Expert Study

The Impact of Covid-19 on the future of pensions in the EU

ETUC SociAll Project

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Introduction

The present paper provides a comparative study of pension policy across Europe in the aftermath of the COVID-19 crisis. The aim is to shed light on the impact of the main economic and social consequences of the pandemic on pension policy while providing evidence of the measures passed by different countries to address the key challenges on pensions' adequacy and sustainability.

The pandemic represents a huge exogenous shock that has had negative consequences on the European economic prospects for growth and risks increasing tensions on the conditions of the elderly in the European Union (EU) member states. As proved by the most recent economic crises – e.g. the Great recession of 2008 – economic downturns have always negative consequences on pensions. Pension systems - that at a first glance could seem unaffected by the pandemic – face in fact longer-term challenges. During the pandemic, public pensions continue to guarantee retirees a stable source of income while large part of working people are confronted with unprecedented challenges. Yet, COVID-19 will have longer-term consequences on pensions too.

All this happens in the context of the pension multi-level governance where we see evidence of changes. Both international organisations (IOs) and the EU have revised their pension reform programme. The International Labour Office (ILO) is playing a key role in the global pension debate through the campaign for the so-called global social floor and has prioritized the adequacy of pension benefits. In the aftermath of the crisis, the same ILO and ISSA (International Social Security Association) have focused on the issue of increasing old age pensions for some vulnerable groups: e.g. self-employed, migrant workers, and women. In the post-COVID-19 phase, the latter are proposed to be the target of new measures to improve old age protection. At the EU level, the most recent period has been marked by institutional innovations. This is the case of the European Pillar of Social Rights and in particular the Council Recommendation on the access to social protection for all. EU institutions have put emphasis on the need to improve access and protection for the elderly in the context of the

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renewed effort for social progress. At the national level, many European countries have recently revised their reform priorities both in terms of pension privatisation and retirement age, with more emphasis on old-age protection.

The paper is structured as follows. Section one provides a summary of the main factors shaping the multilevel governance of pension policy in Europe. Section two refers to the main socio-economic challenges related to the pandemic crisis. Section three sheds light on the most recent steps in the pension multi-level governance and the most recent reforms passed in four countries: Denmark, France, Hungary and Italy. These countries present different pension models and different problem loads. Their comparative analysis allows for some generalisations on the most recent reform trends in Europe. Section four concludes with some preliminary remarks and reflections to contribute to the debate between policymakers and trade union's representatives.

1. Pensions policy and governance in Europe

The present section provides a simplified framework for the analysis of pension policy in the aftermath of COVID-19. This framework will help to analyse both the challenges and the outputs of the pandemic. In the framework we include: the main characteristics of the crisis and its potential consequences on health (mortality and life expectancy); economy (GDP trends); and labour markets (employment and (in)activity). We then refer to the governance of pensions and how it has been affected by the pandemic: the first reference is to the multi-level policymaking process where international organisations and the European Union interact with domestic policymakers and stakeholders. The effects of the pandemic are then shaped by the pension systems (institutions and models) in different European countries (Figure 1). The framework outlines that the actual effects of the pandemic on pensions are expected to be huge (especially in the mid- long-term), but they are largely filtered by the decisions taken by policymakers and by the policy institutions inherited from the past.

Figure1. A simplified framework for the analysis of the evolution of pensions in the aftermath of the crisis

Exogenous shock	**Multi-level Governance**	**Policy institutions**	**Pension policy**
	Global IMF/WB/ILO-ISSA		
Pandemic crisis (Economic and social consequences)	**EU** European Semester EPSR	**Multi-pillar** **Social Insurance**	**Emergency measures** **Reforms**
	National (Governments/ Stakeholders)		

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Source, own elaboration

The pandemic crisis represents an exogenous shock with evident and potentially huge effects on pension policy and the reform measures passed in the second part of 2000 and the first months of 2021. Yet the exogenous shock is not the only cause of policy change. It is filtered by a number of actors, institutions, and governance processes that shape the way problems and solutions are identified.

Pension policy is at the core of a typical multi-level governance where domestic policymakers and stakeholders still play the key role in pensions reform, but supranational institutions are firmly involved in the process. The EU contributes to shape the national agenda through a number of instruments of governance, while international organisations participate in the ideational debate and provide support and assistance for reforms. In the last decade, the IMF, ILO and ISSA, OECD have proved to be the most active IOs in pension policy.

The EU has also maintained its focus on pensions, even if its governance has changed in the last year due to the impact of the pandemic. From 2011 onwards, EU institutions have at disposal a host of new instruments to provide economic and policy guidance, centred in the European Semester framework (Bauer and Becker, 2014; Guardiancich and Natali, 2021). The preventive arm of the SGP and of the MIP are soft conditionality measures aimed at preventing member states from breaching the deficit convergence criteria or avoiding excessive macroeconomic imbalances from cumulating. Conditionality is conveyed through Country-Specific Recommendations (CSRs) that are forwarded on a yearly basis to the EU-28 member states. Although CSRs are explicit and formal, compliance is mostly voluntary. The corrective arm of the SGP and of the MIP consists of the Excessive Deficit Procedure and the Excessive Imbalance Procedure. They require immediate policymaking action to avoid sanctions. Yet, in both cases, countries still have some leeway on how to address recommendations. Since 2017, the European Pillar of Social Rights (EPSR) represents a mechanism to rebalance the Economic and Monetary Union (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 (Rasnača, 2017). The Pillar consists of 20 principles. Two of them are relevant for pensions. 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.” Both principles mentioned above rely on soft coordination and social benchmarking. The former 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

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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 so-called 'Social Scoreboard'.

At the national level, political parties, trade unions and employers' organisations continue to play an important role in pension policy (with huge differences between the Member States). As for political parties, they tend to reinforce the EU policy effectiveness whenever their reform agenda fits with the EU priorities. The contrary is true when politicians disagree with the policy objectives set by the EU. The latter effect has intensified as a consequence of the rise of populist movements[1] and the increased opposition to austerity (Abou-Chadi and Immergut, 2019). Either populist parties directly shape the reform agenda when in power, often promoting anti-austerity policies, or their agendas, which may be linked to social policies, e.g. through migration and welfare chauvinism, elicit a response from mainstream parties.

A further aspect to consider is represented by the pension institutions in each country. Pension systems differ from one country to the other. The literature usually refers to two main pension models in Europe. In 'social insurance' systems the state provides the greatest share of individual pension income. A single public pillar pursues an 'income maintenance' goal with generous benefits and general coverage, reducing the room for supplementary provisions. Financing is usually PAYG, so that current contributions and tax revenues are immediately disbursed to finance benefits. This paper will look at France and Italy as typical examples of this pension model. We will also focus on Hungary that is a peculiar case of a socialist system largely privatized in the 1990s to then be nationalized in 2010. The Hungarian pension system is usually identified as a third generation social insurance system (Natali, 2017).

Multi-pillar systems are based, instead, on a very different allocation of responsibilities. The state chiefly focuses on poverty prevention and the provision of basic flat-rate or means-tested entitlements. Non-public schemes, occupational and/or individual, mostly fulfil the income replacement function. Financing is therefore mixed: PAYG for public programmes and funding for supplementary funds. In our comparative analysis we will focus on Denmark that has implemented this model.

All the factors mentioned above – exogenous shock, its main economic and social consequences, governance and institutions, domestic politics – contribute to the definition of the policy measures discussed and passed to address the pandemic. For policy measures we mean both emergency measures, with the aim to improve pension systems adequacy and/or sustainability in the short-term, and pension reforms that aim at redesign pension programmes in the long-term. The latter can be the result of the pandemic crisis or, more probably, the result of longer-term debate to address socio-economic challenges on old age protection.

[1] We define as populist the movements focusing their political strategy on the concept of the people. The latter is identified in socio-economic and/or ethnic terms and counterposed to the political élite (Caiani, 2019).

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2. COVID-19 and its main socio-economic effects

The present section provides information on the main public health and socio-economic effects of the COVID-19 pandemic in the European Union and some selected countries. The latter represent different European regions and welfare state models. It provides descriptive statistics on the spread of the pandemic, demographic trends, economic slowdown, budgetary pressures, labour market difficulties, as well as trends in the financial market. All these elements have contributed to put pension systems under stress.

2.1 Health conditions in the aftermath of the pandemic

Since the beginning of 2020, the COVID‑19 outbreak has rapidly spread throughout EU countries, which have been severely affected. As of 26 April 2021, over 30 million cases and 650.000 deaths across EU countries have been reported (Figure 2 below).

In most Western and Northern European countries, the first wave of the pandemic occurred in March 2020. Amongst the most populated countries, Spain and Italy were those reporting the highest number of cases. Numbers have then increased exponentially in France, Germany, and the United Kingdom as well (Figure 3 below). However, it is important to bear in mind that the number of confirmed cases is strongly influenced by cross-country differences in testing capacity and strategies.

In terms of deaths, which during the first wave peaked in April, as of 31 October 2020 the United Kingdom reported the highest absolute number (over 45.000), followed by Italy, France and Spain (each reporting over 35.000 deaths) (OECD/European Union, 2020). Adjusting for population size, Belgium reported the highest number of deaths per million people (Figure 4 below).

As with testing, comparability of reported deaths suffers from several limitations linked to differences in recording and registration among countries. If we consider the monthly excess mortality, namely the percentage of additional deaths in a month compared to the average monthly deaths in the period 2016-2019, we can grasp the real magnitude of the COVID-19 crisis. As specified by the Eurostat, excess mortality is a more precise indicator of the total impact of the pandemic in that, in addition to confirmed deaths, it "captures COVID-19 deaths that were not correctly diagnosed and reported, as well as deaths from other causes that can be attributed to the overall crisis condition"[2]. The excess mortality in the EU reached its first peak in April 2020, with an increase of 25.1%, and a second peak in November 2020 with a 40.6% increase (Figure 5 below).

As for the selected countries in Figure 2, in November 2020 Poland recorded an excess mortality of 97% compared with the average of the same month over the period 2016-2019, followed by Bulgaria (94.4%), Hungary (59.2%), Italy (51.6%), France (31.3%), Germany (13.1%), Sweden (10.9%), and Denmark (5.5%).

[2] https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Excess_mortality

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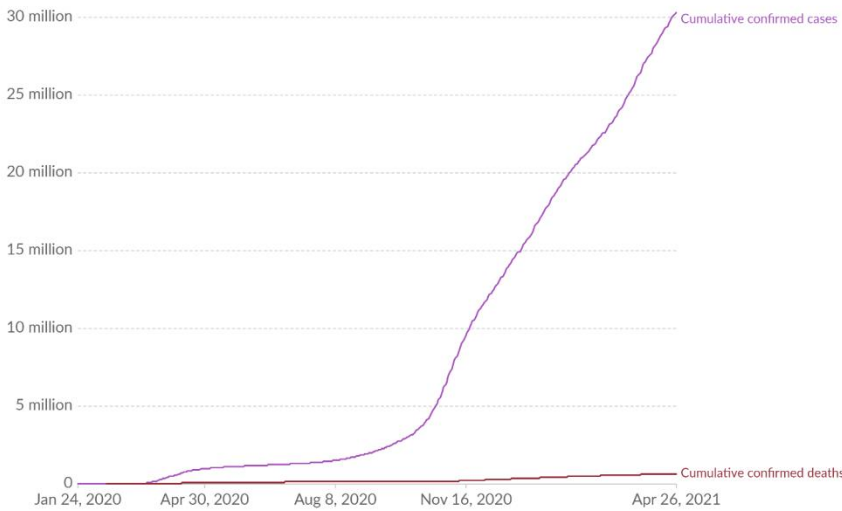
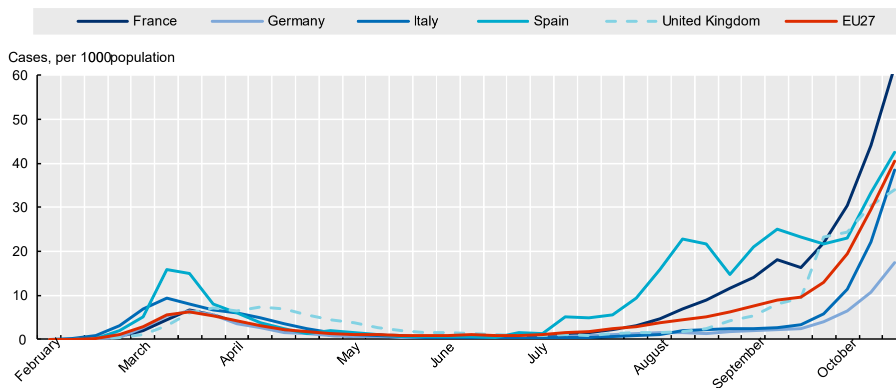
Figure 2. Cumulative confirmed COVID-19 deaths and cases, European Union



Source: Our World in Data based on Johns Hopkins University CSSE COVID-19 Data.

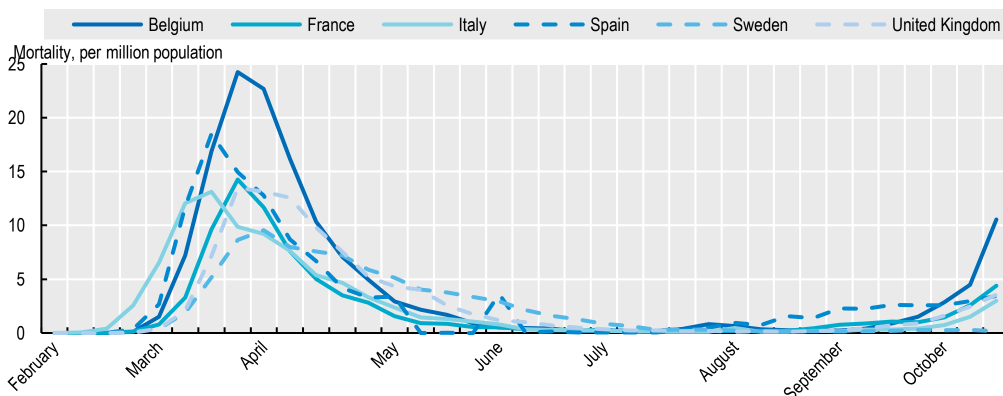
Figure 3. Evolution in reported COVID-19 cases, EU average and most populated European countries, February to end of October 2020



Source: OECD/European Union (2020) based on European Centre for Disease Prevention and Control (ECDC).

Note: The EU average is weighted.

Figure 4. Evolution in reported COVID-19 mortality rates in some of the most adversely affected countries in Europe, February to end of October 2020



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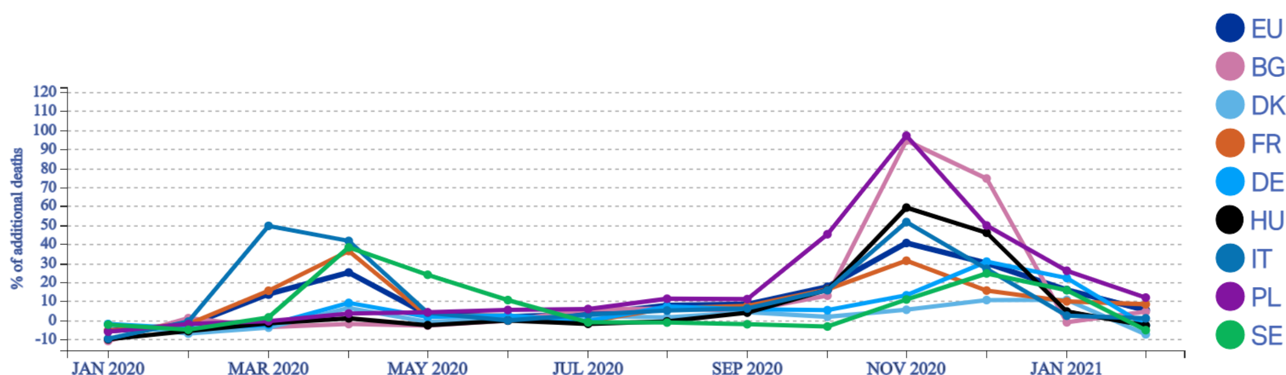
Source: OECD/European Union (2020) based on European Centre for Disease Prevention and Control (ECDC).

Figure 5. Monthly excess mortality (% of additional deaths compared with average monthly deaths in 2016-2019)



Source: European Statistical Recovery Dashboard (Eurostat).

The health consequences of the pandemic mentioned above has and will have an impact on pension policy. As stressed by the OECD (2020b), the excess mortality due to COVID-19 observed so far has moderately lowered the expected pension liabilities and will therefore reduce pension expenditure only slightly over the longer term. A 6% higher mortality, for example, would result in a roughly 0.2% lower number of people aged 65 or older at the end of 2020 and have a similar impact on pension expenditure in 2020. Long-term health effects may shorten the life expectancy of the elderly. Yet the future development of the pandemic is uncertain (ibidem).

2.2 Economic slowdown and budgetary tensions

The impact of the pandemic goes beyond these dramatic numbers. In fact, the public health crisis has led to a profound socio-economic crisis with major consequences on societal well-being and on the overall functioning of the welfare state. The lockdown measures taken to contrast the pandemic have had (and are still having) tremendous impact on economic activity. Figure 6 below shows the evolution of GDP growth in the EU and selected countries.

The first signs of the recession appeared in the first quarter of 2020, when lockdown measures came in. In the EU, between the first and second quarters of 2020, GDP shrank by 11.2% (Figure 6 below). The country that was affected the most is Hungary (-14.3%), followed by France (-13.5%), Italy (-13%), Bulgaria (-10.1%), Germany (-9.7%), Poland (-9%), Sweden (-7.6%), and Denmark (-6.7%). This large shock came after a period in which GDP growth has been very slow (ETUC and ETUI, 2020). In the third quarter of 2020, GDP increased by 11.7% in the EU. This represents a significant rebound compared with the second quarter. Amongst our selected countries, France (+18.5%) and Italy (+15.9%) recorded the sharpest increases. In the fourth quarter of 2020, GDP in the EU went down again by 0.5%. This second decline was related to new COVID-19 containment measures. Overall, in the EU, the pandemic crisis has hit harder than the 2008 recession: -6.1% GDP growth on yearly base in 2020 against -4.1% in 2009 (Figure 7 below).

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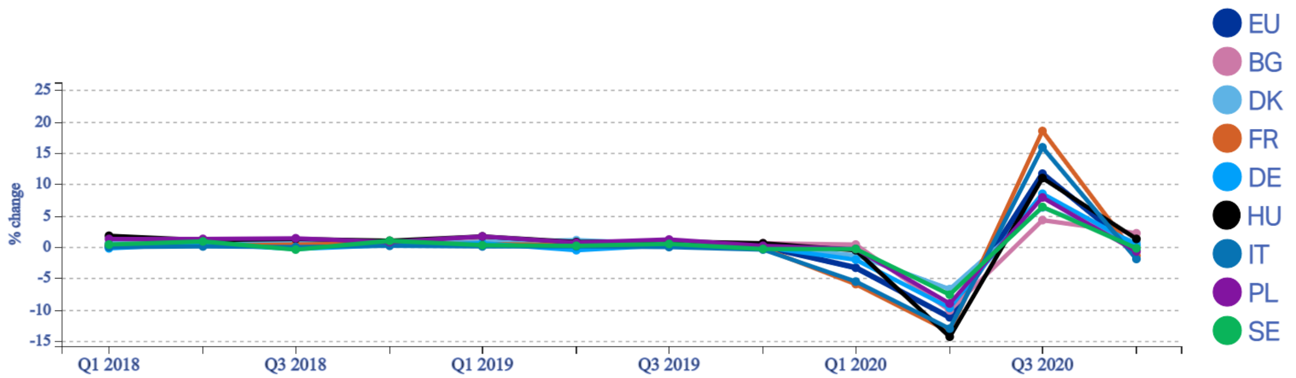
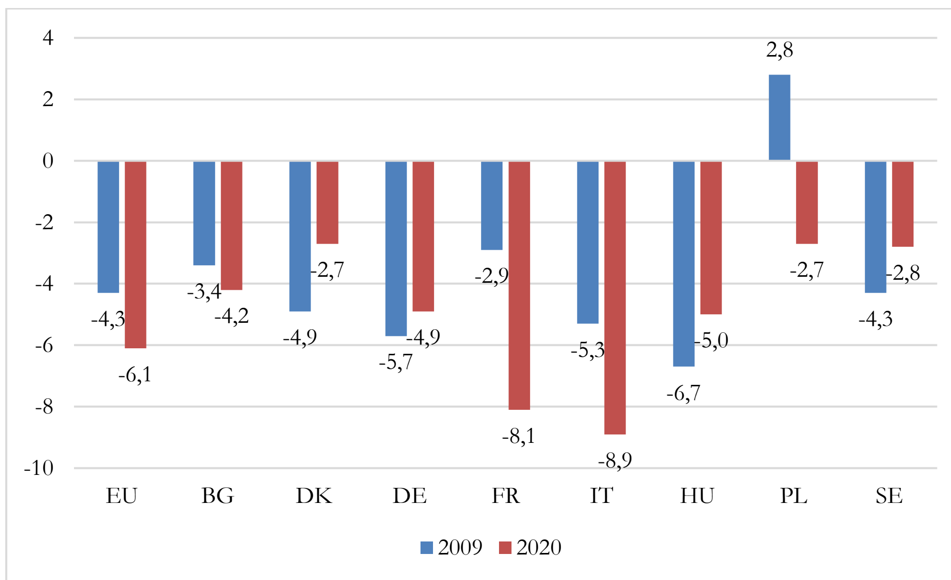
Figure 6. Quarterly GDP growth (% change on previous period)



Source: European Statistical Recovery Dashboard (Eurostat).

Figure 7. Real GDP growth rate in 2009 and 2020 (% change on previous period)



Source: Authors' elaboration on Eurostat data

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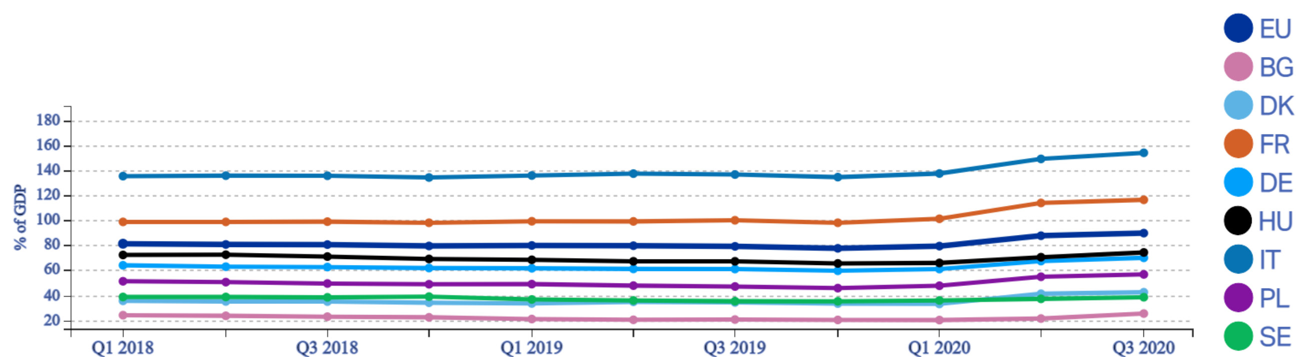
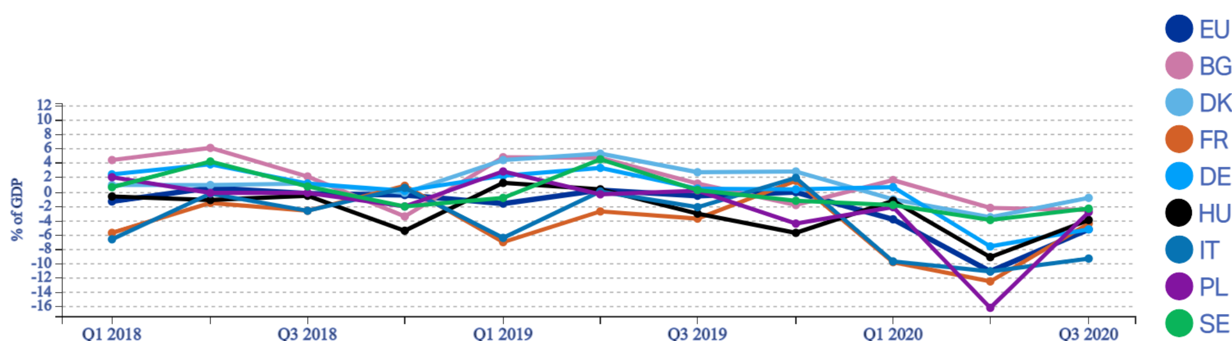
Figure 8. Quarterly general government gross debt (% of GDP)



Source: European Statistical Recovery Dashboard (Eurostat).

Figure 9. Quarterly general government surplus/deficit (% of GDP)



Source: European Statistical Recovery Dashboard (Eurostat).

As for government debt to GDP ratio (Figure 8 above), between the second and the third quarters of 2020, it increased from 87.7% to 89.8% in the EU. This is due to a considerable increase in government debt and a decrease in GDP. Compared with the second quarter of 2020, in our country sample the largest increases were observed in Italy (+4.9 percentage points) and Bulgaria (+4 pp), followed by Hungary (+3.8 pp), Germany (+2.6 pp), France (+2.5 pp), Poland (+1.9 pp), Sweden (+1.3 pp) and Denmark (+1.2 pp).

General government deficit to GDP ratio in the second quarter of 2020 stood at 11.2% in the EU. This is the highest deficit since the start of the time series[3] (Figure 9 above). In fact, all Member States recorded a government deficit. Amongst the countries in our country sample, Poland (16.3%), France (12.6%), and Italy

[3] https://ec.europa.eu/eurostat/documents/2995521/11442902/2-22102020-CP-EN.pdf/b7af0afd-d898-c815-9e16-ffc332d66350?t=1603351387000

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(11.2%) reported the highest deficits. However, the third quarter saw a significant rebound, with the government deficit in the EU at 5.3% of GDP.

This was also supported by the EU. In March 2020, the Commission thus proposed the activation of the general escape clause of the Stability and Growth Pact, allowing Member States to deviate from the Union's usual budgetary rules. Moreover, the pandemic highlighted the importance of effective social safety nets and led to the adoption of the SURE mechanism, providing support for national short-time work schemes (ETUC and ETUI, 2020).

The economic and budgetary trends mentioned above will affect both the sustainability and adequacy of pensions. In many EU countries, the level of benefits is directly influenced by GDP trends: the more the GDP decline, the less the benefits increase. What is more, economic decline invariably generates pressures on public budgets and limits the possibility to spend on the welfare state and pensions in particular. While for the moment, public deficit and debt have not represented an urgent problem to address, it is probable that in the next years policymakers will need to reduce both.

2.2 The effects of the pandemic on employment

Compared to the 2008 financial crisis, the impact of the pandemic on labour markets in OECD countries has been ten times larger. In fact, if we consider both the job losses and the reduction in hours worked of those who remained employed, "total hours worked fell by 12.2% in the initial three months compared to 1.2% in 2008" (OECD, 2020a). However, countries diverge sharply in unemployment rates, and this reflects differences in policy responses.

As for the EU labour markets, the labour market slack, namely, the sum of unemployed, underemployed part-time workers, and individuals who are either seeking work but not immediately available or available to work but not seeking it, increased in all countries in our sample – with the exception of France. In a nutshell, the labour market slack illustrates under-utilized labour forces in the economy (ETUC and ETUI, 2020). In our country sample, the country with the highest number in the second quarter of 2020 is Italy (Figure 10 below).

According to Eurostat, 15.953 million men and women in the EU were unemployed in February 2021. Compared with February 2020, unemployment rose by 1.922 million in the EU. As for the unemployment rate, in February 2021 it was 7.5% in the EU (7.9% for women and 7.1% for men)[4].

[4] https://ec.europa.eu/eurostat/documents/2995521/11563007/3-06042021-AP-EN.pdf/15bf6b6d-2b36-cfb9-c833-d8efe89b881d?t=1617669574756.

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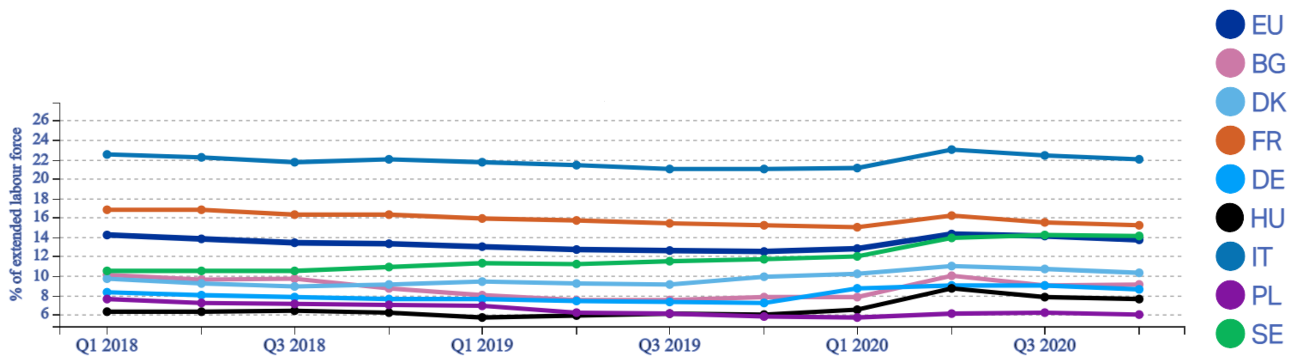
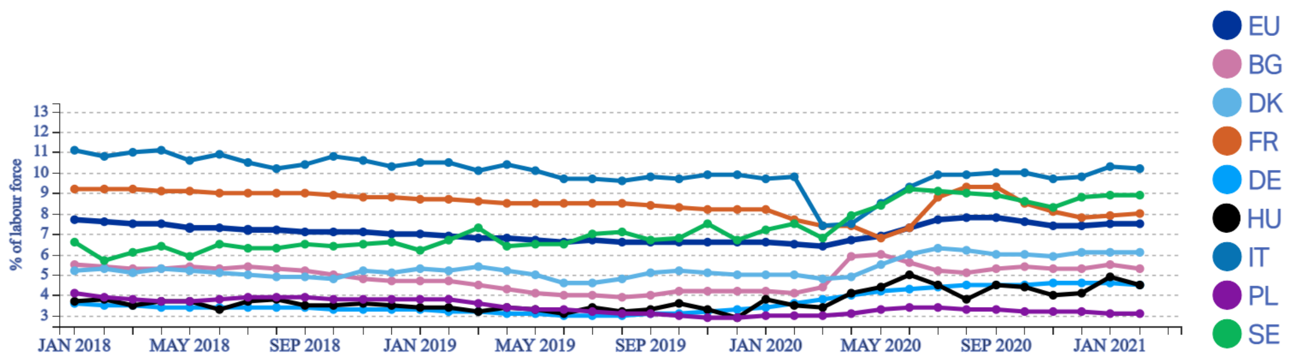
Figure 10. Labour market slack (% of extended labour force aged 20-64)



Source: European Statistical Recovery Dashboard (Eurostat).

Note: Extended labour force refers to the active population plus the persons seeking work but not immediately available and persons available to work but not seeking it.

Figure 11. Monthly unemployment rate (% of labour force aged 15-74)



Source: European Statistical Recovery Dashboard (Eurostat).

With respect to our country sample, Italy registered the highest unemployment rate (10.2%), followed by Sweden (8.9%), France (8%), Denmark (6.1%), Bulgaria (5.3%), Germany (4.5%), Hungary (4.5%), and Poland (3.1%).

The contraction of employment and the rise of unemployment will exert detrimental effects on European pension systems, with budgetary as well as social consequences. Firstly, they shrank the contributory inflows needed by public PAYG schemes to stay on the path of fiscal sustainability. Secondly, they hindered the accumulation of individual retirement savings, limiting or preventing entitlements to higher benefits in both public and private programmes. Finally, the probable effects of the crisis on wage levels and productivity will also have grim consequences on pensions.

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What is important here to stress is that European policymakers have passed policy measures that have effectively mitigated the negative consequences of the pandemic on employment. By the end of April 2020, an estimated 50 million employees in Europe were participating in short-time work schemes, and almost 50% of the workforce in some countries. At the European level, the SURE (Support to mitigate unemployment risks in an emergency) programme was launched with the objective of providing financial assistance to countries that have put such policies in place. It provides favourable loans (up to €100 billion) to Member States to support systems of short-time work. The SURE instrument gave the signal that reduction in working hours was one of the most important measures to combat the effects of the Covid-19 crisis and reduce job losses (ETUC and ETUI, 2020).

2.3 The effects of the pandemic on the capital market

Especially in multi-pillar systems, rates of return that pension assets earn in the financial markets are crucial. They determine not only the profitability of non-public schemes, but also the ability of reserve funds to provide unfunded pension programmes with short-term financial relief. Yet, economic crises also affect public schemes, where funding has also taken on an important role. Several EU countries established public pension reserve funds (PPRFs) to provide financial relief to their traditional PAYG schemes (Natali and Stamati, 2013).

In early 2020, the COVID-19 outbreak has created uncertainty and instability in financial markets, generating investment losses for retirement savings plans. However, the recovery of financial markets during 2020 may have enabled pension providers to recoup these losses and see the level of pension assets rise back to their pre-pandemic period (OECD, 2020c)

The main global stoke exchange markets and their MSCI indices reached the lowers level in March 2020 compared to the end of 2019 (Figure 12). Then, stock markets have registered a rebound, probably due to the adoption of policy measures to support economic activity. As for the assets in retirement saving plans, they seem to have followed the same trend as financial markets (Figure 13 below) (OECD, 2020c).

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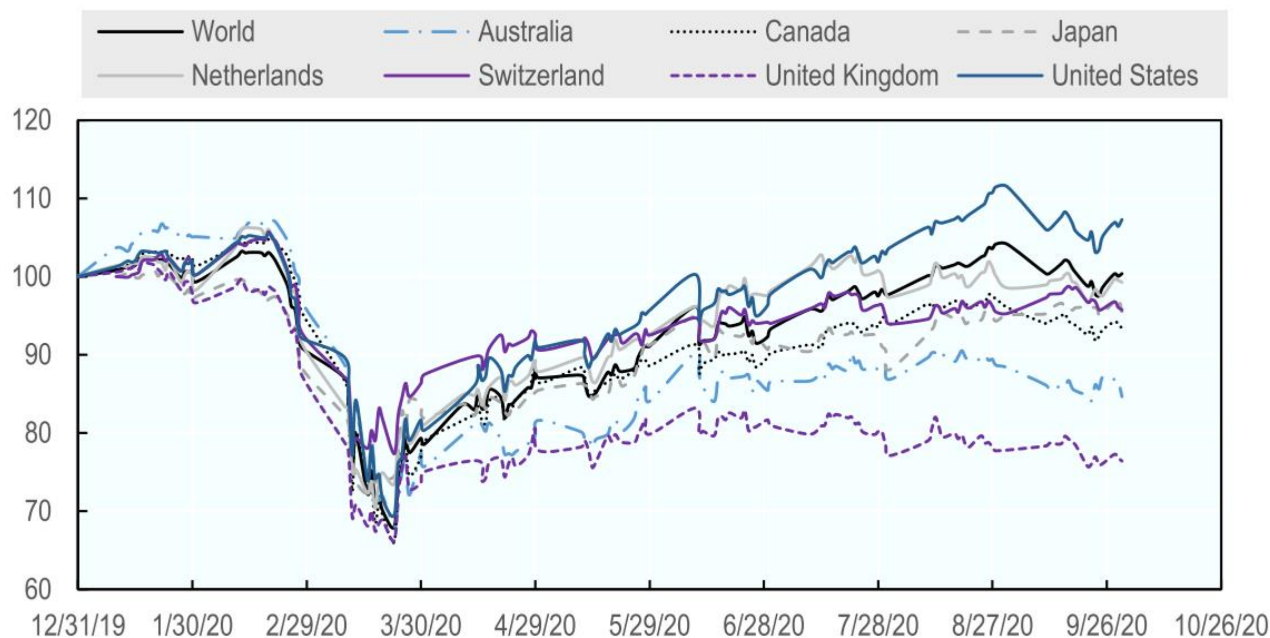
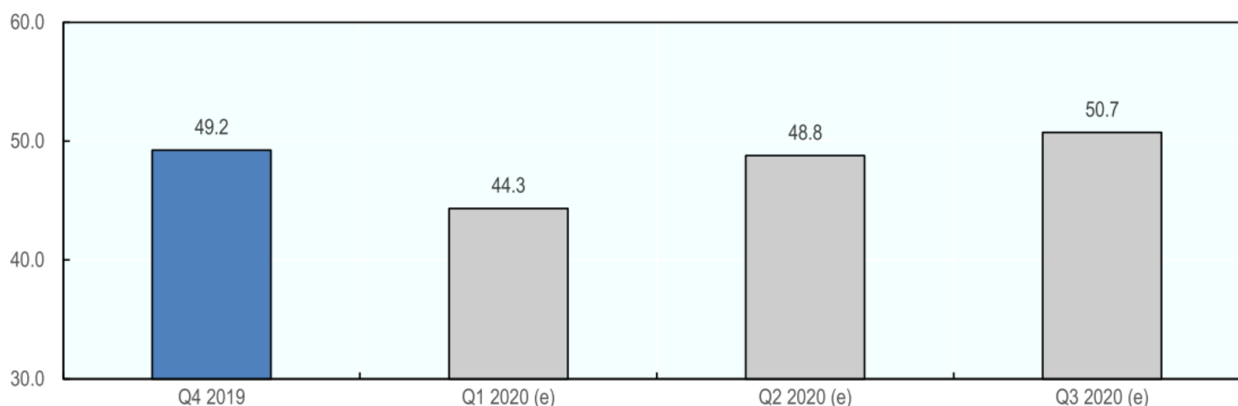
Figure 12. Evolution of the MSCI indices of the seven largest pension markets and the world, 2020 (Base: 100 at end-2019)



Source: OECD (2020d) based on investing.com.

Figure 13. Assets of retirement savings schemes in OECD countries (in USD trillion)



Source: OECD (2020d).

The recent trend of pensions markets can be better assessed once we consider the longer-term evolution of pension fund assets and coverage. The role of retirement savings plans has been growing over time. The total of all pension assets over the OECD area's total GDP rose from 60% at end-2009 to 92% ten years later. Pension assets exceeded USD 50 trillion worldwide for the first time at the end of 2019. The number of OECD countries with pension assets exceeding GDP increased from six at end-2009 to eight at end-2019. Like in 2009, Denmark topped the ranking in 2019, with assets worth 220% of GDP, followed by the Netherlands (194%) and Iceland (178%) in the OECD area.

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The proportion of people with a pension plan has generally increased over the last decade, especially in jurisdictions that introduced auto-enrolment and mandatory plans. Coverage rates of voluntary plans remained more or less stable over the last ten years despite some notable exceptions (such as in France and Hungary, see sections below). Following this decline in the funding ratio, policy makers have prepared responses to support DB plans, their providers and sponsors. This is the case of the Netherlands, where the government has recently announced that it would extend the reprieve for the reduction of the minimum funding ratio of DB plans (from 100% to 90%, already in place for 2019) until 2021 (OECD, 2020c).

2.4 The potential and concrete effects of the pandemic

Evidence shown in this section proves COVID-19 represent a major crisis with negative effects on the long-term sustainability and adequacy of pension systems. Yet, it is important to distinguish potential and real consequences. Between the former and the latter there are the decisions taken by policymakers. Policies make a difference.

This is quite evident when we look at what has happened in Europe in the last year. Firstly, the economic lockdowns decided by national governments to limit the diffusion of the virus have reduced the health consequences of the pandemic (in terms of cases and mortality) but have aggravated the economic fall of GDP. Second, the use of job retaining schemes has contributed to reduce the impact of the health and economic crises on the labour market. Unemployment rates have not skyrocketed in Europe with important positive consequences on the long-term adequacy and sustainability of pensions. Third, economic and monetary policy as well as the regulation of the financial markets and pension funds have provided an effective response to the crisis and provided an effective protection to stock exchange markets and financial products. Huge anti-cyclical stimulus packages have been decided both at national and EU level. In Europe, the quick reaction of the European Central Bank and the further development of exceptional monetary operations (e.g. Quantitative easing) have favoured the economic rebound in the final part of 2020. This has also avoided major damages on the sustainability of pension funds and retirement savings in general.

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3. Pension reforms across Europe

This section sheds light on the recent reform trends across Europe. In the first part we summarise the debate between international organisations. This helps us to see the priorities set at the global level to then check their relevance in national reform processes. In the second part we provide some examples of the key measures taken in the pension field in the aftermath of the pandemic, with information and data collected from the International Social Security Association COVID-19 repository (ISSA[5]); the OECD[6] (2020) and the IMF[7] (2020) datasets; ESPN[8] (2020); and the ETUC COVID-19 watch. International datasets provide evidence of five types of intervention largely shared by European countries. In the third part we look in more detail at four cases: Denmark, France, Hungary and Italy. The four represent different pension systems and different ruling coalitions (Table 1).

Table 1. The four countries under scrutiny

	Pension systems	Magnitude of the crisis (%GDP growth 2020)	Political context
Denmark	Multi-pillar	-2.7	Left-of-center government
France	Social insurance First generation	-8.1	Center governments (Philippe; Castex)
Hungary	Social insurance Third generation	-5.0	Populist government
Italy	Social insurance First generation	-8.9	Coalition between populists and Left-of-center (Conte II) Technocratic caretakers/Grand Coalition (Draghi I)

The four countries also present different magnitude of the pandemic crisis (in terms of diffusion of the virus and deaths).

3.1 The role of International Organisations in pension policy

In the post-pandemic context, International Organisations – as well as global opinion makers - rapidly set their own priorities for addressing socio-economic challenges originated by COVID-19. We identify three main positions. The first position (in continuity with longer-term debates on pensions) focuses on the persistent - if not increased - financial tensions over pensions. Recent publications from international organisations (like the IMF and to some extent by the OECD) are clear example of the persistent focus on the financial viability of pension systems. For Feher and De Bidegain (2020, 6), governments must resist any temptation to using the

[5] International Social Security Association – Coronavirus , Social security Responses, https://ww1.issa.int/coronavirus
[6] OECD, tackling coronavirus Covid-19, Country tracker, http://www.oecd.org/coronavirus/en/#country-tracker
[7] IMF COVID-19 Knowledge Hub, https://www.imf.org/en/Topics/imf-and-covid19.
[8] ESPN, https://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=9753&tableName=news&moreDocuments=yes

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pension system as a tool to address the negative consequences of the crisis, and should implement temporary regulatory changes sparingly. If their line of reasoning were to be taken on board, then, early retirement and disability pension schemes should not be used for the purpose of accommodating temporary labor market and economic pressures.

The second position is more nuanced and represents a novelty. The position of Mario Draghi – former President of the ECB and since 2021 Italian Prime Minister – is an interesting case to look at. In press interviews he stressed the need for a new European effort for economic recovery. For Draghi, the pandemic represents a massive crisis that needs unprecedented answers: a significant increase in public debt. The loss of income incurred by the private sector must eventually be absorbed, wholly or in part, on to government balance sheets. Much higher public debt levels will become a permanent feature of our economies and will be accompanied by private debt cancellation. In a further speech Draghi clarified his message: more debt would be justified by the need to protect younger generations that risk to be massively hit by the pandemic. He also proposes to distinguish between 'bad' and 'good' debt. The latter consists of spending in research, critical infrastructures investment in human capital, and education (targeted to younger generations), while for the former he said: 'if debt is used for unproductive purposes, it will be seen as 'bad' debt and its sustainability will be eroded'. As we show in the concluding remarks, this position might have ambivalent consequences on the pension reform debate. On the one hand, it opens the possibility for expanding the public role (also in social protection policies). On the other, it may represent a justification of further pension cutbacks in the name of intergenerational justice (Natali, 2018).

The third position in the debate represents a more explicit change. We could call this the result of an *austerity backlash* that has spread across Europe over the last years and seems to be accentuated by the pandemic. Political leaders (especially from the populist camp) and the public opinion have shown a reform fatigue: they have increasingly shared the perception of having accomplished much of the reform programme. The huge impact of cost-containment on social rights and the dramatic experience of fast retrenchment have further contributed to the growing opposition against fiscal austerity with the increased demand for a 'post austerity' programme (ibidem).

It is worth mentioning few examples. At the national level, the key issue of increasing legal retirement age – a top priority in the reform agenda of the last decades – has been increasingly challenged. In the post-COVID-19 phase, Italy is debating the revision of the retirement age to make it more flexible for those who want to leave work early. The changes debated so far are less generous than the reform of 2018 (passed by the populists government) but less severe than the 2011 regime, imposed by former premier Mario Monti at the height of the euro zone debt crisis. Also at the EU and global level, the pension policy priorities seem to have slightly changed: the improvement of old age protection is now a priority. In the EU, the introduction of the European Pillar of Social Rights, EPSR (de la Porte, 2019) has contributed to stress the importance of protecting social rights. Old age protection for atypical workers is a case in point. Further evidence is provided by the recent publication of the Country Specific Recommendations (CSRs) in the context of the European Semester.

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Recommendations on pensions have largely dropped, while the emphasis has shifted to the improvement of social protection rather than cost-containment (Rainone, 2020). On top of that, the EU has suspended for 2020 and 2021 the Stability and Growth Pact (the so-called 'escape clause'), while new programmes have enhanced solidarity across the EU. The SURE programme to support member states and their job retention schemes and the Next Generation EU are examples of this new phase of the integration process.

At the global level, ISSA has focused on the issue of increasing old age pensions for some vulnerable groups: e.g. self-employed, migrant workers, and women. In the post-pandemic phase, the latter are proposed to be the target of new measures to improve old age protection. This supports the long-term strategy advanced by the ILO on the global social protection floor (Juergens and Galvani, 2020).

3.2 Broad policy trends across Europe

After the emergence of the pandemic, the most important challenge decision-makers have faced lies in the need to strike a balance between short-term relief and long-term sustainability with respect to funded and pay-as-you-go pension plans, defined benefit and defined contribution schemes, as well as private retirement provisions (OECD 2020c).

In the pension field, we see evidence of four major types of emergency measures. The first type of measure is consistent with the deferred payment or temporary reductions of current social security (and pension) contributions. We give some examples (Natali, 2020: pp. 2-3). In Finland, measures include lower pension contributions for 2020. Employers' earnings-related pension contributions have been temporarily lowered by around 2% (until the end of the year). Businesses whose operations have stopped completely due to the epidemic can postpone the payment of their earnings-related pension contributions by three months at the most. The loss will be compensated by raising the employer contributions in 2022–2025. At the same time, pension funds may postpone up to 3 months the temporarily laid-off employees were suspended up to May 2020 with the possibility of further extend the suspension. The State took the responsibility to pay for them, to preserve the insured persons' rights. Self-employed workers have also been exempted from the payment of contributions (up to May 2020). In the case of Spain temporary contribution deferment and/or exemption have been conditional on retaining workers in paid employment, although with reduced working hours and wages. Exemptions are more generous for companies that reinstate part of their staff. Employers who temporarily reduce employees' working hours or suspend work contracts are exempt from paying all or part of their social security contributions. The government covers 100 percent of these contributions for employers with less than 50 employees, and 75 percent for those with 50 or more employees. In order to avoid possible cash-flow problems for the self-employed and small and medium-sized enterprises, the government decided to make tax deferrals for a period of six months and provide subsidies. This is expected to allow up to 14 billion euros of liquidity to be injected. In other countries, governments decided the suspension of contribution payments for private pension funds too (see the case of Estonia and Poland).

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The second type of measure consists of additional resources through the public budget to stabilize the pension system. In Germany, the government decided a cash injection of 5.3 billion euros in 2020 and additional funds in 2021 for the social security budget. This should help both companies and employees by keeping their social contributions below the 40% threshold of income. In France, as well as suspending the envisaged major pension reform due to the pandemic (see below), it was agreed that the French Pension Reserve Fund (FRR) will pay at least an additional €13 billion to help finance state pensions (Sutcliffe, 2020).

The third type of measures consists of the *ad hoc* improvement of pension benefits. This is the case of Slovenia, where pensioners with the lowest pensions receive a solidarity bonus due to the impact of the pandemic. Lithuania introduced a special bonus in the form of a lump sum of €200 to elderly people, disabled people, survivors and orphans. In Bulgaria, all medical certificates determining the degree of lost working capacity which expire during the period of the state of emergency and have to be renewed, were automatically renewed for the whole period of the state of emergency + 2 months after that. About 75,000 disability pensioners benefited from that measure. Hungary passed new measures that include the introduction of the 13th month pension benefit (an extra month of benefits for pensioners). In some countries, measures to support retirees—who generally suffer lower income losses during economic downturns compared to the working population given the fact that pensions in payment are often linked only partially to wages—have been introduced.

The fourth type of measures is about the introduction of special regulation for pension funds to support their sustainability. As stressed above, the Netherlands have extended the reprieve for the reduction of the minimum funding ratio of DB plans (from 100% to 90%, already in place for 2019) until 2021. Finland also prepared an emergency legislation to strengthen the solvency of pension providers and to limit the pro-cyclical effects that would put further strain on sponsors or providers at a time when their finances were deteriorating. What is more, some countries have also allowed members to access their pension savings before retirement. For example, the French government has broadened the conditions to have access to savings to overcome the short-term financial hardship related to the COVD-19 challenges (OECD 2020c).

On top of the emergency measures mentioned above, some EU members have also revised their broad pension reform agenda and its time schedule. Some have decided the temporary postponement of broad reforms. This is the case of France where the reform, keenly supported by President Emmanuel Macron in 2019, was stopped in its tracks in February 2020, due to the pandemic. The reform plan which includes increasing the retirement age by two years to 64, was also deferred until after the 2022 presidential elections. Other countries have by contrast passed reforms that, in some cases where initiated well before the pandemic crisis. This is the case of those countries that revised their legal and/or effective retirement age. Below we provide evidence of the reforms passed in Denmark and debated in Italy. A further case is Romania where the new legislation on pensions enacted in 2019 takes effects between 2019 and 2021. The reform consists of the improvement of pension benefits through the increase of pension points and the change of the pension formula and in the calculation of the minimum benefit, which will result in a further increase in the level of benefits in 2021.

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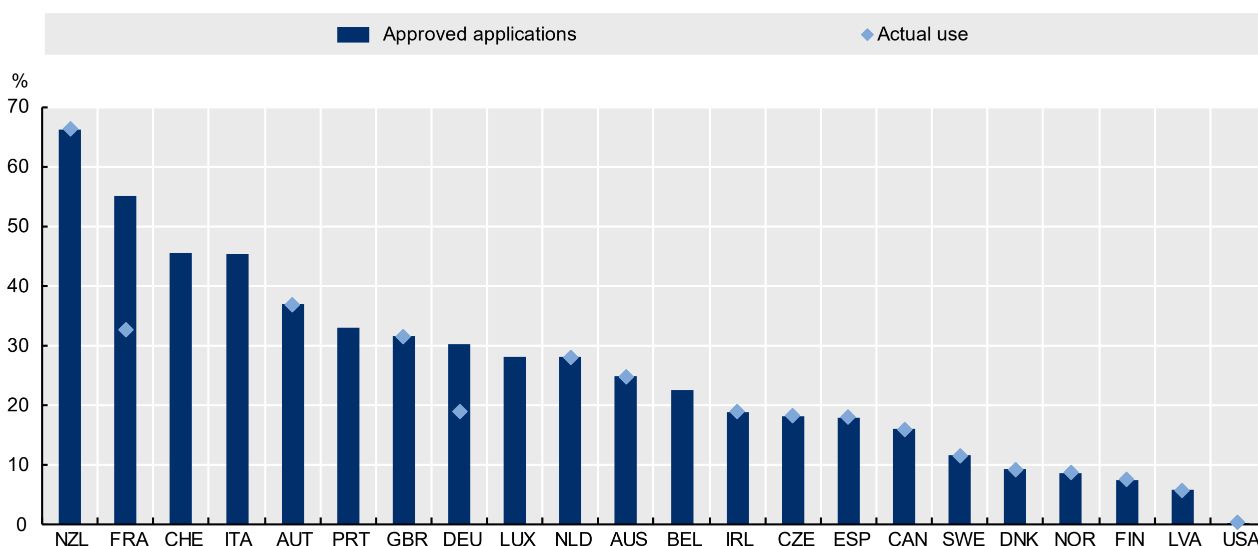
While these are the most frequent emergency measures passed by the EU member states, measures taken in other policy areas have also contributed alleviating the present and in particular the future problems in the adequacy of old age protection (OECD 2020b, 2020a). It is the case of job-retention schemes—such as the short-time work (STW) scheme *Activité partielle* in France: wages have been partially or fully subsidized to preserve jobs at companies which experience a temporary slowdown in economic activity. In May 2020, companies' use of such schemes equals over 50% of employees in France and between 30% and 50% in Italy (Figure 13). Other income support measures for workers include a broadened access to unemployment benefits as well as targeted cash transfers for self-employed. For example, while in Denmark self -employed experiencing an income loss of more than 30% have received a cash transfer of 75% of the loss for up to 3 months, in France and Italy lump-sum transfers have been introduced. In Italy in particular, the government provided compensation of EUR 600 in March and April, and of EUR 1 000 in May (OECD 2020c).

Figure 13. Participation in job-retention schemes (approved applications and actual participants in job retention schemes as a share of dependent employees, May 2020)



Source: OECD (2020a).

Taken together, measures providing labour income protection have cascading effects on pension protection. Beyond job-retention schemes and other income support measures, countries such as France and Italy have also deferred, suspended, or subsidized pension contributions (e.g., by lowering or removing the penalties for delays in paying contributions. In Italy, up to 80% of wages in STW schemes has not been subject to pension contributions. Moreover, for selected sectors, the Italian government deferred pension contributions to the public Notional Defined Contribution (NDC) scheme due between February and May 2020. Also Hungary has suspended pension contributions in those sectors mostly affected by the lockdown measures.

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Summing up, the first interventions passed in the aftermath of Covid-19 have consisted of emergency measures to address short-term problems of adequacy and of economic support: some improvement of benefits to buffer the social consequences of the crisis, the reduction of the employers' and employees' social contribution payments, to alleviate the burden on their activities and the provision of additional resources to social security budgets. While the long-term impact of the measures mentioned above on pension expenditures are expected to be low, the potential imbalance (between outlays and revenues) may remain present for years and contribute to further fiscal pressures (Feher and De Bidegain, 2020).

3.3 Four country cases

This section provides a brief summary of the main consequences of the pandemic on pension policy in the four countries under investigation. For each country we start providing information on their pension system. Then we refer to the diffusion of the pandemic and the key measures (emergency measures and/or broader pension reforms) passed in the last year.

Denmark

Denmark has a typical multi-pillar pension system that is based on three main schemes: the first pillar statutory pensions, occupational and personal pension schemes. The first pillar consists of public pensions (flat rate plus a means-tested supplement) with universal coverage. The second pillar is based on voluntary collective agreements providing compulsory coverage for the employees concerned. These schemes cover 94 % of full-time employed people or 63.4 % of the working-age population. The third pillar consists of pension savings and life insurance programmes. It is important for the self-employed who have no access to occupational schemes.

In the last decades, the Welfare Agreement of 2006 largely reformed the pension system with the aim of increasing labour market participation of more mature cohorts of workers. The reform consisted of voluntary early retirement, the increase of the general retirement age, and the introduction of the demographic adjustment of the retirement age to life expectancy (de la Porte and Natali 2014). The reform was intended to address the rising costs of pension schemes while also maintaining living standards during old-age. In 2011 the Danish government passed a reform package that confirmed the priorities of the previous reforms. The *Reformpakken 2020* aimed increased the retirement age from 65 to 67 (and further increase up to 69 in 2035). The other measures concerned the VER (voluntary early retirement) scheme and the introduction of the 'senior disability pension' was passed in January 2013 for people with health problems.

Denmark political economy – and pensions - have been largely affected by the pandemic. As of 26 April 2021, around 250.000 cases and 2.480 deaths have been reported in Denmark. Between the first and second quarters of 2020, GDP shrank by 6.7%. Overall, real GDP growth in 2020 was -2.7% (in 2009 it was -4.9%). As for the unemployment rate, in February 2021 the country registered a value of 6.1% (see Section 2 above).

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In the aftermath of COVID-19, Denmark has passed a set of emergency measures to buffer the effects of the pandemic while alleviating the potential costs for the economic and productive sectors (Kvist, 2020). The Ministry of Finance has estimated that all in all DKK 135 billion (€ 18 billion) have been spent to limit the effects of COVID-19. Among the measures passed by the Parliament there have been subsidies for private companies with a major decrease in their overturn; extra funding for social services, extra funding for NGO's targeting solitude and loneliness and one-time payment for welfare beneficiaries outside the labour market. About nine tripartite agreements have added further measures to support workers and employers (e.g. job sharing; and wage compensation). It is interesting to note that the Social-democratic minority government formally outlined that austerity measures like the ones passed after the financial crisis of 2008 were not assumed to be a possible solution to the economic threads of the pandemic (Hansen et al, 2021: 10). We see evidence of this turn in pensions too. In the meanwhile, the EU has not addressed the Danish pension system through the European Semester (no Country Specific Recommendations in 2018 and 2019). In the past, the EU recommended to address the issue of early retirement to improve employment rates in old age.

In the field of pensions, in August 2020, the Social Democratic minority government submitted a proposal to allow workers with very long working careers to retire before reaching the statutory pension age (Kvist, 2019). Under the new Early Pension scheme, persons who at the age of 61 (the age of assessment) have a work record of at least 42, 43 or 44 years can take out an early pension before the statutory retirement age. The working career of reference includes part-time and self-employment, periods of unemployment, training, sickness and maternity benefits. The early pension benefit has almost the same amount of the public pension. On 1 January 2021, when the statutory pension age is 66.5, the age of assessment is 61 and the youngest age of early eligibility for the public pension is 63.5 (three years before the statutory pension age, for people with a 44-year work record). Both the age of assessment and the length of previous work record follow the increases in longevity. Projections on the cost of the new scheme refer to €309 million in 2022 with a further increase to €443 million from 2026 on. The scheme will be financed from a mix of general taxation, productivity savings in active labour market policy at municipal level, a new levy on the financial sector (Kvist, 2021).

Further opportunities for early exit have been set, for instance with the improvement of the so-called *Senior pension*, which can be claimed up to 6 years before the statutory retirement age by workers with limited abilities. With the improvement of the scheme, more people will qualify for the benefit, as it can now be claimed by people with a larger remaining work capacity. Trade unions have had a role in supporting the more recent measures. They are also challenging the automatic adjustment of the retirement age to life expectancy and thus supported the new options for early retirement. It is probable that in 2022, the issue will be at the core of the political debate.

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France

The French pension system comprises two main parts: Statutory pension schemes and Occupational pensions. The former are integrated into the social security organisation set up by the state. They include the general scheme (which covers two thirds of the working population), the agricultural scheme, schemes for self-employed people and specific schemes for some types of employee (like civil servants). Occupational pension schemes are represented by AGIRC (for managers) and ARRCO (for non-managers) programmes. They were created by social partners for private-sector employees and can amount to an average of 40 % of the total pension. Overall, in 2018, occupational pension schemes represented 24.5 % of the total pension entitlements paid out by obligatory schemes (SPC and European Commission, forthcoming).

Financing of both the statutory and occupational schemes is based on a PAYG (pay-as-you-go system), i.e. the contributions paid in by employers and employees are used to fund pensions paid out during the same period. Personal pension schemes, on the other hand, are financed by funded pension plans. The average pensionable age is 62, yet obtaining a full pension (50 % replacement rate, not including occupational schemes), which is calculated based on the average annual salary of the best 25 years, requires a contribution duration of between 163 and 172 quarters of insurance, depending on the year of birth. If this condition cannot be met, it is still possible to retire at 62, but with less generous benefits. Earlier pensions are available for workers with long seniority, low capacities to work, or for workers exposed to arduous conditions and/or members of special schemes (e.g. public services).

The epidemic has had important consequences on the overall health conditions of the population and put considerable pressure on the economic and welfare institutions. More than 5 million cases and 100.000 deaths have been reported in France. GDP decreased by 13.5% in the second quarter of 2020 with an overall decline of 8.1% in 2020. The unemployment rate stood at 8% in February 2021 (see Section 2 above)

The French government – supported by the centrist party 'En Marche' – passed different stimulus packages. Three ad hoc finance acts were passed between March and July 2020. As a consequence of the stimulus packages, the public deficit has increased up to -11.4% of GDP. The stimulus packages include: support for employees and businesses (€31 billion for partial activity and €8 billion for very small businesses); credits for implementing support plans for the most impacted sectors (tourism, the car industry, aviation, culture, start-ups); an exemption measure for employer social security contributions, combined with a social security contribution credit (amounting to almost €3 billion); measures to help local authorities deal with the crisis and support local business recovery (Turlan, 2021).

In the field of pensions, the crisis has stopped the pension reform process underway since 2019. The aim of the proposal of the Government was to move to a 'universal pension scheme', with all workers subject to the same contribution and pension rules. This reform project anticipates replacing the 42 existing statutory and occupational schemes, each of which corresponds to a socio-professional category (private-sector employees,

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civil servants, etc.) with a single points-based system inspired by actuarial fairness (each euro contributed will lead to the same rights to a retirement pension). The reform aimed at the suppression of special retirement schemes (for civil servants, etc.), which would need to be withdrawn gradually, while maintaining specific rules for certain categories (members of the police and army, train drivers, etc.). In addition, it would mean the end of the distinction between the two types of obligatory retirement schemes, i.e. statutory social security schemes and occupational retirement schemes, which would be grouped into a single administrative and financial organization (Legros and Martin, 2020). The reform aimed to cut benefits, extend the demanded working career for a full pension and thus result in incentives for private funded pension schemes. The reform design is in line with the EU recommendations. Since 2011, France has always received Country Specific Recommendations on pensions (with the exception of 2016 and 2017). Many of them consisted of the demand for cost-saving measures, while those designed in 2018 and 2019 were on the need to simplify the system of rules across occupational groups.

This project came up against strong opposition in May 2019 from both trade unions and a large share of the population concerned by its impact. Trade unions mainly criticize the attack of future pension rights of younger generations and the expected gloomy prospects for old age protection. In order to maintain national unity during the current pandemic situation, President Macron postponed the adoption of this overhaul of the pensions system to an unspecified future.

Hungary

The Hungarian pension system is a pay-as-you-go (PAYG) type. In the literature there is reference to 'third generation' social insurance systems to outline that after the partial privatization of the old socialist system in the 1990s, Hungary renationalized private pension funds in 2011 thus going back to the de facto mono-pillar system (Natali, 2017). The PAYG first pillar is in fact complemented by supplementary pension personal schemes (that cover about 25% of workers). In terms of adequacy, poverty among older people significantly decreased in the last years. In terms of poverty risk, both the relative position of Hungary in a cross-country comparison and the trends are the opposite. The relative income position of pensioners *vis à vis* the active employees deteriorated significantly in a short period of time between 2015 and 2019, with a fall of 13.9 p.p., from 67.6% in 2014 to 53.7% in January 2019. This rapid fall was mostly due to wage dynamics.

In pension policy, the recent reform path has been marked by the so-called 'work-based society' approach. The Government priority is to keep people in the labour market as long as possible. This strategy is expected to address both issues of financial sustainability and social adequacy through incentives to combine retirement and work. It seems important to stress that Hungary has not received any recommendation on pensions in the context of the European Semester.

The pensionable age is currently being increased from 62 to 65, by half a year for consecutive cohorts. The transition period started in 2014 for the birth cohort of 1952 and it will end in 2022 with the birth cohort of

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1957. A special early-retirement programme offers full old-age benefits for women who have collected 40 years of eligibility. The number of recipients of early-retirement benefits decreased by 1 % from 2017 to 2018, and that of people with changed working capacity by 7 %. As a result, labour force participation increased rapidly in the older working-age brackets: from 49 % in 2008 to 76 % by 2019 in the 55-59 age group; from 13 % to 43 % among those aged 60-64. Early retirement decreased significantly for those under the age of 60. In parallel, unemployment in the 60-64 age group grew from 2.8 % in 2008 to 7.6 %, above the level among younger age groups, in 2014; but it fell to 2.1 %, below average, by 2019 (SPC and European Commission, forthcoming).

Hungary reported more than 700.000 cases and almost 27.000 deaths. In our country sample, in terms of GDP decline between the first and second quarters of 2020, it is the country that has been affected the most (-14.3%) Overall, in 2020 GDP growth was -5%, compared to -6.7% of 2009. In February 2021, the unemployment rate was 4.5% (see Section 2). From February to May 2020 the number of people in employment decreased by 2.2%. The lockdown of economic activities had different effects on the different parts of the economy, depending on the sector, form of employment as well as the age and educational level of employees.

In Hungary, the lack of involvement of social partners in social dialogue practices has been repeatedly mentioned documented (Hars, 2021). The role of social partners has not changed as regards the design of the policy measures in the context of the COVID-19 crisis. The government stimulus measures amounted to about 3.2% of GDP. The package includes extra health-related expenditure (1.6% of GDP); tax waivers and an extension of cash benefits (0.8% of GDP); wage subsidies including the Hungarian version of short-time work (0.7% of GDP); and subsidies for technological change and training (0.2% of GDP). The government's response has focused on maintaining demand for labour rather than supporting consumption. The government expressed their intent not to extend the duration of unemployment benefit, 90 days, or introduce new benefits (but increased the budget for the public works scheme and offered subsidies to the unemployed). It was then decided to re-introduce the 13th month pension, an extra month of benefit. Pensioners receive one week of benefit since January 2021 in addition to the regular provision. This amount will be increased of two weeks' benefit in 2022 and three weeks' benefit in 2023. Starting from 2024, pensioners will be paid one full month of extra benefit (Hars, 2021).

Italy

The Italian pension system is a typical example of the social insurance model (first generation): the first pillar (public PAYG schemes) represents the major source of income for the elderly, while supplementary pension funds (second pillar occupational schemes, and third pillar personal pensions) still cover minor part of the workforce (about 34%). Since early 1990s, reforms have aimed at putting public spending under control (with the replacement of DB with NDC schemes in the statutory public pay-as-you-go (PAYG) pillar, and the progressive increase of the legal retirement age), while increasing the coverage of supplementary private funds.

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In the more recent period, between 2015 and 2019, the pace of reforms has slowed while measures to address problems of adequacy have become more evident. The new early retirement option was set up in 2017 as a consequence of the mounting contestation over the 2011 reform by trade unions and some political parties on both the right and the left-end of the spectrum. First, a financial advance pension (APE) allows individuals to take out a loan from a financial institution backed by future pensions provided they have reached age 63 with 20 years of contribution. This mechanism acts as an early-retirement scheme. The Reform (supported by the left-of-centre government headed by Matteo Renzi) also includes the "social advance pension" (social APE), a separate early-retirement scheme for some vulnerable groups. For the latter, the pensionable age is fixed at 63 years with between 30 and 36 years of contributions. The government wrote down a new list of arduous and hazardous jobs allowed to retire in line with more favorable conditions. For these categories, the automatic link between life expectancy and the pensionable age is not applied. In the meanwhile, some far right-wing, left-wing and populist movements voiced their aim of dismantling the 2011 pension reform to lower the legal pensionable age. In 2019, the Di Maio-Salvini reform introduced several measures along the path opened by the 2016-2018 reforms. The two most important innovations were the 'quota 100 pension' (*pensione quota 100*) and the 'citizenship pension' (*pensione di cittadinanza*). Introduced as a pilot measure for three years (2019-2021), the quota 100 pension makes it possible to retire before reaching both the legislated pensionable age (currently 67) and the contributory period for early retirement (42 years and 10 months for men, 41 years and 10 months for women), subject to fulfilment of a combined contributory (38 years minimum) and age (62 years minimum) requirement (38+62=100) (Natali, 2018).

In the last years, the EU has often stressed the need to implement the cutbacks passed in the past and to use savings to promote other social policies that are underdeveloped in Italy. Country Specific Recommendations in 2018 and 2019 were focused on the reduction of the share of old-age pensions in public spending 'to create space for other social spending' (Gardiancich and Natali, 2021).

The impact of the pandemic has been massive in Italy: almost 4 million cases and more than 100.000 deaths have been recorded. Between the first and second quarters of 2020, GDP declined by 13%. In 2020, the country registered a GDP growth of -8.9%, compared to -5.3% of 2009. The unemployment rate increased up to 10.2% in February 2021 (see Section 2).

In the aftermath of the pandemic, the Italian Government first passed emergency measures to alleviate the hardship of the elderly. The main measures consisted of the introduction of a special COVID-19 short-time scheme; and the ban on dismissals, which has been so far extended until 31 March 2021 (and trade unions ask for a further extension). The total number of COVID-19 short-time hours authorised until 31 December 2020 amount to some 4.05 billion hours (Pedersini, 2021). Further measures consist of income support for workers and enterprise support. The government passed measures to compensate different categories (from self-employed to domestic care-givers and workers not living with the employers), credit facilities for enterprises and

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the suspension of contributions and tax payments. The government decided for the simplification of rules on smart working, with the temporary suspension of the individual agreement to activate smart working.

In the meanwhile, the pension reform process has restarted as a consequence of the expected termination of the pilot initiatives of the Conte Government (the above-mentioned *Pensione quota 100*) and the need to address some long-term challenges. The transitional phase of application of the so-called *Quota 100* will end at the end of 2021 and will be replaced by measures aimed at categories with exhausting tasks. The details, however, are all to be defined. Between the hypotheses proposed in the debate, the so-called *Quota 102* to retire earlier would be feasible with: 64 years of age (indexed to life expectancy); and 38 years of contributions of which no more than 2 figurative years (excluded from the calculation of maternity, military service, voluntary redemptions). Trade unions have tried to re-launch the hypothesis of *Quota 41*: with the possibility of retirement once you reach 41 years of contributions, for all types of jobs. The trade unions also propose – in order not to return to the Fornero Law as it is – the flexible retirement age.

Another issue on the agenda is the need to help the turn-over in the public administration with possible consequences for pension policy. In March 2021, the Government and trade unions (CGIL, CISL and UIL) signed the "Pact for the innovation of public work and social cohesion". It is an agreement that consists of six articles: contract renewals for the three-year period 2019-2021; online work; revision of professional classification systems; staff training; trade union participation systems; and occupational welfare. The Pact marks the first collaboration between the Draghi Government and the trade unions, to give a boost to the Public Administration reform called to play a leading role in the "Recovery plan". The government has declared the intention to invest on the turn-over in the public administration: to allow for earlier retirement in the public sector, while speeding up the process for hiring new generations of employees with skills to address the technological transition and the further challenges the country will face in the near future. Italian policymakers have clearly linked these priorities with the need to help the effective implementation of the National Recovery and Resilience Plan in the context of the EU Recovery Plan.

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4. Conclusions and Recommendations

COVID-19 represents a huge exogenous shock that has had negative consequences on the European economic prospects for growth and risks increasing tensions on the condition of the elderly in Europe. As shown by the most recent economic crises – e.g. the Great recession of 2008 – economic downturns have always negative consequences on pensions. Pension systems - that at a first glance could seem unaffected by the pandemic – face in fact longer-term challenges. GDP fall, negative trends in the labour market and strains on pension funds are some of the problems that affect present and future pensions.

The present paper has provided evidence of the impact of the crisis, the measures taken to deal with the emergency and the complex governance of pension reforms. First we have shown the crisis has been particularly severe, much more than the *Great Recession* of 2008. The fall of GDP has been massive, as well as the reduction of worked hours and the increase of budgetary deficit and debt. Economic slowdown, budgetary pressures, labour market difficulties and negative trends in the financial markets are all elements that have put pension systems under stress.

In such a context, policymakers have reacted through an ambitious anti-cyclical strategy. Stimulus packages consisted of increased public investments and outlays to buffer the effect of the crisis, job retaining strategies as well as more generous social provisions. All these measures have contributed to reduce the severity of the recession and its negative effects on labour market and social rights. This outlines that policy decisions make a difference, and that decision makers at both national and supranational level have quickly reacted to the pandemic through a vast anti-cyclical programme.

As for pensions, policymakers in Europe have followed a largely similar strategy based on five different priorities: with the deferred payment or temporary reductions of current social security (and pension) contributions; additional resources through the public budget to stabilize the pension system; *ad hoc* improvement of pension benefits; special regulation for pension funds to support their sustainability; and the revision of the broader pension reform process.

The reforms passed and/or discussed so far in the four countries at the core of the more in-depth analysis (Denmark, France, Hungary and Italy) show some regularities and provide evidence of some new priorities. If compared to the reforms of the last decades, the more recent trends have included: the fight against inequality in the old age, with a renewed attention to the diversification of rules for both the calculation of benefits and the setting of the legal retirement age.

This is consistent with the projected increase in public pension spending and the less rigid application of the EU rules. The suspension of the Stability and Growth Pact as well as the launch of the EPSR seems to have contributed (together with the proactive role of international organisations like the ILO) to revise reform priorities and provide domestic policymaker more room to manoeuvre for improving old age protection. In other cases, the pandemic helped the trade union movement to avoid unilateral reforms like in France.

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While there are signs of more attention to social adequacy and the problem of protecting those categories that are more at risk of insufficient old age protection, there are still risks of a further policy reversal. Austerity seems over but the demanded revision of the EU budgetary policy coordination is not yet set. The Great Recession teaches us that once the major crisis is over, cutbacks may come back on the agenda.

Looking at the multi-level governance of pension reforms we see some changes in the debate. Three different positions have emerged both at international and national level: some (e.g. IMF) still focused on the financial constraints of ageing and the need to contain public spending; while others seem more keen to push for the improvement of old age protection (stakeholders, new political forces, and to some extent the renewed EU strategy in the field). A third groups of experts stress the need to push for more public debt to help the European recovery. The latter discourse has ambivalent consequences on the pension debate. On the one hand, it seems to open more room for social spending to buffer the effects of the crisis; on the other, it reminds the old debate of the intergeneration clash between younger generations in need for help and older generations with unsustainable social (and pension) rights (see Mercher, 2013 versus Concialdi and Lechevalier, 2004).

As stressed above, the comparative analysis of pension reforms in Europe shows some common priorities. Yet countries maintain some peculiarities. Some countries have derogated from the principle of increasing the legal retirement age in line with the progress in life expectancy. This has happened – before and after COVID-19 – when governments have developed the dialogue with trade unions (in Denmark and Italy). Countries where trade unions are less central in the pension reform process, the reform agenda is still focused on increased employment rates in the older cohorts of workers (see Hungary). In the case of France, the dialogue between government and trade unions on pensions has proved difficult. Only the pandemic arrested the unilateral reform and gave trade unions the possibility to reopen the debate (after years of intense mobilisation).

The evidence collected on the EU members' response to the pandemic and expected long-term consequences of the crisis give the opportunity to provide some inputs to the debate and recommendations for the trade union movement:

- Policymakers and stakeholders should address both financial sustainability and adequacy issues. While at a first glance pensioners seem protected from the main consequences of the pandemic, it is crucial to avoid that the economic recession become a social crisis for the elderly.
- Policymakers and stakeholder have a window of opportunity to reframe the reform priorities in a social context marked by huge recession, labour market and social problems. Such context seems more favorable for addressing adequacy problems.
- Reforms aiming at improving access to pension schemes and the adequacy of pensions should address present and future inequalities. In particular, in many countries some social and occupational groups - namely, a-typical workers, women, self-employed (those who are already the target of the EPSR and the EU aim to provide effective old age protection for all) - are at risk of suffering the economic and social consequence of the pandemic.

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- Practitioners and experts should avoid referring to the oversimplified intergenerational cleavage that put younger and older generation one against the other. By contrast they should think about a reform programme where transfers and services are jointly developed. The former should address the main challenges to adequacy and equality in the old age; while the latter should see efforts for equal access to the social services for the elderly (e.g. health, LTC). Social services should be at the core of an investment strategies targeted to young generations in search for job opportunities.
- More attention to pension adequacy may also come from the link between different policy fields. In some of the countries under exam, the need to address unemployment and the efficiency of the public administration have contributed to focus on more options for early retirement;
- The debate on pension reforms in the last year has seen less stringent constraints from the EU. The temporary suspension of the Stability and Growth Pact, and the launch of the European Pillar of Social Right, and probably the Recovery Plan, will give more room for social spending and to the progress of a more accessible social protection. But there is the risk that this is a temporary exception and that in the future the EU will ask for austerity measures to address the increased public debt and deficit. It is important to prioritize the reform of the Stability and Growth Pact to avoid the return of the cutbacks on pensions.
- Cooperation between international organisations (e.g. ILO) and stakeholders represents an opportunity to strength social priorities and design a policy programme to improve old age protection worldwide.

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