

IMERSO WORKSHOP

**INDICATORS OF THE FINANCIAL
SUSTAINABILITY OF PENSION SYSTEMS AND
PUBLIC FINANCES**

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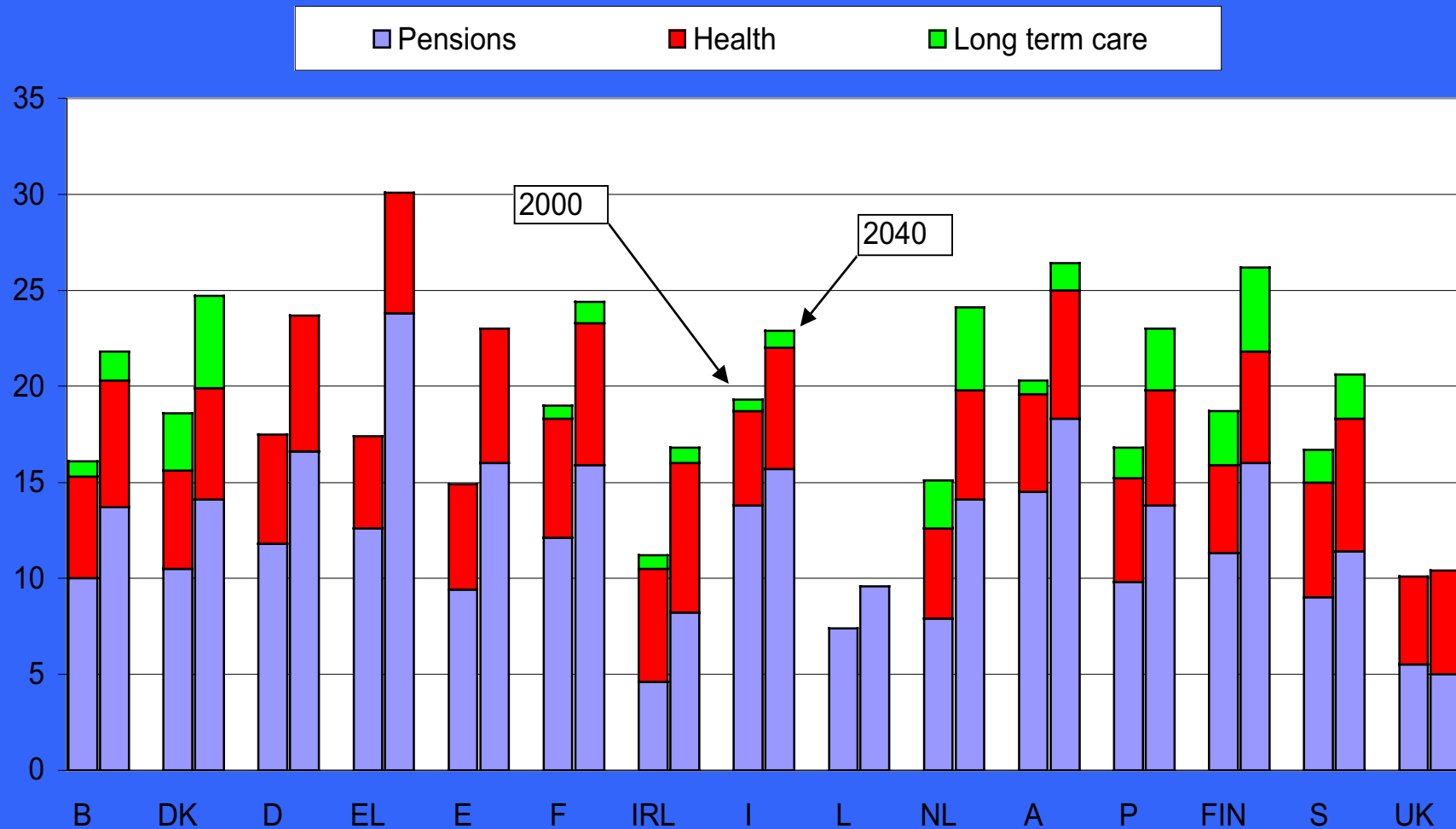
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INDICATORS

OPEN METHOD OF CO-ORDINATION

- ◆ Projections on public pension expenditure
- ◆ Contribution rates and need for tax financing
- ◆ Assets in reserve/pension funds, I and II pillars
- ◆ Impact of higher employment rates on pension expenditure

Age-related spending in the EU: 2000 and 2040



Source: Economic Policy Committee 2001

DECOMPOSING PENSION SPENDING AS A SHARE OF GDP, 2000-2050

	Dependency	Employment	Eligibility	Benefit	Total	Residual
BE	5,2	-0,9	0,9	-2,0	3,3	0,0
DK	4,1	-0,2	0,5	-1,7	2,7	0,1
DE	6,2	-0,7	2,0	-2,7	4,8	0,2
EL	9,9	-3,6	1,4	4,0	11,7	0,5
ES	8,2	-2,4	2,0	-0,3	7,5	0,5
FR	7,7	-0,9	0,7	-3,6	3,9	-0,1
IE	4,5	-0,9	1,4	-0,7	4,3	0,1
IT	9,5	-3,1	-1,4	-4,9	0,2	0,0
LU	NA	NA	NA	NA	NA	NA
NL	5,4	-0,6	0,5	0,2	5,5	0,2
AT	10,5	-2,2	-3,0	-2,9	2,4	0,1
PT	6,7	-1,1	-2,4	0,1	3,3	0,1
FI	6,6	-0,1	-1,3	-0,1	5,0	-0,3
SE	3,9	-0,5	0,8	-2,6	1,7	0,0
UK	2,4	0,0	-0,1	-3,4	-1,0	-0,1
EU	6,4	-1,1	0,6	-2,8	3,1	-0,2

Notes: *Dependency ratio* is population aged 55+ as % of population aged 15 to 64
Employment (inverse) ratio is population aged 15-64 as % of persons employed
Benefit ratio is average pension as % of GDP per person employed
Eligibility ratio is number of pension beneficiaries as % of persons aged 55+

Source: Economic Policy Committee (2001).

ILLUSTRATIVE SIMULATIONS

IMPACT OF CERTAIN PARAMETRIC REFORMS

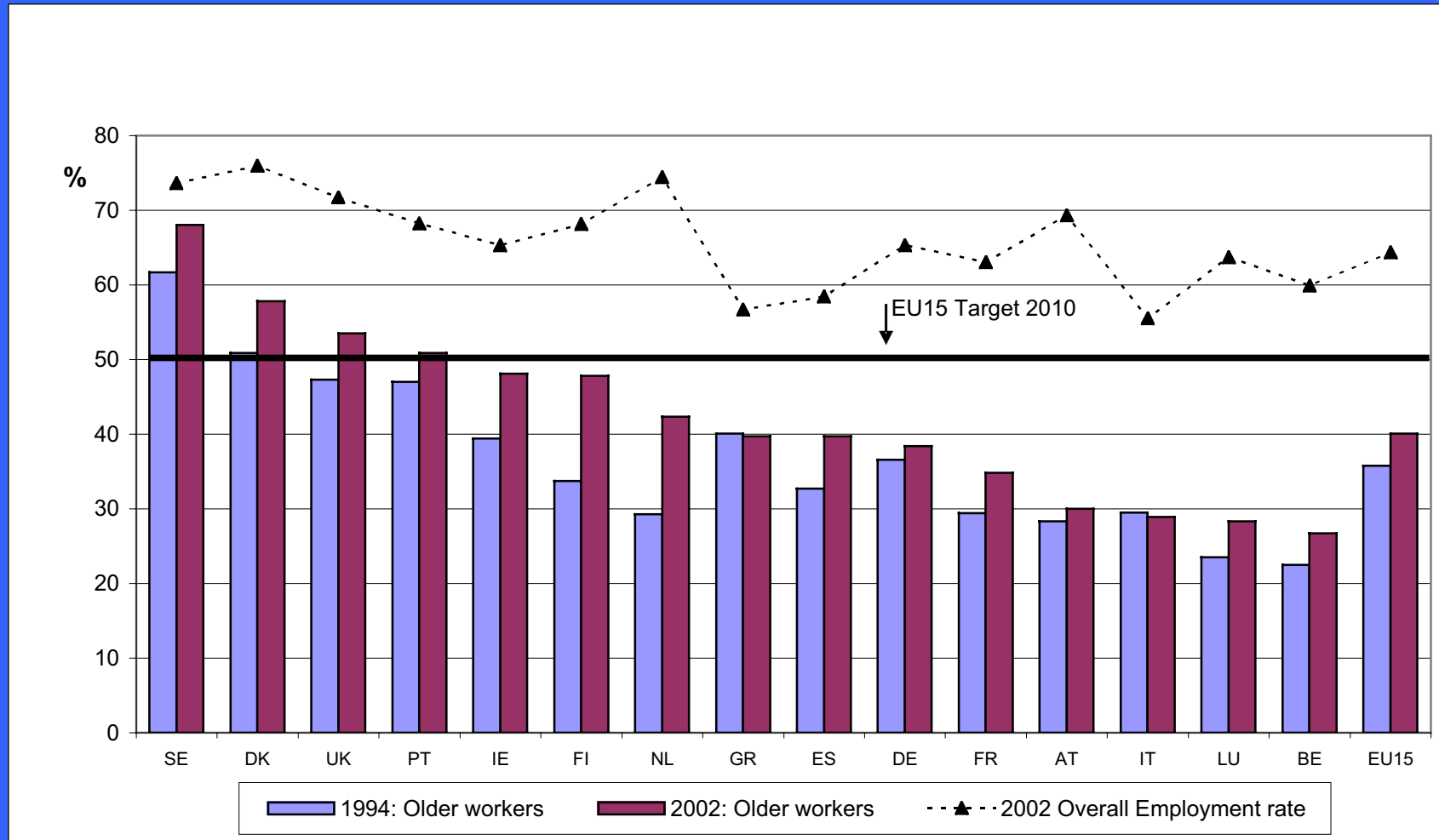
	<i>Increase in pension expenditure as a share of GDP from 2000 to 2050 (baseline projection) (1)</i>	<i>Illustrative impact of certain parametric reforms as a share of GDP in 2050 (2)</i>		
		<i>Half a percentage point change in the indexation of pensions</i>	<i>Raising the effective retirement age by one year</i>	<i>Reducing benefits in line with increase in life expectancy</i>
<i>Flat-rate systems</i>				
DK	2.8%	2.7	-1.0	-1.7
IRL	4.4%	1.6	-0.4	-
NL	5.7%	2.7	-1.1	-
UK	0%	0.6	-0.2	-0.5
<i>Earnings-related systems</i>				
A	2.5%	1.0	-	-
B	3.3%	0.5	-	-
FIN	4.6%	0.9	-0.6	-1.5
F	3.7%	-	-0.9	-
D	5.0%	-	-0.7	-1.6
I	0.3%	1.2	-0.1	-0.4
P	3.4%	2.0	-0.34	-1.9
E	7.9%	1.9	-	-
S	1.7%	-	-0.3	+1.1

ASSETS IN RESERVE/PENSION FUNDS as a share (%) of GDP

	ASSETS		
	I pillar	II pillar	II and III total
B	0,5	6	15
DK	25	24	79
D	none	16	
EL	none	4	
E	1	7	
F	0,8	7	
IRL	8	51	
I	none	3	
L	22	0.2	
NL	3	111	166
A	none	12	
P	3	12	
FIN	55	9	12
S	29	57	
UK	none	81	

Sources: National Strategy Reports on Pensions (I pillar);
European Federation for Retirement Provision (II pillar)

Employment rates for older workers 1994 and 2002



Source: Eurostat

INDICATORS

SUSTAINABILITY OF PUBLIC FINANCES

- ◆ **PROJECTIONS ON AGE-RELATED PUBLIC EXPENDITURE**

pensions, health and long-term care

- ◆ **EVOLUTION OF PUBLIC DEBT**

SGP compliance scenario

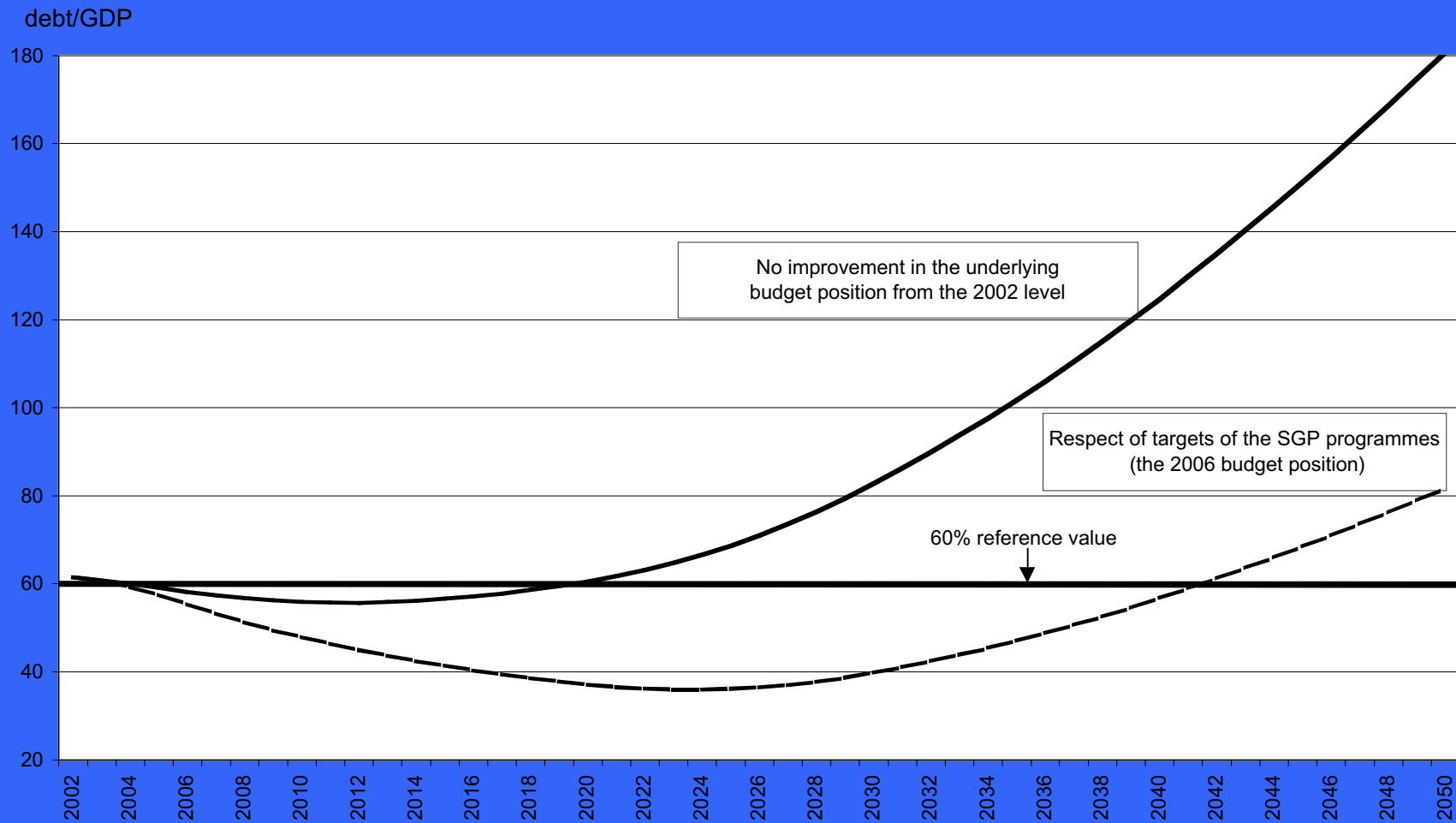
2002 budget position scenario

- ◆ **TAX GAP INDICATORS:** difference between the current tax ratio and the constant tax ratio to result in a balanced budget

T1: for the period up to 2050

T3: for an infinite period of time

Evolution of debt to 2050



Source: Commission Services

Tax Gap				
	T1		T3	
	Starting position			
	2002	2006 (SGP)	2002	2006 (SGP)
BE	-2.4	-1.7	-0.5	0.1
DK	-2.7	-0.9	-2.0	0.1
DE	4.8	1.0	5.7	2.0
EL	2.6	2.0	5.5	4.8
ES	1.0	1.1	2.4	2.4
FR	4.8	3.7	5.7	4.6
IRL	2.4	3.4	4.0	5.1
IT	0.9	-0.8	1.9	0.3
LUX	1.0	1.2	2.6	2.5
NL	1.0	1.2	4.5	4.6
AT	1.0	2.6	1.9	3.4
PT	3.7	1.3	4.3	2.0
FIN	-3.2	-0.6	-0.8	-0.5
SW	-0.9	-0.6	-0.1	0.2
UK	1.3	1.9	1.4	1.2

Source: Public Finances in EMU - 2003