

SPC – Special Pensions Study

Minimum income provision for older people and their contribution to adequacy in retirement

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1. INTRODUCTION

A number of recent changes in pension systems affect those pensioners on lower incomes. Recent reforms of minimum income provision for older people have an essential role, but overall reforms of pension systems can also have an impact.

The synthesis report on Adequate and Sustainable pensions of 2006 highlighted reforms of minimum income provision developed in recent years in some Member States and underlined issues to be further developed such as incentives imbedded in such provision, and their indexation (*"Measures to ensure future adequate minimum pension gain importance but care must be taken over indexation rules and creating disincentives to work or save"*).

The SPC decided to launch this special study on minimum income provision for older people at its meeting in March 2006 in order to describe their role in national pension systems and to assess their likely future contribution to adequacy as well as the financial sustainability of such schemes. This followed the proposal of the Synthesis report to focus policy analysis and exchange of best practices on key issues during light years of the OMC.

This horizontal work can be achieved via special studies and workshops. A seminar on minimum incomes and older women's poverty was hosted by Belgium authorities on 20th June 2006 and allowed a first in depth discussion.

The main purpose of this report is to gather in a systematic way, information on the current and likely future role of minimum income provision for older people in Member States. This should assist in defining national pension systems in a more consistent way and identify key issues to be monitored. This report is mainly based on Member States' replies to a questionnaire elaborated within the Social Protection Committee, but also on former National Strategy Reports and on various other sources of information such as studies of MISSOC.

Section 2 presents the general design of minimum income provision for older people. The third section provides elements on the income poverty situation of older people. In the fourth section, the extent of the coverage of minimum income provision for older people is presented as well as elements on their delivery and their role in income maintenance. The last two sections concentrate on more speculative issues, first of all on the future possible role of minimum income for older people and secondly an investigation into the potential affects of incentives and indexation rules.

2. GENERAL DESIGN OF MINIMUM INCOME PROVISION

2.1. A variety of minimum income provision for older people

Member States reported a variety of different elements of their pensions systems, which can be described as a minimum income guarantee for older people. One can identify three main types of minimum income benefits specifically dedicated to older people: minimum benefits within the earnings related pensions (this can also include minimum accrual rules for those in the labour market), flat rate benefits for older people (generally for people aged 65 or more), and separate social assistance benefits.

Minimum pensions within general earnings related schemes

The design of general earnings related pensions plays an essential role for the provision of minimum income for modest pensioners. Indeed earnings related pensions generally include strong redistribution mechanisms, which operate separately from other specific minimum benefits for pensioners.

In most Member States minimum pensions are guaranteed by participation in the traditional pay-as-you-go system, with coverage being to such an extent that very few people are excluded from the system. This can take different forms, such as specific guarantees for long careers for low wage earners, or the taking into account of various non contributory periods (in particular unemployment and inactivity) as well as relatively low thresholds to achieve the minimum requirements for accruing a pension.

Besides, most Member States detailed systems allowing the accrual of a minimum statutory earnings related pension (eventually on a partial basis) on the condition that individuals had completed a certain period of years of contributions (a common total being 15 years). Pensions such as these are often more generous than the number of years of contributions made would suggest that they should be.

Flat rate pensions

Other Member States ensure that the main state pension is based on residency rather than on contributions (like in NL or DK, tests for residency range between 50 and 5 years habitually resident in the country prior to retirement, benefits being proportionally adjusted in case of shorter periods of accrual); these types of pensions are also referred to as universal pensions.

Other minimum income benefits

Most Member States indicated further provisions that underpinned their contributory or universal system, acting as a safety net, for those who had either been unable to fulfil the contributory requirements (even those that are set quite low) or had been unable to meet the residency test.

On the whole receipt of these benefits, required some form of income test, usually to ascertain that an individual or household is unable to meet basic needs without support from the state. It should be clarified though, that not all Member States reported different treatment for those above a certain age: whereas some placed great emphasis on ensuring older cohorts had higher benefits than their younger peers who were also reliant on state assistance others made no distinction with regards to age when setting benefit levels.

Both from the information received and the sheer diversity of Member States systems, it is difficult to neatly subdivide Member States into one category or another, and of course it should be noted that some Member States have two or even three of the broad elements (flat rate benefits generally paid to all citizens at a certain age; minimum amounts of contributory years within traditional first pillar schemes; and some form of social assistance, often but not always paid at a specific rate to those above a certain age and usually income tested) present within their pensions systems. However by analyzing the emphasis each member state places (both in terms of numbers receiving the pension, and the relative generosity of each component) it is possible to broadly group Member States according to these categories.

2.2. Recent reforms of minimum income provision

Recent reforms of minimum pension guarantee benefits reflect the growing attention given to providing adequate incomes in retirement and reducing poverty amongst older people.

In a number of Member States, the level of minimum pensions has been increased quicker than general indexation rules require (like in BE, FI), and in particular sometimes at a quicker pace than the general evolution of pensions or wages (like in IE, ES, PT).

In other Member States, new benefits have been introduced recently. They can replace former ones, like the Pensions Credit in the United Kingdom (2003), or the Solidarity Supplement for the elderly in Portugal (that provides minimum incomes to those aged 80 or over, and will progressively be extended to those over 65) and in Lithuania the social assistance pensions (2006). Some Member States also introduced supplements to existing benefits like in Denmark (Supplementary Pension Benefit in 2003) and in Hungary (supplement for those aged 75 or more introduced in 2006) or made access to the benefits easier (Basic Protection for old age people in Germany).

Table 1 - Minimum income provision for older people

	Type of income guarantee	Amount*
BE	Minimum pensions (minimum 30 years insured half-time employment)	Depends on career length and number of hours worked. Max. per year for salaried worker: € 13.250,16 (household) or € 10.603,56 (single), for self-employed worker: € 11.952,6 (household) or € 9.051,48 (single). (01.12.2006)
	Minimum pension entitlement for each career year (minimum 15 years of employment; at least 1/3 of full-time)	Depends on the number of hours worked. Calculated on the basis of minimum guaranteed pay for a 21-year old. Recently, this amount was augmented with 17%.
	Social assistance for the elderly over 64 (65 from 2009 onwards) (GRAPA)	Per year single € 9.545,4 ; Couple € 6.363,6 (per individual) (01.12.2006)
CZ	Minimum pension amount (basic amount for at least 25 years of contributions, or 15 years at 65)	about 17% of the average net wage
	Subsistence level (not only for elderly) complements the basic amount of the pension insurance scheme.	Subsistence level 2005 CZK 4,300 for an individual which is some 34% of the average net wage.
DK	Residence-based state pension (<i>Folkepension</i>)	Single: € 14190 ; Living in a couple: € 10390 per year
	Supplementary Pension (ATP)	€ 2732 per year for full-time employment and after having paid contributions since 1964.
DE	The basic protection in old age and in case of reduced earning capacity was introduced in 2003.	Persons leaving alone and heads of a household receive in 2006 4140€ per year in the old Länder and 3972€ in new Länder. For each further household member there are additional amounts, depending on their age.
EE	National pension payable to persons 63 years old and not having the pensionable service or accumulated period, required for the old-age pension and have lived in Estonia at least 5 years (may also be provided in case of disability or survivorship)	Since July 2005 1156.38 EEK
	Social assistance (not determined on age criteria)	NA

	Type of income guarantee	Amount *
EL	Minimum pensions (different from fund to fund) and dependent on insurance period (before or after 1.1.1993).	IKA full minimum pension of 5344€ per year in 2006
	Pension supplement given subject to a means-test (EKAS) for all non-rural pensioners	EKAS, maximum amount of 160,15€ per year in 2006
	Basic pension (equal to the rural pension) for all uninsured people over 65	Equals the lowest pension from farmers scheme (OGA)
ES	Guaranteed minimum contributory pension for years people having contributed to the social protection system (for retirement pensions at least 15 years)	In 2006, for those aged more than 65 years € 6538 per year (or €7920 with dependant spouse); for those aged less than 65 years €6092 per year (or €7402 with dependant spouse)
	Non-contributory pension	In 2006, € 4222 per year
FR	Guaranteed minimum contributory pension for workers - Contributory minimum (<i>minimum contributif</i> , depending on number of insurance years)	For a pensioner with 40 insurance years, the annual statutory pension amount is raised to 7173 € to which is added 2268 € for ARRCO supplementary scheme (pensions calculated on minimum guaranteed pay career)
	Non contributory means tested residence-based minimum pension for people over 65 : Old-age minimum (<i>minimum vieillesse</i>)	Up to a maximum per year of 7323 € (singles) and 13 138 € (couples)
IE	Contributory flat-rate old-age pension (at least 5 years of insurance)	Single: € 10051 per year
	Non-contributory means tested flat-rate social welfare pensions for people aged 66+	Single: € 9464 per year to be raised to €10400 by 2007
IT	Minimum pension supplement (<i>integrazione al trattamento minimo</i>)	€5894 per year for 60-64 and €6633 for 65-69 in 2006 (including top-ups)
	Old-age benefit for people over 65 without any other income (<i>assegno sociale</i> and <i>pensione sociale</i>)	€5130 per year in 2006 (including top-ups)
	Minimum income for those 70 and more	€7168 per year in 2006
CY	Minimum pension to persons with low insurance record that satisfy prescribed residence conditions	For 2005, Cyprus £2055 (€3497) per year
	Public assistance to all persons legally residing in Cyprus whose resources do not cover their basic and special needs.	Basic allowance per year - For the head of family: CY£2.678 (€4.553) - for a dependant 14+ CY£1.339 (€2.276) - for a dependant less than 14 years CY£709 (€1.205) The amount increases depending on special needs such as : -Rent allowance: 50% of basic needs - Disability allowance: 50% of basic needs
LV	Minimum pension (for people with at least 10 years of contributions). Higher rate depending on the length of insurance record : coefficient of 1.1 for insurance record not exceeding 20 years, 1.3 not exceeding 30 years, 1.5 over 30 years.	45 LVL per month (times the coefficients depending on the insurance record)
	State social security benefit to people with insufficient qualification period for old-age pension	45 LVL- per month
	Guaranteed minimum income benefit and apartment allowances	NA
LT	Basic pension (flat rate) for those with at least 30 years of insurance record	LTL 230 per month

	Type of income guarantee	Amount *
	Social assistance pension for people with no sufficient insurance record, upon reaching the retirement age (Statutory retirement age for women is 60 years, men 62.5; also available for disabled and orphaned children)	General rate of 0.9 basic pension (207 LTL in 2005- per month, is modulated upon situations, such as for disabled). This is close to 40% of minimum monthly net wage.
	Social allowance for persons who's family income per person is lower, than state supported income	Up to LTL 148 per month
LU	Minimum pension (depending on number of insurance years: at least 20 years of contribution or retirement at 65 with at least 10years; full amount after 40 years)	€ 14280 per year maximum
	Guaranteed minimum income	Single: € 11304 per year; Couple € 16956 per year
HU	Guaranteed minimum pension in case of at least 20 years service period (including in case of casual work, part-time work, child-care allowances etc.)	In 2005 24700 HUF
	Non-contributory old-age allowance for 62+ and singles who have reached retirement age and per capita monthly income lower than 95% of minimum pension (couple's lower than 80% of the minimum pension), higher supplement for those 75+ singles if income is lower than 130% of minimum pension (after 2006)	Depends on income situation and age In 2005 95 % is 23465 HUF, 80 % is 19760 HUF, 130 % is 32110 HUF.
MT	Minimum Pension Guarantee	around 50% of the average wage (80% of the National Minimum Wage in the case of married persons and two thirds in case of any other person)
	Non contributory pension, payable to persons aged more than 60.	NA
NL	Individual residence-based state pension (accrual of 2 percentage points a year from age 15 to 65)	Single person: € 10428 per year. For 2 people households, both 65 and over, € 14352 per year for the household.
AT	Minimum pension ('compensation supplement')	In 2006, single: € 9660 per year (couple: € 14784)
PL	Guaranteed minimum pension for people who have attained retirement age and have the required insurance period (20 women, 25 men)	Supplements to the pension, up to the sum of PLN 562.58, per month
	Regular allowance to persons, whose income does not reach the income threshold due to age or disability	Raises the net income up to PLN 461 for single persons and to PLN 316 per person in a family; per month
PT	Minimum pension (level depends on career length)	65% to 100% of net minimum wage (maximum 4808,30€ per year in 2006).
	Minimum pension – special social security scheme for agricultural workers	60% of net minimum wage
	Social Pension (non-contributory)	50% of net Minimum wage
	Solidarity Supplement for the elderly	Difference between income and a poverty line based threshold (In 2006, single: € 4200 per year (couple: € 7350 per year)
FI	Residence-based national pension for people aged 65+ (eligibility upon at least 3 years of residence between 16 and 40, maximum 40 years)	Single: €5878 per year and 5403€ for married recipients
	Social assistance	Mainly as a supplement to low pensions for exceptional expenses

	Type of income guarantee	Amount *
SI	Minimum pension from 65 for men and 59 years and 8 months for women in 2004 (61 years after 2008)	Men 35% of the pensionable earning; women 38% of the pensionable earning (40% before 2000).
	State pension for those not entitled to a pension	33% of the pensionable earning
	Supplementary allowance, means tested and on insurance record conditions	NA
SK	Social assistance – Aid in material need composed of basic amount, health care allowance, housing allowance and protecting allowance for those at pensionable age	In 2005: single: max 4670 SKK per month; Couple: max 8360 SKK per month
SE	Residence-based guarantee pension for people aged 65+ (maximum for 40 years of residency between 25 and 65, each years amounting for 1/40 th) (Can be supplemented by a housing allowance)	Single: max SEK 84560 ; married recipients : :max SEK 75430 per year in 2006
	Maintenance support for elderly persons aged 65+ (Maintenance support is supplemented by housing allowance)	Single: max SEK 51370; Couple: max SEK 43 030 per year in 2006 (amounts given are net of housing costs/allowance)
UK	Basic state pension for people aged 65+	£4267 per year in 2005/6
	Pension Credit is an income-related benefit ensuring a minimum income guarantee for people aged 60+	Single: £5691 per year; Couple £8687 per year
	Saving credit element of Pension Credit ensures that pensioners over 65 who have modest savings are rewarded	Single: £7852 per year; Couple: £11492 per year
BG	Minimum pension for those who have made 15 years of contributions to the p-a-y-g state pension	85% of the minimum pension for those who have made full contributions
	Minimum pension for those who have made full contributions to the p-a-y-g state pension	Annually determined according to the Public Social Insurance Budget Act
	Social pension for old age – paid at age 70 and income related	Determined by the govt each year – currently 20% of average gross wage
RO	State pension available as a minimum to all those who have made 15 years of contributions	25% of the average gross salary
	Social assistance available to all those regardless of age who have little or no incomes. Paid and assessed at the municipal level	Approximately 27% of the minimum national salary

Note: General social assistance benefits have been mentioned when older people do not have access to specific benefits. () Yearly levels of benefits have generally been provided for a better comparability as in a number of Member States, benefits are paid over more than 12 payments a year. The minimum income guarantee levels are not comparable for different Member States. Non-cash benefits and the provision of housing benefits (not included in the amounts in this table) have considerable effects on the effective minimum income guarantee provided to older people.*

2.3. Setting the level of the Minimum guarantee

Member States reported a variety of different factors with respects to setting the level of any minimum guarantee. The spectrum included (amongst others) reference to median wages, reference to levels of pensions being paid out currently, reference to minimum wages and in some cases poverty level thresholds or consumption baskets were considered.

For example in Estonia parliament annually considers what subsistence levels are (based on minimum expenses made on consumption of foodstuffs, clothing, footwear and other goods and services which satisfy the primary needs) and sets the minimum in relation to this level, with the provision that the level cannot be less than the previous year's level. Similarly, Germany refers to consumption needs, re-evaluated every five

years. Austria's approach involves examining both poverty thresholds, and the change in consumer price indexing.

The Netherlands and Portugal pursue a different approach and link levels of minimum income benefits to the minimum wage (gross or net). A common feature of many of the systems though, is the regular intervention of the state in setting the level of the minimum. Many do so annually through legislation, and although there is often a large degree of predictability in the changes (especially where earnings, or price indexing are used) there is not always certainty, especially when considering longer term projections.

The setting of minimum incomes or pensions has clear implications in terms of levels of both sustainability and adequacy, though equally important is the rate in which the benefit or pension is indexed. This is discussed more fully later in this report.

2.4. Financing and current level of expenditures

In general non contributory benefits are financed by the general State budget and this is the general rule for social assistance benefits for older people. Residence based benefits (like in DK or NL, FI, SE) can be financed on general revenues (DK, SE) or on the whole by funds derived from social contributions (NL, FI). Minimum income provision embedded in the main state pension scheme generally have the same type of financing arrangement as the main state pension scheme (like in BE or CZ), though at least part of the financing of top ups can be compensated by the general State budget (like in FR or ES).

In a few Member States, changes in financing arrangements were reported (ES, PL). These consisted of an increase in the share financed by the general State budget.

Table 2 – Financing of Minimum income provision for older people

	Type of income guarantee	Financing
BE	Minimum pensions (minimum 30 years insured half-time employment)	Same as general scheme (social contributions and state financing)
	Minimum pension entitlement for each career year (minimum 15 years of employment; at least 1/3 of full-time)	Same as general scheme (social contributions and state financing)
	Social assistance for the elderly over 64 (65 from 2009 onwards) (GRAPA)	State financed
CZ	Minimum pension amount	Same as general scheme (social contributions)
	Subsistence level (not only for elderly) complements the basic amount of the pension insurance scheme.	State financed
DK	Residence-based state pension (<i>Folkepension</i>)	General taxation
	Supplementary Pension (ATP)	Contributions financed
DE	Basic protection in old age and in case of reduced earning capacity.	Tax financed
EE	National pension payable to persons 63 years old and not having the pensionable service or accumulated period, required for the old-age pension and have lived in Estonia at least 5 years (may also be provided in case of disability or survivorship)	State financed
	Social assistance (not determined on age criteria)	State financed

	Type of income guarantee	Financing
EL	Minimum pensions (different from fund to fund) and dependent on insurance period (before or after 1.1.1993). Pension supplement given subject to a means-test (EKAS) for all non-rural pensioners	General pension scheme partly funded on general budget
	Basic pension (equal to the rural pension) for all uninsured people over 65	NA
ES	Guaranteed minimum contributory pension for people having contributed to the social protection system (for retirement pensions at least 15 years)	Partly state financed (increasing share of Central Government share in future, to reach 100% before 2013)
	Non-contributory pension	State financed
FR	Guaranteed minimum contributory pension for workers (minimum contribution depending on number of insurance years)	Same as statutory schemes (social contributions)
	Non contributory means tested residence-based minimum pension for people over 65 : Old-age minimum ('minimum vieillesse')	General taxation
IE	Contributory flat-rate old-age pension (at least 5 years of insurance)	General scheme (social contributions, eventually supplemented by state financing)
	Non-contributory means tested flat-rate social welfare pensions for people aged 66+	General taxation
IT	Minimum pension supplement (<i>integrazione al trattamento minimo</i>)	Mostly compensated by State budget
	Old-age benefit for people over 65 without any other income (<i>assegno sociale</i> and <i>pensione sociale</i>)	Mostly financed from general scheme (social contributions) and complemented by transfers from state budget
	Minimum income for those 70 and more	Mostly financed from general scheme and transfers from state budget
CY	Minimum pension to persons with low insurance record and satisfy prescribed residence conditions	State budget
	Public assistance for all residents whose resources do not cover their basic/special needs.	State budget
LV	Minimum pension (for people with at least 10 years of contributions). Higher rate depending on the length of insurance record : coefficient of 1.1 for insurance record not exceeding 20 years, 1.3 not exceeding 30 years, 1.5 over 30 years.	Social insurances budgets
	State social security benefit to people with insufficient qualification period for old-age pension	State budget
	Guaranteed minimum income benefit and apartment allowances	Local authorities
LT	Basic pension (flat rate) for those with at least 30 years of insurance record	State budget
	Social assistance pension for people with no sufficient insurance record, upon reaching the retirement age (Statutory retirement age for women is 60 years, men 62.5; also available for disabled and orphaned children)	State budget
	Social allowance for persons who's family income per person is lower, than state supported income	State budget
LU	Minimum pension (depending on number of insurance years: at least 20 years of contribution or retirement at 65 with at least 10years; full amount after 40 years)	Same as general scheme (social contributions and state financing)
	Guaranteed minimum income	Central government budget
HU	Guaranteed minimum pension in case of at least 20 years service period (including in case of casual work, part-time work, child-care allowances etc.)	Social insurances budgets

	Type of income guarantee	Financing
	Non-contributory old-age allowance for 62+ and people who have reached retirement age and per capita income lower than 95% of minimum pension (couple's than 80% of the minimum pension).	State budget
MT	Minimum Pension Guarantee	Social insurances budgets
	Non contributory pension, payable to persons aged more than 60.	NA
NL	Individual residence-based state pension (accrual of 2 percentage points a year from age 15 to 65)	General scheme (social contributions of 18.25% complemented by public tax incomes)
AT	Minimum pension ('compensation supplement')	State budget
PL	Guaranteed minimum pension for people who have attained retirement age and have the required insurance period (20 women, 25 men)	Currently financed by Social insurance funds, from 2009 will be financed by General State budget
	Regular allowance to persons, whose income does not reach the income threshold due to age or disability	State budget
PT	Minimum pension (level depends on career length)	Social contributions and state budget
	Minimum pension – special social security scheme for agricultural workers	State budget
	Social Pension (non-contributory)	State budget
	Solidarity Supplement for the elderly	State budget
FI	Residence-based national pension for people aged 65+ (eligibility upon at least 3 years of residence between 16 and 40, maximum 40 years)	Financed by social contributions and State budget
	Social assistance	State budget, handled by municipalities
SI	Minimum pension from 65 for men and 59 years and 8 months for women in 2004 (61 years after 2008)	Financed by social contributions and State budget
	State pension for those not entitled to a pension	Financed by social contributions and State budget
	Supplementary allowance, means tested and on insurance record conditions	Financed by social contributions and State budget
SK	Social assistance – Aid in material need composed of basic amount, health care allowance, housing allowance and protecting allowance for those at pensionable age	NA
SE	Residence-based guarantee pension for people aged 65+ (maximum for 40 years residency between 25 and 65, each years amounting for 1/40 th) (Can be supplemented by a housing allowance)	Tax financed
	Maintenance support for elderly persons aged 65+ (Maintenance support supplemented by housing allowance)	Tax financed
UK	Basic state pension	Financed through earnings-related National Insurance contributions
	Pension Credit is an income-related benefit ensuring a minimum income guarantee for people aged 60+	General revenue
	Saving credit element of Pension Credit ensures that pensioners over 65 who have modest savings are rewarded	General revenue
BG	Minimum contributory pension	Financed through social contributions
	Social pension for old age	General state revenue
RO	Contributory state pensions	Financed through social contributions

	Type of income guarantee	Financing
	Social assistance	Financed by municipal budgets, from monies provided from general state revenue

2.5. Interactions with other benefits

Minimum incomes provision for older people are one way of ensuring relief or partial relief from poverty, by enabling older people to have a certain level of income to purchase goods and services. However, what should not be overlooked (and this is not always present within data used for monitoring agreed indicators) is a wide range of specific benefits that are afforded to older people to help with a variety of expenses. Most of these additional benefits provide assistance for specific needs which are either particularly relevant for older people or because older people (usually on fixed incomes) are less able to as effectively respond to fluctuations or large one-off costs, as the working age population as a whole.

Member States reported a multiplicity of different approaches to providing both cash assistance and benefits in kind, though there were some common themes. Health care is clearly an area where the elderly are more likely to be greater recipients (and outside of National Health Services) greater consumers. A number of Member States (AT, BE, DK, HU, IE, IT, PT SE and UK) reported some forms of specialist assistance to their elderly populations, varying from Austria ensuring universal coverage for the elderly (by compulsorily deducting contributions from pensions), to the Italian municipal approach, that ensures many older Italians received assistance with co-payments.

Similarly prevalent in many Member States is assistance with housing costs (DE, DK, FI, NL, PL, RO, SE and UK), most of whom provided, often with some form of income test, assistance with rent and upkeep costs – as is the case in Denmark – or assistance in modifying housing to allow individuals to remain in their own home in old age (SE). Alongside assistance to the costs of housing, a number of Member States have introduced either one-off payments to help with things like heating costs in the winter (CY, UK) or with general utility bills, such as gas, electricity, telephone and television costs (BE, CY, CZ, DK, IE, LT and UK). A number of Member States set out that these were not based on income but given as a universal benefit at a certain age.

Most Member States also provide elderly people with transport and home care assistance, again often available universally at a given age. In particular transport is often considered not only as part of an assistance package aimed to reduce older people's expenses, but also as an essential element to ensure that older people can continue to play an active role in society and partake in cultural activities. This is exemplified by the Cypriot 'Social Card' that not only offers free public transport, but also gives access to various social and cultural events.

The impact of the various payments and assistance schemes should not be underestimated, though the diverse nature of benefits and the various delivery mechanisms (income tested versus universal; national entitlement versus locally assessed) makes it difficult to quantify impacts on poverty rates, or assess the dynamics of the interactions with minimum incomes.

3. CURRENT RISK OF POVERTY OF OLDER PEOPLE

On average, the poverty risk of older people generally remains above that of the overall population. There is an important heterogeneity in poverty risks of older people among EU Member States. In some Member States older people acknowledge a low poverty risk, while in others poverty risks of older people are high and sometimes significantly higher than that of the general population.

Older women and the very oldest people are most often at high risks of poverty, which deserves particular attention. However, older people generally acknowledge significantly lower poverty gaps than the general population, which is probably linked to the design of minimum income systems for older people.

Recent reforms of minimum income provisions for older people should translate into a decline of poverty risk of older people. Current levels of poverty rates reflect past accrual of pensions and it remains to be seen how they could be affected by trends at play and notably by overall reforms of pension systems (see section 5).

3.1. Indicators on poverty of elderly people

Using the list of common indicators endorsed by the Social Protection Committee in June 2006, this section provides elements on the 'at risk of poverty' rate of older people (in monetary terms). It should be stressed however that poverty is a multidimensional phenomenon and that other aspects would deserve to be considered, such as material deprivation that the Indicator Sub Group is currently examining.

Poverty risk is measured by reference to an income threshold (60 % of median income, see box). The definition of poverty used is thus relative: the poverty rate among older people reflects their relative income situation towards the general level of income. This can give an incomplete picture of the situation. For instance, a minimum income guarantee set just above the income threshold will translate into very low, risk-of-poverty rates, even though the actual income situation would be only marginally different than a corresponding minimum income guarantee set slightly below the threshold.¹ The 'poverty gap' data therefore provides useful complementary information as it reflects the intensity of poverty.

Direct comparisons of poverty lines with levels of minimum income benefits (see table 1) is however more complex - on the one hand because one should take account of different types of household configurations and on the other hand as one should also reflect other benefits to which beneficiaries of minimum income benefits are eligible.

Furthermore, the use of a relative definition of poverty means that when the poverty rate of older people remains constant over time, the average income of more modest pensioners evolves in line with the general evolution of income in the population (keeping the poverty threshold constant over time, in price levels, can translate into a decrease of the poverty rate). On the same ground, an increase of the poverty rate can result from a slower increase in pensions than of general incomes, in particular for Member States with high growth of wages, or where pensions are indexed on prices.

¹ Such an effect may explain the more important gap in several Member States between the proportion of people living in households with less than 60 % of median income and households with less than 50 % of median income.

Besides, high unemployment or low employment levels translate into a high rate of dependants among the working age population and thus in a relatively higher relative income of pensioners who benefit from more fixed income.

Box - Definitions of at-risk-of-poverty rate and poverty gap

At-risk-of-poverty rates are measured by reference to an income threshold (60 % of median income). The definition of poverty used is thus monetary and relative: the poverty rate among older people reflects their relative income situation towards the general level of income. It is defined as the share of persons with an equivalised disposable income below an at-risk-of-poverty threshold. Equivalised disposable income is defined as the household's total disposable income divided by its "equivalent size" to take account of its size and composition (the data uses the modified OECD scale which gives a weight of 1.0 to the first adult, 0.5 to other household members aged 14 or over and 0.3 to each child aged less than 14). The at-risk-of-poverty threshold is set at 60% of the national median equivalised disposable income. It must be noted that income generated from owner-occupied housing or housing at below-market rents - i.e., imputed rent – is not included in the definition of income. Inclusion of this element of income could make significant differences in the measurement of risk-of-poverty rates.

Information on the intensity of poverty can be obtained from the **relative median at-risk-of poverty gap indicator**, defined as the difference between the median equivalised income of people below the at-risk-of-poverty threshold and the threshold itself, expressed as a percentage of the at-risk-of-poverty threshold. In other words, this indicator measures how far below the threshold the income of people at risk of poverty are.

A wide range of benefits in kind that are available to the elderly in some Member States are not covered as they are generally not included in sources on income (this includes in particular health and social services, free public transport, reduced prices for various goods and services such as telephone connections, energy, etc.). Moreover, the taking into account of the effect that many pensioners have the propriety of their housing (imputed rents) is lacking. In the case of Denmark however, calculations were possible on the basis of EU-SILC database, including imputed rents (both calculations are provided in table 3).

Unfortunately, the most recent effects of improved minimum income guarantees may not be shown in this report due to time lags in income survey data. Changes in the design of minimum income benefits can change the picture substantially. This affects Member States who introduced substantial changes to their minimum income guarantees since 2003. The introduction of a new minimum guarantee, the increase in the level of this guarantee or the inclusion of non-cash benefits as part of an individual's assessment can change the picture substantially. In their 2005 National Strategy Reports, some Member States reported some decrease in poverty rates in recent years by a few percentage points as a result of recent measures (such as Pension Credit in the United Kingdom).

3.2. Older people are generally on higher risk of poverty, in particular women and oldest ones

The risk of poverty for older people is generally slightly higher than for younger cohorts (see table 3). The indicator used here is the relative poverty risk, as agreed in the framework of the Open Method of Coordination for the field of pensions (see box). It should however be highlighted that the phenomenon of poverty refers to various dimensions and that other indicators can be developed, such as semi relative definitions of poverty but also measures of material deprivation or of subjective measures of poverty. Nevertheless, the situation of elderly people as regards monetary poverty is a particularly relevant indicator when assessing the effect of minimum income provision for older people.

Some Member States report a significantly higher poverty risk among older people in comparison to the population as a whole (Belgium, Denmark, Greece, Spain, Ireland,

Cyprus, Portugal, Slovenia, Finland and the United Kingdom).² Only in a few Member States are both the poverty risk of older people and that of the general population low (Czech Republic, Luxembourg and the Netherlands), while in some Member States where poverty risks are higher for the general population than the EU average, the poverty risk for older people is lower than the EU average (Italy, Latvia, Lithuania, Poland, Slovakia).

² These figures do not include as income negative capital income and imputed rent from private housing, which can give an incomplete picture of income situation, in particular for older people. Due to data limitations unfortunately this is not possible for all Member States. When taking into account this more comprehensive definition of income, the risk of poverty in Denmark for elderly people is fairly the same as in the rest of the population (8.7% for people aged more than 65 and 10.6% for people aged more than 75, compared to 9.8% for 0-64 aged people).

Table 3 – Risk of poverty of older people

	Risk of poverty of people aged 0-64	Risk of poverty of people aged 65 +			Risk of poverty of people aged 75 +		
	Total	Total	Men	Women	Total	Men	Women
BE	14	21	20	21	21	20	21
CZ	9	4	1	6	7	2	9
DK (*)	10 (10)	17 (8)	16 (8)	18 (8)	23 (9)	25 (10)	22 (9)
DE	16	15	10	18	18	Na	Na
EE	19	17	7	22	18	3	24
EL	18	28	26	30	35	35	34
ES	18	30	27	32	34	32	35
FR	13	16	14	17	18	15	19
IE	19	40	34	45	44	35	50
IT	20	16	13	18	15	12	17
CY	10	52	48	55	67	67	67
LV	17	14	7	17	16	5	21
LT	15	12	5	15	15	6	19
LU	12	6	6	6	8	7	9
HU	12	10	6	12	14	11	15
MT	14	20	19	21	21	18	24
NL	13	7	6	7	7	7	7
AT	12	17	13	20	18	10	21
PL	18	6	4	7	6	4	7
PT	19	29	29	30	35	35	36
SI	9	19	11	23	25	17	28
SK	22	12	12	13	20	20	20
FI	10	17	11	20	25	15	30
SE	11	14	9	18	20	14	24
UK	17	24	21	27	30	28	32
EU25	16	18	15	20	/	/	/
BG	13	18	9	23	23	12	31
RO	18	17	14	24	Na	Na	Na

Note: (*) Income definition including imputed rents in brackets. Sources: Eurostat, SILC (2004, Income data 2003) for Belgium, Denmark, Greece, Spain, France, Ireland, Italy, Luxembourg, Austria, Portugal, Finland and Sweden and for other Member States national sources, income data also from 2003 (except Czech Republic and Slovak Republic, 2002 and Malta 2001). See Synthesis report on adequate and sustainable pensions 2006 for further elements.

Older women are generally at a greater risk of being in poverty than older men who are on the whole no more exposed to the risk of poverty than their younger counterparts. Gender differences in poverty risks are nearly negligible in only a few Member States (Belgium, Denmark, Luxembourg and Slovak Republic). The oldest cohorts (aged 75 and over) tend to be more at risk of poverty than those over 65 and women represent a majority of these older people.

Higher poverty risk amongst the oldest people is linked to several factors. Due to progressive extension of coverage of pension schemes, older cohorts have often accrued lower pension entitlements, while past social security legislation sometimes offered less generous provision at the time they retired. Besides, in some countries the indexation of these pensions' entitlements with prices typically translates into a progressive lagging behind the general evolution of income (also see section 6). Moreover, the opportunity to accrue full pension rights has traditionally been much lower amongst women, reflecting societal gender roles and differences in education,

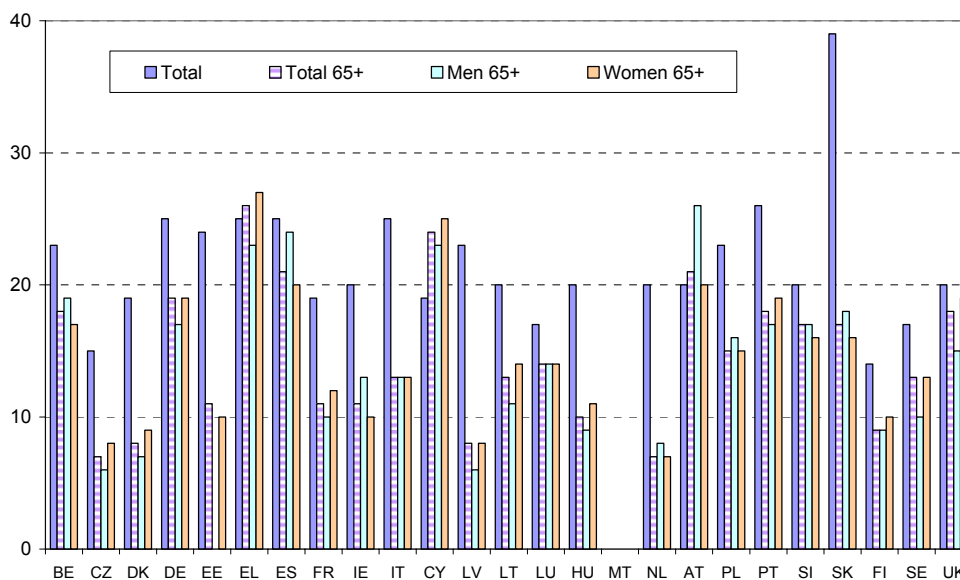
while there are generally more single-person households of widows and widowers relying on survivors' benefit amongst the oldest pensioners.

3.3. Poverty gap among older people is generally lower than for the general population

Though the poverty rates among older people are in most Member States higher than for the general population, older people at risk of poverty have in all but a few Member States an income closer to the poverty line than the general population.

Indeed, in most Member States, the poverty gap of older people is clearly below that of the general population (it is more than halved in CZ, DK, EE, LV, NL and SK), while it is close to that of the general population only in a few Member States (EL, AT, UK) and higher in only one (CY). Gender differences in poverty gaps for 65+ are generally low, though women tend to acknowledge a higher gap.

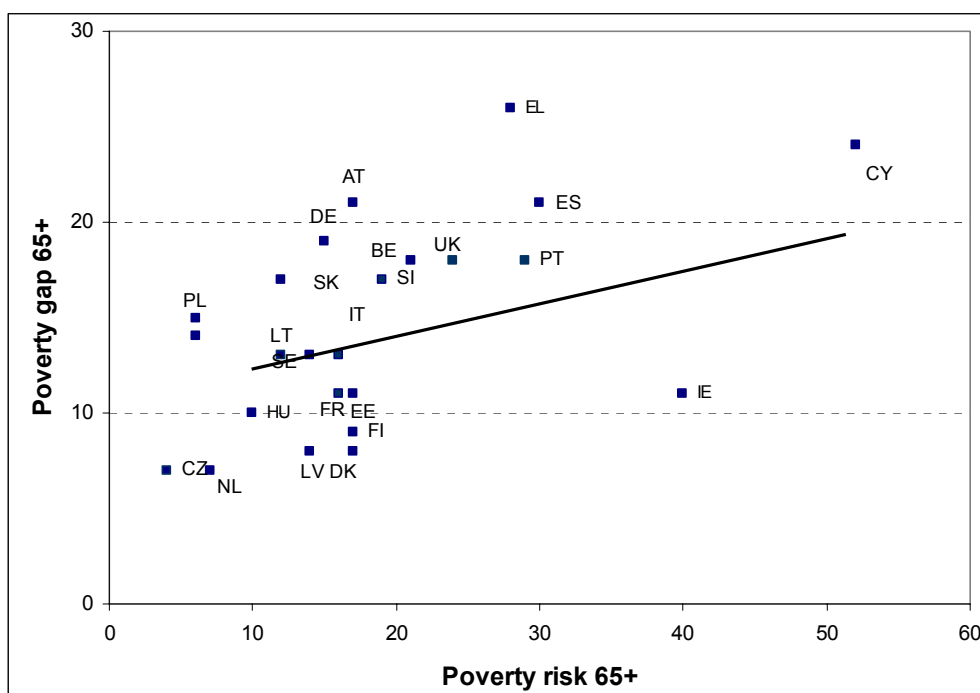
Graph 1 – Poverty gap for the general population and older people



Source: Eurostat – see note table 3.

The lower poverty gap of older people is most probably linked to the design of minimum income benefits to older people, which are generally higher than those accessible to lower ages. However, it should also be noted that higher poverty rates are generally associated with higher poverty gaps, which highlights also the role of minimum benefits to fight poverty among older people.

Graph 2 – Poverty risk and poverty gap for older people



Source: Eurostat – see note table 3.

4. COVERAGE, DELIVERY AND ROLE IN OLDER PEOPLES' INCOME

4.1. Coverage and delivery

Member States reported on coverage and delivery of minimum income provision for older people and on their role in their income (questions 3.2, 3.3, section 5). Coverage of minimum income provision for older people varies greatly among Member States (see table 4). This reflects mainly the different nature of minimum pension benefits, but also the design of their means test (see table 5).

In Member States with universal or general basic pensions, coverage is nearly 100% of those aged 65 or more (like in DK, NL and UK). Levels of coverage are also higher than 50% in IE (contributory flat rate pension), FI and SE (means tested residence based pensions). In Member States where a minimum pension is included in the general earnings related pension scheme, coverage can be significant and varies from 10% to 50% (about 10% or less in BE, FR, HU, AT, PL, and SI, around 30% in ES, IT, LU and 50% or more in LV and PT). The coverage of minimum social assistance benefits is generally much lower, and generally varies from nearly negligible to 1 or 2% (1% in LT, BG and SK, 2% in DE)

Thanks to general information available on pensions and on minimum income provisions, Member States generally do not see issues of take up for these benefits, in particular when they are directly articulated with general earnings related pensions. Some evaluation available in a few Member States (like SE or UK) suggest there can be potential issues of take up for some means tested social benefits be they minimum pensions or other social benefits (such as housing benefits). It can however be noted that, on the whole, the distribution of amounts unclaimed seems to be heavily skewed

towards smaller amounts (pensioners entitled to but not receiving benefits seem to be entitled to smaller amounts than their entitled recipient counterparts).

Actually, most Member States deliver minimum income guarantees upon claim at retirement. In some Member States, as eligibility generally is at 65, people receive information in the year before reaching 65. In a number of Member States, eligibility to minimum income provision is automatically checked after examination of general pension rights. This is natural when minimum provision is embedded in general pension schemes, but can also be the case for other social assistance benefits.

Table 4 – Coverage of minimum income provision for older people

	Type of income guarantee	Beneficiaries *
BE	Minimum pensions (minimum 30 years insured half-time employment)	About 11% of pensioners of retired employees (about 70% for retired self employed).
	Social assistance for the elderly over 64 (65 from 2009 onwards) (GRAPA)	Nearly 92 000 older people covered (about 5% of population aged 65+)
CZ	Minimum pension amount (basic amount is a part of total pension)	About 100% of all people aged 65+
	Subsistence level (not only for elderly) complements the basic amount of the pension insurance scheme.	Less than 1% of all people aged 65+
DK	Residence-based state pension (<i>Folkepension</i>)	About 98% of all people aged 65+
	Supplementary Pension (ATP)	About 68% of all pensioners
DE	Basic protection in old age and in case of reduced earning capacity	In 2004 526 034 people received the basic protection in old age and in care of reduced earning capacity benefits and 293,137 of the recipients because of old age (1.9% and of population 65+)
EE	National pension payable to persons 63 years old and not having the pensionable service or accumulated period, required for the old-age pension and have lived in Estonia at least 5 years (may also be provided in case of disability or survivorship)	9438 in 2005 (3182 for national pension payable due to age)
	Social assistance (not determined on age criteria)	About 3000 pensioners in 2005
EL	Minimum pensions (different from fund to fund) and dependent on insurance period (before or after 1.1.1993). Pension supplement given subject to a means-test (EKAS) for all non-rural pensioners	Primary IKA pension: some 60% of pensioners receive the minimum pension.
	Basic pension (equal to the rural pension) for all uninsured people over 65	About 390 000 individuals for minimum OGA pension
ES	Guaranteed minimum contributory pension for people having contributed to the social protection system (for retirement pensions at least 15 years)	About 28% of pensioners in 2005 (nearly 24% of the 60+ population)
	Non-contributory pension	Around 500 000 in 2005 (nearly 7% of the 65+ population)
FR	Guaranteed minimum contributory pension for workers : Contributory minimum (<i>minimum contributif</i>) (depending on number insurance years)	In 2004, for instance with Old age general scheme for employed workers, about 36% of the 60+ pensioners
	Non contributory means tested residence-based minimum pension for people over 65 : Old-age minimum (<i>minimum vieillesse</i>)	In 2004, about 4,9 % of the 65+ population
IE	Contributory flat-rate old-age pension (at least 5 years of insurance)	72% of pensioners (higher for younger pensioners)
	Non-contributory means tested flat-rate social welfare pensions for people aged 66+	28% of pensioners
IT	Minimum pension supplement (<i>integrazione al trattamento minimo</i>)	About 32% of people over 60
	Old-age benefit for people over 65 without any other income (<i>assegno sociale</i> and <i>pensione sociale</i>)	About 5.2% of people over 60
	Minimum income for those 70 and more	NA
CY	Minimum pension to persons with low insurance record and satisfy prescribed residence condition	For 2005, nearly 15.100 persons
	Public assistance for all residents whose resources do not cover their basic/special needs.	19.219 beneficiaries (december 2005).
LV	Minimum pension (for people with at least 10 years of contributions). Higher rate depending on the length of insurance record : coefficient of 1.1 for insurance record not exceeding 20 years, 1.3 not exceeding 30 years, 1.5 over 30 years.	In 2005 guaranteed or minimum old age pension recipients were 56376 (62% women and 38% men), that is 12% from all old age pensioners and about 11 % of population aged 60+
	State social security benefit to people with insufficient qualification period for old-age pension	In 2005 state social security benefit recipients were 16324, that is 3% of population aged 60+
	Guaranteed minimum income benefit and apartment allowances	Social assistance recipient – pensioners in 2005 were 2111 (66% women and 34%men)

	Type of income guarantee	Beneficiaries*
LT	Basic pension (flat rate) for those with at least 30 years of insurance record	All pensioners eligible to earnings related pensions
	Social assistance pension for people with no sufficient insurance record, upon reaching the retirement age (Statutory retirement age for women is 60 years, men 62.5; also available for disabled and orphaned children)	Beginning 2006, about 1 % of retired people (about 2 thirds granted in 2006)
	Social allowance for persons who's family income per person is lower, than state supported income	2865 households in 2005
LU	Minimum pension (depending on number of insurance years: at least 20 years of contribution or retirement at 65 with at least 10years; full amount after 40 years)	In 2005, about 24900, that is about 29% of the population aged 60+
	Guaranteed minimum income	0.9% of all pensioners in 2000
HU	Guaranteed minimum pension in case of at least 20 years service period (including in case of casual work, part-time work, child-care allowances etc.)	39 600 persons (around 2% of population aged 60+)
	Non-contributory old-age allowance for 62+ and people who have reached retirement age and per capita income lower than 95% of minimum pension (couple's than 80% of the minimum pension).	6679 recipients in 2003 (about 0.3% of population aged above 60)
MT	Minimum Pension Guarantee	NA
	Non contributory pension, payable to persons aged more than 60.	NA
NL	Individual residence-based state pension (accrual of 2 percentage points a year from age 15 to 65)	100% (of those with residence records)
AT	Minimum pension ('compensation supplement')	In 2006 about 11% of pensioners (14.4% in 1989), that is about 11% of the population aged 65+
PL	Guaranteed minimum pension for people who have attained retirement age and have the required insurance period (20 women, 25 men)	About 11.5% of pensioners in 2005
	Regular allowance to persons, whose income does not reach the income threshold due to age or disability	NA
PT	Minimum pension (level depends on career length)	About 59% of pensioners in the general scheme (invalidity and old-age)
	Minimum pension – special social security scheme for agricultural workers	About 12% of pensioners covered by the public social security system
	Social Pension (non-contributory)	About 6% of pensioners covered by the public social security system
	Solidarity supplement	300 000 individuals aged 65 and more in 2008 (around 17% of persons aged 65 years old or over)
FI	Residence-based national pension for people aged 65+ (eligibility upon at least 3 years of residence between 16 and 40, maximum 40 years)	Full amount (only receiving national pension): 7.6% of pensioners; partially paid for 45% of pensioners.
	Social assistance	About 2% of people aged 65 and over (most common for groups aged below 50)
SI	Minimum pension from 65 for men and 59 years and 8 months for women in 2004 (61 years after 2008)	About 8200 recipients in 2005, that is about 3% of those aged 65+
	State pension for those not entitled to a pension	About 17200 recipients in 2005, that is about 5.5% of those aged 65+
	Supplementary allowance	About 47700 recipients in 2005, that is about 16% of those aged 65+
SK	Social assistance – Aid in material need composed of basic amount, health care allowance, housing allowance and protecting allowance for those at pensionable age	8082 persons at pensionable age (about 1% of population aged 65+)
SE	Residence-based guarantee pension for people aged 65+ (maximum for 40 years of residency between 25 and 65, each years amounting for 1/40 th) (can be supplemented with a housing allowance)	Approx. 845 000 pensioners, that is about 55% of population aged 65+ (161 000 with only the guarantee pension)
	Maintenance support for elderly persons aged 65+ (maintenance support is supplemented by housing allowance)	About 10 000
UK	Basic state pension	96%-98% of pensioner units have income from it (in 2005)
	Pension Credit is an income-related benefit ensuring a minimum income guarantee for people aged 60+	Over 2.7m pensioners out of 11.8m benefited from the Pension Credit in 2005.
	Saving credit element of Pension Credit ensures that pensioners over 65 who have modest savings are rewarded	Up to 1.9 m benefited from Saving Credit in 2005.
BG	Social pension for old age	0.2% of pensioner population
	Minimum pension for those who have made 15 years of contributions to the p-a-y-g state pension	About 2.4% of the pensioner population
	Minimum pension for those who have made full contributions to the p-a-y-g state pension	About 11.9% of the pensioner population

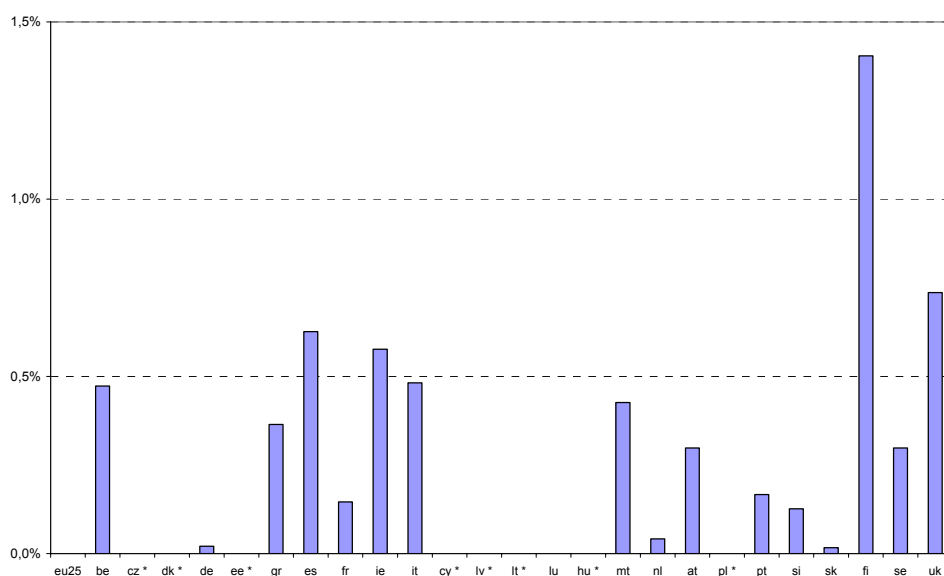
	Type of income guarantee	Beneficiaries*
RO	Social assistance	Available to all ages – no data on elderly recipients

Note: (*) the numbers or shares of older people/pensioners in this column do not necessarily refer to people who can only rely on the minimum income level. Actual incomes will be higher depending on the type of means test associated with the minimum benefit. In particular, in countries with universal flat-rate benefits, the share of beneficiaries will be high, but most will receive income from other sources in addition to the guaranteed public pension.

4.2. Means test of minimum income provision and their role in older person income

Most minimum income provisions for older people are means tested: the level of minimum income provision generally depends on other types of incomes. The reference to means test here is large : it does not necessarily restrict to household income but can refer to individual incomes and it can refer to any other income (including in some cases general earnings related pensions, but also other benefits, work related income or capital income). It should however be noted that when they are linked to general pension schemes, eligibility is not necessarily subject to a means test. Therefore, the level of pension expenditures in % of GDP on means tested pension benefits varies in an important manner among Member States, reflecting the nature of the means-test, coverage and level of these benefits (see graph 3).

Graph 3 – Expenditures on means tested pension benefits in 2003 (as a % of GDP)



Not e: (*) Not available. Source: Eurostat - Esspros.

The nature of the income test varies greatly among Member States. Some Member States do not apply any test on income; this is generally the case for minimum pensions embedded in earnings related schemes, eligibility to which is not dependent on availability of other income (though there are generally some conditions for cumulating pensions and income from work, see section 6). In some Member States, the income test refers only to other earnings related pensions (like in FI for all types of pensions and SE for public earnings related pensions for the guarantee pension - not the maintenance support and the housing allowance, as these are tested against all income and wealth), while it is generally broader. Social assistance benefits' income tests also generally refer to a broader definition of income (generally at household level and including capital income or assets like).

Furthermore, the size of income disregarded in the means test differs among Member States. Though most of the time any additional income translates into a reduction of benefit levels, in some Member States a fraction of the income is disregarded in the calculation of the reduction in the benefit size (like in BE, DE, HU and generally for a share of capital income).

Table 5 – Means tests in minimum income provision for older people

	Type of income guarantee	Means-test
BE	Minimum pensions (minimum 30 years insured half-time employment)	No
	Minimum pension entitlement for each career year (minimum 15 years of employment; at least 1/3 of full-time)	No
	Social assistance for the elderly over 64 (65 from 2009 onwards) (GRAPA)	Yes (household income and wealth)
CZ	Minimum pension amount (basic amount for at least 15 years of contributions)	No
	Subsistence level (not only for elderly) complements the basic amount of the pension insurance scheme.	Yes
DK	Residence-based state pension (<i>Folkepension</i>)	Yes (the basic amount is reduced on the basis of income from work earned by the beneficiary, the pension supplement is reduced on the basis of total earnings)
	Supplementary Pension (ATP)	No
DE	Basic protection in old age and in case of reduced earning capacity	Yes (in case income and wealth of beneficiary and partner are above a certain limit; 30% of earnings are disregarded)
EE	National pension payable to persons 63 years old and not having the pensionable service or accumulated period, required for the old-age pension and have lived in Estonia at least 5 years (may also be provided in case of disability or survivorship)	Yes (not granted to those who receive another pension)
	Social assistance (not determined on age criteria)	Yes
EL	Minimum pensions (different from fund to fund and dependent on insurance period, before or after 1.1.1993). Pension supplement (EKAS) for all non-rural pensioners.	Top-up of low pensions to minimum level without means test. Means-test for pension supplement.
	Basic pension (equal to the rural pension) for all uninsured people over 65	Yes
ES	Guaranteed minimum contributory pension for people having contributed to the social protection system (for retirement pensions at least 15 years)	Yes
	Non-contributory pension	Yes
FR	Guaranteed minimum contributory pension for workers: Contributory minimum (<i>minimum contribution</i> depending on number insurance years)	No
	Non contributory means tested residence-based minimum pension for people over 65 : Old-age minimum (<i>minimum vieillesse</i>)	Yes (statutory and ARRCO pensions, other social benefits, earnings income, capital income)
IE	Contributory flat-rate old-age pension (at least 5 years of insurance)	No
	Non-contributory means tested flat-rate social welfare pensions for people aged 66+	Yes (household income and savings with some exemptions for house and €20,000 disregarded)
IT	Minimum pension supplement (<i>integrazione al trattamento minimo</i>)	Yes (partial value for income above of €5559 for singles and €9925 for couples)
	Old-age benefit for people over 65 without any other income (<i>assegno sociale</i> and <i>pensione sociale</i>)	Yes (income threshold of €4962 for singles and €9925 for couples)
	Minimum income for those 70 and more	Yes (income threshold of €7162 for singles and €12124 for couples)
CY	Minimum pension to persons with low insurance record and satisfy prescribed residence conditions	No (pension test)
	Public assistance for all residents whose resources do not cover their basic/special needs.	Yes
LV	Minimum pension (for people with at least 10 years of contributions). Higher rate depending on the length of insurance record : coefficient of 1.1 for insurance record not exceeding 20 years, 1.3 not exceeding 30 years, 1.5 over 30 years.	No
	State social security benefit to people with insufficient qualification period for old-age pension	No
	Guaranteed minimum income benefit and apartment allowances	Yes
LT	Basic pension (flat rate) for those with at least 15 years of insurance record (full rate at 30 years of record)	No

	Type of income guarantee	Means-test
	Social assistance pension for people with no sufficient insurance record, upon reaching the retirement age (Statutory retirement age for women is 60 years, men 62.5; also available for disabled and orphaned children)	Yes (pensions, not granted to those who have income from work)
	Social allowance for persons whose family income per person is lower than state supported income	Yes
LU	Minimum pension (depending on number of insurance years: at least 20 years of contribution or retirement at 65 with at least 10 years; full amount after 40 years)	No
	Guaranteed minimum income	Yes (household income; earnings income and social benefits are disregarded up to 30% of the value of guaranteed minimum; assets are converted in annuities, and part of it is disregarded)
HU	Guaranteed minimum pension in case of at least 20 years service period (including in case of casual work, part-time work, child-care allowances etc.)	No
	Non-contributory old-age allowance for 62+ and people who have reached retirement age and per capita income lower than 95% of minimum pension (couple's than 80% of the minimum pension).	Yes (earnings income disregarded up to 40% of the minimum old age pensions; assets disregarded; incomes from activities that are considered irregular work)
MT	Minimum Pension Guarantee	No
	Non contributory pension, payable to persons aged more than 60.	Yes
NL	Individual residence-based state pension (accrual of 2 percentage points a year from age 15 to 65)	None Supplementary allowance means tested for earnings income (this benefit will not be granted from 2015)
AT	Minimum pension ('compensation supplement')	Yes (pension and other income)
PL	Guaranteed minimum pension for people who have attained retirement age and have the required insurance period (20 women, 25 men)	No
	Regular allowance to persons, whose income does not reach the income threshold due to age or disability	Yes (household income)
PT	Minimum pension (level depends on career length)	No
	Minimum pension – special social security scheme for agricultural workers	No
	Social Pension (non-contributory)	Yes
	Solidarity supplement for elderly	Yes
FI	Residence-based national pension for people aged 65+ (eligibility upon at least 3 years of residence between 16 and 40, maximum 40 years)	Yes (means-tested only against earnings related pensions and other households pensions)
	Social assistance	Yes (household income)
SI	Minimum pension from 65 for men and 59 years and 8 months for women in 2004 (61 years after 2008)	No
	State pension for those not entitled to a pension	Yes
	Supplementary allowance	Yes
SK	Social assistance – Aid in material need composed of basic amount, health care allowance, housing allowance and protecting allowance for those at pensionable age	Yes
SE	Residence-based guarantee pension for people aged 65+ (maximum for 40 years residency between 25 and 65, each year amounting for 1/40 th) (can be supplemented with a housing allowance)	Yes (only public earnings-related pension taken into account) The housing benefit is means-tested against all incomes and wealth and takes into consideration living costs.
	Maintenance support for elderly persons aged 65+ (maintenance support is supplemented by housing allowance)	Yes (all incomes, wealth) (incl. housing benefit)
UK	Basic state pension	No
	Pension Credit is an income-related benefit ensuring a minimum income guarantee for people aged 60+	Yes (income tests are weaker than previous Minimum Income Guarantee, especially for incomes between the basic state pension and the minimum income guarantee)
	Saving credit element of Pension Credit ensures that pensioners over 65 who have modest savings are rewarded	Yes (Pension Credit has reduced the number of persons who are affected by capital rules, the first £6000 of savings are disregarded)
BG	Minimum pension for those who have made 15 years of contributions to the p-a-y-g state pension	no
	Social pension for old age	Yes – based on family incomes and assessed on an annual basis
RO	Social assistance	Yes – based on family income with no exemptions to type of income

Sources: National replies to SPC questionnaire.

5. ELEMENTS ON FUTURE ROLE

Member States reported on recent and expected evolutions of the role of minimum income provision (questions 2.2, 5.1 and 5.2). Some Member States provided detailed evaluations of future expected developments of the number of beneficiaries of minimum income benefits for older people and associated expenditures. However most Member States essentially provided qualitative information on potential trends (see table 6), so that this section essentially provides a qualitative discussion of main trends at play and possible outcomes.

5.1. A number of factors at play

A number of factors will affect the future importance of minimum income benefits among elderly people: maturation of pension schemes, changes in coverage and of minimum income rules, reforms in earnings related pensions and trends in participation in the labour market. Indeed, the future role of minimum income benefits in older people incomes will much depend on the future levels of earnings related pensions (except in Member States with universal coverage through flat rate pensions, where coverage should remain comprehensive, like in NL or DK).

While a decline of coverage of minimum income provision is expected in some Member States, recent reforms could also translate into increases in numbers of recipients of minimum benefits among older people, all other things being equal. Indeed, numbers of recipients can be expected to decline or stabilise on the long run, due to maturation or increases in coverage of earnings related pension schemes and increased participation of women in the labour market. However, recent reforms of earnings related pensions will generally translate into an average decline in replacement rates at a given age and given projected increases of life expectancy, while low employment levels will, all other things being equal, translate into increases of number of beneficiaries of minimum income provision among older people.

It is thus difficult to develop an assessment of trends at play as comprehensive projections reflecting the different effects are difficult to establish and are currently not available in most Member States: most Member States provided essentially qualitative indications on projected trends, without relying on a more quantitative assessment. Indeed, in order to have a comprehensive evaluation of evolutions of numbers of beneficiaries of minimum income benefits, one needs to rely on prospective tools. While theoretical replacement rates can provide some insights, they are not sufficient as they do not take account of the weight of different situations. Dynamic micro simulation models can provide such types of information, but they need to rely on sufficiently comprehensive data bases and represent significant investments.

5.2. Maturation of earnings related pensions

When general pension schemes were recently introduced, they will progressively provide older people with earnings related pensions, which will increase future accrual of pensions, thus translating in a number of Member States into a projected decrease of coverage by minimum income provision. In Member States with flat rate universal minimum pensions (DK, NL), the number of recipients of these benefits will broadly follow the evolution of the number of elderly people.

In a number of Member States, the progressive maturation of earnings related pension schemes will also translate in a decrease of coverage by minimum benefits (like for instance in DE). Thanks to an increase in coverage by earnings related schemes in recent decades, future pensioners will have accrued higher pension rights in the future and thus their probability of being eligible to general earnings related schemes will increase, inducing a decline in the share of pensioners covered by minimum income benefits. This type of trend is reported by some Member States for past decades (FR, IT), and some other anticipate such a prolongation of this decline other coming decades (IE, FI, SE and BG).

5.3. Changes in coverage and reforms of minimum income benefits

When reforms imply an increase in coverage of pension schemes, this should translate into a decrease in coverage of minimum income benefits. This refers to both statutory schemes (for instance development of coverage to different categories, such as the self employed) or to supplementary schemes as minimum income benefits are generally means tested against other types of income (see section 4).

In a number of Member States, recent reforms of minimum benefits for older people have translated into more favourable designs of parameters (more flexible access, increase in levels of benefits, smoother means-test), that will translate in the short and medium term into increases in the number of beneficiaries (BE, ES, CY, LU).

Furthermore, changes of indexation rules of benefits can also translate into a decline in the share of pensioners covered by minimum benefits in the long run, as illustrated by the recent reform proposals in the UK (see also section 6 on the effect of indexation rules).

5.4. Reforms of earnings related schemes

In some Member States, recent reforms have introduced a stronger link between pension contributions made and future benefits. This is notably the case with notional defined contribution schemes as well as funded tiers of statutory schemes. Some Member States report that these reforms can translate into projected increases in numbers of minimum income benefits for older people (EE, HU, IT, PL).

More generally, recent reforms will, in a number of Member States translate into a decrease of theoretical replacement rates at a given age and given projected increases of life expectancy. The likely impact of these reforms (all other things being equal) is that the relative income of pensioners will decrease and coverage of minimum income benefits and poverty risk among older people would increase.

It is however not clear the extent to which these trends will directly impact on those pensioners with the most modest incomes. A first question is whether these declines can be mitigated by specific rules for lower earnings related pensions or by more favourable treatment of minimum qualifying periods for earnings related pensions (minimal accrual rules). However, calculations of theoretical replacement rates by the ISG suggest that this is not necessarily the case (see ISG report on theoretical replacement rates). Another question is the extent to which this trend towards decrease of replacement rates at a given age and given projected increases of life expectancy will be smoothed by longer working lives and higher savings levels (see also section 6).

5.5. Trends in participation in the labour market

Participation in the labour market directly affects the accrual of pension rights (including in Member States with flat rate pensions, where this affects other earnings related pensions). One should distinguish between on the one hand the increased participation of women and on the other hand structural unemployment and more flexible employment patterns.

The steady increase of female participation in the labour market will translate in the future in higher accrued personal pension rights. This will induce both a decrease in their coverage by minimum income benefits in old age and an average increase in their income situation.

On the other hand, low levels of employment result in lower levels of accrued pensions. This relates also to the question of the treatment of non contributory periods for people who do not have long enough contribution records (in particular as an effect of low employment levels and long-term unemployment) or of undeclared employment. Furthermore, one should also take into account that recent increases in employment rates also include an increase of part time work, in particular for women, which generally translate into lower accrual of pension rights. For example, in the period 1995-2004 the EU15 employment rate grew by 4.6 percentage points, but only by 2.9 percentage points in full time equivalents. In that respect, one should also be aware that increases in employment rates will probably not translate into one to one increases in pensions accrued rights.

Table 6 – Likely evolution of numbers of beneficiaries of minimum income benefits and associated expenditures

	Likely evolution of numbers in receipt of minimum income benefits	Likely evolution of expenditures on minimum income benefits	Likely general trend
BE	Recent measures (more flexible access to the minimum pension, increase of the GRAPA benefit and minimum accrual by contributed year) should translate into higher numbers of recipients of minimum pensions, notably among women.	N.A.	↑
CZ	N.A.	N.A.	
DK	As access to flat rate pensions is universal, the number of beneficiaries will increase broadly following the number of older people (the increase of retirement age will slow down the increase).	A decrease of the share of public flat rate pensions is expected with maturation of private pensions and increase of retirement age.	↑
DE	The share of the beneficiaries of basic protection in old age and for reduced earning capacity benefits in the population aged 65 and more has increased from 1.7% in 2003 to 1.9% in 2004.	N.A.	No trend identified
EE	As a result of recent reforms, the share of those receiving pension at the rate of national pension would increase to up to about 17% of all people of retirement age (this level is currently around 1%). Current rules for calculating pension benefits are under examination and planned changes would reduce the increase of the share of those receiving pension at the rate of national pension in future.	N.A.	↑
EL	N.A.	N.A.	
ES	Recent measures from 2005 to 2008 should translate into higher numbers of recipients of minimum pensions at higher levels of benefits. This effect is partly compensated with the higher pensions of new pensioners, whose pension are above the minimum amount. It is expected that under no further policy change, the number of beneficiaries will turn down slowly reflecting the maturation of earnings related pensions.	N.A.	Firstly ↑ and then ↓
FR	The share of recipients of <i>minimum contributif</i> has slightly declined other recent years due to exceptional measures of revalorisation. In the longer run, the improvement of women's careers should translate into a decrease. There has been a long term trend of decrease in the share of pensioners in receipt of minimum benefits non contributory old-age minimum since 1970 due to the maturation of pensions schemes (increase in coverage	N.A.	No trend identified

	Likely evolution of numbers in receipt of minimum income benefits	Likely evolution of expenditures on minimum income benefits	Likely general trend
	and more favourable eligibility rules for minimum income provisions), notably for women.		
IE	The share of recipients of social welfare pensions, receiving means tested payments has fallen to 28% in 2005 from 45% in 1994 due to ongoing increase of coverage and maturation of supplementary pensions. These trends should translate into a further reduction of share of means-tested pensions.	General social welfare pensions expenditures are projected to increase, but the share of means tested pensions is expected to decrease, resulting in a shift in financing from general taxation to social insurance.	↓
IT	Though there were increases in levels of benefits, the share pensioners covered by minimum benefits is on decline (from 44 % in 1990 to 37% in 2005). The ongoing maturation of pension schemes and increase in age of retirement, should not translate into increases in numbers covered in the next decade, though discretionary increases in levels would translate into increases. However, over longer term, the introduction of the NDC scheme that will translate into decreases in benefit levels also linked to bad labour market conditions which could translate into increases of recipients of minimum benefits, though it will be mandatory to retire at 65 in case of low pensions.	While in the current and next decades expenditure for minimum income benefits could possibly decrease, (except in case of substantial discretionary increases of the benefit levels), the progressive increase of coverage of NDC scheme could translate into increases of beneficiaries' numbers and expenditures.	Firstly = and later ↑
CY	In recent years there has been an increase in importance of minimum income provision. Special allowance to pensioners was introduced and the provision of certain lump sum payments (eg. heating allowance) was payable.	NA	=
LV	It is expected that with improvement of economic situation, the number of minimum pensions' beneficiaries will decrease. The number of social assistance receivers is expected to decrease as well.	As consequence of decrease of minimum pensions' beneficiaries, the expenditure on minimum pensions is expected to decrease too. As regards social assistance, it depends on local budget.	↓
LT	It is expected that due to low coverage of social insurance, rather high levels of long-term unemployed during the transition period, the number of social assistance pension recipients could increase. However, present economic growth, higher participation in social insurance system, development of agricultural sector allows to expect that the number of recipients will not increase dramatically. Linked to the introduction of a more favourable social assistance benefit for older people, the general number of beneficiaries to social assistance will also decrease.	It is expected that future spending for social assistance pension as a proportion of overall old age expenditure will increase. As regards other means – tested social benefits, due to the higher amount of social assistance pensions, increase in spending levels is not expected.	↑
LU	No major changes in numbers of recipients are expected in the future. Reforms of 2002 have increased benefit levels of minimum benefits and smoothened the income eligibility conditions of social assistance.	No major financial impacts are to be expected in the future.	=
HU	Primarily due to permanent unemployment, high inactivity, low contribution payment and expanded contribution evasion a significant growth in the number of recipients of minimum income benefit is expected from 2010. Besides, the number of recipients of old-age allowance is likely to increase significantly, partly due to the introduction of the increased amount allowance (for those 75+).	The level of spending on social welfare financed from general taxation is expected to increase considerably as compared to the current low levels.	↑
MT	NA	NA	NA
NL	As access to flat rate AOW pensions is universal, the number of beneficiaries will increase broadly following the number of older people. The number of beneficiaries of minimum allowance is projected to decline due to maturation of supplementary schemes.	NA	↑ (AOW) ↓ (minimum allowance)
AT	A decline of the number of beneficiaries of a minimum pension is expected due to higher pensions in the future and an increasing part of women with pension entitlements of their own.	NA	↓
PL	There are no projections of the number of future minimum income beneficiaries. However, as the new pension system includes a close link between the contributions and benefit level, it can be expected that the number of minimum pension beneficiaries can increase compared to current level.	NA	↑
PT	Due to maturation of the schemes, the number of beneficiaries of minimum contributory minimum pensions is expected to increase, while the number of non-contributory minimum pensions is expected to decrease.	NA	No trend identified
SI	An increase in the number of beneficiaries of the means tested state pension is anticipated, approximately equal to that of recent years (up to a 5% increase per year), while for the supplementary allowance, the increase in the number of beneficiaries would be lower (less than a 1%).	Projections show approximately the same share of expenditures for the minimum income of older people when compared to total expenditures for pensions, supplementary allowances, assistance and attendance allowances and disability allowances.	↑
SK	NA	NA	NA

	Likely evolution of numbers in receipt of minimum income benefits	Likely evolution of expenditures on minimum income benefits	Likely general trend
FI	Due to maturation of earnings related scheme and changes in legislation, the share of pensioners receiving a national pension has been steadily declining. The share of minimum pension recipients is projected to decrease again by more than one third from 2006 to 2050.	As the total number of pensioners will grow rapidly over the coming decades, the proportion of expenditure on national pensions will decrease even more significantly, implying a decline of expenditures from about 2% GDP in 2005 to less than 1% in 2030.	↓
SE	Available projections show that the number of people in need of minimum benefits will decrease over time if current regulations are upheld and given price indexing of the minimum income benefits and higher real wages. Projections show that the ratio of those in receipt of the guarantee pension will decrease from today's 55 percent of all pensioners to approximately a third in 2020.	Generally speaking, the decrease in the numbers of individuals in receipt of minimum pension benefits is due to an increase in the average income-related pension. Therefore, the decrease in spending on minimum pension benefits will be counteracted by an increase in spending on the income-related pension. The share of income related pension expenditure on older people as a proportion of total expenditure on older people can thus be expected to increase in the future. However, unlike spending on minimum pensions, the increase in spending on the income-related pension is separate from the government budget as it is fully financed by corresponding contributions.	↓
UK	At present around 40% of pensioner households are entitled to Pension Credit and this is projected to rise to around 50% over the next ten years (carrying forward current up-rating principles). If current policies continued, this would increase to about 70% by 2050. The impact of current proposals (changes in up-rating, reforms of the structure and coverage of the State Pension and introduction of a low-cost scheme of personal accounts), will be a considerable reduction in the numbers of people whose entitlements will be means-tested in the future, which will be reduced to around a third.	The proportion of expenditures spent on minimum benefits should remain similar as what it is at the moment	=
BG	In the short term it is estimated that number of beneficiaries of the minimum income from the state p-a-y-g scheme will remain stable (between 22-24% of the population), whereas the number of recipients of social assistance have been falling since 2000 and look set to continue doing so, due to general increase of wellbeing.	The proportion of expenditure earmarked for social assistance is projected to decline from 2.9% of GDP in 2006 to 2.6% in 2009	↓
RO	Estimated that social benefit recipients number about 400, 000 at present. Though break downs by age are not currently available. The maturation of the reformed state pension system is estimated to lead to a reduction in numbers of potential recipients	Numbers eligible are expected to fall, and as the benefit is linked to prices, expenditure is also likely to decrease in the future	↓

Note: this table provides a very broad assessment of likely future evolutions based on National replies to SPC questionnaire.

6. INDEXATION AND INCENTIVES

6.1. Minimum income benefits and incentives to work longer and save more

Member States reported in questions 6.1 and 6.2 on the potential role of minimum income provision for older people on employment and savings behaviour of older workers. Indeed prolonging working lives and higher savings are key channels to compensate the projected decline in replacement rates at a given age induced by recent pension reforms in most Member States. It should be noted that low incentives to retire later can not only raise the issue of pension incentives efficiency but also adequacy issues for those on modest incomes who would not gain much from deferring their retirement age.

In theory, any form of minimum pension which does not add in full to other benefits or earnings could have as a side effect an increase of hidden work (black economy) or early retirement of everybody that fulfil the eligibility requirements. However, most Member States do not see that minimum income benefits would provide negative incentives towards longer working lives or higher savings, as those benefits generally play a significant role only for people aged 65 or more.

In that respect potential disincentives should be more looked at in benefits available for people aged less than 65. In the new defined contribution system in Italy, those that entered the market after 1996 will not be provided a pension before 65, if they have not accrued pension rights of at least 1.2 times the social assistance pension. Given the projected reduction of pension replacement rates, it is projected that this requirement will be very effective, forcing a substantial share of the working population not to retire before 65.

More generally, the little elements available in some Member States suggests that there is no real evidence to prove or disprove labour market or savings behaviour impacts of minimum income benefits for older people. Indeed, a few evaluations available (like for instance in the UK) suggest that the effects associated to changes in minimum benefits are not really substantial and vary a lot depending on individual situations. However, it should be underlined that this type of issue is by essence of a long term nature and that ex-ante evaluations are complex to carry.

Some Member States however mention disregards on earnings from work or possibilities to de-retire as potential ways to increase incentives to work longer and savings levels. IE introduced this year an income disregard of 100€ on earnings from work in the calculation of means tested pensions. While cumulating minimum benefits with income from work is not possible in a few Member States (like in LT), most Member States indeed provide with the possibility to cumulate at least a share of earnings from work and minimum benefits or pensions (like in DK, where this is totally possible up to a certain income or in NL for AOW or in FI or DE) or to suspend the receipt of the pension and accrue supplementary pension rights.

Table 7 – Likely impacts on employment and savings behaviour of older workers due to the provision of minimum income benefits

	Likely impacts on employment behaviour	Likely impacts on savings behaviour
BE	Conditions of cumulating pensions and income are not considered deterring working (recent measures include from 2007 a bonus for those working beyond 62 or after 44 years of contributions),	Savings are only taken into account for minimum assistance
CZ	NA	NA
DK	The majority of older people retire from the labour market before the age of 65 through other schemes which reduces the effect on employment of the public old age pension scheme. Besides, the impact on employment of the income test of old age pension is considered to be modest, for two main reasons : <ul style="list-style-type: none"> • People may earn a rather high income before the pension is reduced. • It is possible to defer the take up of old age pension and in return receive an increased pension later, according to actuarial principles. 	Savings have no influence on the size of old age pensions. However, income from savings may lead to a deduction in the supplement part of public old age pension due to the income test.
DE	No likely impact	No likely impact
EE	Full pension is paid to old age pensioners who are employed. From all old age pensioners about one quarter are working and nearly half of all working pensioners have earnings from work remain below the minimum wage. The receiving of subsistence benefit depends on total incomes of claimant.	No likely impact, certain levels of savings are disregarded while claiming subsistence benefit.
EL	The minimum pension levels are considered to low in comparison to minimum wages to be considered as a disincentive to work longer. Besides, it is possible to ask the suspension of the pension and work again. This working time, after retirement, can be taken into account in order to raise their actual pension and establish a right to a second pension.	NA
ES	NA	NA
FR	NA	NA
IE	An earnings disregard of €100 per week was introduced this year to facilitate those older workers whose only pension provision is a means tested social welfare pension, who wish to remain in work. This would	When individuals are initially assessed for eligibility for means tested social assistance pensions, certain disregards apply in respect of savings and property

	Likely impacts on employment behaviour	Likely impacts on savings behaviour
	more than likely provide them with a high rate of income. For individuals with occupational pension provision or eligibility for social insurance based pensions, the incentive to remain in work depends on the impact this would have on their income in retirement. In the case of social insurance pensions, the criteria for eligibility may act as both an incentive and a disincentive to individuals to work longer.	held.
IT	The fact that social assistance pensions are only paid upon reaching 65 and the fact that the social security minimum is higher (at least till 70) neutralizes bad incentives. There may be some incentives for people that can claim a social security pension to retire at the minimum, but this does not seem currently to substantially affect retirement choices. In the new defined contribution system, those that entered the market after 1996 will not anymore benefit from the supplement to the social security pension. Furthermore, they will not be able to retire before 65, if they haven't accrued pension rights of at least 1.2 times the social assistance pension. Given the expected reduction of pension replacement rates, it is expected that this last requirement will be very effective, forcing a substantial share of working population not to retire before 65.	The minima are means-tested but one's own house is disregarded in the means-test, as are financial returns (only with regards to the means-test for getting the supplement to the social security pensions).
CY	NA	NA
LV	Benefits may create incentives to interrupt economic activity and thus reduce social contributions but there are not special studies on this issue.	Current savings for pensions are low, as population's purchasing power is relatively low and inhabitants generally spend their income on the short-term daily needs
LT	It is probable that due to low level of social assistance pension there is no impact of pensions on employment behaviour. However, it is worth to notice that there can be disincentives to pay social insurance contributions for those who are insured only for social insurance basic pension.	No likely impact
LU	No likely impact, as linked to general pension eligibility.	No likely impact
HU	It is not likely that minimum income benefits would have any significant impact on the employment behaviour of older workers since these are low amounts, which do not make retirement an attractive option. In the case of low earning, low skills level and for labour market reasons, there might however be a replacement effect in a certain income segment, especially if the person concerned may take up a job while receiving this provision.	No likely impacts as minimum income benefits basically do not play any role as regards savings.
MT	NA	NA
NL	The AOW pension is based on residence and consists of a standard, fixed amount paid to people of 65 and over: as it does not depend on other sources of income, the AOW benefit is considered to have no influence on employment behaviour of those of the age of 65 or older. For those between the age of 60 and 65 depending on social assistance, the minimum benefit may have a negative impact on employment behaviour. As municipalities have become fully responsible for the costs of social assistance, they have a strong incentive to try to activate these people.	The AOW benefit does not depend on any sources of income or savings. Social assistance has a disregard for single persons of €5180 and €10360 for single parents and couples.
AT	NA	NA
PL	Despite the implemented reforms, the social security system still includes incentives encouraging people to leave the labour market. The pension system reform will make it possible to reduce the flow out of the labour force but its results will be felt only after those covered with the new system attain the retirement age.	No likely impact identified
PT	NA	NA
SI	NA	NA
SK	NA	NA
FI	No likely impact as earnings from work do not decrease old age pensions in payment and from age 63-68 new pension entitlements accrue.	NA
SE	The basic benefits (guarantee pension and housing supplement) do not necessary encourage continued gainful employment for people with low pensions. In the case of a person who has earned few pension rights, additional payment of contributions need not necessarily mean that the final pension will be other than marginally higher. Besides, the probability of people with few pension rights landing in the guarantee pension's reduction interval will increase when average life expectancy increases. However, the number of people with a guarantee pension is expected to decrease in the future as incomes are expected to	Personal savings or wealth does not affect the level of the guarantee pension, but have an effect on housing supplement and maintenance support. Recipients of the housing benefit and/or the maintenance support may have a total wealth amounting to a maximum of SEK 100 000 per person on the 31st of December the year before the benefit is disbursed. 15 percent of the total wealth over SEK 100 000 is included as an income in the means testing procedure.

	Likely impacts on employment behaviour	Likely impacts on savings behaviour
	rise more rapidly than the price-indexed limit for guarantee pension.	
UK	Studies available suggest that households' behavioural response to the introduction of the Pensions Credit much depend on their initial situation. Aggregating the behavioural effects suggests an additional 0.5-1.4% of the population will choose to supply labour between ages 60 and 64, while offsetting savings responses of alternative households produce an insubstantial fall in aggregate population savings.	In considering the impact of Pension Credit on savings behaviour, it is very difficult to draw any firm conclusions. Research carried out suggests that incentives will vary depending on factors such as age, income, past savings, tax brackets and receipt of benefits.
BG	It is not likely that minimum income benefits, as their level is considered to be low, have an impact on the employment behaviour of older workers. There are special employment programmes with priority focus on recipients of social assistance benefits.	Private savings do not affect the level of the guarantee pensions, but have an impact on social assistance benefit.
RO	Levels of minimum income are at a level that provides at least the minimum of subsistence, and is therefore unlikely to have an impact on incentives to work. Furthermore, beneficiaries of social benefits are given priority within special employment programmes	Romania are currently developing supplementary pension provision, which entails compulsory deductions from wages. Therefore disincentives to save are less likely to be an issue. The level of social assistance also makes non-saving unlikely

Sources: National replies to SPC questionnaire.

6.2. Minimum income benefits and indexation

Member States reported in question 3.4 on the indexation rules of minimum income provision for older people, which can also be compared to indexation rules of general earnings related pensions (see table 8). It should be noted that actual adjustments of pensions can exceed the levels that conform to automatic adjustments rules embedded in legislation.

Member States apply various rules on the indexation of earnings related pensions (on prices, on wages or on a mix of both). While pension indexation on prices can be argued on the grounds that consumption needs of pensioners may be stable or even decline with age, it should be noted that it translates into a worsening of the relative income situation of pensioners and particularly for those on more modest incomes. Indeed, indexation on prices of pensions induces a rising gap between pension levels and average incomes, affecting particularly the oldest and poorest pensioners. Calculations of theoretical replacement rates by the ISG suggest that this effect can be substantial as for instance replacement rates for a standard career generally decrease by around 5 to 10 percentage points 10 year after retirement.

While a number of Member States have rules of adjustments of pensions broadly along evolutions of prices (BE, EL, ES, FR, IT, LT, LV, PL, PT, UK³ and RO), some use a mix index of prices and wages (BG, CZ, EE, MT, CY, HU and SK) or essentially along wages (DK, NL, LT, SI, FI, SE and UK). In IE, indexation rules are not formalised (though in recent years, adjustments have been more favourable than average earnings) and in DE the indexation is based on wages, and curbed by a sustainability factor reflecting changes in the ratio between contributors and pensioners.

Furthermore, less favourable indexation rules of minimum income provision than of other pension benefits also translate into a worsening of the relative situation of the poorest and oldest pensioners. In most Member States, adjustments of minimum pensions are the same as the ones of general pensions. In a few Member States, adjustments of minimum benefits are more favourable, for instance as higher pensions are adjusted on lower rates (CY, IT, LV, AT, PT), while in a few other Member States adjustments are less favourable (CZ, FI, SE) as minimum benefits are indexed on prices

³ Pensions have been adjusted by legislation annually at least in line with movements in the general level of prices. A re-linking of the indexation of the Basic State Pension with earnings rather than prices has been proposed from 2012.

only, while general pensions at least partly take into account increases in wages. It should be noted that some Member States made ad-hoc increases in recent years in the levels of minimum benefits, in particular among those who have less favourable indexation rules.

Table 8 – Indexation rules of minimum income benefits and earnings related pension

	Indexation of minimum income benefits	Indexation of earnings related pensions
BE	All benefits are indexed on consumer prices (not taking into account tobacco, alcohol and fuel); there have been some increases above indexation in recent years for minimum benefits and thanks to increases between 2004 and 2007, the GRAPA is projected to reach the poverty ceiling. The <i>'Pacte des générations'</i> foresees a structural mechanism of adapting social benefits in line with welfare evolutions.	
CZ	Social assistance benefits are indexed on prices	Pensions are annually by at least 100% of the development of the price index and by at least one third of the increase of average real wages. Further adjustments are realized when the price index exceeds 10%. The thresholds for the Personal Assessment Base (Osobní vyměřovací základ) are also adjusted in order to maintain the relations between existing and new pensions and between pensions and earnings.
DK	The adjustment rate for Social Pensions, as well as that for the other transfer incomes is set once a year on the basis of wage developments. Supplementary pensions (ATP) are only adjusted when sufficient funds are available.	
DE	Basic protection is adjusted like pensions (except every five years, when they are recalculated based on consumption surveys)	Pensions are adjusted in line with the wage developments in the previous calendar year, taking also account in the formula of a "sustainability factor" that reflects changes in the ratio between contribution payers and pension recipients. In 2005 and 2006, this formula resulted in no adaptation of pensions.
EE	Indexation of pensions (including national pension) is made on equal weights (50%-50%) on the increase of social tax revenues and the increase of consumer price index. Different government coalitions have in addition to indexation also applied supplementary ad hoc increases.	While pensions from the unfunded tier are indexed equally on prices and the Social Tax revenues, pensions from the funded tier are calculated as life time annuities and are not adjusted.
EL	Adjustment determined annually by the Government (in general in accordance with the development of the Consumer Price Index).	
ES	-The general rule is that minimum benefits are at least indexed on prices (like earning related pensions) every year. However, in last years minimum pensions have been discretionary increased more than prices. For the period 2004-2008 minimum pensions are set to increase 26%.	
FR	Annual ex-ante adjustment according to the anticipated yearly increase in the consumer Price Index (excluding tobacco), with an ex-post correction to take into account observed inflation.	
IE	There are no formal indexing arrangements for social welfare pensions. For a number of years payment rates have been increasing faster than both prices and earnings. Over the period 1994 to 2004, contributory pension rates rose by 86%, while the increase in average industrial earnings was 63% and the at risk of poverty line increased by 123%. The Government is committed to reaching a personal pension rate of €200 per week by 2007. Currently the maximum social insurance pension is paid at a rate of €193.30 per week with those on means tested pensions receiving up to €182.00 per week.	
IT	Minimums are indexed to prices, however this holds only for the minimums, while the top-ups are either not or not in full, so that overall price indexation of minimum treatments is generally slightly less than full.	Annual adjustment based on the development of the cost of living according to the following modalities: <ul style="list-style-type: none"> • For the pension amount up to twice the minimum pension (pensione minima): 100%. • For the amount between twice and three times the minimum pension: 90%. • For the amount exceeding three times the minimum pension: 75%.
CY	Basic Pensions and consequently minimum pensions are adjusted at the beginning of each year in accordance with the percentage of revision of the Basic Insurable Earnings. Supplementary Pensions are adjusted the same day, in accordance with the increase of the cost of living index. Pensions (Basic and Supplementary Pensions) are also adjusted every July by the increase of the cost of living index (comparison of the first semester of that year with the second semester of the previous one), if the latter is at least 1%. This increase is taken into account when determining the increase of the pensions at the beginning of the year. Social Pension is revised each year in the same way as the minimum social insurance pension. The rates for public assistance allowances are indexed annually to a special consumer price index for selected goods and services that covers basic needs.	
LV	The indexation depends on the amount of pension. Pensions (as well as minimum pensions), which do not exceed the state social security benefit 5 times (225 LVL), are indexed taking into account 100% consumer price index. But pensions, which do not exceed the state social security benefit 3 times (135 LVL) are indexed taking into account 100% consumer price index and 50% of the average real increase of wages on which contributions are paid.	
LT	The level of social assistance pension is linked to that of the	Basic part of a pension is increased in principle in link to prices. In practice, basic pension essentially followed so far wage

	Indexation of minimum income benefits	Indexation of earnings related pensions
	basic pension (90%).	growth.
LU	Pensions are linked to two indices: the wage index and the consumer-price index. Pensions automatically index-linked to price development whenever the index varies by 2.5% in relation to the preceding index. Adjustment of pensions to level of wages by special law. The social assistance minimum income is fixed by law and is adapted by special regulation. Recent practice has seen identical increases to minimum pensions.	
HU	Since 2001, minimum pension indexation has been made on the basis of 50% on wages and 50% on prices as of January of the calendar year with no increases during the year. Pension increase in November does not apply to minimum pension. As the amount of the old-age allowance is dependent upon the amount of old-age minimum pension, it changes together with any changes made to the minimum pension.	In the p-a-y-g tier, annual adjustment in January according to 50% of the predicted increase in the consumer price for that year and 50% of the predicted increase in net average monthly earnings. Corrections are made in November according to the annual changes in the consumer prices and the net average monthly earnings. In the funded tier, pensions are adjusted according to a decision of the Pension Fund, taking into account an actuarial assessment.
MT	NA	Annually adjusted according to increases in the cost of living and increases in wages.
NL	The level of the net AOW-pension is related to the net minimum wage. The net minimum wage depends on taxation and the gross minimum wage. The gross minimum wage is in turn indexed according to the development of the wages in the collective wage agreements (adjustments on 1 January and 1 July). Only in special circumstances (high wage increases or an increase in the number of people depending on social benefits) the government can decide not to follow the wage increases. Apart from this, each year the resulting changes in purchasing power for different income groups are considered. If necessary, measures are taken to achieve an acceptable change in total net income.	
AT	Minimum pensions are adjusted in general due to the development of the consumer price index. Nevertheless, there can be additional increases for minimum pensioners.	Annual adjustment beginning of the year. In 2006 all pensions up to the amount of € 1,875 were increased by 2.5% and higher pensions are increased by a fixed amount of € 46.88 each.
PL	Old-age and disability pensions are indexed periodically on 1 March following the calendar year in which the index of prices of consumer goods and services is at least 105% in comparison to the calendar year of the last adjustment. In 2005 the pension have not been indexed because in 2004 Consumer Price Index didn't exceed 105.0% (in 2004 Consumer Price Index was on level of 103.5%). However if for a period of 2 calendar years after the calendar year in which the last indexation was conducted the index mentioned did not reach at least 105.0%, the indexation is conducted from 1 March of the following calendar year. The government has prepared a proposal to restore annual indexation of pensions, with an index equal to CPI increased by 20% of real wage growth.	
PT	Minimum pensions were indexed on minimum wage, thus rising at a quicker pace than general pensions. From 2008, they will be indexed on prices and GDP.	Normally increased once a year by government decision with regard to the price level.
SI	Pensions are adjusted twice a year (in February and November) in accordance with the development of the average monthly salary. The minimum pension rating base was determined to 64% of the average monthly salary per employee and afterwards changed in accordance with each indexation of pensions on wages. The state pension amounts to 33.3% of the minimum pension rating base.	
SK	Since 2004 pension benefits were adjusted on consumer prices and average wages. It is envisaged to index pension benefits exclusively according to the consumer price developments.	
FI	National pension is indexed annually on the basis of the evolution of the cost-of-living index. For national pension recipients, therefore, the level of the pension provision has risen at a slower pace than that for the recipients of earnings-related pensions, which has been compensated for with separate increases in the level of the pension. However, there has been a separate increase made in 2005 and another one is planned for September 2006.	Statutory earnings-related pensions are adjusted annually with the earnings-related pension index at the beginning of January each year. The weighting of changes in the price level is 80% and that of changes in the earnings level 20%.
SE	For the guarantee pension, the rate of adjustment is fixed every year on the basis of the development of prices (price base amount). Maintenance Support for the Elderly is also price-indexed.	The earnings-related old-age pension (inkomstpension) and the Supplementary pensions are adjusted according to changes in the average income development (income index) deducting the norm of 1.6 percentage points.
UK	Pension Credit has been up-rated in line with earnings since its introduction. The Government has also successively raised the Guarantee Credit by earnings and has committed to do so to 2008 in order to continue to tackle pensioner poverty. It is intended to pursue this up-rating strategy over the long term. Pensions have been adjusted by legislation annually at least in line with movements in the general level of prices. If Pension Credit alone continues to rise with earnings and the level of contributory benefits drifts away from the means-tested safety net, it could mean that more and more people fall subject to means-testing in retirement, while a re-linking of the indexation of the Basic State Pension with earnings rather than prices, likely to occur from 2012 would translate into a slight decrease of the share of beneficiaries (see also section 5).	
BG	Annual change, but not based on poverty rates, GDP growth, inflation etc. General aim though is to keep the benefit rising	50% earnings related, 50% price related and calculated on an annual basis.

	Indexation of minimum income benefits	Indexation of earnings related pensions
	in line with prices or in line with earnings related pensions.	
RO	Price indexation set by law on an annual basis	

Sources: National replies to SPC questionnaire and MISSOC.

7. CONCLUSION

Besides general earnings related schemes, minimum income provisions for older people have an essential role in alleviating or reducing poverty risk amongst the elderly. Their designs are diverse and one can identify three main types of minimum income benefits specifically dedicated to older people: minimum benefits within the earnings related pensions (this can also include minimum accrual rules for people in the labour market), flat rate benefits for older people (generally for people aged 65 or more), and separate social assistance benefits. Reflecting their design (eligibility rules, age at which benefits are available or means test), their coverage can be significant amongst the elderly population.

In spite of the level of minimum income benefits for older people, this cohort remain at a higher poverty risk than the general population in a number of Member States, though poverty gaps are lower, most probably reflecting the effect of minimum benefits. Though income poverty measure have to be complemented by other measures (such as material deprivation), it should be underlined that women and oldest people are particularly at risk of poverty, mainly reflecting past accruals and ongoing indexation of pensions.

In that respect, it can be noted that incentives and indexation rules can be designed to benefit or at least not disadvantage those pensioners with modest incomes. Some indexation rules can translate into a worsening of the relative situation of the poorest pensioners, in particular when they grow older. While only a few evaluations are available, minimum income provisions are generally not seen as providing adverse incentives to work longer or save. Nevertheless, some provisions tend to make easier the prolongation of active life.

In a number of Member States the numbers of beneficiaries of minimum income benefits have been declining in recent decades, reflecting progressive maturation of pension schemes, improvements of levels of benefits and increase in participation rates. Future developments in the role of minimum income provision for older people are however difficult to evaluate as in coming decades contradicting trends will be at play: maturation of pension schemes and increase in female workforce participation will continue, while effects of past unemployment levels and an increase in partial employment and the effect of recent reforms (that often translate in a decrease in benefit levels) will begin to develop. In this respect, it seems essential to develop tools to monitor these possible future developments, through further prospective analysis on trends at play, for instance through theoretical replacement rates or dynamic (panel) micro-simulation models.