good quality jobs. The significance of collective agreements most strongly manifests this and jointly agreed minimum wages, a fair distribution of productivity gains and preventing in-work poverty, which immediately translates into higher social insurance contributions.<sup>25</sup> Therefore, social dialogue and collective bargaining should be extended to areas of employment currently not covered, such as economically dependent “solo” self-employed people and platform workers.

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<sup>25</sup> OECD (2019): Negotiating Our Way Up: Collective Bargaining in a Changing World of Work. OECD Publishing. Paris.

## 5 POTENTIAL OF EXISTING EU INSTRUMENTS TO PROMOTE LABOUR MARKET INTEGRATION

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

For example, the 2022 Directive on adequate minimum wages in the EU<sup>26</sup> 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, by recognising that encompassing collective bargaining systems are decisive in ensuring adequate minimum wage protection. Most experts agree that this move will likely bring some dynamics into the national industrial relations systems and the minimum wage setting mechanisms.<sup>27</sup> Another prominent example are the Guidelines on collective agreements by “solo” self-employed people<sup>28</sup> adopted by the European Commission in September 2022. These Guidelines clarify that “solo” self-employed people 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, which may also impact their social insurance contributions and future pension claims. A study on the impact assessment of this EU initiative estimates that working conditions could improve for around 6.8 million self-employed platform workers in the EU27, and that pay rates for “solo” self-employed could be raised by 15% through collective bargaining.<sup>29</sup> Some organisations in the audio-visual sector have already announced they will start negotiations.

The Youth Guarantee programme reinforced in October 2020 is a commitment by the EU27 to ensure that all young people under the age of 30 receive a good quality offer of employment, continued education, apprenticeship, or traineeship within 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, the evidence for the reinforced scheme adjusted to the labour market context of the pandemic is vague. In 2021, the European Commission adopted the Disability Employment Package intending 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.

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,

<sup>26</sup> See <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32022L2041#PP2Contents>.

<sup>27</sup> See for instance Müller, Thorsten, Schulten, Thorsten (2022): Die europäische Mindestlohn-Richtlinie – Paradigmenwechsel hin zu einem Sozialen Europa. *Wirtschaft und Gesellschaft* 2022(3): 335-364.

<sup>28</sup> See <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52022XC0930%2802%29>.

<sup>29</sup> See European Commission (2021): Study to support the impact assessment of a possible EU initiative to the application of competition rules to collective bargaining by self-employed (COMP/2020/008). Final Report.

economic and financial policy, industrial relations etc.) and must not be thwarted by neoliberal policy frameworks (austerity) as it happened in the 2009 post-financial crisis.

## 6 PENSION SYSTEMS DIFFER – BUT IN THE END, PENSIONS ARE LINKED TO CAREERS

In principle #15, the European Pillar of Social Rights stipulates that retirees should receive *adequate* incomes proportional to their contributions and ensuring a life in dignity. This reflects that at least in developed countries such as EU member states, welfare systems must be and often are ambitious enough to substantially go beyond poverty prevention in old age. They also need to ensure that workers can uphold their achieved standard of living during retirement. To this end, states can employ different pension schemes, with the two most common systems being the “social insurance type” and the “state plus funded, mostly occupational pension type”.<sup>30</sup> In the former, public social insurance pay-as-you-go (PAYG) schemes largely based on contributions have a leading role and focus on paying out pensions that very much reflect career lengths and wages. This is the case in Austria, France and Italy, for example. To top up individual pensions, (mostly funded) occupational and private schemes may be used. Still, with very few exceptions (think of Germany’s “Riester” plans), these are not part of public pension strategies and consequently do not extend to large parts of the working force in social insurance states. To safeguard against poverty despite their focus on individual labour market performance social insurance systems usually – but not always – provide for minimum pensions or are supplemented by specific social assistance schemes. Also, they often include compensatory measures for times of unemployment, low-wage employment, childcare etc. that somehow mitigate equivalence of insured wages and benefits.<sup>31</sup> It is important to note that this sort of redistribution is not only guided at poverty avoidance, but very much at achieving deserved and adequate pensions despite sporadic gaps.

In contrast to this configuration, which is predominant in continental Europe, the second type that is far less common and found in some northern and western European countries is based on strongly redistributive PAYG state schemes, financed through taxes or tax-like contributions. They aim at poverty avoidance for those who resided in these countries for most of their working lives. They are usually substantially topped up by wide-ranging funded schemes mandated by law or covering most workers through strong collective agreements. Consequently, those states, of which the Netherlands and Denmark are prime examples, also tend to pursue both pension goals. It is important to note that while some basic public schemes disregard labour market success for the sake of poverty avoidance, they are just one part of an overall system that is also very much linked to the wage position achieved by individuals.

So, by and large, complete systems – whether consisting of a dominant public scheme “crowding out” almost everything else or of a combination of two or three pillars – mirror previous careers and will calculate overall pension incomes based on wages and insured periods achieved during these careers.<sup>32</sup> It follows that, redistribution notwithstanding, European pension systems of all types assume good or even “impeccable” careers spanning decades and providing adequate wages throughout. If workers deviate from this implicit ideal,

<sup>30</sup> Obviously, this is a very rough classification that cannot and doesn’t fully capture the diversity of pension systems in Europe and that some states (Sweden, for instance) hardly fit into. It is only used to illustrate the point that structures tend to differ more than overall ends and results.

<sup>31</sup> See OECD 2021: Pensions at a Glance 2021: 153ff.

<sup>32</sup> See European Commission 2023: The future of social protection and of the welfare state in the EU: 52.

some systems will save them from poverty at old age, but just as others, they will usually provide them with lower entitlements and resulting pensions, putting status maintenance at risk. This is because of the strong link between insured wages and benefits, and if hours must be reduced (sometimes to zero) or remuneration is lower, this will at least partly – but often fully – be reflected in resulting pension entitlements. The Dutch system is a point in case: Indeed, its flat-rate public pension scheme is well suited for avoiding old-age poverty, but this does not mean that pensioners' incomes are uniform overall. Instead, labour market differences are strongly reflected in overall pension incomes by topping up with non-redistributing occupational pensions designed to provide for status maintenance. Consequently, the large Dutch gender gap in terms of employment doesn't lead to sizeable poverty of female pensioners, but to a large gender pension gap nevertheless.

Even if welfare states are ambitious and capable enough to fully compensate for periods with lower or no income by providing complete credits, those affected by employment gaps still face the danger of being unhitched from others in continuous employment: Although the actual gap in a specific period might have been closed, they will likely continue their careers with comparatively lower wages, whose effects will just as much accumulate over time and potentially dwarf efforts to compensate for deficient entitlement accrual in limited periods. Consequently, pension schemes can only compensate so much, but for adequate pensions, (almost) complete careers with adequate wages are decisive.

Problems are even bigger for those who somehow work “off the record” and are thus not covered by (substantial) pension schemes. In terms of pension accrual, this applies to undeclared work and, far more importantly, to (quite) formal yet non-insured employment.<sup>33</sup> After all, not all EU member states extend social protection to all types of work, often leaving out certain groups of the self-employed – including those that are factually employed by only one “client” they fully depend on (with platform workers being just one group). Therefore, their work will not result in proper pension rights. At the same time, short-term economic incentives are created to resort to supposedly cheaper, but rather precarious modes of employment. They tend to result in higher nation-wide costs when minimum pension benefits must be paid to those who never contributed.

Similarly, so-called marginal employment with limited hours or salaries is often excluded from comprehensive coverage, resulting in even lower pension rights than “justified” by sheer income. More often, supplementary systems vital for full status maintenance are confined to or at least concentrated in certain industries or professions, effectively creating a schism between those pointed to meagre basic benefits and those who are at least offered a chance to accrue a pension fully commensurate to their wages and contributions. A case in point is Ireland where the state pension system is insufficient to achieve status maintenance, but where many workers – especially those with reduced hours and in low-wage sectors – are not covered by voluntary schemes needed for that end.<sup>34</sup> Those who are covered tend to achieve above-average wages and career lengths anyway, meaning that fragmented and voluntary systems further exacerbate existing labour market disparities when it comes to retirement.

<sup>33</sup> See European Commission 2023: The future of social protection and of the welfare state in the EU: 22 and 53.

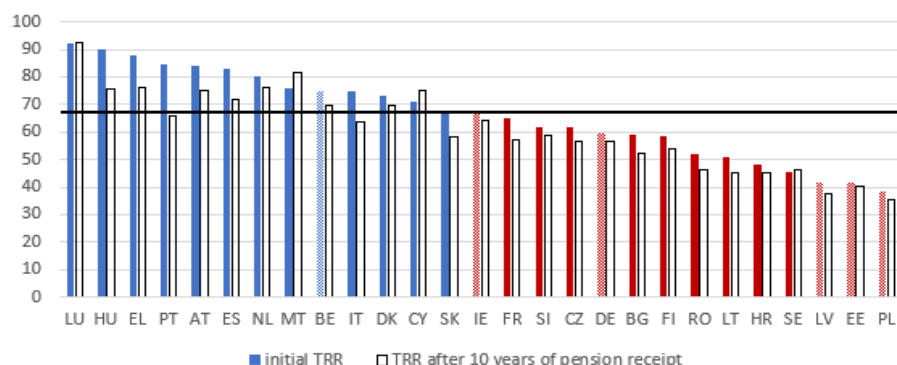
<sup>34</sup> See EC and SPC 2021: Pension Adequacy Report 2021 – Country Profiles: 91.

## 7 STATUS MAINTENANCE FOR EUROPE'S WORKERS? SOME SYSTEMS WILL DELIVER, BUT MANY WON'T

Trivially, pensions (defined as total retirement income flowing from relevant schemes) are not only products of individual achievements and properties, but also of systemic capabilities. While system designs render it pivotal to be in well-paid employment for decades to arrive at a substantial pension, schemes also need to be strong. This strength can be measured by theoretical replacement rates (TRRs) that show how hypothetical pensions resulting from decades<sup>35</sup> of work relate to previous wages. It is safe to state that if the net TRR – where taxation rules for wages and pensions play a significant role as well – of a country's "complete system" is even below 2/3 (net) of former incomes, this welfare state can certainly not (or no longer) be classified as being structurally status-maintaining for the average workers. A level of about 80% (net) should be aspired for actual status maintenance.

During the last decades, being encouraged by a "cost-saving consensus" in inter- and supranational organisations, many member states have reduced generosity – and thus, adequacy in pension benefits. They did so by raising pensionable ages, cutting into redistributive measures and indexation of payments, shifting from defined benefits to defined contribution schemes (offloading economic and demographic risks on individuals) and deliberately lowering replacement rates for the sake of supposed sustainability. In pensions, this term has often been interpreted merely financially with its social aspects largely disregarded. Consequently, chances to "age with dignity"<sup>36</sup> were severely jeopardized. As fig. 2 shows comparing net TRRs realised in 2059 by male workers after 40 years of average pay, not even half of European pension systems (highlighted in blue) could recently be classified as being acceptable for status-maintaining. Running the same calculations for employees who manage to improve their wage position from average to 200% until the end of their working life, it becomes apparent that only very few welfare states – namely Greece, Spain, Luxembourg and Portugal – will be able to extend (limited) status-maintenance to those high-income earners as well.

Figure 2: TRR (net) achieved by workers (average wage) reaching respective standard pensionable ages after 40 years in 2059<sup>37</sup>



<sup>35</sup> Calculations for the Pension Adequacy Report assume 40 years of work to achieve a full career.

<sup>36</sup> See ETUC 2021: Resolution on Implementing the EPSR: Ageing with Dignity.

<sup>37</sup> Source: EC and SPC 2021: Pension Adequacy Report 2021. Re "initial TRR": 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 are dotted. TRRs are calculated for male workers; values for female workers are usually identical, only deviating slightly in a few EU member states.



## 8 TRRS ARE VALUABLE, BUT SHOULD BE USED WITH CAUTION AND NEED FURTHER IMPROVEMENT

Generally, TRRs such as those systematically calculated for the Pension Adequacy Report (PAR) are very helpful for assessing and comparing systematic strength across countries and time. They should be updated regularly to reflect policy reforms as well as changes of economic and demographic conditions that, by system design,<sup>38</sup> have direct consequences on pension levels.

However, present TRRs often need to be taken with a pinch of salt as results may be exaggerated. For example, this is the case where calculations consider systems that may well be geared towards most or all workers but do not cover most of them. A case in point is Germany's private, yet publicly subsidised "Riester" pension plans that were created to comprehensively close gaps created in the public PAYG scheme but are now used by less than a third of all employees and tend to produce meagre results far below initial expectations. While other TRR models will only consider systems that objectively cover at least 85% of the working population, calculations done for the PAR rely on member states' system designation. This process is prone to merely assumed universality and skewed results (see dotted bars in fig. 1). To further improve a comprehensive and generally very helpful report, the PAR TRR methodology should be adjusted to better reflect actual coverage and resulting pensions.

Also, one should be careful not to focus on TRRs or similar measures exclusively at retirement, as this cannot reflect how (or not) income levels and social participation are upheld in the long term. Since European men receive their pensions for about 20 years, on average, and women for even a few more years, it is also crucial that benefits are regularly and properly adjusted to not disconnect pensioners economically from the rest of society. To this end, welfare states may employ widely differing indexation rules, with adjustment by full wage growth – structurally weakened by employing "sustainability factors" et cetera – ensuring that pensioners can permanently keep up with workers' purchasing power. In contrast, price indexation can merely preserve their purchasing power. But as inflation tends to be substantially lower than wage growth in most years, this also allows for starting pension payments with a higher benefit level at the same total cost. This can be helpful especially for low wage earners who also tend to have a lower life expectancy and are thus disadvantaged by systems that start on a moderate level of pension benefits but adjust them according to wage growth. If they do pass away earlier than the average of pensioners, they would have received higher monthly pensions (thereby possibly avoiding poverty) and a higher total pension amount compared to a cost-neutral scheme using indexation by wage growth. Fig. 2 shows that within Europe, there are again enormous differences when comparing initial TRRs to those resulting after 10 years of pension receipt, with a significant drop indicating that the

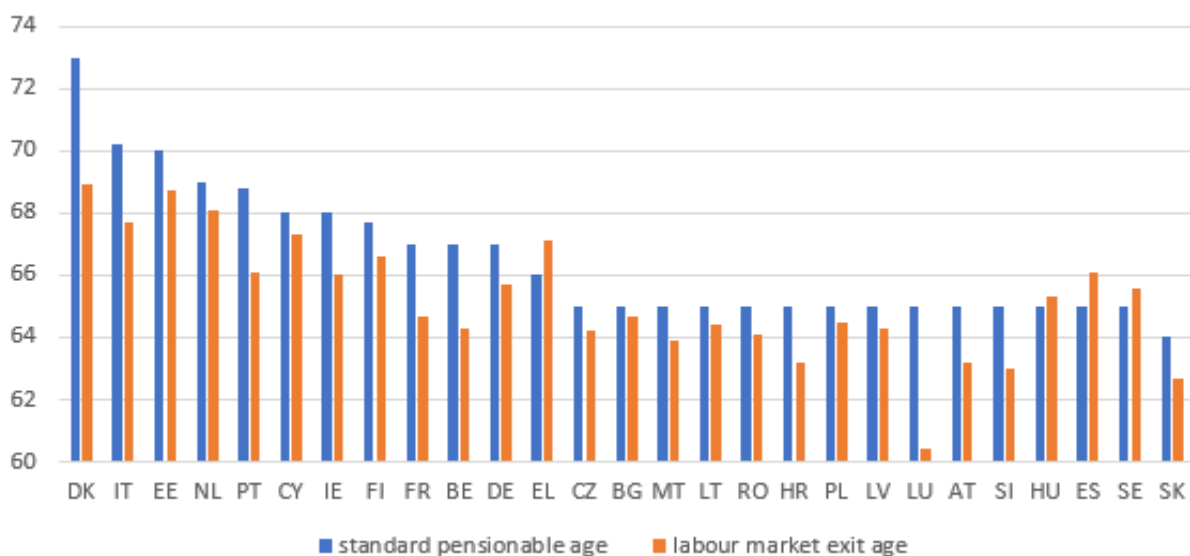
<sup>38</sup> Most developed welfare states have implemented "automatic adjustment mechanisms" (see OECD 2021: Pensions at a Glance 2021: 83ff., for instance) such as the sustainability factor in Germany that adjusts entitlement valorisation and benefit indexation according to changes in the relative "weight" of contributors and pensioners. For policy-makers aiming at "depoliticising" the highly political field of pensions, these mechanisms come as handy tools to seemingly delegate benefit cuts to forces beyond their control and to thus avoid electoral blame. But of course, they essentially lead systems away from the logic of "defined benefit" that is core to capable public schemes. And although being seemingly unaffected by political influence, they change TRRs over time. It is therefore important to not only provide for future TRRs in order to map "automatic" cuts that are somehow foreseeable today, but also to run regular updates for those calculations. By doing so, the consequences of subsequent economic and demographic developments that today's future TRRs cannot yet reflect can be analysed and countermeasures may be taken in a process of "repolitisation".



link between paid pensions and concurrent wages is rather weak. Meagre indexation may be a serious problem for pensioners achieving average or even longer retirement durations – and thus, especially for women –, with effective participation in a developing economy and society becoming ever more difficult.

Thirdly, when interpreting TRR results, it is also crucial to consider a large variation of standard pensionable ages (SPA)<sup>39</sup> and their huge impacts. Fig. 3 illustrates that when TRRs were calculated for PAR 2021, future SPAs would already be very high in many cases and tended to differ substantially from projected labour market exit ages.

Figure 3: Standard pensionable ages and projected labour market exit ages in 2059<sup>40</sup>



If workers will work for 40 years and invariably reach the standard pensionable age SPA despite being high and often rising is bold, considering many workers are not of good health and have difficulties working continuously for many decades. Often, workers, especially men, do not live until age 65, let alone 70. Health issues notwithstanding, people close to the SPA still – despite skilled labour shortages – sometimes encounter ageism issues and prejudices with employers who rather hire younger workers. Consequently, “ideal” TRRs presuming complete careers tend to be higher than what is justified in countries that have legislated significant SPA increases, but where many or most workers will not reach those thresholds smoothly or not at all. Instead, they will accumulate fewer pension credits and sustain permanent deductions for earlier claiming their pensions. Sometimes, this will not even be possible (yet), and those affected must retrieve benefits from other welfare schemes, use savings, or depend on spouses or other relatives. What is more, countries such as Denmark or Italy, in the hope of making their systems more financially sustainable by deferring pension receipt, have thereby made them less powerful, as the total pension amounts paid from retirement until death

<sup>39</sup> Defined in PAR “as the earliest age at which people can retire after a 40-year career without incurring any penalties”.

<sup>40</sup> Source: EC and SPC 2021: Pension Adequacy Report 2021: 72.

essentially decrease. This fact is obfuscated or even inverted by TRR data focused on monthly pensions payments starting at the SPA.<sup>41</sup>

Despite certain deficiencies, it is important to point out that methodologically harmonised TRRs are of immense value, as they allow for proper comparison of often widely differing national systems. They also tell a lot about pension schemes' current and future deficits and the consequences of not being able to fully comply with their expectations. Conversely, they let us know of the sometimes impressive potential of working longer, more or for a better pay, and will thus be put to use in the following sections. However, there is certainly room for improvement beyond the aspects pointed at above, and even more helpful true-to-life TRR calculations ought to be carried out for further editions of the Pension Adequacy Report:

Firstly, their calculation base should be adjusted to reflect that most workers start with low wages only to improve their position during the following decades, with pensions often being comparatively low compared to the last wage (and lower than reflected by “constant-wage” TRRs). This could follow the example of the “high earner” cases but use a linear wage path moving from 75% to 125% (instead of 100% to 200%), for instance.

Secondly, for countries where the SPA is legislated or expected to be very high, TRRs should also reflect the high likelihood of labour market exit happening significantly earlier and with permanent deductions. To be sure, PAR calculations already include cases of workers having to retire two years earlier after having achieved 38 years of work, but this deviation appears to be a rather mild one, not accurately depicting difficulties encountered by many (former) workers.<sup>42</sup> To avoid being misled by overly high SPAs, all TRRs should be amended by information on expected average months in retirement and/or expected total pension sums paid until death (which would also consider indexation issues).

Thirdly, for all calculations done for countries, income levels and sexes, expected benefits from all relevant statutory or quasi-universal schemes should always be reported separately, with the respective coverage rates also noted. This will help identify the specific role they play within the entire pension system and in particular cases, making it clear where talks of “multi-pillar systems” are justified or merely hollow.

Finally, cautious assumptions should be made about the underlying real return rates of funded systems:<sup>43</sup> For various reasons, they are not very likely to reach the levels common in the 20th century or the 2010s.<sup>44</sup> Lower returns, by the negative effects of compound interest, have massive consequences for capital accumulation and resulting pensions; so that a mere 1 or 2 percentage point decrease of annual returns would lead to much lower benefits, easily jeopardising status maintenance or even poverty avoidance. Consequently, TRRs should also

<sup>41</sup> See Davies, Bryn 2021: Pensions Policy at the European Level: 27f.

<sup>42</sup> See OECD 2021: Pensions at a Glance 2021: 153ff. for a comparison of SPAs and actual labour market exit ages in 2020, with the difference sometimes amounting to five years. While these early exits are certainly not always forced but often due to financially sound or even attractive “bridges” towards actual pension receipt, a lot of employees, especially those in arduous working conditions and low-wage sectors are far from voluntarily choosing to retire early.

<sup>43</sup> Of course, these have a range of innate disadvantages compared to efficient, publicly controlled, agile and socially cohesive PAYG schemes (see European Commission 2023: The future of social protection and of the welfare state in the EU: 69f.) that cannot be elaborated on here.

<sup>44</sup> Cf. Türk, Erik/Mum, David 2016: Überhöhte Erwartungen, OECD und EU-Kommission sollten ihre Renditeannahmen korrigieren, WISO Diskurs 17/2016.

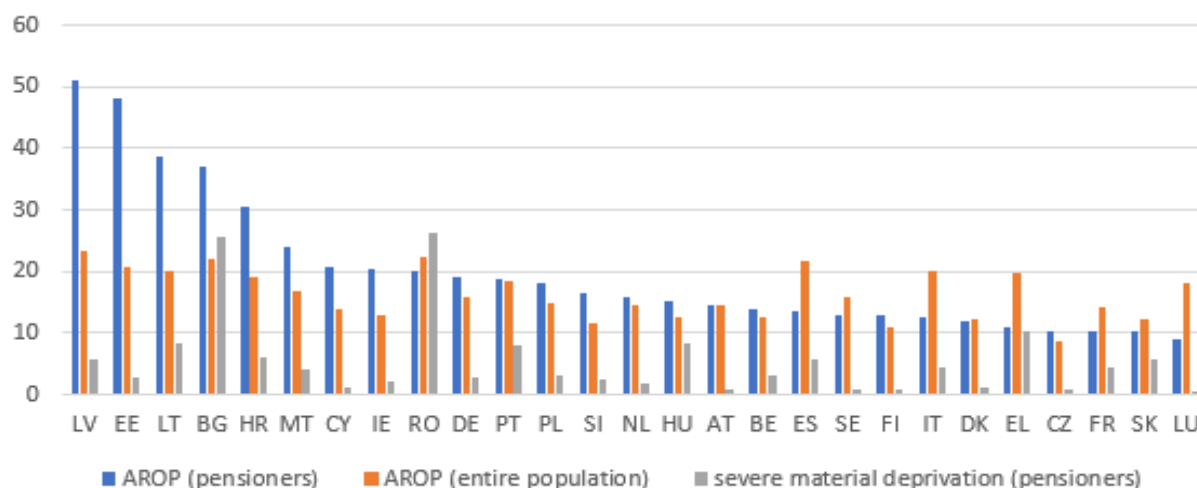
be calculated for various scenarios to better understand the influence of strong or ailing capital markets.

## 9 FROM THEORY TO FACTS: HOW DO EUROPEAN PENSIONERS FARE TODAY?

Considering actual pension incomes, enormous differences between EU member states become apparent. Firstly, this concerns aggregate replacement rates (ARR) that, unlike TRRs, are not theoretical, but compare actual pensions with actual incomes of working-age people. For current pensioner cohorts, these range from about 35% in some countries (largely in new member states in central and eastern Europe) to around 80% in others (mainly Mediterranean nations).<sup>45</sup> In various cases, average pension incomes of those aged 65 to 74 only amount to about a third of average earnings achieved by those aged 50 to 59. While this seems to indicate structural problems in terms of status maintenance, one needs to keep in mind that this indicator is interpersonal, not intertemporal: Instead of comparing a pensioner's pension to his or her former salary, it compares it to the incomes of current workers close to retirement. Thus, it could hint at pension systems becoming ineffective providers of deserved incomes. Still, it might just as well reflect how different cohorts managed (or not) to achieve noticeably different careers during economically different times. Supplementing this data with ARR that show how incomes of current pensioners relate to their actual earnings before retirement would help to disentangle these relationships and shed more light on how capable systems have been so far.<sup>46</sup>

While the situation regarding actual income replacement is thus not quite clear, this is not the case for old-age poverty measured by at-risk-of-poverty rates (AROP) and severe material deprivation rates of pensioners. AROPs are significantly higher than those for the entire population in some countries (predominantly central and eastern European nations) and significantly lower in others (mostly in southern Europe), as is shown in fig. 4.

Figure 4: At-risk-of-poverty-rates and severe material deprivation (2021)<sup>47</sup>



Meanwhile, severe material deprivation in old age is particularly widespread in certain southeastern European states. Again, these differences point to very diverse economic stages and trajectories within and across countries and to varying capabilities of pension schemes to

<sup>45</sup> Source: Eurostat

<sup>46</sup> This could be done by using "average replacement rates" (cf. Davies 2021: 27).

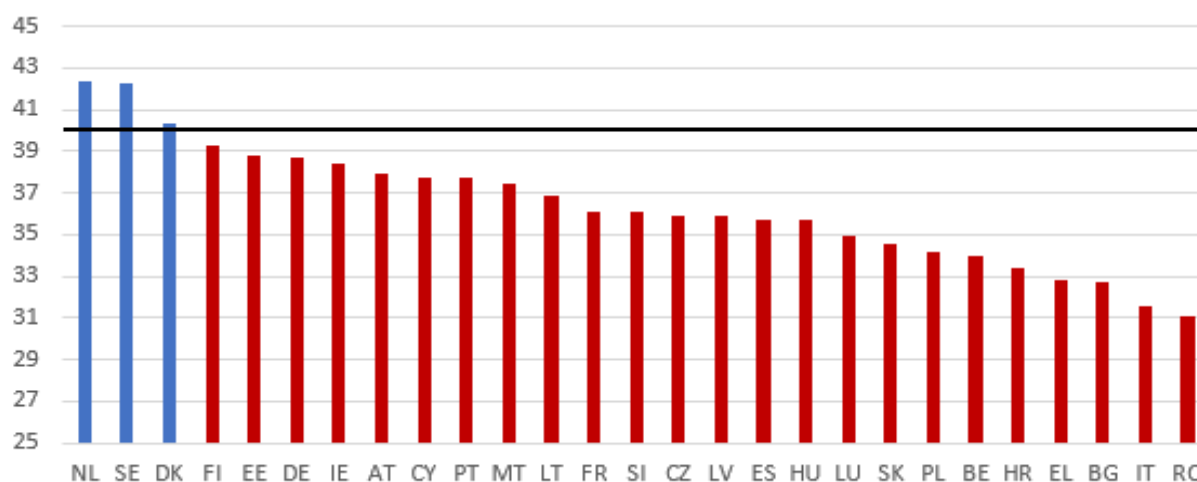
<sup>47</sup> Source: Eurostat

transform former labour market integration (possibly compensating for deficits) into current income during retirement.

As cross-sectional data on labour market participation indicate, there have been and probably will be large differences between states regarding 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 former workers in central and northern European states tending to rank substantially higher in terms of average years spent in regular, full-time employment, but also in terms of women being in non-standard employment (including part-time work). Albeit moderated by schemes' redistributive features, further analyses of these careers and resulting pensions show that standard participation has generally paid off and, respectively, welfare states have tended to “punish” for non-standard employment.<sup>48</sup>

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 about 40 years (as is assumed for PAR TRR calculation), their colleagues in many countries of southern and south-eastern Europe are projected to barely reach 30 years.

Figure 5: Expected duration of “working life” (years) including periods of unemployment<sup>49</sup>



Consequently, actual pension rights accrued and paid in those nations will remain a lot lower than TRR base calculations suggest (with employment modes and wages also coming into play), indicating the potential of and the need for more inclusive labour markets. 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

<sup>48</sup> See Möhring, Katja 2021: The consequences of non-standard working and marital biographies for old age income in Europe: Contrasting the individual and the household perspective, in: Social Policy & Administration, Vol. 55, Issue 3, pp. 456-484.

<sup>49</sup> Source: Eurostat. Defined as “the number of years a person, at the current age of 15 years, is expected to be in the labour force (i.e. to be employed or unemployed) throughout his or her life”. Since in many respects, joblessness is clearly inferior to employment (and often, pension schemes do in fact not properly compensate for it), this indicator is somewhat unfortunate, obfuscating the extent of future workers not actually working at all and thereby making future pensions look better than they will be. It should thus be supplemented or replaced by another indicator more clearly reflecting actual employment and accrual of pension rights.

and employers should be constantly reminded that alongside providing strong pension systems, adequate education and training, comprehensive caring systems etc., they also need to make sure<sup>50</sup> 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.

This overview has shown a range of EU-wide, comparable data on employment and old-age income in member states. These are certainly helpful, but some issues are limiting their value: Firstly, data tends to be cross-sectional, not demonstrating enough about actual careers (longitudinal perspective) and at the same time mixing information from different schemes and concealing their respective contribution. Secondly, it is strongly relational (comparing incomes of pensioners and workers, for instance), not readily allowing for insights into nominal values that are important as well. Thirdly and most seriously, we are left with averages rather than distributions – and while an average may be OK, this could mean that there are sizeable groups far below that average.

Thus, available data usually does not allow for analyses of actual careers and the resulting (nominal) retirement incomes, making it hard or impossible to empirically identify groups of workers that due to their specific careers are or will be most affected by insufficient pensions. Views into current issues and inferences about the effects of specific labour market integration are therefore structurally limited. However, basic inferences can be made with the help of TRRs (as will be done below), and the more “true-to-life” these are (as has been suggested above), the more realistic the results can be.

To make possible comprehensive research projects far beyond the scope of this brief analysis based on existing literature, datasets should be complemented by longitudinal statistics containing wages and insurance statuses, preferably based on administrative data. This would allow for complex analyses of how rising employment and better pay would in fact and not just theoretically result in better pensions on a macro level and in more stable pension systems. To disentangle the contributions made by different systems and better assess their (non-)generosity today, statistics should also include more information on nominal pension amounts paid out monthly by public, occupational and private schemes, respectively, and the wages previously achieved by their recipients.

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<sup>50</sup> For a range of possible measures, see European Commission 2023: The future of social protection and of the welfare state in the EU: 53, for instance.

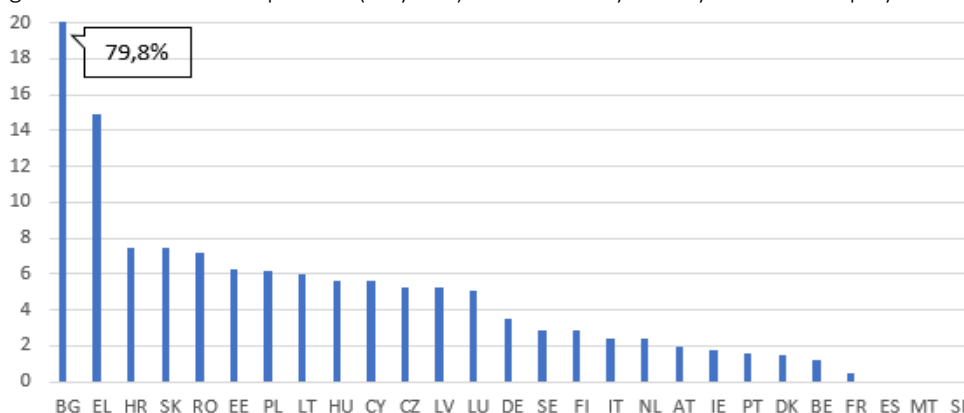
## 10 THE POTENTIAL OF MORE INCLUSIVE LABOUR MARKETS FOR THE ACHIEVEMENT OF EPSR'S OLD-AGE PENSION RIGHTS

In line with the EPSR Action Plan, governments and companies must ensure that workers have a realistic chance to accrue sufficient pension credits that they can benefit from upon retirement. This requires high-grade education and training, adequate wage structures underpinned by collective agreements and good working conditions that don't force workers to quit the labour market too early. Widely accessible and affordable infrastructure for child and long-term care must be provided, thereby also helping with closing gender gaps. And of course, precarious, often undeclared, and non-insured work needs to be eliminated to open pathways for ageing with dignity for everybody at work. All these circumstances would not only prevent that the welfare state disregards certain workers and would not accrue pension entitlements at all. They would also prevent further incentives to cheap labour, serve quality-oriented labour markets, help contribution-dependent pension systems, and relieve tax-financed social assistance schemes.

Empirical studies on how pensions of real and not just fictitious workers would theoretically improve in the wake of certain employment targets being reached, would require a plethora of data and complex calculations not feasible here. However, TRRs calculated for the Pension Adequacy Report 2021 greatly help to at least ascertain the general effects of such improvements.

Comparing complete and patchy employment histories, results clearly show the consequences of not being able to achieve full careers. In almost all countries, even the rather slight and common "deviation" of spending three of presumed (base case) 40 working years in unemployment will lead to a significant reduction of the pension paid at SPA. In most cases, the resulting net benefit will only amount to about 90 to 95% of the "full TRR" (see fig. 6). In the extreme case of Bulgaria, it would even be slashed to just 20% of the counterfactual case without unemployment, with the specific ARR at SPA amounting to a mere 11,9% of former wages (a significantly higher pension would only be available at a later date).

Figure 6: Share of full net pension (40 years) in 2059 lost by three years of unemployment<sup>51</sup>



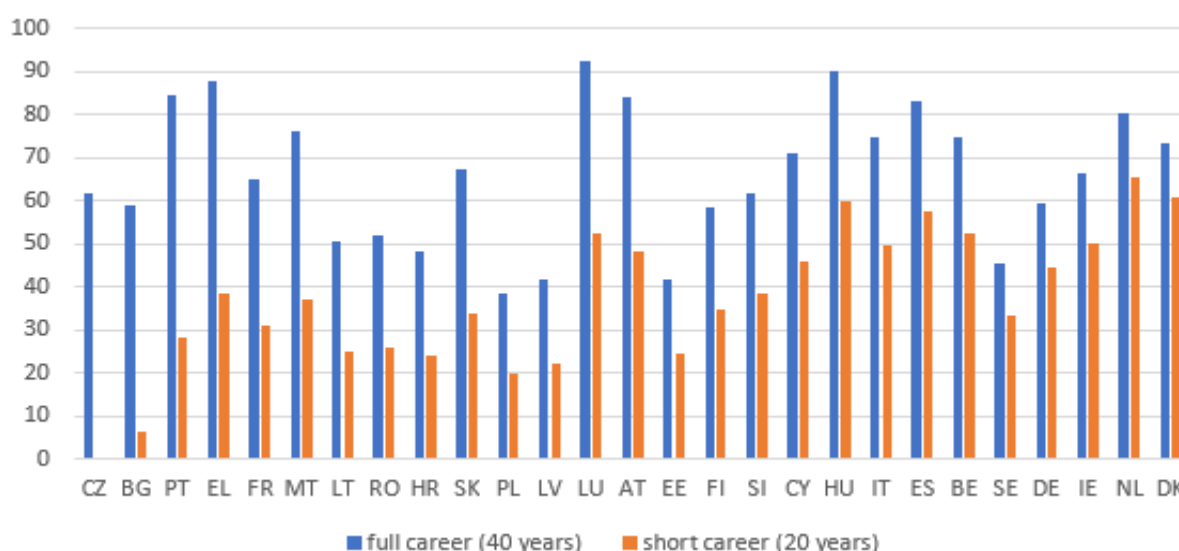
Unsurprisingly, short careers defined as only 20 years spent in insured work have even more drastic consequences, with most pension systems reducing the (widely differing!) TRR by over

<sup>51</sup> Source: EC and SPC 2021: Pension Adequacy Report 2021: 87. TRRs are calculated for male workers (cf. fn. 3).

20 percentage points and others by even 50 or more. In another case (Czech Republic), this would entail no regular pension to be paid upon reaching the SPA. Overall, resulting pensions would be very low and often incapable of preventing poverty during retirement.

Large losses illustrated by TRR calculations also point to often huge potential for pension adequacy of improving labour market integration, allowing for insights into the potential of more and better employment: In about a third of EU member states – mostly in southern and eastern Europe –, net pensions after 40 rather than 20 years of insured work would at least double (and possibly a lot more than that, see fig. 7). Fundamentally, these numbers reflect the degree of “proportionality” of a system – the more important insured wages and periods are for pension calculation, the higher the leverage of better labour market inclusion. Sometimes, this link is reinforced by the fact that qualifying thresholds are quite high and not properly reached by partial careers, so that pensions are not payable at all or later or with severe deductions. The Czech Republic and again Bulgaria are the most obvious examples of pension systems “punishing” for patchy careers – at least upon reaching SPA.

Figure 7: TRR (net for average wages) after 40 / 20 years in 2059 (ranked by leverage)<sup>52</sup>



Many countries with particularly high leverage currently rank high on poverty and deprivation scales, pointing to previous problems with labour market integration. However, they often also offer rather good TRRs for full careers and thus prove to possess the systemic base for adequate pensions. To a lesser extent, this also holds for closing smaller gaps of 3 years of unemployment.

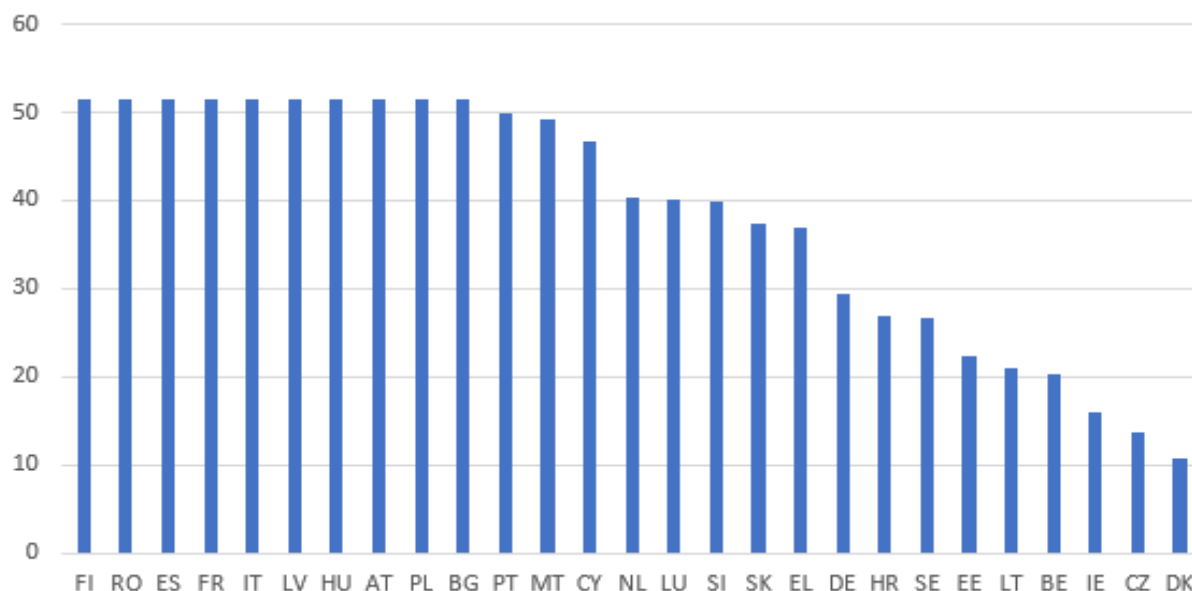
Pension systems that mirror previous careers will reward more years in regular employment and ensure higher entitlements if workers achieve higher salaries (within the boundaries of contribution ceilings) – be it by hikes in hourly wages or by switching from part-time to full-time employment. Comparing TRRs for 40 years of continuously average or low (66%) wages, many countries would provide for sizably higher benefits, with about half of their pension systems showing (rather) strict adherence to the principle of equivalence and reflecting the

<sup>52</sup> Source: EC and SPC 2021: Pension Adequacy Report 2021.



~50% wage increase achieved during the entire period. At the same time, others offer decidedly less “leverage” within this range of incomes, as they have decided to implement highly redistributive schemes that ameliorate individual problems with labour market inclusion:

Figure 8: Pension share gained in 2059 by working for 40 years at average instead of low wages<sup>53</sup>



To ensure workers have a good chance to achieve complete and well-paid careers, EU member states and employers should be encouraged to further improve employment opportunities and conditions as envisaged by the EPSR Action Plan. This would not only help individuals with reaching adequate entitlements for retirement benefits but would also contribute to making systems more financially sustainable: “The financial sustainability of the welfare state critically depends on the number of people in employment and how productive they are”,<sup>54</sup> a fact very much applying to funded systems. By enabling as many people as possible to work until reaching (true-to-life) SPAs, states and employers can also prevent or at least reduce skilled labour shortages that may arise especially during times of rapid demographic change.

As data on economic activity and old-age income has shown, countries where even less than 70% of the population aged 20 to 64 is employed already face particular challenges regarding old-age poverty.<sup>55</sup> Pensioners in those countries – also looking back at incomplete careers significantly more often than those in other states – have to deal with low pensions, limited social participation or severe material deprivation, a particular problem in south-eastern Europe. Or as tends to be the general case in southern Europe, they see their otherwise dire situation significantly improved by minimum pensions and comparatively generous pension systems. Improving labour market participation and wage structures especially in those

<sup>53</sup> Source: EC and SPC 2021: Pension Adequacy Report 2021. For the purpose of PAR calculations, low wages are defined as 66% of the average. At this point, gross instead of net values are used to make TRRs better comparable by controlling for the effects of taxation that often varies by types of income and income brackets.

<sup>54</sup> European Commission 2023: The future of social protection and of the welfare state in the EU: 82.

<sup>55</sup> Though this study cannot offer precise insights into the pension consequences of successful EPSR politics, there thus is a range of clear indications that improving the range as well as the depth and remuneration of insured work would improve the situation for both pensioners and schemes.

member states would not only help to reduce old-age poverty, but also relieve pension systems from the costly burden of smoothing out labour market problems by paying disproportionate benefits.<sup>56</sup>

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<sup>56</sup> In many Mediterranean and western European countries with rather low employment rates, about one third of pensioners has to rely on minimum pensions despite good or even high TRRs and quite pronounced equivalence of insured wages and benefits. These include France (with 39% of all pensioners receiving minimum benefits), Portugal (38%), Italy (32%), Belgium (31%), Luxembourg (29%) and Spain (25%) – see OECD Pensions at a Glance 2021: 135. Again, there is convincing evidence for patchy labour market integration scarring pension entitlements and payments and putting a strain on welfare states.

## 11 MIND THE PENSION SYSTEM – BUT NEVER FORGET ABOUT EMPLOYMENT

More and better jobs can, and in most cases very much will, improve pension entitlements. This is especially true for younger workers whose careers have not been scarred for decades and who still have – at least theoretically – a chance to achieve complete employment and insurance records leading to sufficient incomes in retirement. In the short and medium terms, this would also improve pension system budgets, as they receive a higher inflow of contributions. However, it is crucial to remember that adequate pensions also depend on a strong and reliable system that effectively and fairly covers all kinds of gainful occupation. To ensure that work is always and fully covered in terms of pension accrual and no wrong incentives are set to use to non- or less insured modes of employment to reduce costs in the short term, systems should be comprehensive, leaving no gaps at all.<sup>57</sup> This includes full insurance for so-called “marginal” employment, short periods of work, modes of work allegedly or actually between employment and self-employment and coherent contribution mechanisms in terms of rates and incomes covered by them.

As shown elsewhere,<sup>58</sup> many countries have left a range of corresponding gaps, sometimes not including low-wage earners or those with supposedly irrelevant volumes of work. In various cases, some or most of the self-employed are also not incorporated into the public scheme or not even obliged to make provisions for retirement at all, entailing an obvious danger of free-riding and increasing old-age poverty.<sup>59</sup> Also, in quite a few European countries such as Austria, France and Italy, the self-employed enjoy significantly reduced contribution rates that effectively work as an economic subsidy (at the cost of public budgets or other contributors, usually employees), violating the evident and just “guiding principle [...] that the self-employed pay the sum of employee and employer contributions”<sup>60</sup>. In addition to equitable and impactful contributions being paid by all those working, it is pivotal that employers and states are involved in financing pensions, extending responsibility to those economically capable and can adequately ensure the coverage of wide-ranging risks that individuals cannot and should not bear.

As shown, many countries have rather weak pension systems unsuited to transform good careers into adequate pensions. Improving labour market integration will not suffice to achieve EPSR pension rights in such cases. Rather, pension schemes will have to be (re)reformed and improved, especially ensuring that general replacement rates remain high enough to allow for status maintenance and will generally be applied to every hour worked regardless of mode of employment or profession. To arrive at even more valuable and realistic TRRs calculated for the Pension Adequacy Report, these suggestions to improve calculations are worth reiteration:

- only include schemes that cover (almost) all workers and disclose actual coverage rates
- consider differing SPAs, e. g. by disclosing the expected duration of pension receipt

<sup>57</sup> Also see EPSCO 2023: Council Conclusions on Social Protection for the self-employed.

<sup>58</sup> See OECD Pensions at a Glance 2019: 65ff., for instance.

<sup>59</sup> For instance, Germany allows “Minijobbers” with monthly earnings of €520 or below to be exempt from contributions (with about 80% of them doing so) and mandates only about one quarter of the self-employed (mainly teachers, artists and those working in liberal professions such as doctors or lawyers) to engage in old-age provision.

<sup>60</sup> See OECD Pensions at a Glance 2019: 101.

- better reflect that workers usually receive higher relative wages as their careers progress (with a dampening effect on TRRs)
- report not only comprehensive TRRs, but also – and at all times – those achieved in separate schemes
- consider that returns of funded systems may be lower – run calculations for a range of scenarios

For many workers – and especially for those who have already completed (most of) their working lives –, a high(er) general TRR will not be enough to offset spells of unemployment, low-wage employment, health-related absence, unpaid care work and the like. Consequently, all pension systems will continue to require compensation mechanisms for those and other periods of low<sup>61</sup> or no pay to ensure that inevitable life situations interfering with paid work do not lead to drastic disadvantages. Also, pension systems ought to provide for extrapolations of careers in case of early work incapacity, providing those affected with benefits equal or like those they would have achieved with a full career. Those measures will be most effective and useful in public schemes. By the very nature of the (social) risks covered, those will often be the only ones that can reasonably be employed for this sort of redistribution. This is another reason for advising states to maintain or achieve high replacement rates in public schemes instead of employing multi-pillar systems that are structurally unable to provide for necessary compensation throughout.

These policies will also significantly contribute to social sustainability by helping those who have worked and contributed for decades, or at least tried to do so, but have not quite achieved full careers according to expectations created by the system. After all, schemes – especially those based on obligatory payments – depend on their members' impression that contributions or premiums pay off. They need to be sure that decades of (readiness for) work make a real difference and that they will not have to resort to inadequate minimum pensions or social assistance upon retirement.

Moreover, while minimum pensions are a helpful and even essential tool to mitigate the consequences of incomplete or “non-careers” and save many people from old-age poverty (sufficient levels provided), they are structurally unsuitable for status maintenance, which is what most workers will expect from the system. Consequently, governments and employers need to guarantee that accrual mechanisms and, if necessary, additional comprehensive schemes are in place to achieve pension incomes far above a basic level. This applies to those with full careers in well-paid jobs and the many people who spend decades somewhere between no and full employment.

In many cases, compensation will be especially helpful for female workers, who tend to be affected more often by low wages and labour market absence due to care for children and the elderly. In this sense, closing pension gaps would contribute to closing gender gaps as well. However, measures to “cover up” should not go too far, and, if possible, should be focused on cases where damage has been done and improved labour market access will not be a real

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<sup>61</sup> Of course, it is always preferable to make employers pay adequate wages in the first place or at least create legal requirements to pay higher contributions for employees receiving inadequate wages. Following the principle of subsidiarity, subsequent compensation from system-wide budgets should only be a measure of last resort and not be perpetuated for future cases where underlying problems could very well be prevented today or in the future.

alternative. Otherwise, well-intentioned pension policies could reinforce structures and attitudes that cause gender gaps in volume and remuneration of work and that measures such as more and free child-care facilities are meant to counter. In a way, different cohorts of female workers thus require different measures to ensure adequate pensions, with subsequent compensation losing relevance over time as labour market participation and pay (hopefully) becomes more equal.

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