

Contribution rates: fairness and social sustainability of European pension systems

Introduction

The ETUC calls for a greater coherence developed between the right to adequate pensions prescribed by the EPSR and the fiscal policy indications provided in the framework of the European Economic Governance. Taking into account the current economic, labour market and employment situation, the project also investigates possible reforms that could foster greater fiscal sustainability of adequate pension systems. It does so by proposing an integrated approach to equal opportunities, quality jobs, employment conditions and social protection rights, in the belief that such approach could determine a more balanced pension policy between fiscal sustainability and social rights priorities.

In this context and in the framework of the EU funded project SociAll, the ETUC decides to prepare one expert study providing insights on the social protection contributory systems across Europe and their capacity to support the sustainability of adequate and effective pensions, in times of demographic change.

Context of the project

Over the last decades, changes in the labour market and in the demographic situation have put social protection systems across Europe under pressure. Modern drivers of such change pertain to digitalisation, structural changes in the labour markets and world of work, flexibilization of employment, fragmentation of careers and blurred boundaries between labour market statuses and relative social protection regimes. As the world of work evolves, an increasingly large part of the workforce (some 40% of people in self-employment, in jobs not governed by standard contracts, or going through transitions between and combinations of dependent employment and self-employment¹) risks to be left without access to effective and adequate social protection due to its labour market status or the type of employment relationship.

The evolutions in the world of work *de facto* hamper the capacity of workers to accrue the entitlements that are necessary to grant them effective and adequate pensions. Many national social protection systems are not appropriately equipped to face the challenges generated by the proliferations of atypical and non-standard forms of work and employment. The risk is high to perpetuate and increase inequalities in both formal and effective access to pension rights. Moreover, the increased complexity of national pension systems (articulated in different pillars and schemes) can add further problems to the effectiveness and adequacy of pensions for a huge rate of the European population.

The current reality would determine the necessity for growing groups of the workforce to take recourse to tax-funded safety nets of last resort in case of social risk, while the number of people contributing to social protection seems to be proportionately smaller.

However, in the framework of the European Semester, the fiscal sustainability of public expenditure results has been prioritised over the need of inclusiveness, adequacy and effectiveness. The priority of fiscal coordination, especially in the Eurozone, has impacted the margin of manouver for national

¹ COM(2018) 132 final, Spasova S., Bouget D., Ghailani, D. and Vanhercke B. (2017). Access to social protection for people working on non-standard contracts and as self-employed in Europe. A study of national policies. European Social Policy Network (ESPN), Brussels: European Commission.



budgets to ensure universal coverage and adequacy of pensions. Many MS have dramatically reduced the social assistance budget.

The ETUC calls for a greater coherence developed between the right to adequate pensions prescribed by the EPSR and the fiscal policy indications provided in the framework of the European Economic Governance. Taking into account the current economic, labour market and employment situation, the project also investigates possible reforms that could foster greater fiscal sustainability of **adequate** pension systems. It does so by proposing an integrated approach to equal opportunities, quality jobs, employment conditions and social protection rights, in the belief that such approach could determine a more balanced pension policy between fiscal sustainability and social rights priorities.

Context of the expert study

In the long run, issues of access, effectiveness and adequacy of pensions put the social and economic sustainability of national social protection systems at stake, especially given the current employment and demographic trends. **Unequal, ineffective access to and lack of adequacy of pensions in particular deserve greater attention** within the European Economic Governance framework.

The EU must engage for the *adequacy of sustainable pensions for all*:

Principle 15 of the EPSR: Old age income and pensions

*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.*

Everyone in old age has the right to resources that ensure living in dignity.

Principle 12 of the EPSR: 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.*

In this view, an ambitious implementation of the Recommendation on access to social protection and reform the national pension systems is all the more necessary. In advocating these positions, the ETUC confirms what has emerged from the developments of the SociAll project so far: the importance of adopting a comprehensive and integrated approach, that takes into due consideration **the potential of the labour market and of the design of pension systems to ensure the accrual of effective and adequate benefits and to contribute to their fiscal sustainability.**

In the past decade, the demographic trends have been considered as the main (and only) determinants of the increase of the “Costs of Ageing”. The fiscal projections up to 2030-2050 foresee the necessity to keep the public pension expenditure as stable to ensure the fiscal sustainability of public budget given the demographic challenge posed by the ageing population. Despite the massive population ageing all across Europe, this approach requires not to engage further public resources in public pensions (on which most of EU retirees can rely), but rather to increase the legal retirement age across the member states – or to reduce their adequacy, or at least to find alternative – and uncertain – strategies to try to ensure it.

The restriction to public budgets for pension expenditure in the view of the demographic trends have forced many MS to rely on contributory schemes more and more to finance the future pensions.

Pension systems have been progressively reformed, under the pressure of the Country Specific Recommendations, shifting from pay-as-you-go towards defined contribution and fully-funded



logics, whereas redistributive systems are considered as not sustainable any longer, because of the ageing of the population in Europe.

In the trade union assessment, these trends seem to have **shifted the responsibility to ensure the right to adequate pensions of an ageing population from MS and national governments onto the individuals and their capacity to accrue contributions for their future pensions**. Such trend is confirmed by the proliferation of national reforms and EU initiatives aimed at the privatisation and the marketisation of pensions that have proliferated in the recent years – as witnessed in the Pension Adequacy Report 2018.

Questions concerning contributory schemes

The debate linked to the cost of labour and contributory obligations is quite lively, given the sometimes high contribution rates that are foreseen in some member states. However, **in spite of even high rates paid by workers and employers, relying on current contributory systems for future social protection** does not seem to solve major issues and raises **questions** on pensions:

- With regards to the **contributory capacity**: what are the contributory rates applied across Europe, with respect to different pension pillars? How do they differ in quantitative terms? What do they cover?
- With regards to the **fair allocation of the contributory obligations**: how are contributory rates shared between employers and the workforce?
- With regards to **different groups of workers and their employers**: how do contributory rates differ for workers hired with a standard employment contract and the self-employed workers? And how do contributory rates differ for employers relying on these different forms of contractual employment relationships?
- With regards to the **capacity of contributions to support the fiscal sustainability of pensions**: how far the contributory-based schemes are able to provide sustainability to the systems, provided they should be adequate?
- With regards to **pension adequacy**: in the current schemes, are contributory-based systems likely to ensure dignified pensions in the future?
 - o Do **wage/remuneration levels** and the length and continuity of their careers allow standard employed and self-employed workers the capacity to accrue significant entitlements?
 - o Does the **design of the contributory systems** impact the adequacy of pensions in the redistribution phase?
- With regards to the **economic and interest trends**: how do contributory-based systems perform in a context of low interest rates?

The SociAll project will greatly benefit from the expert study displaying data, explanations and country comparisons that could provide elements to answer these questions and feed the EU level debate.

