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Poverty Risk of Pensioners in EU Countries Growing

Following the economic and financial crisis, states have changed rules for the adjustment of existing pensions to the detriment of pensioners

As a result of the economic and financial crisis of 2008, many pensioners had to forgo the adjustment of their pensions for years. Combined with fundamental reforms of pension systems, the risk of poverty among pensioners has increased in many countries of the European Union (EU). Older pensioners aged 75 and over are particularly at risk. This is the conclusion of a study undertaken by the Max Planck Institute for Social Law and Social Policy which examined the changes in the adjustment modalities for existing pensions in the EU States between 2008 and 2017. In view of the risk of poverty for many pensioners in Europe, some countries have now begun to cushion the greatest hardships.

The international economic and financial crisis of 2008 put pressure on the public finances of many countries. In order to ease the burden on public budgets, a number of European countries changed the way pensions are adjusted to economic developments such as price and wage increases. A total of 15 EU Member States decided to reduce the real value of pensions through changes in the adjustment mechanism, including Bulgaria, the Czech Republic, Greece, Finland, France, Hungary, Italy, Latvia, Portugal, Romania and Sweden. Respective measures led to drastic cuts in existing pensions in some countries. The situation is aggravated by reforms aimed at lowering the pension level in general and thus lowering the pension level from the outset.

Without Adjustment Measures a Pension Loses Purchasing Power

A recent analysis by the Max Planck Institute for Social Law and Social Policy concludes that pensions with a low entry level in particular need to be adjusted regularly. Restrictive pension adjustments do not take into account the following two facts: 1. pensions are increasingly drawn for longer periods, as life expectancy is rising continuously in most countries. 2. if pensions are not adequately adjusted over the years to a country's level of prosperity, price increases reduce their purchasing power. In other words, the same pension is worth less after 10 years.

"If pensions are insufficiently adjusted without being linked to the development of the cost of living of a society, the risk of old-age poverty increases and this in turn jeopardises social cohesion," warns Dr. Eva Maria Hohnerlein, who conducted the study. Politicians' disregard of these factors not only calls into question retirement income security as the main pension objective ; in some countries, the international social security standards set by the International Labour Organisation (ILO) and the Council of Europe may also be undercut in the future.

Partially Drastic Measures by Governments

In order to reduce pension expenditure in the wake of the economic and financial crisis, states have essentially chosen two paths:

1. a temporary restriction on pension adjustments: In many cases, the adjustment rules were simply suspended for two years or longer, as happened in Greece (2010-2015), Cyprus (2013-2016), Latvia (2009-2012), Romania (2011-2013), Croatia (2010-2011) and France (2014-2016).

2. permanent cuts in pension levels through changes in the rules for adjustment: Slovakia and Romania decided to move to the pension adjustment model on the basis of the consumer price index, which will probably only compensate for inflation but exclude pensioners from a rising standard of living in the country in the long term. In Greece, the annual pension adjustment has now been permanently lowered. Spain made the most drastic change in 2013 that was meanwhile modified. The government introduced a new formula whereby annual pension revaluation is limited to a minimum of 0.25% of the consumer price index and higher adjustments are allowed only if pension insurance revenues and expenditures are in balance.

EU model calculations for the year 2066 show that, as a result of the reforms, after ten years pensions in payment will be significantly lower than new entry pensions. The largest pension erosion, of 10 percentage points or more, has been projected for Portugal, Hungary, Belgium and Austria.

First Steps to Reduce the Risk of Poverty

In view of this, countries in Eastern Europe in particular, where pensions were already low before the crisis, have now begun to counter the threat of poverty among pensioners in old age, including the Czech Republic, Croatia and Slovakia. An interesting novelty in this context is the 'most favourable solution principle', a variant that has been practised in Great Britain since 2011. In Poland and the Czech Republic, for example, the price index with the most positive effect on the pension adjustment is used for the calculation.

In the coming decades, adequate pension adjustment will become even more important due to fundamental changes in the labour market. The number of shorter, discontinuous and atypical employment biographies, which entail lower social security contributions and lower pension entitlements, will continue to grow. Pension reforms should therefore bear in mind that existing pensions should not be decoupled from a country's level of prosperity.

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