

Concept note ETUC SociAll webinar and expert study

Pensions at the time of Covid-19: challenges and policies across Europe

Introduction

The ETUC calls for a greater coherence developed between the right to adequate pensions prescribed by the European Pillar of Social Rights (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 proliferation 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

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.



fiscal coordination, especially in the Eurozone, has impacted the margin of manouver for national budgets to ensure universal coverage and adequacy of pensions. Many MS have dramatically reduced the social assistance budget.

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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.

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.

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 restrictive budgetary reforms have forced many MS to rely on contributory schemes, shifting from pay-as-you-go towards defined contribution and fully-funded logics, whereas redistributive systems are considered as not sustainable any longer.

The Covid-19 pandemic adds to this scenario in an unprecedented way.

The pandemic’s effects on employment rate and workers’ income, as well as the measures undertaken in its waves, pose crucial questions on both the short-term effects and the longer-term challenges for pension policy in the future.



Exemption from /suspension / deferral / reduction of payment of social security contributions represent recurrent measures to support companies and self-employed workers as well as for and job maintenance². Other measures concern additional resources contributed through the public purse in order to stabilise the pension system; improvement of pension benefits; temporary postponement of broad pension reforms captured³.

The crisis also implies lower output resulting from the restrictions to the economic activity that followed the emergence of the pandemic: “economic decline invariably generates pressures on public budgets and limits the possibility of spending on the welfare state, and pensions in particular”⁴. The labour market also poses issues, with wage base reduction, lower taxes and social contributions, rise of unemployment, contraction of employment. The situation is thus concerning with respect to public pensions.

However, effects related to the financial markets and rates of return are concerning also for non-public pension schemes⁵, and not only for defined benefit ones, expected to have to reduce retirement benefit payments because of their weak funding position. The world economy fears to “experience secular stagflation, as productivity and real growth will continue to be much slower than in the past yet with prices rising faster. That means living standards will at best continue to grow slowly, and for many will be eroded further by inflation”⁶.

Main questions and trade union concerns

The implementation of the Recommendation on access to social protection, prescribing access, effectiveness and adequacy of social protection benefits, including pensions, will take place in a scenario characterised by the phenomena mentioned above.

On the one hand, questions can be raised with respect to the **fiscal sustainability of adequate public pensions**, on which most Europeans rely:

- How can the after-COVID-19 scenario in the near and further future influence the evaluation of the importance of public budget on pensions?

² Just as examples: in Italy, exemption from social security contributions are foreseen for max 4 weeks for those who do not activate redundancy fund; suspension from payment of social security contributions are put in place for employers affected by the new restrictive measures and for specific sectors. In Spain, the deferment of payment of Social Security debts for self employed workers was activated. In Germany, companies getting their staff into training receive the re-fund of 50% social security contributions if the employee takes part in training while being on short term work. In Hungary, employers will get a 30-day exemption from having to pay social contributions for staff at restaurants and recreational facilities. In Czech Republic, suspension of tax payments and social security contributions has been activated.

⁴ ibidem

⁵ https://www.ft.com/content/d1fce3e7-428b-4b8a-ab6a-119a38fa1e7d?accessToken=zWAAAXexWM14kdPR_OPnQotLitOrahGaOPoefQ.MEQCIFAWzcep6Zvf8v2_ku11Cb_pKXc3pQbWbhAXymUudEQn_AiBu-K8_VVmBJDeCh-JXyuJxKpWEa0FVKHybYLFYhgFNA&sharetype=gift?token=24649da8-9faa-4014-9d07-08a2c01d0ced

⁶ https://www.ft.com/content/fcbccad8-491e-4f5b-a859-6622bc368e5c?accessToken=zWAAAXexXXywkdp8vMrYSR5PW9OoWWYivDaOXA.MEUCIQD2DDfVFX8UQJStkh_nZvYgAoEzhGGYw7PKZPlvAJYXCjQlgeIxMWNdJHj2zu90JkPznI7mJhNBPoDTr870LhK89Uo&sharetype=gift?token=e123ab15-7cc0-4698-9c3b-556e986b81da



- How to adapt the European economic governance trends to guarantee fairness, adequacy and intergenerational solidarity in pensions? How far are the current options at stake to make pensions sustainable viable in the scenario designed by the pandemic? To what extent can we raise retirement age in accordance to life expectancy?
- How can we rethink funding social protection and adequate pensions in particular in a wider perspective, that takes into account the different forms of work and employment, the demographic trends and also the need to face urgencies such as the pandemic one? (ref. to Ageing report 2021 and Social Scoreboard)
- What are the options to ensure more equality and solidarity taking into account the socio-economic divide persisting in Europe, beyond the generational dimension?
- What indications can the present experience provide to policy makers at national and European level?

These are only some of the questions that impact the **social dimensions in the view of a post-pandemic scenario**.

It is clearly difficult to make predictions in such enduring unusual situation, however, some elements can already be retained to picture possible traits for upcoming policy debates.

The presentation in the webinar and the expert study to be published shortly after will help European trade unions to answer these crucial questions.

