

Belgium 2006

Minimum pensions and older women's poverty

Minutes

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On behalf of
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DG Employment, Social Affairs and Equal Opportunities



Peer Review: Minimum Incomes and Women's Poverty

Brussels, 20 June 2006

Hosted by Belgium's Minister of Pensions, Federal Public Service for Social Security and National Pensions Office, this peer review examined the issues of minimum incomes and women's poverty in a number of European countries.

Introductory remarks

Ruth Paserman (DG Employment, Social Affairs and Equal Opportunities, European Commission) thanked the Belgian hosts for the excellent facilities provided. National strategy reports on pensions received in 2005 had highlighted the issue of minimum incomes, and this was a theme that the Social Protection Committee had particularly wanted to work on. All Member States want to ensure that pensioners do not fall into poverty, regardless of their contributions history. On the other hand, there are pressures on the social security system from changing career patterns – with more people taking career breaks - and from simple demographics. Women are particularly subject to poverty in old age, for various reasons to be discussed during the meeting. The Commission and the Social Protection Committee are preparing a report on minimum incomes for elderly people. The results of the present meeting will also feed into that report, which will draw on the expertise of different Member States.

Thematic expert **Elizabeth Villagómez** (Almenara, Estudios Económicos y Sociales, S.L.) began her presentation with two graphs from a country not represented at this peer review, Spain. They showed that men in Spain tend to work until age 65, then receive a retirement pension. Women, on the other hand, are less and less in employment as they grow older. After they reach 65, they receive mainly survivor's pensions rather than contributory pensions. But the graphs also showed that younger women in Spain have career patterns more closely resembling those of men. The effects of this will be felt later on, leading to greater income equality between women and men after retirement. Women's participation in the Spanish labour market is still lower than the EU average. A high proportion of older Spanish women also have low levels of education. This issue also emerged from other national reports prepared for the meeting. Higher levels of education should have the effect of raising wages and thus raising pensions. In her own background paper, she had emphasised three factors governing women's poverty:

- The **pay gap** between men and women, which is present to varying degrees in all the countries under review.
- **Occupational segregation:** women are concentrated in lower-end occupations, and even when they are engaged in higher-end occupations, they have difficulty in reaching the top of the career ladder. In fact, the pay gap is wider in the higher-end occupations.
- **Career gaps:** women are absent from the labour market to a higher degree than men. This is related to women's roles in child-bearing, childcare and caring for older, sick or disabled people. This factor varies between European countries, depending on the welfare systems in place. Where care depends mainly on the family, it tends to be the responsibility of women. However, a recent trend in Spain is that younger people, and especially younger men, are becoming more involved in taking care of the elderly.

Various national background papers emphasised that the effects of pension reforms in the Member States will not be felt immediately. While there is a trend towards raising the lowest pensions, in order to combat poverty, this will take some time to have an impact.

Many other services in the various countries help to support people in old age. Benefits such as free healthcare and free transport are usually not taken into account when calculating older people's incomes. Older people also tend either to own their homes or to have access to low-rent accommodation.

Income statistics are usually household-based. They do not take account of older people living in care homes. More analysis is needed of the income situation of institutionalised older people and of factors that might push them into poverty.

One important question is whether minimum pensions are actually lifting people out of poverty. Do minimum pensions take people out of work, and therefore put them at greater risk of poverty? Here, different age tranches within the older population should be considered. The younger tranche of older people are perhaps still able to work. But how far do the pension systems allow them to do so? To what extent are they able to combine working with nevertheless receiving a pension?

The sustainability of pensions is a further major point to address.

First session: poverty among elderly women

National presentations

Belgium

As in most EU countries, older people in Belgium are at higher risk of poverty than younger people, **Ann Van den Troost** (Cellule stratégique pensions, Belgium) reported. Among elderly people in general, there are no significant differences between men and women as regards poverty risk, but a clear gender difference can be seen in the case of elderly people living alone, especially in the 75+ age group.

She advanced two main explanations for this:

- **Women's economic situation in old age cannot be divorced from their employment behaviour over their entire lifetime.** In Belgium, women have more limited and often more interrupted careers than men. Today's older women were born in the first half of the twentieth century, a period characterised by low labour market participation by women and low divorce rates. Since the 1970s, that situation has changed. Divorce has become more common and women's labour market participation has been increasing. That participation has been mainly in the form of part-time labour. This is true for every age group. This high percentage of part-time work has important consequences for women's pension rights, and particularly for their access to the minimum pension, which provides a minimum for employed persons with a complete career. The Belgian pension system is, she stated, built on a masculine model. Access to a minimum pension requires at least 30 years of full employment. A woman who works 30 years full-time will have access to the minimum pension, but a woman who works 40 years half-time will have no such access, even though the two women have worked the same total number of hours. As a result, 42% of women have no access to the minimum pension, as compared to only 4% of men. This does not, however, mean that 42% of women have inadequate incomes or no pension rights. The income

situation at the couple level may be good and at the individual level, other measures exist that may ensure a decent level of income for retired women. However, to remedy the discrimination against part-timers, the Belgian government has decided that, in future, the number of years worked part-time will also be taken into consideration for access to the minimum pension. This change will take effect in October 2006.

- **Women live longer and retire earlier.** Women's pensionable age in Belgium will remain lower than that for men until 2009. So if pensions are not properly adapted to welfare needs, older women will have a higher poverty risk. In Belgium, pensions are already index-linked, but price-based adjustments are not the same thing as welfare-based adjustments. The lack of welfare-based adjustment in Belgium during the 1990s led to the erosion of the oldest people's pensions, although selective adjustments after 1999 did make it possible to restrict this erosion. Because of their earlier retirement age and longer life expectancy, women's pensions are often eroded more than men's. The Belgian government therefore intends to introduce a system of welfare-based adjustments from 2007 onwards. The minimum pensions will be increased annually by a certain percentage. The other pensions will be supplemented by a fixed annual welfare bonus payable to everyone who has been retired for at least five years. This measure will be proportionately more beneficial for those on the lowest, and often the oldest, pensions and will therefore have a redistributive effect. The new measures will be an important element in tackling the issue of poverty among older people.

Czech Republic

Poverty rates in the Czech Republic (CR) are low, although they have been increasing moderately, said **Jan Skorpik** (Ministry of Labour and Social Affairs, CR). However, in contrast with other countries, it has a high concentration of people living just above the poverty threshold. Women are at higher risk of poverty than men, and this gender gap tends to increase with age.

Income differences continue to be relatively small in the CR. The volume of income earned by the richest 20% of the population is 3.4 times higher than that of the poorest 20%. Social transfers play a significant role in overall transfers. 14% of the country's inhabitants are in the poorest 10% of households. This low degree of inequality corresponds to a Gini coefficient of 25. But without pensions and other social transfers, 39% of people in the CR would fall below the poverty line. Pension payments bring this percentage down to 21%, and other social transfers reduce it to the final figure of 8%, which is significantly below the EU average.

Without any social transfers, the poverty rate in the 65+ age group would be close to 90%. Pensions reduce this figure to less than 10%. Other transfers bring it down further to 4%.

Pensions generate 94% of all income in pensioners' households. This is almost entirely derived from the basic pension insurance scheme, as supplementary private schemes are not well developed. Currently, more than 99% of the population above the statutory retirement age receive a pension from the basic scheme. Relatively long periods during which no contributions are paid (i.e. when the person is not active on the labour market) are nevertheless included in the calculation of pension entitlement. So, as the basic scheme does not exclude those whose careers are interrupted, it does not lead to discrimination on the basis of gender, occupation etc. This universality allows the principle of income solidarity to be applied within society as a whole. The parameters used for the pension scheme mean that the replacement ratio is nearly 90% of past earnings for the low-income group, which has earnings equal to 50% of the average

wage. As pensions are not taxed, the net income of this group is unchanged after retirement. In contrast, the higher income group, characterised by earnings that are twice the average wage, achieves a replacement rate of only 30%.

The non-contributory periods taken into account in pension calculations are thought to represent on average up to one-quarter of all the insured periods. This is especially important for women, for whom a high proportion of non-contribution is observed. Maternity leave is credited for pension entitlement up to the child's fourth year of age. The biggest number of newly granted pensions for men are on the basis of an average of 46 insured years. This peak is not so clear for women, due to varying statutory retirement ages which depend on the number of children. However, women have a lower retirement age than men.

Although the same conditions are accorded to women and to men within the pension scheme, the risk of poverty is notably higher for women. This is due to factors either outside the basic pension scheme, such as different levels of earnings during economic activity, but also within the scheme, where primarily due to lower statutory retirement ages women reach a lower number of insured years and therefore lower pensions. Newly granted old age pensions for women are on average 20% lower than those granted to men. But the lower statutory retirement ages for women allow them to shift earlier to deferred retirement, which means quicker accumulation of pension entitlements, so reducing income differences from past periods of economic activity. In current conditions, where women will retire at the same age as men, a woman's pension will be 15-20% higher than that for a man with the same earnings. So, given women's lower earnings during their economic activity, pensions for both genders will be comparable.

Pension uprating mechanisms are a significant instrument for protecting pensioners, particularly the very oldest ones, against poverty, as they preserve purchasing power. The pension uprating index is determined by the government, but must not be lower than the minimum amount stipulated by law, which is currently 100% of the consumer price index (CPI) + 1/3 of real wage growth. The distribution of the uprating between the basic assessment and the percentage base assessment is a matter for the government, and there are no specific rules. This enables the government, when necessary, to strengthen the position of lower-income pensioners through greater uprating of the basic pension assessment. The average uprating since 1996 has been 100% of CPI + 60% of real wage growth.

Survivor's pensions are an additional instrument for reducing the risk of poverty for people living alone – especially for the very oldest people, who are mainly women. Survivor's pensions depend on the pension entitlement of the deceased spouse, and may be paid out in combination with old age or disability pensions, with the lower pension being reduced to 50%. The minimum age for receipt of a survivor's pension is currently 55 for women and 58 for men. This is one of two gender inequalities in the current Czech pension schemes, the other being the retirement age. There are no restrictions on receiving pensions in conjunction with income from work.

Latvia

Although Latvia's current growth in GDP is among the highest in the EU, its GDP per capita is still less than 45% of the EU average, **Anda Masejeva** and **Jana Muizniece** pointed out. And the average monthly wage is the EU's lowest. The employment rate for women was 51.3% in 2004, and for the total population 56.1%. The wage gap between men and women was 16% in 2003 and 15% in 2004. Poverty levels are close to the EU average. The total risk of poverty rates show differences for women and for men (respectively 21% and 18% in 2004).

While in 2002, the risk of poverty rate for the 65+ age group was lower than for the population as a whole, this situation had changed by 2004. In particular, the risk difference between women and men within this age group increased (28% and 14% in 2004).

For those aged 65+ and living alone, the poverty rate increased sharply.

Social transfers and pensions play a very significant role in decreasing poverty. The Latvian pension system is directly linked to the national economic situation. Due to a significant grey economy and high unemployment levels, pensions are sometimes very low. The Latvian pension system aims to encourage the continuation of work after the minimum pension age is reached. The amount of the old age pension depends not only on accumulated pension capital but also on the retirement age and the forecast life expectancy after retirement. The minimum retirement age has been gradually increased, and is now 62 for both men and women. The actual retirement age has also been increasing, and is still different for women and men. Women's employment rate has increased and is now comparatively high, as the sectors that traditionally have a high proportion of females in the workforce (retailing, restaurants and other services) have developed more rapidly. In the 55-64 age group, women's employment has grown and, although still lower than for men, is above the EU average for women of this age.

The average gross monthly wage for women is below that for men, as the majority of women are employed in State or municipal institutions where pay is lower but job security is greater. Women are absent more often from the labour market, due to pregnancy, parental leave and caring for sick and elderly members of the family. Women are also more likely to work part-time, and to take early retirement. As a result, there are big differences between men's and women's pensions. As women's life expectancy is much higher than men's, the planning period for the disbursement of old age pensions is calculated on an average of the two, thus ensuring gender equality and solidarity.

Life insurance is a means of accumulating pension capital, and it can be passed on to the heirs, including the surviving spouse.

During the periods when a person is economically inactive (unemployment, disability, parental leave), the social insurance contributions are paid by the State. The State provides a minimum income threshold for pensions, with the amount depending on the social insurance record. Pensions are index-linked, and indexing takes place more rapidly for the lower pensions than for the higher ones. From 2006 onwards, supplements are being paid to people whose pension is very low but whose insurance record is high.

For elderly people, especially those on low incomes, Latvia has two main social protection measures:

- **Financial support** is available in the form of social assistance provided and financed by local government. In most cases, social assistance is means-tested, but some benefits are mainly targeted at pensioners and these are not means-tested. The increase in the poverty rate amongst older people led to a rise in the number of social assistance recipients from 19.5% in 2002 to 29% in 2004.
- **Access to services** such as social care and social rehabilitation is ensured, thus helping older people to stay in their own homes and avoid becoming a burden on their families. Such services are financed from state or municipal budgets, and are not means-tested. Assignment is on the basis of need.

Ireland

Paul Cunningham and **Paul Morrin** (both from the Department of Social and Family Affairs, Ireland) emphasised that the Irish State pension system is a flat-rate system, designed to provide basic incomes. It is based on social insurance, but there are also means-tested schemes. It provides similar outcomes for all pensioners. There is no earnings-related element in the state scheme. That aspect is left to the private pension schemes. Pensions currently account for about 3% of Ireland's GNP, and this will rise to just over 10% in 2056. This increase is due mainly to the growing numbers of older people. The main response is the creation of a Pensions Reserve Fund, which will be available to the government from 2025 in order to help cover the extra costs. The main pension is payable from the age of 66. There is no facility for people to take an early pension or a late pension. However, people who go on to disability pensions or who have occupational pensions may retire somewhat earlier. Widows' and widowers' pensions are payable at any age and the rates are the same as for the main pension scheme. Payment of the social insurance pension is not affected by other incomes, such as occupational pensions or earnings from work. The means-tested pensions obviously do take account of other income, but earnings of up to €100 are now left out of account for means-testing purposes. The rate of payment for social insurance pensions depends purely on the number of contributions that a person has made. Former earnings are not a factor.

Allowances and benefits apart from pensions include payments for adult dependants, which range from about 66% to 77% of the main pensioner's payment; a small supplement for people who live alone; and an additional allowance for people who are over 80 years of age.

Non-cash benefits include free travel for everybody from 66 years of age and support for electricity costs, telephone bills, TV licences and doctor's visits. The travel, electricity, telephone and TV concessions are worth about €1,000 per annum to each pensioner. There is a universal entitlement to them from the age of 70. Before that, there are household and income conditions to be met.

Between 1994 and 2004, average industrial earnings in Ireland rose by 63%, and this is regarded as a reasonable indicator of the rise in earnings in the economy as a whole. Over the same period, contributory and non-contributory pensions rose by 86%. However, household incomes rose by 123%, which is the figure followed by the risk-of-poverty line. So the level of the contributory pension was above the risk-of-poverty line in 1994, but had fallen below it by 2004. Pensions and other social benefits increased very significantly over this period, but did not keep pace with household incomes, which grew rapidly due to higher earnings, better household participation and lower taxes.

This means that the risk-of-poverty rate for people over 65, which used to be lower than for the general population, is now 40% compared to 21% for the Irish population as a whole. But in fact, pensioners are much better off, on an absolute basis, than they were in 1994. Rates of consistent poverty (i.e. the person is below a certain income line but is also unable to afford at least one of a range of essentials) are lower for pensioners than for the general population. Non-cash benefits influence consistent poverty, but not relative poverty.

Pensioners living alone without supplementary income are now below the risk-of-poverty line. The weekly shortfall is €31 for contributory pensioners and €44 for non-contributory pensioners. 60% of older people below the risk-of-poverty line live alone. However, only 29% of the over-65s in Ireland do live alone. So household composition is the key risk factor. People living alone are roughly four times more likely to be at risk of poverty. Also, contributory pensioners are at lower risk of poverty than non-contributory pensioners.

The risk of poverty is 10% greater for women aged over 65 than for men in the same age group. 34% of men over 65 are at risk, compared to 45% of women. This gap is influenced by household composition. Roughly twice as many women as men live alone. Also, up to now, fewer women than men have had contributory pensions, but this is a legacy effect. The situation is now changing, due to a strong increase in female participation in the Irish labour market over the past ten years (from 40% in 1994 to 55% today). A continuing inequality is that about 10% fewer women than men who are in work have supplementary pensions. This is due to lower income.

Ireland does not have index-linked pensions. They increase in line with government targets, which are influenced by social partnership agreements. At present, the government commitment is to a pension of €200 per week, to be achieved by 2007. That will require an increase of about 10% in some payments.

Since 2002, the allowances payable to pensioners who have dependants or partners can be paid separately to the partner if wished. Currently, means of further increasing the number of women who receive direct payment of such allowances are being examined.

Ireland's social insurance coverage was greatly expanded during the 1980s and 1990s, the two main extensions being to the self-employed in 1988 and to part-time workers in 1991. Consequently, reliance on means-tested benefits is declining. At the same time, the rules for means-testing have been relaxed. From 2006, income of €20 per week (and earnings of €100 a week) is disregarded, as is capital of up to €20,000. Since 1994, the "homemakers' scheme" has been in place. This protects the social insurance rights of somebody who takes time out for caring duties, by leaving those years out of the calculation when a person's contribution record is averaged out in order to determine their pension. This is not yet really a factor in present pensions payments. Its impact will begin to be felt in a few years' time.

Private and occupational pensions play a major role in the Irish system. Currently, 30-35% of pensioners have an occupational pension, but about 60% of those currently in work are contributing to such schemes, which will therefore make a big contribution to future pensioners' incomes.

A major review of the Irish pension system is under way in 2006. A report published in February 2006 is under consideration by the government. The current national social partnership agreements also calls for improvements to pension coverage.

Stakeholders' comments

From the national presentations, and the written reports received from a number of countries, **Anne-Sophie Parent** (Director, AGE – The European Older People's Platform) drew together a number of points. She stressed the importance of the "first pillar" pension schemes. These "first pillars" should in themselves be strong enough to ensure a dignified life, especially for older women. A lack of indexation seems to be eroding these basic pensions. This has a particular impact on women, mainly because women make up the great majority of the very oldest pension recipients.

AGE is pleased to note the strong emphasis placed on carers' credits in some Member States. This provision is delivering results in terms of greater equality between men and women. Such measures are fully in line with the goals of the EU's Lisbon Strategy, which seeks to promote greater employment participation by women and older workers. However, more research and exchanges of experience are

needed, to ensure that the Member States strike the right balance between, on the one hand, helping women and men to reconcile work and family life and, on the other, avoiding any increase in the labour market segregation and gender discrimination currently faced by women.

Survivors' benefits are another big issue for AGE. The individualisation of rights should be the ultimate goal, in order to support full gender equality. However, as full equality has not yet been reached – due to such factors as interrupted careers and the pay gap – great care has to be taken with any move towards phasing out survivors' pensions. Other compensatory mechanisms should be set up to ensure that inequalities are addressed. As the discussion showed, particular attention needs to be paid to the oldest group of women and to divorced women. Both those groups are at higher risk. A big task for the Member States will be to build public support for difficult, painful changes which have to be made. When France tried to implement reforms in survivors' pensions, the response from the public was so bad that the proposals had to be withdrawn.

Home ownership had been highlighted in the contributions, and AGE was pleased to see this, because home ownership does help to reduce poverty risk in old age. But once again, unfortunately, the oldest group of women are the least likely to own their homes. So this needs to be built into the calculations, and compensatory measures should be taken.

As regards the second and third pillars, the private pension schemes, women still have less access to these. Due to the pay gap, income differences between men and women in old age are likely to increase, because Member States are relying more and more on second and third pillar pension schemes. Unless mechanisms are established to ensure equality, older women will be at even greater risk of poverty in future. There is a lack of adequate indicators reflecting the true situation of older people, and particularly older women. For instance, older people living in care homes are not properly taken into account in the income statistics. More work is needed on this issue.

Monika Natter (ÖSB Consulting) emphasised that Finland had very much wished to be present at the meeting. However, they had been obliged to cancel at the last minute due to pressing business connected with their imminent take-over of the EU Presidency. The Finns wished the meeting every success, and had provided a full written report.

Round table discussion

Leading off the discussion, **Elizabeth Villagómez** suggested that the reports could usefully be supplemented with details of differences between rural and urban areas and of issues affecting minorities, ethnic or otherwise. Older people's indebtedness is another important topic. The use of an "average age" when calculating likely total pension pay-outs is also a problem to be considered, particularly from women's point of view and especially when calculating private pensions. Compensatory mechanisms might be needed.

In 2006, for the first time, Germany is introducing obligatory unisex tariffs within state-supported private pension provisions, **Peggy Letzner** (Federal Ministry of Labour and Social Affairs, Germany) reported. However, this does not apply to occupational pensions.

Means-tested pensioners are over-represented in Ireland's rural areas, **Paul Morrin** said. Minorities in Ireland tend to be of working age, so this factor has not yet fed through into the pension system. Although there is no hard evidence, the feeling is that, in the past, older people tended to put more aside in savings than younger people do now, so indebtedness is probably lower among older people. Equalisation is a difficult issue, because if a man and a woman reach retirement with the same pot of money and then go to the market, money would have to be taken from the man and given to the woman in order to equalise their pensions. In a private pensions industry, that is very difficult to do. However, there is a directive in place, so it remains to be seen how this issue will develop.

It is important to note that the effective age of retirement is rising, **Asghar Zaidi** (Research Director, European Centre for Social Welfare Policy and Research) pointed out. The good news is that it is rising more for women than for men, so the future cohort of elderly women will be much better off, given that they will have better opportunities to work and opportunities to work longer. Some of the policy changes that have already been legislated for are already having a positive impact on women's employment and are leading to their retiring at a later age.

In the UK, a White Paper (government legislative proposals) has just been published on pensions reform, **Andrew Latto** (Department of Work and Pensions, UK) stated. There is a political aspect to such reforms. The British government put a lot of effort into securing acceptance across society not only for the idea that the state pension age for men and women should be equalised but also that the pension age should be increased. Demographic changes are driving the pensions policies of all Member States. Real retirement ages are increasing in any case, but one issue in the UK, and perhaps in other countries, is to encourage people actually to work up to the existing state pension age, before maintaining the momentum beyond that. In this respect, the EU directive on age discrimination proved very helpful, as did the debate – particularly between trade unions and businesses – on what was to be done about the retirement age, as opposed to the pension age. What can be done, from a pension perspective, to reinforce the message that there will eventually be no default retirement age? The UK government has decided that, for the moment, in implementing the directive, the default age will be 65 for men and women, but there is a clause that this will be reviewed in two or three years' time. A significant factor in continued funding of the pension system is encouraging people to keep on participating in the labour market.

Anne-Sophie Parent said that the EU directive on gender equality in access to goods and services unfortunately contains an exception, based on actuarial factors, allowing insurance companies to discriminate between men and women in the matter of occupational pensions on the ground of differences in life expectancy. Now that more and more Member States are relying on second and third pillars to ensure adequate income in old age, will the Member States be scrutinising closely the evidence that the insurance companies are using to justify these differences in treatment? Within some groups, women die earlier than men. This is particularly the case in the higher income brackets. The profiles currently used for actuarial calculations are the wrong ones. For women, they are based on lifestyles that no longer correspond to those of today's working age women.

This matter is under review, **Paul Morrin** replied. The derogation period for the directive has not yet expired, but obviously, reports will have to be prepared for the Commission.

Anne-Sophie Parent asked if migrant women are seen as a group requiring particular attention in the pensions field. A study in the Netherlands – a country doing very well, on all indicators, in the fight against

poverty in old age – showed that by 2015, 90% of all migrant women will need social assistance. As the European Union is trying to promote economic migration, this issue needs to be looked at very carefully.

The British authorities have done quite a lot of work on this issue, **Andrew Latto** replied. However, he warned against confusing migrants with ethnic minorities. In the case of women from ethnic minorities, whose labour market participation is culturally and historically low, it is hoped that improved crediting facilities will improve outcomes from the national insurance system. In the UK, a new agency called the Pension Service has been set up, whose sole function is to go out and find people and try to maximise their pension income. This is because older women in particular are not used to interacting with the State. They are also often not used to being contacted via the telephone or the Internet. So outreach teams are being set up, who go out and visit vulnerable pensioners in their homes, but also visit community centres. Pilot projects have been carried out in areas with a high concentration of ethnic minorities.

As regards means-testing, a system called the pension credit is available, which acts as a kind of safety net. But this credit has to be applied for, and the take-up rate is currently only around 65%. So one task for the Pension Service is to help people to apply for it.

Taking up that point, **Elizabeth Villagómez** said that access to pensions, but more particularly to other services that can help diminish poverty, is often subject to barriers.

A related issue currently under discussion in Belgium is family reunification, **Jan Bertels** (Belgium) said. Some feel that people who are allowed into the country in order to reunite families should have a right of residence but should not be entitled to a state pension. This issue is being handled by the Interior Ministry and the Foreign Ministry. In terms of social security, that is a dangerous thing, because decisions will be taken that have a great impact on the pension scheme, but without the necessary knowledge of that scheme.

Peggy Letzner (Federal Ministry of Labour and Social Affairs, Germany) said studies show that it is not so much the pension system itself that discriminates against older migrant women, but rather – as is the case for German women - the shorter periods of working time that they have accumulated. Also, the arrival of most migrant women in Germany is relatively recent. As a group, they arrived in the 1970s, so they did not have much time to gain pension entitlements. It remains to be seen if this situation will change in future. Older migrant women who are divorced face particular problems of income.

Jan Skorpik said that, on the one hand, pension schemes motivate people to participate in the labour market but, on the other, some people – including migrants – may have only a short pensionable career. To provide full pensions for migrants and other short career workers would entail encouraging others to work even longer. To set up separate schemes for migrants could cause resentment among people who have worked for 40 years or more to achieve their pension entitlement.

Luisa T. Guimarães (Portugal) agreed that migrants should not be confused with ethnic minorities. In Portugal, immigration is a recent phenomenon. For ethnic minorities, the problem is mainly one of labour market participation. That participation is lower, and their pensions are therefore also lower. Certain ethnic groups, such as the Roma, benefit from the minimum guaranteed income system, which in Portugal is now called the “social insertion income”. But in Portugal’s pension system, as in other social benefits, no distinction is made between immigrants, ethnic minorities and nationals.

Referring to Jan Skorpik's comment, **Elizabeth Villagómez** agreed that there is an issue of disincentives. This may not be the same in every country, but the more a pension system is based on a contract between the worker and the state, the more you get back what you have contributed to the system. There is a trend towards increasing this link between contributions and benefits. On the other hand, there is the wish to have a more effective social safety net – for migrants, for women, for people with interrupted careers etc. If this minimum is high, a disincentive is created for people who have low earnings potential to buy into the formal system. This may be more of an issue where there is a quite extensive undeclared economy. She had understood that, in the Czech case, one-quarter of pension entitlement is due to time credits. She asked for confirmation of this, and for more information about what proportion of pension entitlement in other Member States is due to credited time.

Jan Skorpik replied that the Czech system covers everyone from the age of 15 to retirement age. It would therefore be difficult to exclude anyone from the scheme on a year-to-year basis. However, the crediting of periods outside the labour market might in future be lowered from 100% to 80% or 50%, in order to strengthen the link between contributions and benefits. But it would be difficult to convince people that it was right to exclude non-contributors from the system. The universality of the Czech system is a good way of handling the question of migrants' pensions, because if the entitlement is universal, nobody can object to migrants' receiving a pension. It is the role of social assistance to keep people above the poverty line.

Anne-Sophie Parent asked the contrary question: what proportion of the population in the Member States is contributing to the pension system, but without opening any rights? And is there a gender division in this respect? The Belgian presentation had shown that people could contribute for 20 years without acquiring any entitlements, as they had not reached the minimum of 30 years. This is a disincentive for women, many of whom simply cannot reach 30 years of full employment.

Ann Van den Troost replied that everybody who contributes in Belgium receives a pension.

Michel Englert (Bureau fédéral du plan, Belgium) explained that the 30 years give access to a specific type of pension. This does not mean that those with less than 30 years' full employment do not receive any pension. There will still be a pension that corresponds to the contributions.

Asghar Zaidi added that, to answer Anne-Sophie Parent's question, a researcher would need to have a database covering an individual's whole lifetime, with corresponding details of income. These datasets are not there. Dynamic micro-economic modelling might, however, help to answer this important question. He believed the UK had carried out some exercises of that kind.

Andrew Latto said the UK could provide data later on the percentage of benefits derived from credits. He was sure that it is less than 25% in the UK. Regarding people who contribute but do not receive a benefit, the UK has the "25% de minimis rule" which - subject to EU regulation 1408 which sometimes overrides it - usually means that a person has to have paid more than 25% of the necessary contributions in order to access a pension, and that someone must have at least one year of paid (not credited) contributions from work or through voluntary contributions. The new White Paper proposes the abolition of this rule, which was there mainly for administrative reasons that no longer apply, due to computerisation. On the broader question of credits, a British government Green Paper (discussion document) on welfare reform, published in 2006, looks in particular at the reform of incapacity benefits. In the context of that Green Paper, and the White Paper on pensions, consultations are being held on the crediting arrangements within the new benefits regime for people of working age.

At present, people are credited into the basic state pension if they are unemployed, but not into the state earnings-related pension, which is the second pillar. The idea is that the state second pension is a replacement for an occupational pension, to which an unemployed person would not be contributing. This also has quite a harsh, but useful, policy function, which is that it encourages people to seek work.

The incapacity benefit is being restructured and consultations are being held on how it is to be credited into the pension system. The difficulty is in drawing the line between real incapacity and convalescence by those who will be able to work again later. When crediting incapacity into the pension system, it is important to avoid sending the wrong message.

A scheme called “home responsibilities protection” is aimed mainly at people who are looking after children, the majority of whom are women. This mechanism does not credit. The number of years for which contributions are required is reduced from 39, the usual figure for a woman, by the number of years for which she receives child benefit. The White Paper proposes to change this from a passive reduction in contributory years into an active credit. Replacing the current system of with a system of credits (for care of children under age 12) will mean an additional 780,000 women and 30,000 men will be accruing State Second Pension entitlements. The credit will be on a weekly basis, whereas the present reduction in years is calculated annually, so if less than six months are spent looking after a child, the present system takes no account of that.

The UK’s Work and Pensions Longitudinal Study is a long-term project to link all of the data within the Department of Work and Pensions with those of other services, such as revenue, customs and education, to track people throughout their life cycle on an analytical basis. This is not without its political difficulties. Assurances of anonymity have to be given, but on the other hand, anonymised data are of limited value for policy development purposes. However, the UK would not be able to answer any of the questions that had just been asked for about thirty years.

Elizabeth Villagómez asked for clarification on one point: under the proposals in the British White Paper, would crediting for unemployment be confined to the registered unemployed? This could be a problem for women, who are often not registered as job-seekers.

The British benefits system makes a clear distinction here, **Andrew Latto** replied. A job-seeker’s allowance is available to those who are actively seeking work, as defined by the legislation, which generally means visiting the Job Centre once a fortnight to register continued unemployment. A complication is that the UK also uses the ILO measure of unemployment, which is much broader. However, that is used for data and not for administrative purposes. To be defined as unemployed, a person has to be receiving the job-seeker’s allowance. These people are already credited into the state pension, and no changes are planned in that. It is the crediting of the incapacity benefit that is being looked at. At present, this is not a labour market benefit but a medical benefit. Once certain medical conditions have been satisfied, benefit is received without further formalities, and crediting for pension purposes begins after one year. The idea now is to move the dividing line between the benefits, so that more people are moving away from means-tested benefits towards assistance for seeking a job, some of the details of reforms are subject to consultation. In the UK, there are about 2.5 million people on incapacity benefit and less than 1 million on unemployment related benefits at any one time. Incapacity is therefore a much bigger issue than unemployment.

An important point had been raised here, **Elizabeth Villagómez** said: to what degree do disability pensions become old age or minimum pensions? In Spain, the one turns into the other when the person reaches retirement age.

Ireland has a benefit called an invalidity pension, **Paul Cunningham** replied. This is essentially a long-term incapacity benefit. Those on an invalidity pension are automatically passported on to the old age contributory pension.

The same applies in Portugal, **Luisa Guimarães** added. At the age of 65, the disability pension becomes an old-age pension.

Elizabeth Villagómez asked if people who had been on disability pensions are at particular risk of subsequently being on the lowest-level old age pensions.

Ireland has a standard pension rate, **Paul Cunningham** recalled, so there is no difference. However, those who have been on an invalidity pension may well not have a private occupational pension, so to that extent there may be implications for income.

Belgium also provides a transition from a disability pension to an old age pension, **Jan Bertels** said. Whether that will be a minimum pension or not will depend to a large extent on the period of disablement. Under the system of “assimilated entitlements”, the pension will be calculated on the basis of the wage received just before the person became disabled.

He also wanted to clear up a misunderstanding about the Belgian system that had become apparent during the discussion. Belgium has two kinds of minima – a means-tested minimum and a minimum within each insurance scheme. The means-tested minimum does not depend on having 30 years of contributions. Years of employment do enter into the calculation for the minimum from the insurance scheme, although various types of non-employment may also be credited in.

Michel Englert (Bureau fédéral du plan, Belgium) added that pension rights in Belgium are calculated on the number of years of attachment to the labour market. In addition, there is a means-tested safety net of social assistance. The idea behind the minimum pension system is to increase that part of a person’s pension entitlement governed by attachment to the labour market, once that attachment passes a certain time threshold. At that point, the pension rights are increased more than proportionately.

Anne-Sophie Parent said that her question had been whether it was known how many years some people contribute to these schemes without getting the benefits from them.

Jean Moureaux (National Pensions Office, Belgium) explained that there are, in fact, three minima in Belgium. The first, which is considerably below the poverty threshold, is governed by the person’s overall income at the time when the pension becomes payable. For this benefit, the pensionable age is the same for women and men. The second minimum is the one that can be more than proportionate to contributions – for example, if a person’s earnings were 100, this minimum may be calculated on 120. The idea is to calculate this part of the person’s pension on the basis of a certain minimum earned income, even if those minimum earnings were not actually reached. The third minimum is payable only after a relatively complete career, equivalent to two-thirds of a working life. So in Belgium, apart from those who have worked for a very long span of more than 45 years, a person’s contributions will always be reflected in benefits.

Peggy Letzner said there had already been discussion of the fact that women's employment rates are increasing and will increase in future, but there had been no mention of the fact that these are mainly part-time jobs. So as many pension systems are earnings-related, she wondered whether the rising employment rate among women will really have the anticipated effect. At the European level, a better indicator might be needed – not the employment rate, which includes jobs involving as little as one hour's work per week. An indicator of real participation in the labour market is needed. Thought is also needed on what the pension systems could do to ensure better coverage for part-time workers. In Germany, those looking after children receive pension coverage based on average earnings for the first three years. From the child's fourth to tenth year, the coverage is higher than would be proportionate to the contributions made, bringing coverage up to the average national income.

In Spain, there is specific provision for part-timers, **Elizabeth Villagómez** said. After part-time contracts were introduced, it was realised that there would be implications for pensions, and efforts have been made to compensate for these.

In Ireland, since 1991, part-time work has been fully insured for pension purposes, **Paul Cunningham** stated. Social insurance contributions in Ireland start from earnings of €38, so part-time work is effectively covered. The state pension system operates on the basis of averages taken over a person's whole working life. Since 1994, for homemaking duties, up to 20 years spent caring for children or older people are disregarded when the average is calculated.

Michel Englert pointed out that, in the Netherlands, there is a flat-rate state pension linked to a residence requirement. So even if people have not worked, they qualify for this flat-rate pension.

Andrew Latto said that the UK system is very similar to the Irish one in this respect.

Paul Cunningham stressed that Ireland's homemakers' scheme has operated only since 1994, so there is a legacy issue for people who took time out before then.

Martin Stepanek said that, according to OECD data, the proportion of part-time working in the Czech Republic is very small. As the pension system in the CR is a universal one, there are no special rules for part-time work.

The problem is not so much whether a job is full-time or part-time, but the wage received, **Jan Skorpik** added. In a contributions-based system, lower earnings result in lower pensions. However, it is not always the case that part-time workers earn less than full-time workers.

In Latvia, the pensions are based on the accumulated pension capital, **Jana Muizniece** reported. For part-time workers, that accumulated capital will be smaller.

Portugal does not have specific rules for part-time workers, who are not very widespread there, **Luisa Guimarães** said. The wage gap between women and men is a much greater problem for pensions.

Part-time workers may have been accommodated well in public pensions, **Asghar Zaidi** pointed out, but the problem is with private pensions. That is already the case in the UK and Ireland and will be in other countries in future, as they move from public to private pensions. One issue is the extent to which part-time

workers are offered the same access to company pension schemes as full-time workers. A second challenge is how long a part-time worker will have to contribute before getting back some benefits. In many cases, part-time workers move on to other jobs, or into inactivity, and so lose out on the contributions they have made to company schemes. Government legislation might be needed to protect part-time workers' participation in private pension schemes.

Elizabeth Villagómez said the discussion had shown that pension systems often do not take full account of factors affecting women, including the wage gap and part-time working.

Olivier Bontout (European Commission, DG Employment, Social Affairs and Equal Opportunities) noted from the discussion that differences in women's employment situation can translate into differences in pensions. The crediting of non-contributory periods and the treatment of part-time work within pension schemes are clearly issues of importance to women. As the gap between men's and women's poverty rates is particularly great in the case of people living on their own, he asked for comments on the adequacy of survivor's pensions. He also wanted to know more about the indexation or uprating of pensions. He had noted that the extent of uprating could vary between different types of pension – for example, higher uprating of basic pensions compared to earnings-related pensions, or different uprating for older pensioners than for others. The differences between Member States could provide some interesting insights into this. Is indexation based more on prices or on wages?

For the public pension system, indexation raises no real complications, **Paul Morrin** replied. Everyone gets the same indexation. For private pensions, income is lower in older cohorts of pensioners than in younger ones. Indexation is not necessarily guaranteed in private pensions. Nor is reversion to the surviving spouse automatic. It is usually offered, but is not compulsory.

In Latvia, lower-level pensions are 50% indexed to inflation and 50% to wages, **Jana Muizniece** said. Medium-level pensions are indexed to the inflation rate only. High-level pensions are not indexed. In the public pension system, there is no survivor's pension for spouses. Co-financing for spouses and reversion to them are possible within private pension schemes.

When we think about poverty risk, we think about annual income, **Asgar Zaidi** pointed out. We then link it to some threshold and say that older women are more likely to be in poverty than men. However, if the fairness of the pension system is looked at, in terms of the extent to which it rewards men and women equally, less divergence will be found, as whatever pension entitlement a woman has, she will end up receiving that amount for a much longer period than a man. In terms of total pension wealth, what a woman receives in retirement will not be very far removed from the total pension wealth of a man.

Andrew Latto said the British state pension system has three main elements: the basic state pension (about £85 or €122 a week), the state second pension which is earnings-related above that, and the pension credit, which is the safety net. The basic state pension is currently uprated with prices and the pension credit is uprated with wages. So the difference between the contributory benefit and the means-tested benefit is becoming wider and wider. From 2012 or thereabouts, the basic state pension will also be increased in line with earnings. This change is aimed at stopping the divergence between means-tested and contributory benefits. The state second pension is wage-linked in accrual and price-linked in payment. It is intended to replicate an occupational pension scheme, and these are also wage-related in accrual. Under UK legislation, occupational pensions must also be uprated, in payment, with prices. But the pension provider can cap the increases at 2.5% if inflation exceeds that.

Anne-Sophie Parent asked about the German legislation on index-linking, which is currently framed to ensure that pensions do not fall if wages fall in 2006, but she had heard that reductions in pensions could be called for later on.

Pensions in Germany are generally adjusted in line with gross wages, **Peggy Letzner** explained, and these are not really developing at the moment. Also, there are factors within the adjustment formula that are tending to decrease adjustment, because of sustainability measures for the future. The result of these new factors in the adjustment formula is that the adjustment in 2006 will be zero. The basic protection benefit is based on the real consumption needs of the lowest 20% (stratification with regard to net-income) of single households (based on a survey each five years) and is adjusted annually, in the same way as pensions.

Indexation to prices is the universal rule in Belgium, **Michel Englert** said. But in addition, there is a wage ceiling in the Belgian pension formula, and this is indexed to wages. Also, up to now, there are additional adjustments in real terms for older pensioners, on a discretionary and targeted basis.

Portugal has a problem with minimum pensions, **Luisa Guimarães** stated. A number of people are still on minimum pensions, within both the contributory and the non-contributory schemes. New measures have just been introduced to ensure more effective adjustment of the minimum pension. Up to now, it was set each year, by political decision. The aim was to maintain a certain amount of linkage with the national minimum wage.

Anne-Sophie Parent asked what happens in Ireland when people are between the pensionable age of 66 and the age of 70, when they become entitled to the range of free services. What are the reasons for setting these two different ages?

Paul Cunningham replied that entitlement to free electricity, television licences and telephones is indeed universal in Ireland from the age of 70. However, they are available to people from age 66 on a residence/means test basis. This means that many people qualify for them between the ages of 66 and 70. There is considerable pressure to reduce the universal qualification age to 66, but there is no movement on that at the moment.

Second session: minimum pensions

Introduction

Elizabeth Villagómez said the afternoon session should look at the implications of the labour market situation. Do current trends suggest that pension provision will improve or worsen? Because of changes in pensionable age, participation rates on the labour market are going up – especially in the cases of the new Member States, where the retirement age has gradually been raised. Are pay gaps increasing or diminishing? What is the impact of policies that encourage people to extend their working lives? How are minimum pensions to be financed? It would be interesting to hear the preliminary findings of some new work done for the European Commission by Asghar Zaidi. Sustainability issues in each of the countries should also be discussed.

National presentations

Portugal

Luisa Guimarães said Portugal appreciated the opportunity to take part in the peer review process, which could assist in the development of innovative policy tools. Such exchanges also make the open method of coordination more visible.

Minimum pensions are a subject of great importance in Portugal, due to the level of pensions there. As in most Member States, the elderly are one of the social groups most vulnerable to poverty and social exclusion. Low incomes and low pensions – due primarily to low wages and short careers, low education levels, chronic diseases and dependency, social isolation, bad housing conditions and difficult access to health services and social support all play a part in this. In 2004, 29% of men over 65 and 30% of women over 65 were at risk of poverty. For the population as a whole, the risk was significantly lower at 21%.

The elderly are also one of the most vulnerable groups in terms of income inequality. In 2001, about 66% of the elderly had incomes below the national average. In 2000, 48.6% of households consisted of adults aged 65 or over living alone. According to the 2001 census, 89% of the elderly population were living on pensions, and only 4% were still living on income from work. So the pension system still has a significant impact in improving the living standards of the elderly. Portugal's spending on pensions and other social benefits for the elderly is increasing at a rate above the EU average. However, some Portuguese pensions are still extremely low. As in other Member States, the Portuguese population is ageing. In 2050, the elderly will represent about 32% of the total population. Those aged 80 and over will account for about 10.2%.

In Portugal as in other Member States, a twofold approach has been taken to tackling this challenge – reinforcing social protection where it is still insufficient and ensuring the financial sustainability of the system. Portuguese pensions are structured in two sub-systems:

- The **contributory sub-system** includes schemes for the self-employed and employees and optional schemes for certain groups that are not eligible for obligatory cover.
- The **solidarity sub-system** includes a non-contributory scheme intended for people at a socio-economic disadvantage. Access is subject to means-testing.

Both sub-systems give coverage for disability, old age and survivor's pensions. The old age pension under the contributory scheme is governed by the wages received during the contributory career. The pensionable

age is 65 for women and for men, and the qualifying period is 15 years. The survivor's pension is 60-70% of the deceased spouse's pension. Within the non-contributory system, the survivor's pension is 60% of the social old age pension or disability pension and is granted only if the surviving spouse has no other pension entitlements. Recipients of survivor's pensions are entitled to continue deriving income from work.

In 2005, the total number of old age and survivor's pensions for individuals aged 65 and older was about 2 million. 77.2% of these were old age pensions. Disability pensions are automatically converted into old age pensions at age 65. In 2005, about 80% of old age and survivor's pensions were under the contributory sub-system, 15% under a special system for the agricultural sector and 2% under the non-contributory sub-system.

A legal minimum pension has now been set. If the pension calculated under the contributory sub-system is below the annual minimum, a supplement is granted unofficially. For non-contributory pensions, a supplement is also granted unofficially, varying according to the beneficiary's age. In 2005, the minimum pension under the contributory sub-system was €217 a month, and for the non-contributory sub-system €164 a month.

A political priority in recent years has been a gradual increase in the minimum pensions, so as to ensure their convergence with the national minimum wage – currently €385. Nevertheless, in 2005, the minimum pension from the contributory sub-system still represented only 58% of the national minimum wage. Out of 1.7 million disability and old age pension recipients under the contributory scheme, about 1 million receive minimum amounts. Some 464,000 pensioners are on the lowest scale, resulting from a contributory career of less than 15 years.

Studies by the Ministry of Labour and Social Solidarity showed that it would take years to reach the goal of equality with the minimum wage, so recently a new benefit, the solidarity supplement for the elderly (SSE), was introduced. This represents, to some extent, a break with the policy followed in recent years, which was based on a generalised increase in minimum pensions. The SSE, on the other hand, concentrates resources on the least well-off. It means opting to make different, specific responses to different situations and choosing a sustainable strategy that takes account of Portuguese realities. The SSE is a benefit from the solidarity sub-system, for pensioners over 65 years old, along the same lines as the existing supplement. Its value is defined by reference to a threshold fixed annually and varies according to the recipient's actual situation, as determined by rigorous means-testing. The main conditions for receiving the SSE are:

- to be aged over 65 (but this threshold will be reached gradually, probably by 2008; in 2006, it will be age 80)
- to have resided on the national territory for at least six years prior to the date of the benefit application
- to possess financial means inferior to the reference point for allocation of the supplement (the resources to be considered here include those of the potential beneficiary, the spouse's income and some elements of the descendants' incomes).

The amount of the SSE will be the difference between the financial means and the reference value, which in 2006 is €4200 per year for those living alone and €7350 for couples. It is too early to assess the impact of the SSE, but it is estimated that it will lead to a significant reduction in poverty among the elderly.

Apart from pensions, the system provides a number of other benefits for the elderly – long-term care supplements, rent benefits, discounts on public transport, exemption from paying the minimum fee to access the national health service and higher reimbursement for medicines for those on pensions below the national minimum wage. Various services and equipment are also provided by the social services.

Two new ongoing policies to combat poverty and social exclusion among the elderly are the integrated network for long-term care, involving healthcare and social services nationwide, and the programme to extend the social equipment network, which will promote the concentration of efforts in homecare service, with the aim of increasing its coverage by 10%.

Elizabeth Villagómez asked why residence had been included in the conditions for receiving the SSE.

Luisa Guimarães replied that all the benefits of the solidarity sub-system are conditional upon residence. However, the regulations do, under certain conditions, allow Portuguese people who move abroad to benefit from the SSE.

Germany

Rather than talking about minimum pension provision, **Peggy Letzner** presented a scheme of special tax-funded social assistance for people aged 65 and over. Germany has an earnings-related statutory pension scheme which covers around 80% of the population and is the most important pillar of old age insurance, alongside occupational and private provision and income from capital and property. The level of old age and survivor's pensions is closely related to the contributions made during working life. The old age pension mirrors the previous gainful occupation. So there is no minimum pension provision as such in Germany, but there are several redistributive elements within the pension system.

The scheme successfully contributes to maintaining an appropriate standard of living and combating poverty. On EU figures, the poverty rate of Germany's older generation is as low as that of the younger generation, and on national figures it is even lower - the trend in poverty among the elderly is declining.

The function of a minimal financial protection, in order to cover the socio-cultural subsistence level, is performed by tax-funded social assistance. For people over 65, and also for younger people with a reduced earnings capacity, a "needs-oriented basic protection" was introduced in 2003 (termed "basic insurance" in the background paper provided by Germany for the peer review). More people are now claiming this form of protection. Recipients have to apply for the needs-oriented basic protection, which is provided by the local authorities. The federal government refunds part of the cost. The benefit is means-tested and can be composed of several parts. A "rule set", which is a consumption-based figure for the socio-cultural existential minimum, governs the payments to single persons and heads of households. In 2006, it is €345 per month in the "old Länder" (former West Germany) and €331 in the "new Länder" (former East Germany). This is a reference figure. Actual payments depend on individual need. 60% of the "rule set" figure is paid for children under the age of 14 and up to 80% for other members of the household. Some housing and heating costs are also paid, but these vary from region to region. In 2004, for example, they averaged €330 in Hamburg and €250 in Berlin.

In 2004, the number of women eligible for this basic protection was much higher than for men. About 70% of the recipients were women. The average net payment was around €280 per month, including housing and heating costs.

The income of both partners or spouses living together is assessed. 70% of the income from gainful occupations is taken into account. Capital is also assessed, but the first €2,600 for a single person or about €3,200 for a couple are discounted.

In 2004, the overall net expenditure on this benefit for people aged 65 and older was €1 billion.

As in most Member States, Germany has a declining replacement rate within its statutory pension schemes – a reduction, in the German case, of about 20% over the next 30 years. The government expects that supplementary and private pensions will compensate for this. The state is highly supportive of private and occupational pension provisions, and participation in such schemes has increased. Today, 70% of the population do have some kind of supplementary pension insurance, which is a high figure in European terms. But supplementary pension provisions do not really work against the unequal distribution of income. Also, 30% of the population are not covered in second or third pillar pension schemes. However, there are also state-supported schemes for diverting income into pension funds.

Another trend that may lead to an increase in the number of recipients of basic protection is longer and more frequent periods of unemployment. The first year of unemployment is well covered within the pension scheme, but longer-term unemployment considerably reduces pension entitlement.

Women's employment rate has increased in Germany – by about 4 percentage points between 1995 and 2004. The Lisbon Strategy target of 60% participation has almost been reached. However, this is not necessarily full-time employment. Coverage for time spent on childcare and care of the elderly has improved within the statutory pension schemes.

United Kingdom

There are currently a lot of proposed changes in the UK pension system, **Stephen Balchin** (Department of Work and Pensions, UK) reported. Many of the proposals revolve around setting a secure environment for private saving in the long term, and are therefore not directly relevant to minimum pensions. However, in order to achieve that long-term secure environment, there are also quite a few commitments concerning the long-term evolution of the minimum pension system. About 70% of UK pensioners have some form of private provision, as well as state provision.

- The first element in the state system is the **basic state pension**, which is a flat-rate contributory pension. For the past 25 years, it has been uprated broadly in line with prices. One of the commitments in the pension reform is to uprate in line with earnings from around the year 2012. The full basic state pension is less than 60% of median income, so somebody who had only that pension would fall considerably below the poverty line. To receive this pension requires a full working life of contributions – about 40 years. Since 1978, people have been credited for caring responsibilities. Because of that, women are rapidly catching up with men in their rights to the basic state pension.
- The **state second pension** is partly earnings-related. Low earners will receive a minimum amount. High earners will receive a payment that reflects their earnings to a certain degree. More and more, this pension is becoming flat-rate and will be entirely so by around 2030.
- There is also an **income-related top-up up – currently Pension Credit**. This is a non-contributory, entirely means-tested benefit for anyone whose income is low enough to qualify. The current government has made significant increases to this income-related top-up.

- The **pension credit** marks a considerable evolution, over the past nine years, in what used to be called “income support”. The basic amount has been increased by about one-third and the structure has changed. Different age groups used to receive different amounts. Now, the same amount is received by everyone aged over 60, after means-testing of their income and savings. For couples, the income is assessed jointly. Up to 2003, this had been entirely an income top-up, which meant that people with small amounts of savings or small private pensions often saw no benefit from them. So the government introduced the **savings credit**, which meant that the pension credit tapered away slowly, above the level of a basic state pension. One problem with this is that not everybody gets a full basic state pension. Those without a full “working life”, notably some women and some recently arrived ethnic minorities, may find that their private income would not get them beyond the start of the savings credit. They would therefore still be facing 100% marginal reduction rates.

The introduction of the savings credit has meant a large increase in the number of people eligible for the pension credit. In 1997, there were about 1.69 million claims, either from singles or couples, rising to 2.71 million claims in early 2006 (about 1.6 million single women, 0.6 million couples, and 0.5 million single men). This has produced quite positive effects on low-income numbers, measured after housing costs. Similar trends are noted for women as compared to men and older as compared to younger pensioners. Older pensioners in Britain are at higher risk of poverty, but the gap is not very large. Over half of pensioners at risk of poverty are under 75.

The introduction of pension credit changed the rules for the assessment of wealth, making them more generous. It also made it easier to apply for the benefit, and introduced a five-year award, so ending weekly means-testing.

As more pensioners became eligible for this benefit, a campaign to encourage take-up was needed, both to overcome the stigma attached to means-testing and to inform pensioners who were simply unaware of their eligibility. Take-up is gradually improving, but is still far from complete.

The current pension reform proposals have a number of implications for the state pension system:

- The basic state pension would be uprated in line with earnings from 2012 (subject to affordability)
- There would also be a commitment to uprate the Guarantee Credit in line with earnings over the long term.
- The Maximum Savings Credit would be fixed in real terms from 2015. The aim is to stop the Pension Credit from going further and further up the income distribution.
- The state pension age (currently 60 for women and 65 for men, changing to 65 for both men and women by 2020) would be increased to 68 by 2046.

With these changes, the expectation is that far fewer people will be on means-tested pension credit in future. As regards sustainability, reforms made so far have increased the UK's spending on pensions to some extent, although some savings have also been made. The UK's expenditure on pensions (excluding other benefits, such as for housing, disability and local taxation) is anticipated to be 5.2% of GDP in 2010, rising to 6.7% in 2050.

Stakeholders' comments

Anne-Sophie Parent asked if, in view of the strong role of families in providing support for the elderly in Portugal, there are specific supporting policies such as care credits and respite care. Also, is it the case that there is almost no difference in Portuguese poverty figures before and after social transfers?

Concerning Germany, she commented that since 2000, pensioners have had to pay for their long-term care dependency insurance. This means that the pension in their pocket is smaller than it used to be. Reforms in other areas of social protection can therefore have an impact on poverty risk among older people, and here too there is a strong gender dimension. She also asked if women in Germany are equally covered by supplementary pension insurance, given the segregation of the labour market and the higher incidence of part-time working among women.

Regarding the UK, AGE's expert had less optimistic figures about private pension provision – only half of the pensioners had access to it. She welcomed the pension credit reform, but the rules were so complex that they were difficult to apply. More information to pensioners was needed. On the state second pension, AGE's expert felt that it will take several decades to come to fruition, so that by 2050, 30% of pensioners would still be on means-tested benefits. Would this really be an improvement, and is it possible to do better?

Luisa Guimarães replied that Portugal has credit periods for three situations – maternity, sickness and unemployment. There are also various other measures aimed at promoting conciliation between family tasks and working life. However, Portugal has little part-time working and a very high employment rate among women, so its structures in this respect are perhaps not typical. Regarding poverty risk before and after social transfers, she said that, on the contrary, the difference is quite marked. For elderly people, the poverty risk in 2001 was 29-33% higher in the absence of social transfers.

She also wanted to clarify another point in her presentation. On the subject of sustainability, the adoption of the solidarity supplement for elderly people was intended both to combat poverty but also to target resources on those whose need was greatest. For those who benefit from this supplement, the €300 mark will be reached in 2008. If the policy of increasing all minimum, non-means-tested pensions had continued, the same resources would not have been available.

Peggy Letzner said she is not really informed about the changes in long-term care contributions for pensioners. As far as she knew, an additional contribution to long-term health and care insurance is now payable by all people who have not raised children. This also applies to new pensioners from 2006 onwards – but again, only if they have never raised children. The other change in health insurance is that everyone, including pensioners, now has to pay something towards dental treatment. Concerning supplementary pensions, she did not have figures about differences between men and women, but the question was a good one. What she could say is that state support for these private pension contracts is really designed to encourage people who have children and people on low incomes to take out such contracts. So this should be of benefit to women.

Stephen Balchin confirmed that about 70% of current pensioners in the UK have private pension income. The confusion might, he said, stem from the fact that slightly under half of people in work are paying into a private pension in any given year. However, it is to be expected that not everyone who will eventually be entitled to a private pension will contribute every year. That said, the proportion of people contributing to private pensions is slowly falling at the moment. This is one of the things that pension reform is attempting

to address, mainly by proposing to enrol people into some form of private pension, from which they can then opt out if they wish.

Andrew Latto, responding to the remarks about the complexity of the British pension system, agreed to some extent. However, much of the communication around the reform was really about a very simple message: *You cannot expect the state to provide for you*. You can expect the state to provide a foundation income for you, and to try to maximise that foundation income, but if you can, you must save, and you will benefit from saving. The UK now has a service whose sole function is to go out and find people and tell them what their entitlements are. This is reinforced by a published government target which says that pension credit should be got to 80% of those eligible by 2008. That target will not be met, but it does set the priorities for management within the Pensions Service. He also thought that the “front end” presentation of the pensions system could be simplified. Computers are also very complicated systems, but people do not need to know everything about how they work in order to use one effectively. There are also efforts to take a more holistic approach to making people aware of their entitlements – by explaining other benefits and taxes at the same time. Partnerships with voluntary organisations and local authorities can help in the case of people who are unused to being in contact with the state.

Stephen Balchin said the state second pension was a policy introduced by the UK government at the end of the 1990s in order to make the earnings-related pension a bit more redistributive. It will not reach maturity for many years. The modelling for predictions of the numbers of means-tested people in the UK in 2050 comes with a lot of caveats. Amongst other things, it does not reflect changes in private pension savings. It is hoped that auto-enrolling into personal accounts will reverse the decline in private pension savings, particularly among low earners, but that cannot be predicted with any certainty. It is likely that, even if the number of people on means-tested benefits declines by less than is hoped, the proportion of their income derived from those means-tested benefits will decrease. That will also increase savings incentives. Throughout the reform process, there has been a tension between alleviating poverty, improving savings incentives, and ensuring the cost of the system remains sustainable. In the UK as elsewhere, there will be 50% more pensioners by 2050.

Jean-Pierre Bultez (Vice-President, EURAG, les petits frères des Pauvres) asked if, in all Member States of the EU, studies could be made to see if the current systems actually push elderly singles below the poverty threshold. Is that acceptable? Can we, collectively, accept that, once people are old and living alone, they stand a very strong chance of remaining below the poverty threshold? Also, he felt that a link is being lost between minimum income support and social benefits. In France, for example, receipt of a minimum income automatically entitles older people, without their having to apply for it, to exemption from the TV licence fee. Today, if the link is not re-established between minimum income support (for the elderly, the unemployed etc.) and social benefits, even more discrimination could result. Also, rather than concentrating solely on index-linking to prices and/or wages, would it not make sense to see whether people’s needs are the same at, say, 60 and 90, and whether needs vary from region to region? For example, people in the North of France do not have the same heating needs as people in Marseille. Finer analysis of needs is required, particularly as regards the different age groups.

Elizabeth Villagómez said the discussion had indeed shown that there is a wide variety of attitudes across the EU to the linkage between pensions and other social benefits.

Stephen Balchin said it would be risky to fine-tune the benefits system too closely to any one particular statistical indicator, such as the at-risk rate for single elderly people. Though well researched, such

statistical categories tend to be slightly arbitrary. Some work has been done in the UK on changes in need at different ages. Most of the evidence is that older pensioners need less than younger pensioners. However, much of that difference may be due to lower expectations among older pensioners. He also felt that introducing the concept of different levels of need – unless there was a very good case for it – would make the pension system even more complicated.

Paul Morrin added that another difficulty with using the risk-of-poverty line as a benchmark for social welfare incomes is that the income definition keeps changing. As for relating the income that people get to their needs, that is the basis of the concept of “consistent poverty”, which measures people’s ability or otherwise to afford a range of goods and services that they need in order to participate in society. Ireland’s social welfare system was making an effort to use this concept.

In Germany, efforts are made to meet the special needs of older people, **Uda Bastians-Osthaus** said. As Peggy Letzner had mentioned, accommodation allowances vary according to regional conditions. The basic protection system is administered by the local authorities, who have local knowledge. The particular needs of disabled elderly people are also met, for example through extra grants to cover the cost of special transport.

Asghar Zaidi was asked to summarise the work that he and his team have been conducting for the European Commission’s DG Employment, Social Affairs and Equal Opportunities. Three reports have been produced.

The first provides a broad overview of the current situation with respect to poverty among older people. Making use of statistics from Eurostat, it looks at the risk of poverty among older people across all 25 Member States. It compares risk rates between old and young people, between older people in different types of household (singles, couples) and between men and women. Within the group of older women, a distinction was also made between those aged 75+ and those aged 65-74. The figures show that, in the majority of the countries, elderly women are more likely to be in poverty than elderly men. Also, people aged 75+ are at much higher risk than those aged 65-74. This difference applies particularly to women.

The next task was to evaluate what would be the impact of pension reforms on the poverty risk of future pensioners. In the absence of sophisticated modelling techniques or appropriate datasets, this turned out to be quite a challenge. The team first synthesised the changes that have taken place in pensions policy over the last ten years, or which have been legislated for and will come into effect over the next decade. These were broken down into smaller parameters – for example, changes in the formulae for calculating pension points. It was found that the pension landscape has changed quite significantly in the majority of Member States over the past ten years, and that the pace of change is likely to continue in the course of the next ten years. These changes are diverse and difficult to summarise.

The starting point was very different in each country and each has set about change in a very different way. Some carried out only parametric changes – in other words, they stuck to their system as it is and changed only the parameters for calculating accrual rates, pension payments etc. Germany is an example of this – the public defined benefit type system has been maintained, but so many changes have been made in the parameters that there will be a significant impact on pensioners’ future incomes. The new Member States in particular have implemented major reforms of their systems, adopting mainly one of two models. One is the multi-pillar system promoted by the World Bank. The idea of this is to move from a public system towards a privatised system and a funded system. The other, slightly less drastic type of change is the course adopted

by Sweden, and then also by other countries such as Latvia, Poland and Italy. That route is to bring about a notional defined contribution type of system.

It was found that most of these reforms were triggered by concerns about fiscal sustainability. The countries concerned found themselves with ageing populations and the risk that a bigger share of GDP would be going into ageing-related expenditure. To some extent, the reforms do hold out the promise of improvement in the fiscal sustainability of these systems. In Central and East European countries, there has been a move away from systems that used to be quite redistributive and quite generous to low-income groups to systems which now fall back mainly on people's own contributions to their pensions. Generosity is on the decline in the majority of the countries. Consequently, the prediction is that the future generation of pensioners will have a higher risk of falling into poverty.

But whatever level of generosity these systems can achieve now is likely to remain sustainable. So the more positive news is that, given a window of opportunity to reform their systems, these countries went ahead and did so.

However, the reduction in generosity also raises the question of the social sustainability of these systems. Will the greater risk of future poverty among pensioners oblige the authorities to review the reforms and move towards a system with a more redistributive element?

He added that this is a very simplified summary, which does not hold true for all of the countries studied.

Ruth Paserman stated that the study would be formally presented in more detail at the next meeting of the Social Protection Committee on 13 July 2006.

Closing remarks

Elizabeth Villagómez said this peer review meeting had been a good opportunity to learn how the systems operate in the different countries and how they deal with minimum incomes. There had been an emphasis on the connections between the labour market and the final outcomes of the pensions systems.

In some countries, there are problems with access to pensions – for example, the minimum pension is sometimes stigmatised by those who are unused to coming into contact with government institutions. This should be examined in more detail in future. The cohort effect is also important to take into account. Especially in the case of women's poverty, the issue of "care credits" – or whether and how periods of care are acknowledged or not in the systems – will become very important, especially as women's employment rates grow or remain stable in future. With regard to older women's poverty, the wage gap is something that should be looked at, as is gender segregation of the labour market. In some of the new Member States, there is a major impact of the informal economy in terms of a lack of contributions to the pensions system. To what degree will this affect poverty levels and the future sustainability of pensions?

Elise Willame said that Belgium had been particularly proud and happy to welcome this first meeting of its kind in the sphere of social protection. Mutual learning is often cited as a good example of what can be achieved with the open method of coordination in the field of inclusion. This was the first time this approach had been used on the question of pensions, which is a particularly complicated issue. People from each country are rooted in their own system, and sometimes find it difficult to think their way into those of others.

It was good to have a meeting of those directly involved, because within the Social Protection Committee, the same first-hand questions are not available during peer reviews. The relevant questions raised by those concerned – and by academics in this field - are an important stimulus to reflection.

Two major points about pensions should be retained from this meeting: the link with the labour market – women's careers have repercussions on women's pensions; and the fact that other benefits – goods or services – provided to older people complement their pensions.

The Commission is preparing a study on minimum income and pensioners. Several points should be considered in more depth in that study:

- Care credits – what are the portions of time spent outside the labour market that should receive social recognition and should therefore be taken into account when calculating pensions?
- If women's participation in the labour market increases, and the pay gap is narrowed, will this really reduce the problem of poverty among older women?
- The cohort effect, but also part-time work – what effect will these have?
- Flexicurity and atypical career patterns – how will the social security system cope with these situations?

Ruth Paserman said she would be taking back several points to nurture the Commission's in-house reflection:

- Overall, the pension system appears to be becoming less generous. However, at the same time, the coverage – the number of people within the scope of the system – is increasing. This is also due to the increase in the employment rate for women and therefore the move towards an individualisation of rights. The issue is whether the combination of less generosity with wider coverage will reduce the risk of poverty among older people or not.
- The pension system cannot be expected to solve the problems of the labour market, if the origins of those problems are within the labour market itself. Given the issues of gender segregation and part-time working in the labour markets of various Member States, a high employment rate will not per se resolve the problems relating to pensions and to poverty in old age.
- In many countries, there is a distinction between means-tested minimum assistance and earnings-linked pensions. How far are these two systems coordinated and articulated?

She reminded the meeting that the Commission was preparing a study on minimum income for older people and had asked all Member States to forward information by 30 June 2006. The reports to this peer review had already provided a wealth of information. This had been the first use of the open method of coordination on the subject of pensions. She hoped the participants had found it useful. She asked everybody to complete the evaluation form, so that any improvements required could be made in future.

She thanked the Belgian hosts for their welcome and for the excellent facilities which had contributed to the success of the seminar.