European challenges for pension adequacy

Background paper

ETUC SociAll

Project VS/2019/0015

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1. Introduction

The SociAll (Social protection for All) project aims at providing trade unions, both at national and European level, with knowledge-based and strategic tools to contribute to the implementation of the European Pillar of Social Rights (EPSR) in the field of pension policy- and in particular of Principles 12 and 15 on access to social protection and adequate old-age and retirement pensions for people in all forms of employment.

The present background paper represents the first step in the implementation of SociAll. It is part of the preparatory phase that collects evidence on common challenges across countries, including those related to social dialogue and the impact of EU macroeconomic governance - with respect to the capacity of pension systems to be highly inclusive, provide effective benefits and ensure adequate pension income.

Evidence from EU Member States proves the persistent if not growing tension between two policy priorities: adequate protection of old age and the financial sustainability of pensions. This is somehow aggravated by the EU policy trends. Financial sustainability of pensions has been a key part of EU strategy for fiscal consolidation while social adequacy has recently been put at the top of the European Pillar of Social Rights (EPSR).

The paper fixes the terms of the two-fold tension – between the European Union (EU) governance dimensions (economic governance versus social governance) and reform policy dimensions at Member States level (financial sustainability versus social adequacy). Such two-fold tension has to do with the challenges in achieving the objectives of the EC Recommendation on access to social protection for workers and the self-employed (the latter is at the core of the SociAll project).

The first part of the background paper provides an overview of the interaction between the evolving EU economic as well as social governance and pensions with a particular focus on the post-crisis period. It analyses the role played by the European Semester policy cycle and its underlying components: the Stability and Growth Pact (SGP) and the Macroeconomic Imbalance Procedure (MIP). The latter have proved to play a dominant role in the first year of implementation of the European Semester. This has led the Juncker Commission to launch the European Pillar of Social Rights (EPSR) that we see as the cornerstone of EU social governance. This is a major challenge in the attempt to effectively implement the EC Recommendation mentioned above, in that the emphasis on financial sustainability risks reducing the room for fairer and more effective protection for the most vulnerable social and occupational groups.

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First, we outline the pre-eminence of Country-Specific Recommendations dealing with the fiscal sustainability of national retirement systems over adequacy-related ones. This has been partly, although insufficiently, equilibrated during the Juncker Commission's mandate: the number of recommendations addressing adequacy issues has increased, however the approach and the terms in which this is done are still questionable for trade unions.

Secondly, the asymmetry between the EU economic and social priorities is reinforced by more global trends in pension governance (e.g. the implication of the International Monetary Fund in the adjustment programmes; the role of financial markets in the field). Indeed, the EPSR aims at rebalancing the economic and social priorities in the EU governance (and in the European Semester): para 11 of the Preamble of the EPSR clearly states how economic and social progress are intertwined. However, it seems far from delivering. Its objectives should be embedded in the governance of the Economic and Monetary Union (especially the Euro area, para 13), and the Semester should provide the consistent financial and policy inputs to achieve them. However, the EPSR is still insufficiently taken into account in national and, less so, in European documents.

Thirdly, the indicators included in the Social Scoreboard do not properly address issues of elderly well-being, inequality and poverty in old-age (in fact none of the 12 headline indicators of the Social Scoreboard directly focuses on pensioners or elderly people). The proposed EU indicators seem in need of further development.

The second part of the background paper provides an overview of the reforms that have been legislated in the EU-28 Member States, especially after the inception of the European Semester. We find that the challenges at the national level mirror those at the European one. There is great pre-eminence of cost-containment measures as opposed to benefit expansion. This is the case for the reforms passed in the 2010-14 period. From 2015 on, the member states reform record is more mixed and some countries have seen a partial reform reversal, especially for the legal retirement age and for pension privatisation (see Ortiz et al., 2018).

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In those countries where the reforms have pointed to the more stringent link between social security contributions and benefits, and/or statutory retirement age to life expectancy, reforms may create particular problems for pension adequacy and inequality in old age (e.g. issues of limited formal and effective coverage for non-standard employment, heterogeneous longevity, poverty in old-age). This is a major challenge for implementing the Council Recommendation.

The concluding part of the paper eventually identifies the main issues to investigate through SociAll in order to shed light on the more promising strategies to socialise EU governance and promote more effective protection of all workers, also those characterized by less successful careers (in line with the EPSR and the Council Recommendation in particular).

2. EU Pension Governance in context

Since its emergence, the European integration process has been characterised by the asymmetry of competences between the economic and social policy domains. The former have proved to be much more important while the latter have been weak and marginal (Sabato et al., 2019). This asymmetry has been largely replicated in the pension field. Here the EU, despite not having direct competences, has developed an evolving pension programme, consistent with three main lines of action:

i) market integration (consistent with the completion of the single market for pensions through the coordination of social security schemes, the launch of pan-European pension funds and the regulation of occupational schemes);

ii) the hardening of fiscal and monetary discipline (emphasis on the financial sustainability of pension systems). The latter goal has been pursued through the Stability and Growth Pact as well as on macroeconomic and fiscal coordination that rarely focused on structural pension reforms (what we call here the European Economic Governance, EEG).

iii) the modernization of national pension policy largely based on soft law, what we call here the European Social Governance, ESG, which focused on the adequacy, sustainability and safety of pensions, but whose efficacy has been questioned even by its most ardent supporters (Barcevičius et al., 2016; Guardiancich and Natali, 2017).

In what follows we refer to the most relevant changes in the EU strategy in the aftermath of the crisis, with reference to the second and third lines of action mentioned above. The latter are at the core of the SociAll project.

As for EU economic governance, we first detail the workings of the European Semester and its main components (the Stability and Growth Pact, SGP and Macroeconomic Imbalance Procedure, MIP). While the European Semester is the EU key tool for economic and social policy coordination, we emphasise its main focus on economic policy and the persistent asymmetry between economic and social priorities in it. We then focus on the Economic Adjustment Programme (EPA) that, in the first part of the recent economic crisis, has allowed the EU to push for austerity in the field of pensions.

As for EU social governance, we focus on the European Pillar of Social Rights (EPSR) and related policy initiatives (such as the proposal for a Council Recommendation on access to social protection for workers and the self-employed, and the adoption of a social scoreboard allowing the European Semester to monitor performances in the employment and social field). The EPSR is the 'compass' for the development of the EU social governance.

As shown in Table 1, the economic governance tools exert a stronger influence on national policy-making than the social ones. The reasons are multiple, and specific to the individual instrument, including: i) the sensitivity of financial markets to economic indicators; ii) more articulated legal instruments carrying iii) stricter penalties in case of non-compliance with regards to economic recommendations as opposed to social ones; iv) a demographic-fiscal problem load, which assigns greater urgency to economic rather than social measures.

2.1 The European Economic Governance and Pensions

The EU deploys different 'layers' affecting national pension systems, i.e. instruments that convey recommendations to Member States with conditions that carry lesser or stronger sanctions in case of non-compliance (what is called 'conditionality'). These layers, with different degrees of influence on domestic reforms, have been increasingly articulated and codified since the sovereign debt crisis (Table 1).

The European Semester has become the key new tool for economic and social policy coordination among the Member States. The Semester brings together a variety of EU governance instruments with different legal bases: the Stability and Growth Pact (SGP); the Macroeconomic Imbalance Procedure (MIP); the Integrated Economic and Employment Guidelines; and Europe 2020. In this cycle, the Commission, the Council of the EU and the European Council set priorities for the Union; review national performance, budgets and reform programmes; and issue Country-Specific Recommendations (CSRs), backed up in some cases by possible financial sanctions (Verdun and Zeitlin, 2018).

SYNDICAT EUROPEÆN TRADE UNION

Table 1 Levels of pension policy-making

	Global Economic Governance	**European Economic governance**	**European Social governance**	**Global Social Governance**
Instruments	- International financial markets (rating agencies, global investors) - Economic adjustment programmes (Commission, ECB, IMF)	- European Semester • Preventive arm of the Stability and Growth Pact (SGP) and the Macroeconomic Imbalance Procedure (MIP) - Country Specific Recommendations (CSRs) within the European Semester • Corrective arm: Excessive Deficit Procedure (EDP) and Excessive Imbalance Procedure (EIP)	- European Semester • Europe 2020 Strategy and the Integrated Economic and Employment Policy Guidelines - European Pillar of Social Rights (EPSR)	- Sustainable Development Goals (SDGs) - International Labour Standards (ILO) - European Social Charter (Council of Europe)
Influence	- *Strong market pressure on fiscal sustainability through default risk premia* - *Strict conditionality in Economic Adjustment Programmes*	- *Medium conditionality with regards to both the preventive and corrective arms in the presence of high pension spending* - *High conditionality if the Maastricht criteria (of debt and deficit) are breached*	- *Low conditionality through CSRs on adequacy* - *Low reflection of EPSR in national official reports and in reform strategies*	- *Low push for adequacy in SDGs* - *Some legal enforceability for ILO and ESC*

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The European Semester innovates with regard to previous instruments in two ways (Laffan and Schlosser, 2016). First, the CSRs come early in the financial year, thereby putting particular pressure on the Member States' budget plans, whose drafts have to be submitted by mid-October. Second, the recommendations on fiscal policies are provided jointly with the recommendations on structural reforms, thereby recognizing the many complementarities between them (e.g. between pension spending and future budget deficits and debt). The EU institutions, and the European Commission in particular, see their decision-making powers significantly expanded, thereby encompassing policy fields that were traditionally the exclusive domain of domestic politics, such as national social policy, including pensions (see Guardiancich and Natali 2017).

Fiscal and Macroeconomic Surveillance through CSRs

Since the Maastricht treaty, EU Member States are subject to fiscal constraints that have been rendered explicit with the rules of the Stability and Growth Pact (SGP) underlying the Economic and Monetary Union (EMU). Hennessy (2014) convincingly explains that important pension reforms were undertaken in order to comply with the convergence criteria for joining the EMU during the 1990s.

From 2011 on, EU institutions have had at their disposal a host of new instruments to provide economic and policy guidance, epitomized in the European Semester framework. The introduction of several regulations and directives strengthened the preventive and corrective arms of the SGP, increased the Commission's surveillance capacity through the new Macroeconomic Imbalance Procedure (MIP), and delineated a framework for the provision of financial assistance (Bauer and Becker 2014).

The preventive arm of the SGP and of the MIP are soft conditionality measures aimed at preventing Member States from breaching the Maastricht convergence criteria or avoiding excessive macroeconomic imbalances from cumulating. Conditionality is conveyed through Country-Specific Recommendations (CSRs) either related to the SGP or to the MIP that are forwarded on a yearly basis to the EU-28 Member States. Although CSRs are explicit and formal, compliance is mostly voluntary. In the realm of pensions, an interesting example is represented by the first Annual Growth Survey (AGS), where the European Commission espoused fiscal sustainability as the main reform objective by recommending linking the retirement age with life expectancy, reducing early exit, improving the employability of older workers, etc. All these measures are meant to increase the fiscal sustainability of pensions, which can be linked - but not necessarily - to avoiding significant deviations from Medium-Term Budgetary Objectives (MTOs).[1]

The corrective arm of the SGP and of the MIP consists of procedures representing instances of medium conditionality. The Excessive Deficit Procedure and the Excessive Imbalance Procedure (that has not been triggered to date) require immediate policymaking action to avoid sanctions. Yet, in both cases countries still have some leeway on how to address recommendations. Severe uncorrected deviations, such as budgetary deficits exceeding a certain agreed ceiling, high debt levels not being reduced swiftly enough, or other macroeconomic imbalances trigger the two procedures. These have an impact on the fiscal stability of a country and, indirectly, of the Eurozone. As pensions make up for a sizeable portion of current expenditure in most Member States, their reduction often helps (together with other interventions) to reduce the imbalances above.

[1] It is important to note that a strict focus on MTOs, see for example ETUC (2018), and temporary deviations is misleading in the realm of pensions, where - by definition - most reforms affect budgetary prospects in the long term only.

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The preventive and corrective arms of the SGP and MIP represent layers of 'formalized' supranational political pressure that are relatively unchanging despite the many law modifications. Each of them is underscored by a set of economic indicators, which have different impacts on a country's fiscal sustainability.

As stressed above, a key aspect of the European Semester is that the EU issues a single set of recommendations to its Member States. Table 2 below provides a summary of the CSRs issued between 2011 and 2018 and focused on pensions. While the exact definition of the relevant policy dimensions of the CSRs is still debated, the breakdown aims at providing evidence of the asymmetry between financial sustainability and social adequacy goals in the Semester.

Table 2 Breakdown of total CSRs in 2011-18

	Number of CSRs
1) FINANCIAL SUSTAINABILITY TOTAL	**351**
a) Financial aspects	108
Calculation formula	4
Disability and survivor pension schemes	7
Improve financing (through cuts or increased resources)	58
Indexation rules	9
Social security contribution evasion	8
Special pension schemes	22
b) Age-related measures	167
Coefficients linked to life expectancy	55
Effective retirement age	39
Early retirement schemes	41
Harmonization of age for women	15
Statutory retirement age	17
c) Employability of elderly workers	76
Active ageing measures	25
Employability of older workers	51
ADEQUACY TOTAL	**38**
Adequacy of old-age benefits	24
Incentives for complementary pillars	14

Source, Guardiancich and Guidi (2018)

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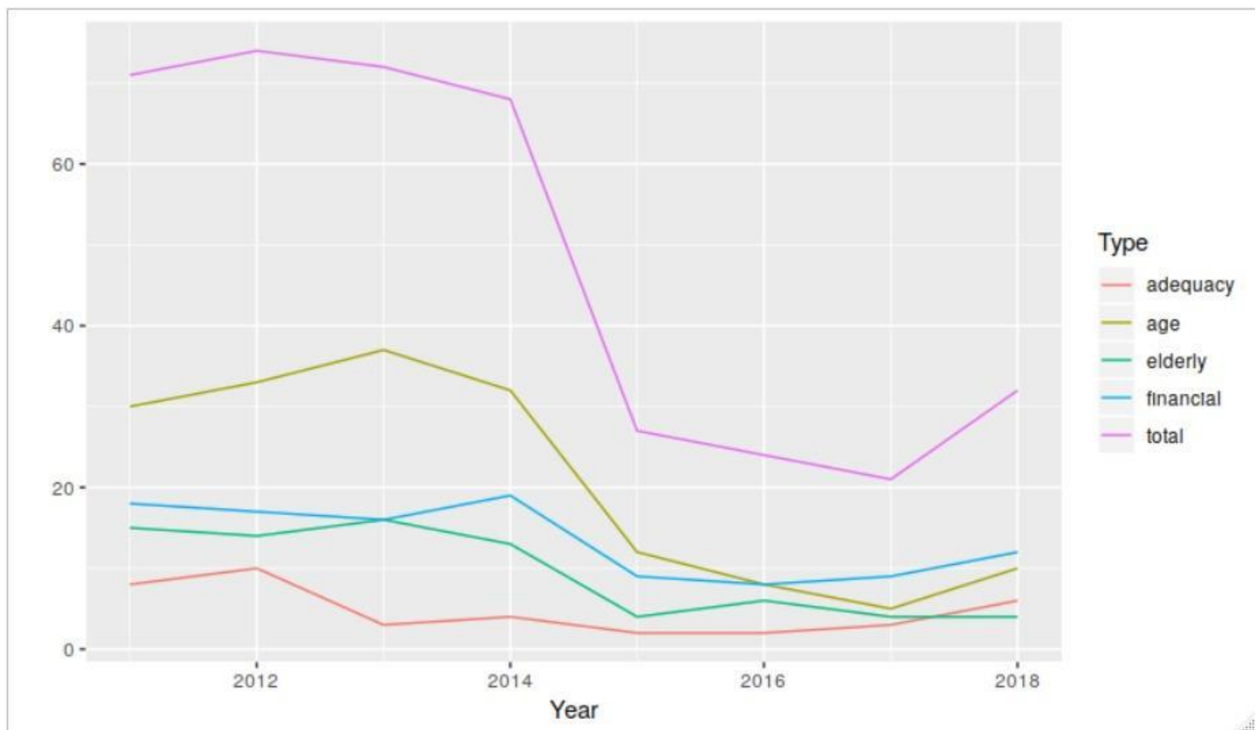
There are three aspects of the formation of CSRs that are worth noting for this analysis. First, there has been a substantial imbalance between CSRs pertaining to a national pension system's adequacy and those aimed at its fiscal sustainability.[2] Not only has the ratio between the two been circa 1:10 during the period 2011-18, but also the Commission does not explicitly evaluate whether individual countries fulfilled the adequacy recommendations in the Country Reports. Such a trend is probably ascribable to the weakness of the legal bases underpinning adequacy recommendations (the now almost defunct Europe 2020) and the need for fiscal consolidation that had arisen in the Great Recession's aftermath. What is more, some of the CSRs that explicitly refer to adequacy are in fact keen to promote complementary pension funds (not exclusively occupational). The capacity of the latter to contribute to fair and effective old age protection is still debated.

Second, as shown in Figure 1, one can notice a substantial 'Juncker effect' on the number and direction of CSRs. This can be broken down into two. On the one hand, there has been a substantial reduction in the number of CSRs since 2015.

Figure 1: The evolution of CSRs in 2011-18



Source, Guardiancich and Guidi (2018)

In fact, when the Juncker Commission took over the Semester process, its orientation was to provide few but more 'weighty' recommendations, which means less detail (thereby leaving more leeway to individual countries) on more important topics. On the other hand, the relative proportion of adequacy recommendations vis-à-vis the others has increased substantially, and even its absolute number increased in 2018, which

[2] *It has to be stressed that the concept of adequacy used by the Commission is at odds with the unions' concept for a number of reasons: i) there is no definition used by the Commission, so adequacy refers to a number of different interventions (e.g. improving coverage, generosity, targeting etc.); ii) it is triggered by unknowable variables (e.g. probably only in the case of Latvia the main trigger is the prospective weakening of the benefit ratio); iii) it is far less encompassing than the concept developed in this project (this is de facto shown by its scarce appearance in EU documents, despite the many 'adequacy' problems across the EU-28).*

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possibly confirms the conjecture that the advent of the EPSR has had a role in rebalancing between social and economic aims in EU's economic governance.[3] This finding does not, however, point to a qualitative change in adequacy-related CSRs (see Note 2).

Third, we propose some interpretations of the main factors that seem to lead the Commission to issue CSRs on pensions. They seem to be good predictors of the number and presence of CSRs. Among various indexes, three indicators of pension sustainability are significant for the EU: pension expenditure as a percentage of GDP (measuring current costs), the difference in pension expenditure and effective retirement age between now and the future, which measure the reform effort of a country (for comparability reasons between the Ageing Reports since 2006, we took the base year 2010 and the year 2060 for projections).[4] The coefficients related to pension spending are positive (higher pension spending, actual or projected, leads to more recommendations) and those related to retirement age are negative (a lower retirement age leads to more recommendations). The interpretation is straightforward: lower future spending and higher effective retirement age improve the fiscal sustainability of pension systems in time. In fact, most of the countries that introduced Automatic Stabilization Mechanisms (ASMs) - in the Commission's words linking the statutory retirement age or benefits to life expectancy - have witnessed a reduction in future pension spending projections.[5]

The Commission's evaluation of past reforms is a further strong predictor. In particular, if the Commission is satisfied with past reforms (if the CSRs are partly or fully fulfilled as signalled through yearly evaluations contained in the Country Reports), the number of subsequent CSRs declines. Additionally, the presence of Automatic Stabilization Mechanisms has a similar effect. When a country introduces an ASM, it can expect fewer CSRs from the Commission in subsequent years. Hence, we can with some confidence conjecture that fiscal consolidation has been the key driver of pension-related CSRs in the European Semester.

Economic Adjustment Programmes

A further, even more effective, layer takes place at the 'global' level (in the sense that the EU collaborates with other international organisations). It involves the hardest type of conditionality (the disbursement of financial assistance is conditional on fulfilling stringent recommendations) and is represented by Economic Adjustment Programmes (EAP) involving a detailed Memorandum of Understanding with EU institutions and the International Monetary Fund (the presence of the Bretton Woods institutions qualifies EAP as 'global' instruments). An EAP is stipulated following an official request of the country undergoing financial stress. The programmes are based on different credit facilities depending on whether countries are members of the Euro area or not. Compliance is basically non-negotiable. Being subject to an adjustment programme means that a country is unable to service its public debt at market rates. Excessively high interest rates, often a result of deteriorating sovereign credit ratings, represent an immediate and direct threat to the fiscal sustainability of both the individual country and

[3] Both the discrepancy between sustainability and adequacy in previous CSRs and the recent convergence are ex post deductions. The only way of proving the causality is by asking directly DG Employment.

[4] *On the one hand, the Commission in its Ageing Reports shows a higher degree of flexibility, whereby the pension systems with modest projected spending increases are not automatically deemed as unsustainable, thereby leaving room for manoeuvre for a more accommodative concept of 'sustainability', as developed by the ETUC.*

[5] *It is important to note, however, the warning by World Bank economists that the Ageing Reports' projections are overoptimistic regarding pension spending projections.*

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the Eurozone. So far, eight countries have been subject to EAPs: Cyprus, Greece, Hungary, Ireland, Latvia, Portugal, Romania and Spain (just for bailing out its banks). Many of these have been forced to adopt sweeping pension reforms.

At the global level, financial markets exert extreme pressure through charging high risk premia on government bond yields when macro- and micro-policy indicators are imbalanced (e.g. budget deficits and pension spending). As shown in section 3, some EU members have experienced such a market pressure and thus prove global constraints often reinforce EU economic governance priorities.

2.2 The European Social Governance and the European Pillar of Social Rights (EPSR)

In the wake of the recent financial and economic crisis, many have criticised the European Union strategy to address socio-economic issues. Many have seen the further deterioration of the social dimension of the EU and the more evident disequilibrium between the economic priorities of the integration project and its social aims (Copeland and Daly, 2018).

In such a context, the Juncker Commission clearly set the ambitious programme of for a rebalancing of the social and the economic sides of the EU. In particular, the Commission proposed the European Pillar of Social Rights (EPSR) on 26 April 2017. The Pillar was presented as a mechanism to rebalance the EMU and to push for stronger social standards. The EPSR was adopted in a solemn declaration by the European Parliament, the European Commission and the Council of the European Union in November 2017. The principles are to be implemented by various instruments, particularly social benchmarking and policy coordination, but also directives, which are legally binding (Rasnaca, 2017).

The Pillar consists of 20 principles that are organised under three headings: equal opportunities and access to the labour market; fair working conditions; and social protection and inclusion. Two of its 20 principles are relevant for this study. No. 12 on social protection: “Regardless of the type and duration of their employment relationship, workers, and, under comparable conditions, the self-employed, have the right to adequate social protection.” No. 15 on old-age income and pensions: “a. Workers and the self-employed in retirement have the right to a pension commensurate to their contributions and ensuring an adequate income. Women and men shall have equal opportunities to acquire pension rights. b. Everyone in old age has the right to resources that ensure living in dignity.”

As stressed above, the Pillar proposes four types of instruments to progress on the different principles:

- The first instrument is *social regulation*. This refers to EU-level legal standards in social and labour market policy. Most social regulation in the Pillar consists of directives, providing some discretion for Member States to implement the norms. It is the case of three directives - two of these directives cover the work-life balance directive and the written statement - covering five principles;
- *Soft coordination* (SC) that involves common EU guidelines, national reporting and EU surveillance/assessment of Member State policies. A variant of soft coordination is a Council Recommendation;
- *Social benchmarking* (SB) consists of comparisons in social policy based on common European data and EU benchmarks, but with no Member State reporting, no EU surveillance and no country-specific recommendations. In the

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Pillar, social benchmarking is embodied in the 'social scoreboard' that has been developed in the European Semester to focus on key benchmarks;

- *EU co-funding*, the main funding instrument in social and labour market issues is the European Social Fund (ESF), which provides funding to spur growth and jobs and to decrease inequality (de la Porte, 2019: 5).

As for pensions, both principles considered rely on soft coordination and social benchmarking. The former is EU-facilitated policy coordination that involves common EU guidelines, national reporting and EU surveillance/assessment of Member State policies, including country-specific recommendations (although they are not binding, they may be agenda-setting). A variant of soft coordination is, for example, the Council Recommendation on access to social protection for workers and the self-employed. Such recommendation intends to underline the political willingness of Member States in support of a principle. A Council recommendation could include analysis of the situation in Member States and point to a relevant policy solution.

Social benchmarking (SB) consists of comparisons in social policy based on common European data and EU benchmarks. In the Pillar, social benchmarking is embodied in the 'Social Scoreboard'. The section below outlines the main problems of the instrument.

The literature on the EPSR has outlined its potential for some rebalancing of the EU governance (in general and for pensions in particular). Analysts have stressed the EPSR reiterates the current EU social policy regime and raises awareness of the EU's social dimension. It also provides impetus, through various new initiatives, to support Member States in responding to current challenges in social and labour market policy (de la Porte, 2019). For Sabato and Corti (2018), the first potential function of the Pillar is to revamp the EU social agenda by reinforcing social priorities, relaunching existing debates and initiatives in the social domain and proposing new ones. This is the case for the involvement of stakeholder and trade unions in particular. What is more, the Pillar provides the EU with a social policy framework to steer Member State social policies in the direction of EU orientations and recommendations. Thirdly, the EPSR may influence the direction of EU macro-economic and fiscal policies, thus rebalancing the social and economic dimensions of the Union. The Pillar has represented a turn towards a social rights approach where the greater emphasis to social protection is framed in line with the primary objective of the promotion of social rights (see the ETUC resolution, 2019).

In line with some contributions in the literature the European Semester has seen a form of socialisation of EU economic governance. That socialisation started well before the advent of the Pillar, but has been further reinforced by the EPSR. In the words of Hacker (2019), the Annual Growth Survey 2018 did refer to 15 of the 20 EPSR principles, focusing on education, social, labour and employment policies. In parallel, in the Commission proposal on the new employment guidelines (European Commission 2017f; 2017g), reference was made to 11 of the 20 principles. In the Joint Employment Report (European Commission 2018), twelve out of fourteen Social Scoreboard indicators were taken up, though – at the request of the Member States. This progress seems less evident in the field of pensions. The same Annual Growth Survey 2018 saw a very narrow interpretation of Principle 15 of the EPSR from a primarily labour market perspective: longer working lives are seen as a social measure aimed at providing for adequate retirement income.

At the same time some potential shortcomings have been stressed. From a legal and procedural point of view, for Rasnaca (2017), the 'EPSR contains more of a promise than a binding pledge to use the principles and rights embedded in it' in that is largely based on non-binding and secondary regulation. On top of that, one of its key components, the Social Scoreboard, is underdeveloped (see section 2.4 below). The Social Scoreboard– that is made up of 14 main indicators complemented by 21 secondary indicators

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associated with 12 subject areas sorted in accordance with the three chapters of the EPSR - is seen as largely inaccurate and inadequate for evaluating Member States' performance in the social policy area (Galgóczi et al., 2017).

The case of the proposal for a Council Recommendation on Access to Social Protection for Workers and self-employed is of particular importance. On the one hand, it represents an opportunity for the implementation of the rights-based approach to social protection and for an encompassing perspective to 'ensure highly inclusive, solidarity-based, fair, equitable, effective, adequate, and sustainable pension systems (ETUC, 2018). On the other, the final text of the Recommendation has been assessed as weak for a number of reasons: the withdrawal of the 'transferability' issue, the weakening of the priority of enhanced formal coverage (due to the reference to voluntarism as to the case of self-employment) (ibidem). Being a case of soft law, the effective monitoring of national cases and the effective coverage of old age risks is a critical point (see section below on indicators to be further developed).

As well as for EU economic governance, EU social governance is paralleled by a global social counterpart. The United Nations has developed both the Sustainable Development Goals (SDGs) in its 2030 Agenda for Sustainable Development - e.g. SDG 1.3 on implementing nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieving substantial coverage of the poor and the vulnerable and SDG 8 which embodies the Decent Work Agenda - as well as the long-standing International Labour Standards through International Labour Organization Convention No. 152 on Social Security (Minimum Standards) and Recommendation No. 202 on Social Protection Floors. Yet, despite ratifications and some legal enforceability, these are weak instruments, especially with respect to UN donor countries, which are partly concentrated in the EU. Furthermore, they do not address adequacy or ageing in dignity, but only refer to floors, which in Europe cover already 97.7 percent of pensioners (ILO, 2017: 79). Similarly, the Council of Europe's Social Charter is also a relatively neglected instrument, seldom used in the realm of pensions (De Schutter, 2016).

Indeed, attempts to challenge provisions in the labour law and social protection fields implemented pursuant to Economic Adjustment Programmes before international courts, like the European Court of Human Rights, and even before the European Court of Justice, have been mostly ineffective so far[6].

2.3 Limits of the EEG economic and social indicators about pensions

EU institutions evaluate the long-term sustainability of public finances with respect to the issue of ageing populations by estimating the so-called cost of ageing through a set of macroeconomic projections based on different assumptions and scenarios (but defining a "baseline scenario" as a benchmark), , i.e. the increase in the spending for pensions and other age-related spending in the simulation period (2016-2070 in the last Ageing Report). Pension spending projections are run by national Governments by means of their national models, according to assumptions shared by all Member States, while projections of age-related spending different from pensions are carried out by the EU Commission.

Pension adequacy in current and future years is instead assessed in the Adequacy Report by computing expected "theoretical" replacement rates (i.e. the ratio between the pension benefit in the first year after retirement and the final wage) for some representative individuals, characterized by different working careers. Likewise, living standards of current older people is also evaluated by looking at AROP and AROPE

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[6] See, for instance, the Decision 7.5.2013 in the European Court of Human Rights case no. 163 (Koufaki and Adedy v. Greece) and Order of 27 November 2012, Case T-541/10 (Adedy and Others v. Council).

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indicators. It has to be noted that computations included in the Adequacy Report are based on simple simulations of career evolutions for representative individuals under some shared assumptions (e.g. about GDP growth), while AROP and AROPE for current elderly are computed by using EU-SILC data. No complex dynamic micro-simulation models – that define over time the evolution of a given population and its income distribution, including the trend of workers characterized by various careers – are instead used for comparing country performances, even if national Governments are increasingly making use of these types of models which, under some assumptions, allow to compute, for instance, the evolution over time of inequality and poverty among the elderly.

Finally, it has to be pointed out that none of the 12 headline indicators of the Social Scoreboard directly focuses on pensioners or the elderly.

Given this context, it has to be stressed that the EU approach to pension policy has been marked by the limits of the indicators used – with serious consequences in the capacity to correctly compare country performances and to propose proper policy measures in the pension field. In this sub-section we refer on the one hand to the Social Scoreboard indicators; and, on the other hand, to the standard approach followed in the Ageing and Adequacy reports.

First, Social Scoreboard indicators only partially take into account issues related to pension adequacy and, more in general, ageing in dignity, and this for many reasons, e.g.:

- no specific reference is made to pension benefits and to the adequacy in protecting living standard independently of the success of the previous working career (e.g. as indicators about expected pensions of representative individuals with different careers would instead show);
- no dimensions crucial for elderly wellbeing, apart from pension benefits, is considered, namely proper access to high-quality in-kind benefits, such as long-term care and housing. Moreover, the “unmet need for medical care” indicator, left alone, is inadequate at capturing multifaceted issues related to health care provision;
- no reference is made to further dimensions crucial for elderly wellbeing – and clearly related to possible policy measures, e.g., active ageing measures and opportunities to continue to work at older ages (captured, for instance, by older workers’ employment rates by workers’ skills), unemployment risks at older ages (also over 64), life expectancy in good health and its link with the previous working career (where social differentiation of health clearly clashes with pension systems where the opportunities are equally shared);
- no reference to income inequality among the elderly is made, apart from the use of the AROP that only captures inequality at the bottom end of the distribution;
- the mere reference to AROP and AROPE does not allow to distinguish drivers of poverty and social exclusion, i.e. if they are related to high needs (due, e.g. to household composition or disability status) or to fewer resources (indicators about poverty dynamics would, for instance, shed further light on these issues). In the case of fewer resources, the reasons behind them should be also disentangled, clarifying whether AROPE is due to gaps in formal access to welfare benefits or to limited effectiveness (e.g. due to unsuccessful previous careers, previous inactivity status, inadequate pension benefits);
- the impact of social policy on reducing poverty should be assessed through more detailed models than through a simple pre and post comparison, also to take into account possible redistributive effects related to taxes and contributions. Likewise, even if it is out of scope of the Social Scoreboard, serious attention should be devoted to analysing and comparing the redistributive impact of

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pensions, taking into account that this impact cannot be evaluated by comparing relative positions of the elderly with and without pensions, but analysing, over the whole life-cycle, the link between pension contributions and the received benefits;

More generally, inequality, social exclusion and the distribution of economic wellbeing within a population, and among the elderly, are extremely complex phenomena that should be carefully assessed from different perspectives to get a clearer picture. Therefore, focusing on just a few indicators might simply provide a distorted picture of the object of interest, with the added risk of biasing the cross-country comparison and the capacity of policy makers to identify the most proper measures.

As concerns the approach followed by the adequacy report, sensitivity analysis with respect to many aspects is necessary. For example, the success of the working career is worth looking into more deeply, even if a greater number of fragmented and complex careers should be compared in order to better capture possible risks for current and future pensioners (individual careers are often non-linear – e.g. from a non-standard arrangement to an open-ended contract, but individuals often experience many transitions between the various states). Relying on the theoretical replacement rate (TRR) indicator only risks being myopic, since TRR only compares pension with the final wage without pointing out whether that pension (or the wage it replaces) is enough to achieve a proper living standard in old age. TRR is clearly a good indicator in earnings related systems where the link between wages and pensions is clear, but its capacity to capture pension adequacy diminishes where this link is not established by the computation method of the pension system (e.g. in Notional Defined Contribution schemes – NDC). TRRs should be at least associated with indicators measuring, for current and future pensioners, the ratio between the pension and a monetary threshold considered as a proxy of an adequate economic condition. For instance, it might be a nonsense arguing that a scheme guarantees a 60% TRR to a non-standard worker when the size of the denominator (the adequacy of the wage) is not taken into account. Likewise, even if it is an extremely complex procedure to be carried out, dynamic micro-simulation models should be used to assess the evolution of labour market trends and the influence of these trends and of policy reforms on the whole distribution of pension benefits.

Furthermore, as already mentioned when discussing limits of the Social Scoreboard, adequacy in old age living standards should be assessed by looking at multidimensional indicators taking jointly into account monetary aspects (e.g. pension benefits, minimum incomes), access to adequate in-kind welfare benefits (e.g. good quality and affordable or free health and long-term care) and, more in general, aspects who affect the quality of life. As to the latter point, emphasis should be made on the quality of jobs performed when the working life lengthens. Proper active ageing policies might, therefore, improve the quality of life with positive feedback on older people's health also when they stop working.

As concerns the issue of financial sustainability, which the Ageing Report focuses on, some clear limits should be emphasized. First, the process is analysed through projections and not forecasts (different long-term scenarios are proposed without a clear probability distribution about the occurrence of the various scenarios). However, the baseline scenario (one of the thousand possible scenarios) takes a sort of status quo tyranny and becomes in the public debate a source of policy suggestions and reforms, without discussing the reliability and the methodological limits behind the scenario and the simulation exercise. For instance, simulations are run through independent modules without considering possible feedbacks between the denominator (the GDP) and the numerator (the pension spending). As a consequence, for instance, no possible retroaction of a cut in pension spending in GDP growth is considered. Likewise, these models being driven by the supply side, no possible negative effects of increasing

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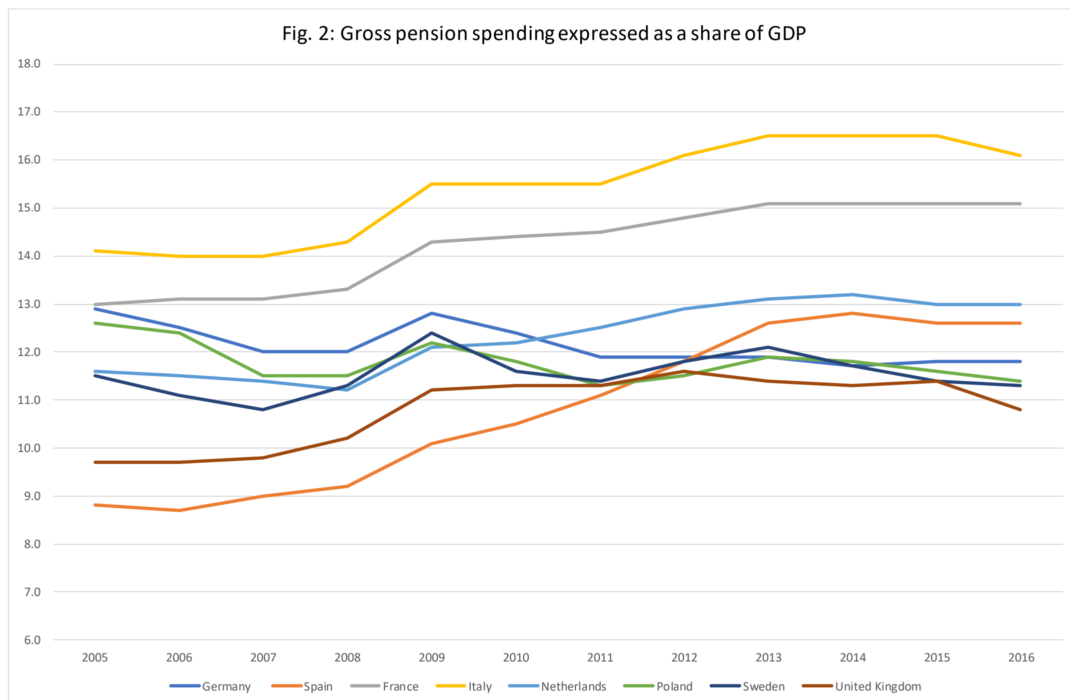
retirement ages on labour demand for the younger workers is considered and, not taking into account distributive issues, the unequal distribution of the possibility of postponing the retirement is considered too. Furthermore, some black boxes about some crucial assumptions (e.g. immigration rates, productivity growth) exist and basically drive the results.

Finally, the emphasis on providing indicators about pension sustainability by only looking at the spending on GDP ratio has to be questioned for at least three reasons. First, to assess the impact of pension systems on public budgets (and capturing country specific peculiarities in taxation) spending should be assessed net rather than gross of taxes. Secondly, the burden for public finances of the increasing costs of tax deductions in favour of private pension schemes should be also computed. Third, the spending/GDP ratio is of course crucial to compute the share of total resources appropriated by the elderly and is a main indicator for public budgets. However, this ratio does not inform about the wellbeing of the elderly and its trend over time, differentiating the number of the elderly (i.e. the composition of the population exposed to risk in old age) across countries and overtime. For instance, looking at per-capita pension spending instead of spending to GDP ratio both trends and country rankings clearly change (see figures 2 and 3 where we compare trends in these two indicators in selected major EU countries in 2005-2016 according to Eurostat figures).

In this regard, one has to take into account that the pension system, and the welfare state in general, is a social insurance whose weight (and features) depend on the number (and the characteristics) of the individuals exposed to a certain risk. Assessing welfare schemes without taking into account these peculiarities risks dampening the possibility of pursuing the objective of 'ageing in dignity'. Therefore, the emphasis on a certain phenomenon and the policy suggestions are clearly driven by the specific type of indicators chosen by the policy-makers.



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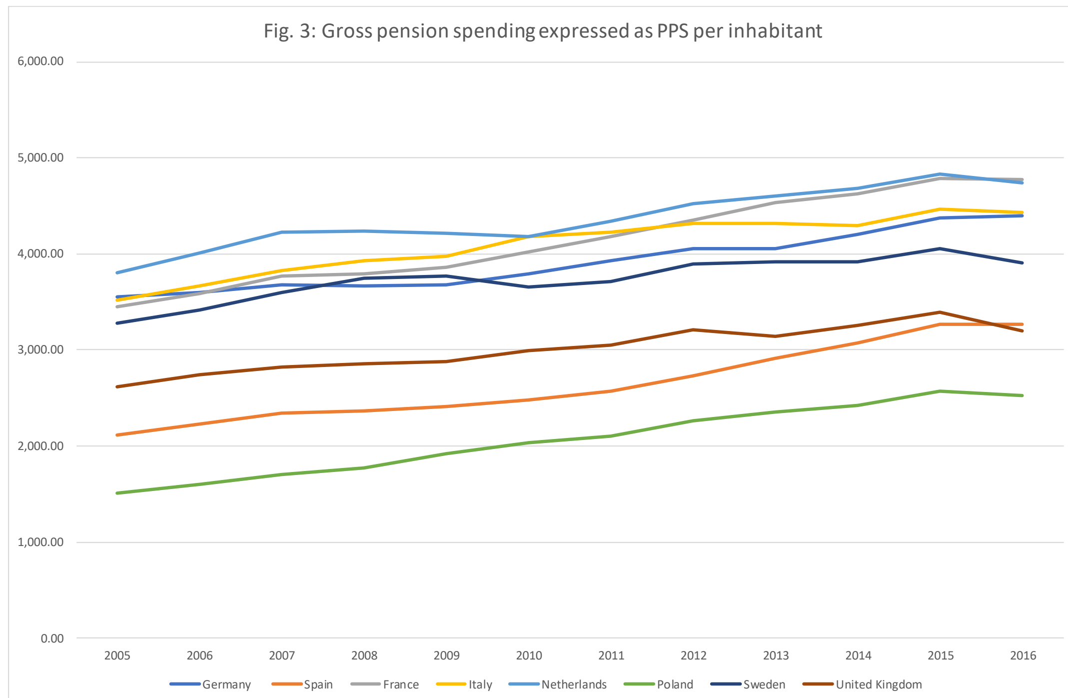

3 Pensions in EU Member States

After having reviewed the EU governance of pensions and its main challenges, this section starts with the brief review of domestic pension reforms across the EU in recent years. Such a brief comparative analysis provides evidence of the major trends in terms of policy output (the content of reforms) and outcome (their effects on pension rights). As for the reform output, we see evidence of the primacy of the financial sustainability goal in the Member States. The asymmetry between economic and social priorities seen at EU level has been paralleled by the major focus on financial sustainability (reducing pension spending and/or increasing revenues) at the national level. As for the reform outcome, the long-term prospects for the financial sustainability of pension systems are not that gloomy. Yet, comparative data show the potential increased problems for the future adequacy of pensions (partly a consequence of the reforms implemented so far). We point out some of the main challenges that might engender serious consequences on the economic wellbeing of the elderly if pension systems do not properly deal with them in the near future. Finally, we provide a brief summary of the main triggers identified by the more recent comparative literature and provide evidence of the actual economic and social outcomes of the reforms.

3.1 Recent reform trends across the EU: An overview

The pension reform process of the last decade in Europe has been intense. Between 2009 and 2010, many countries experienced counter-cyclical measures to improve the adequacy of pension benefits. But afterwards austerity measures gained centre-stage. By looking at the measures targeted on first pillar schemes between 2011 and 2014, **the agenda shared by many European countries consisted of the containment of pension spending** (through stricter links between contributions and benefits and more meagre indexation of pensions) and prolonging working life (increasing the pensionable age and strengthening eligibility requirements for early retirement. These packages proved innovative in many respects. First, some of the reforms had an immediate effect

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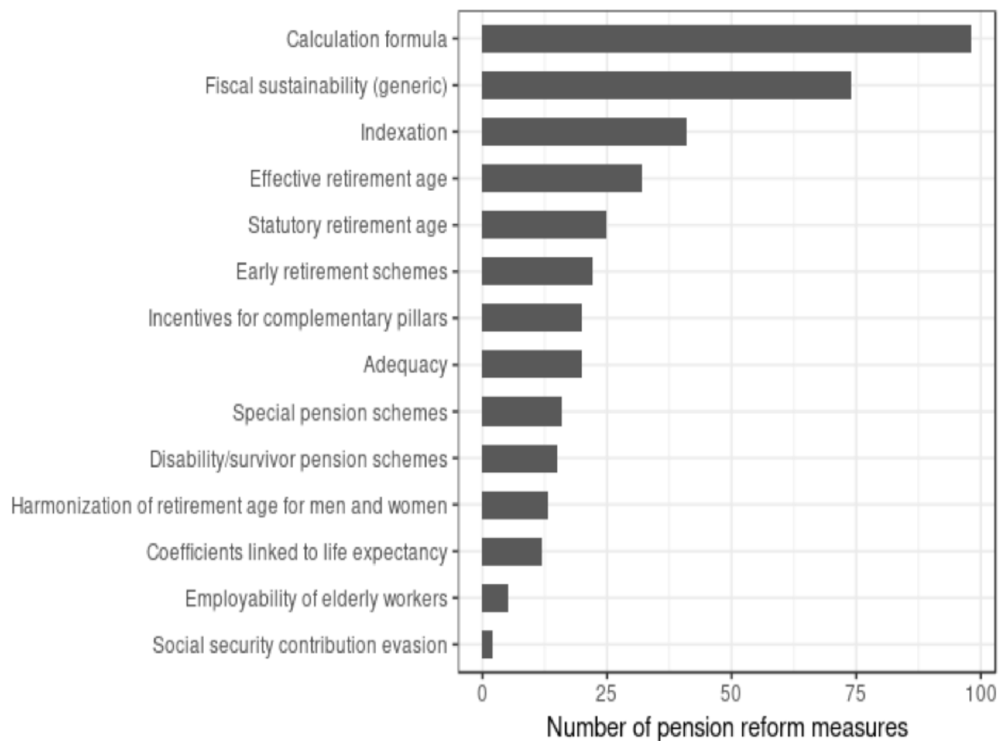
or a very short phase-in period. Second, some of the cost-containment was implemented through automatic mechanisms that in the future will revise the 'pension promise' in line with the socio-economic and demographic factors. This is the case with the automatic increase of the pensionable age according to the expected increase in life expectancy. Third, prolonging working life has become a must for policymakers. Legal pensionable age has been increased in many countries. Parallel with this, access to early retirement has been largely restricted (Natali, 2017).

In the following, we have integrated the Commission's database by recoding pension reforms in line with their area of intervention, following the categorization proposed by Guidi and Guardiancich (2018). This led us to identify the 14 categories shown in Figure 4 below[7]. Similarly to the content of the Country-Specific Recommendations also most elements of reforms deal with fiscal sustainability issues (from making the calculation formula less generous, to raising the retirement age and so on) rather than with adequacy or incentives for private savings.[8]

Figure 4: Number of pension reforms by type (2006-2015).



Note: "Fiscal sustainability (generic)" includes additional resources earmarked, e.g. higher contributions and/or taxes.

[7] We draw from the findings by Guardiancich and Guidi (2019), who rely on the database of pension reforms by Carone et al. (2016). The database tracks major reforms of private and public pensions that took place between the 1990s and 2015 in the current 28 Member States of the EU, assigned to five broad categories (eligibility, indexation, pension formula, resources and schemes). The two authors study the period 2006-15.

[8] *Also in this case, the concept of adequacy does not coincide with the ETUC's one. Here, reforms are deemed as improving adequacy if they expand in any term the benefits accrued o pensioners (in amount, in time, in coverage etc.).*

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Beyond such a common reform trend, European countries have also maintained some peculiarities. Some countries have seen the implementation of particularly intense cutbacks on the first pillar, with an evident effect on pension rights. These are the countries most hit by the crisis and with more explicit budgetary strains: Southern European countries, Ireland, the Baltics and some Eastern European countries. Other countries have experienced a more mixed set of reforms, with long-term reductions but also with some benefit improvements. This is the case of the countries less affected by the economic, financial and fiscal tensions, such as Austria, Germany and the Netherlands. Still others (e.g. Finland) experienced a mix of retrenchments and improvements of minimum pension benefits. In some Eastern European countries (e.g. Bulgaria, Croatia) the national political climate proved to be at odds with the idea of cutting pensions as part of fiscal consolidation.

All in all, many of the reforms in the period 2011-14 largely confirm the longer-term trend towards cost-containment. This is expected to improve the future financial sustainability of public pension schemes across the EU. As a consequence of the austerity measures passed in the last decades, prospects of the financial viability of the pension system are not that worrying. For the first time the overall projection for the EU is a reduction in average pension spending between 2013 and 2060. The peak is reached sometime around 2037, when expenditures start gradually declining (Natali, 2017). To many respects the 'pension time bomb' evoked in the 1980s has been dismantled. By contrast, the future social sustainability of pensions seems at risk. Future first pillar pension benefits are expected to decline in many countries (see section below) while inequality in the old age may also rise (see Spasova et al, 2018).

In the more recent period, between 2015 and 2017, the pace of reforms in Europe has slowed while measures to address problems of adequacy have become more evident (OECD, 2017). Some countries confirmed the priorities set in earlier stages of the reform process (see Denmark that has planned to further increase the legal pensionable age up to 68 years in 2030). Other countries have shown a more **mixed strategy and partly reversed the austerity path followed in the past**. In Germany, the Flexible Pension Act (*Flexirentengesetz*), of December 2016, broadened the range of retirement options before and after the normal retirement age. This legislation may enable older workers to remain employed longer, but OECD (2017) suggests it may represent the equivalent of early retirement programmes with the consequent reduction of labour supply. Since January 2017, full pensioners continue to be subject to contributions to the statutory pension scheme until they reach the statutory retirement age. As a result, they will generally increase their pension entitlement. In 2016 Italy set up a financial advance pension (APE) and the "social advance pension" (social APE), a separate early-retirement scheme for some vulnerable groups (e.g., long term-unemployed and some categories of employees performing "heavy" jobs). This first step, consistent with the overall increase in pension spending, was then followed by the wider reform of the populist Yellow/Green government in 2018, which introduced, on an experimental basis, early pensions by allowing all workers to retire when they accrue either 41 contribution years, or 100 years as the sum of age and contribution years (so called "quota 100") at an age no lower than 62. This measure is expected to increase public spending of about 22 billion euros in the next three years. Secondly, the Government set a "citizenship pension" to top up poorer pensioners' benefits (but due to strict means testing conditions only few thousands of poor pensioners are expected to receive this type of benefit).

In parallel, **Member States have not seen a general increase in the role of supplementary pension funds** (in terms of contribution rates and coverage). As far as

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Southern and Continental European countries, they have not passed major reform measures on pre-funded schemes. Yet some of these countries have legislated a cut in tax subsidies for contributions to voluntary pension funds (e.g. Austria, Belgium, Greece, Spain). In parallel, the coverage of voluntary pension funds has slightly increased (e.g. Italy and Spain), but at a much slower pace than in the past. In Central and Eastern Europe, some countries first decided to put contributions on hold. This has been followed by a more radical intervention. Hungary rolled back mandatory pension funds in 2010. In Poland, pension fund members had to choose to pay contributions to pre-funded schemes or to pay the whole contribution into the public PAYG system. Savings currently remain in the pension funds, but they will be transferred to a pay-as-you-go system gradually. Membership of funded schemes could be continued on a voluntary basis.

3.2 Past and expected trends: a general assessment

Apart from the direction of these reforms and their general impact on sustainability and adequacy, it must be pointed out is that the effect of the reforms might be very heterogeneous between the various typologies of workers.

For instance, if, on the one hand, increasing retirement age and strengthening requirements for early retirement might reduce the wellbeing of individuals forced to continue to work, but might also increase their replacement rate, due to the longer working life (especially where a strict link between contributions and benefits exist), on the other hand the same measures might seriously dampen the psychological and physical wellbeing of the older individuals who find it difficult to continue to work for many – often interacting – reasons (e.g., the heaviness of the job, a low labour demand exposing especially the low skilled to high unemployment risks in old age, health problems that can be worsened being forced to continue to work, needs of reconciling work and family activities). Therefore, possible heterogeneous effects of reform measures should be carefully taken into account when assessing social consequences of a reform.

Likewise, the automatic link between the average increase in life expectancy and the pensionable age is clearly at odds with the evidence that nothing is maybe more unequal than individual life expectancy (and health conditions) in old age, as confirmed by all economic and epidemiological studies which show the existence of a clear gradient between individual health and socio-economic characteristics (Marmot, 2015).

Furthermore, when analysing possible effects of reforms on sustainability, possible negative effects of retrenchment reforms on GDP and employment growth cannot be overlooked. Indeed, although economic literature has pointed out the so-called “lump of labour fallacy” stressing that older employees do not displace youth employment (e.g., Brugiavini and Peracchi 2010), a non-gradual steep increase in pensionable age, especially during a recession phase, might constrain job opportunities of the youngest, and also increase labour costs and reduce workers’ productivity.

Moreover, pros and cons of schemes where the link between contributions and benefits is made stricter have to be carefully analysed together with the characteristics of the labour market. If, on the one hand, a stricter link incentivizes labour supply and contribution payments, the fairness of that type of scheme has to be assessed looking at the acceptability of labour market outcomes. If pension schemes become, for instance, a pure mirror of individual outcomes in the labour market (as it is the case in Notional Defined Contribution (NDC) schemes), individual differences in pension benefits due to circumstances exogenous to individual choices – e.g. the luck of being hired with a better contractual arrangements or never experiencing job interruptions – should be compensated by further types of transfers (e.g. notional contributions, pension credits, minimum guaranteed benefits).

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Increasing the role of private schemes has also to be assessed on both efficiency and equity grounds. On the one hand, as already mentioned, the budgetary cost of tax incentives for private schemes has to be carefully computed and compared with the spending for the public scheme and also the supposed higher efficiency of private schemes in terms of higher (and safer) returns has to be analysed, especially when administrative costs are taken into account. On the other hand, private schemes (and the associated tax exemptions) are usually regressive since the type of tax deductions and the probability to participate (favouring stronger workers and disadvantaging mostly those with non-standard arrangements) tend to favour more advantaged workers.

Finally, possible social outcomes of pension reforms have to be assessed jointly considering the tendency of the labour market. Indeed, as mentioned, more flexible and individualised labour markets – where the uncertainty over the working life increases for many individuals – might dampen the acceptability of schemes where benefits only depend on the success of the whole working activities.

Expected trends in technological progress (digitalization and robotization) coupled with a weaker bargaining power of workers and a stronger competition coming through globalised markets, might further increase risks of pension inadequacy in future years. These trends challenge both the financing of the system and the benefits it is going to provide. As for the former aspect, technological innovations may lead to a reduction in the labour force, a decrease in the share of total product devoted to workers (i.e. the labour share) and thus the progressive decline of payroll taxes. As for the latter, the risk of more fragmented working careers – preventing many workers from paying adequate contributions during their working life – and of a dramatic increase in earnings inequality may make more evident the need for a safety net (less related to the occupational status) for the elderly.

The drop in the labour share may cause changes in the method of financing of first pillar pensions. The role of taxes on all possible taxable bases (e.g. labour, profits, wealth, consumption) may increase while social contributions may decline. Note, however, that until total resources (GDP) available in a country do not reduce, but only functional inequality between wages and profits increases, there is no need to leave the pay as you go financing method, but the financing sources of the pay as you go should be changed.

Changes could be expected for the benefit structure as well, if inequality among workers increases further. Means tested and/or flat rate benefits could be further developed while the role of earnings-related (especially when earnings are not related only to the most successful working periods) and contribution-based benefits may decline. Technological innovation may also entail job modification and increased inequalities. The spread of atypical and low paid contracts may produce the same effect discussed for the case of job destruction: the reduction in the wage share and the consequent more limited coverage of earning-related and work based schemes (both first pillar and second pillar pensions). Therefore, an increase in inequalities could weaken the adequacy of contributory schemes and more redistributive measures should be implemented to guarantee the most disadvantaged categories, i.e. the losers of the globalization and innovation challenges.

Finally, as concerns the burden of ageing for public finances – i.e. the increase in age-related spending if proper reforms are not introduced – it has to be clarified that, of course, a society with a higher number of older people is also, almost unavoidably, a society where a higher share of total resources is devoted to the elderly. Pension and labour market reform may reduce the shift in the share of resources devoted to the elderly but is likely to reduce their wellbeing through, e.g., much longer working lives and/or lower pension benefits. However, an implication of the ageing should be clearly pointed out, similarly to what was discussed before about technological progress. Indeed, if ageing does not reduce total resources available in a society, the main issue of ageing

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becomes a distributive question – i.e. how to divide resources between the active and the inactive individuals. However, much more serious problems would emerge if ageing was coupled with a drop in total resources since the distributive pressures of the higher number of inactive should be matched with a smaller amount of total resources, thus strengthening a possible conflict between individuals in various phases of their life. However, reassuringly, no robust evidence emerges in economic literature about a definite link between population ageing and slower economic growth, since a number of possible countervailing links between ageing and growth exist.

3.3 What triggers these reforms?

What has shaped the last decade of pension reforms across the EU? We refer to two major 'external' factors: i) financial market pressures and economic adjustment programmes at global level; ii) the preventive and corrective arms of the Stability and Growth pact and of the Macroeconomic Imbalance Procedure. We also provide a short discussion of the current, if still limited impact of the EPSR as well as of the changing role played by trade unions at the domestic level of decision-making.[9]

The first finding is that market pressures exerted by international finance through bond yields are the strongest factor driving reforms (so, at the global level, beyond European influence). Here, a myriad of actors, such as international organizations, ratings agencies, global investors signal that reform is needed before a bailout becomes unavoidable, thereby influencing domestic policy-makers even before they ask for financial help to the *troika*.

In this respect, the Trichet-Draghi (the outgoing and incoming ECB presidents) letter sent to Italian Premier Silvio Berlusconi in August 2011 is emblematic. The missive recommended to increase and equalize the statutory retirement age of women in the private and public sectors, and to limit seniority pensions. Failure to act made government bond yields rise critically and precipitated a dramatic government crisis. Debt servicing costs that would have become unbearable swung the door open to the sweeping reforms under the technocratic government of Mario Monti.

More recent events point to the continuing importance of market pressures. The right-populist Italian government that formed after the 2018 general election set out to reinstate seniority pensions and undertake other generous expenditure programmes. The plans provoked a stormy reaction. Italian bond yields skyrocketed, numerous actors (the IMF, international investors, ratings agencies) disapproved of the move, and the Commission threatened to trigger an Excessive Deficit Procedure, for the first time based on the debt (rather than on the deficit) criterion. These reactions led the government to narrow the scope for early exit, and significantly reduce the overall planned budget deficit.

Yet, political recommendations should not be dismissed outright. Hard, formal conditionality seems to provide clear reform guidelines to countries under financial stress and that present huge problem loads. A glance at major reforms reveals that most of the euro area Member States receiving financial assistance (Cyprus, Greece and Portugal) introduced an automatic stability mechanism - for example, linking the statutory retirement age or pension benefits to life expectancy - during the period of observation.

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[9] *Our analysis is largely based on Guardiancich and Guidi (2019) who have assessed the main triggers of pension reforms in the EU-28 between 2006 and 2015.*

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Looking at less extreme forms of market and political pressure, we find that both worsening macro-policy fundamentals (budget deficits) and micro-policy indicators (pension spending) trigger reforms, provided that they are coupled with formal conditionality procedures. The strength of the two interactions lend credence to the higher compliance of countries with the corrective arm of the Stability and Growth Pact than with the preventive one (see De Nederlandsche Bank 2016), as well as to the overall low-to-medium average implementation rates of CSRs (see Darvas and Leandro 2015), especially in a thorny domain such as pensions (Al-Kadi and Clauwaert, 2019).

Starting with the SGP's corrective arm, we notice that even before bond yields started fluctuating widely, yearly budget deficits exceeding 6 percent of GDP and the associated Excessive Deficit Procedures led to the planned overhaul of the Slovenian pension system. The radical reform was overturned in a referendum in mid-2011, which precipitated the fall of Borut Pahor's centre-left government. His centre-right successor Janez Janša, approved the reform, unable to withstand the pressure stemming from the rapid cumulation of public debt, which doubled in three years, and the spread between Slovenian and German bonds climbing from zero to over 500 basis points.

As for the softer conditionality pertaining to the SGP's preventive arm, there is no evidence that the pension-related indicators on which the Country-Specific Recommendations are based (Guidi and Guardiancich, 2018) exert autonomous pressure. As long as the deficit is under control, there is no speculation on a country's debt, and the European Commission does not act, the presence of structural imbalances in national pensions does not produce substantial reform effort.

Finally, the European Semester seems to have reduced the room for manoeuvre for domestic politicians, substantially reducing political budget cycles in pensions. Notable examples are Croatia and Hungary that introduced important benefit hikes during electoral years before 2011, but not after the inception of the Semester.

As for the impact of the EPSR in national reforms, it is too early to provide systematic assessment. Yet, some preliminary comparative research (see Hacker, 2019) has stressed a limited effect on national official documents, at least with a focus on the broader social dimension. If we consider the National Reform Programmes of 2018, for instance, the EPSR was mentioned as a reference point in just 11 of the 27 NRPs. Despite not mentioning the EPSR, the 16 remaining Member States have all made statements regarding their labour market, employment, social and educational policies in line with the Europe 2020 Strategy, and in some cases in reaction to the previous year's CSRs (ibidem, 28).

As for the role of trade unions, the recent years have seen a turn in their capacity to shape pension reforms (see Natali, 2017). While the end of the 20th century was marked by the persistent role of trade unions in the field, the last decade has provided evidence of a certain decline. Despite the persistence of some key power resources (e.g. union coverage and their continued role in collective bargaining; the ageing of trade union membership; the potential for social mobilisation; and their involvement in the governance of pensions), the last wave of reforms tells us a more complex story. While unions have maintained much power in the pension policymaking process, their role has largely changed. Concertation has given way to more subtle forms of consultation where the government is still ultimately responsible for defining the reform package. Strategic learning has allowed policymakers to isolate trade union opposition or in any case to reduce its potential impact. What is more, especially in Continental and Southern European countries, new actors (such as the financial industry) have been included in the policymaking process. All this has reflected trade union decline, membership losses and the destabilisation of centralised collective bargaining (ibidem, 100-01). As stressed by Duchemin and Weber (2013), trade unions have largely lost their de facto veto power

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in pension policy making. In many countries they have been marginalised and their capacity to have a say in the reform process has clearly declined.

Yet, Ebbinghaus (2017), arguing the case of pensions, and Guardiancich and Molina (2017), for social dialogue practices in general, show the role of trade unions is the result of a number of factors: their organisational resources and membership, the decentralisation of collective bargaining, their administrative role in welfare schemes, their own unity, the political context and their link with political parties. Trade unions' weakness and/or strength in pension reforms is determined by the complex interplay of all these factors rather than by one single determinant. This is why we see such a huge difference between countries. While some countries (e.g. Poland) see the marginalisation of the unions, in some others (e.g. Finland) they have a central role in pensions policymaking. What is more, the role of trade unions seems to be influenced by both structural and contingent factors. While the former (e.g. decline of membership) can lead to an overall decline, the latter (e.g. internal divisions) may be the cause of a temporary weakness. And if trade unions are weakening, political parties and governments are weakening too (Pochet, 2015). Recent evolution after the *Great Recession* proves some countries are experiencing a resurgence of social dialogue rather than its demise (see Guardiancich and Molina, 2017).

4 Concluding remarks

The background paper has shed light on the ongoing two-fold tension between more advanced economic governance (in particular the European Semester and its focus on pension reforms) and weaker social governance (with the European Pillar of Social Rights that has emerged as the more prominent instrument to 'socialise' the EU) on the one hand; and financial sustainability and social adequacy priorities in Member States' reforms on the other.

The paper has provided a summary of the more recent evolution in EU governance with the evidence of the priorities set by the European Semester (through its Country Specific Recommendations) and the still limited role of the EPSR.

We have indicated a number of challenges that have to be addressed, namely: the persistent imbalance between EU Economic and Social Governance; the potential contradictions between the proposed macroeconomic, employment and social policies set in the European Semester and the EPSR; and the weak development of adequacy related indicators. What is more we have stressed the importance of global factors (both international organisations and financial markets) that may reinforce the asymmetry between economic and social priorities in the EU. The asymmetry between economic and social governance risks limiting the room for implementing the EU Council Recommendation on access to social protection for workers and the self-employed in that it tends to limit the financial resources needed to improve benefits.

As for pension reforms in the Member States, the background paper has proposed an overview of the reform trends in the last decade. Here the main challenges are represented by the persistent pre-eminence of cost containment reform measures over benefit improvement, even if in the more recent years some countries have started to challenge past reforms. Reforms in some Member States are expected to contribute to the future problems of adequacy. This is the consequence of the increased mismatch between pension systems and labour markets. The limited development of supplementary pension funds (and their costs) is a further source of tensions.

The combination of EU economic governance and further global constraints has had an effect on national reforms. By contrast, reforms (as indicated in National Reform Programmes and other official documents) do not show (at least for the moment) explicit reference to the EPSR.

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On the base of this evidence we propose some lines of research that we put at the core of the future development of the project:

- As for the EU governance of pensions,
    - it is extremely important to further assess the implementation of the EPSR. It is important to monitor its integration in the European Semester and the consequences on the projected re-equilibrium of the Economic and Social Governance. The future implementation of the Council Recommendation is to be monitored as well.
    - The systematic monitoring of the CSRs (including the 2019 round) will allow for the evaluation of any change in their substantive content and enforcement.
    - The future evolution of the Social Scoreboard will be assessed while we will further reflect on more appropriate indicators for a more effective implementation of the 'ageing in dignity' principle.

- As for the Comparative analysis of pension reforms,
    - We propose to focus on the incidence of non-standard employment in the different Member States (with a specific focus on the 12 countries under scrutiny) and assess their own pension rights;
    - We will then shed light on the impact of recent reforms and their capacity to address the main shortcomings in formal and effective coverage (as well as in the transparency) of pension rights and protection.

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