

Social Protection and Financial Sustainability

Commitment 4: “To Adjust Social Protection Systems in Response to Demographic Changes and their Social and Economic Consequences”

According to Commitment 4, four main policy objectives should be met, through related specific measures. Between brackets are listed the indicators proposed to monitor these measures and objectives:

1. **Preserve and strengthen the basic objectives of social protection, namely to prevent poverty and provide adequate benefit levels for all** (SUS01, SUS02, SUS08)
 - Extension of social protection systems to all sections of the population, from the very young to the very old
 - To support social inclusion through participation in the labour force for the young and those of working age: (SUS08, SUS09, see also LM indicators)
 - To provide a standard of living for persons who are not able to work due to disability and for persons beyond working age, that allows them to maintain their self-respect and dignity (SUS01a, SUS01b, SUS02)
 - In particular, to achieve a sufficient income for all older persons (SUS01, SUS02)
2. **Establish or develop a regulatory framework for occupational and private pension provision** (SUS10)
3. **Adapt existing social protection systems to demographic changes and changes in family structures** (SUS03, SUS04, SUS05, SUS06, SUS07, SUS08, SUS09)

Policies should address the needs of older persons for a variety of social and health services, including sheltered housing and long-term care (SUS05h see also future Care indicators)

4. **Pay special attention to the social protection of women and men throughout their life course** (SUS11)
 - Equal treatment of men and women in social protection systems (SUS11a, SUS11b)
 - Support a better reconciliation of work and family responsibilities throughout the life cycle (SUS11d, see also future Care indicators)

Special attention needs to be paid to the position of those family members who interrupt their employment to rear children or to care for family members and as a result suffer reduction in their pension entitlement (SUS11c) and those who devote themselves to household work and the care of children and other relatives. Both groups often face a precarious financial situation in old age.

Policies to alleviate these problems could include (see also future Care indicators)

- Special leave arrangements for working parents and other caregivers, (SUS11d)
- Other supportive measures such as respite care services.

Additional discussions / suggestions mentioned in Commitment 4:

- Social protection systems:
 - Can also contribute to adequate income maintenance (SUS01)
 - Reflect broader political and social values of social justice and cohesion, which place limits on the degrees of inequality or social deprivation a society is willing to tolerate (SUS02)
- Social security faces many challenges in adapting (SUS04c, SUS04d, SUS08)
 - to changes in family structure,
 - to the emergence of more unstable work patterns
 - to changes in the age profile of populations and globalisation
- Systems -- or combinations of them -- are needed that strengthen incentives to participate in the labour force (SUS07, SUS08, SUS09, see also LM indicators) while ensuring protection for the weakest groups in society (SUS02)
- Steps should be taken to ensure financial sustainability of social protection systems in the face of demographic ageing (SUS04, SUS05, SUS06, SUS07, SUS08)
- The various types of benefit system -- social insurance (financed from but not directly related to contributions) (SUS03), universal benefits, means-tested benefits -- have different implications for the behaviour of both recipients and their employers.



Group	Subgroup	Suggested Indicators	Sources / Availability	Type	Notes	
SUS01	Adequate Income Maintenance	SUS01a	Stylised (individual) replacement rates, current and prospective (system indicator, not empirical RRs)	<i>European Commission 2006, SPC 2004, NSR 2005</i>	Core	
		SUS01b	Stylised (individual) overall replacement ratio, for early retirees	<i>Casey et al. 2003, 84ff</i>	I	
		SUS01c	Aggregate replacement ratios (average monthly pensions of retirees aged 65-74 as a percentage of average monthly earnings of employed aged 50-59; if available also for retirees and employed as a whole)	<i>European Commission 2006; HV österr. SV; NSR 2005</i>	I	
			<i>Alternative: Median income ratio between persons aged 65 years or more and persons aged 55-64 years, by gender (if relevant then subgroups, e.g. workers)</i>	<i>Eurostat: EU-15 1995-2001; NSR 2005</i>	I	See IW07b
		SUS01d	Pension Wealth: present value of the future stream of (net of tax) pension payments to which a person is entitled over his/her life in retirement (multiple of economy-wide average earnings)	<i>OECD 2005</i>	Core	
		SUS01e	Required contribution period in order to get the minimum (guaranteed) pension (in earnings-related old-age pension system) for a median or low income person	<i>Rürup 2004; OECD/Ed Whitehouse</i>	I	
SUS02	Social Justice and Inequality	SUS02a	Generosity towards the poor: replacement ratio of the bottom quintile divided by the replacement ratio of the top quintile	<i>Soziale Sicherheit 2/2003: AUT 2001</i>	II	
		SUS02b	Stylised (individual) replacement rates by different earnings levels (100% and 2/3 of average income)	<i>SPC 2004, NSR 2005</i>	Core	Should be next to SUS01a
		SUS02c	Ratio minimum pension/average pension	<i>NSR 2005</i>	I	See IW04b
		SUS02d	Ratio S80/S20 by gender and age	<i>Eurostat, NSR 2005</i>	I	See IW02a
		SUS02e	Social exclusion: coverage of older persons (% benefiting from minimum pension schemes)		I	See IW04c
		SUS02f	Intergenerational fairness: overall liability of the State with respect to future generations	<i>No data (operationalisation: still open)</i>	II	
SUS03	Relationship between Contributions and Benefits	SUS03a	Necessary contribution level / alt. necessary pensions adjustment ("implicit contribution rate") to balance pensions expenditure (where it applies) vs. effective contribution rate	<i>NSR 2005; OECD 2005; EPC 2005; European Commission 2003b</i>	I	
		SUS03b	Implicit / notional rate of return on social security-pension contributions ("Benefit-cost ratios")	<i>OECD/ Ed Whitehouse</i>	II	



SUS04	Public and Total Pension Spending ¹	SUS04a	i) Public pension spending projected for a defined period of time (2004-2050) as % of GDP ii) Total pension spending...	<i>EPC 2006, EPC 2003, NSR 2005, Eurostat, GVG 2002, Holzmann 2003</i>	Core	Same chart as SUS04b
		SUS04b	i) Public pension spending in % of all social expenditures ² ii) Total pension spending...	<i>ESSPROSS; EPC 2006, EPC 2003, NSR 2005, Eurostat, GVG 2002, Holzmann 2003</i>	Core	Same chart as SUS04a
		SUS04c	i) Decomposition of projected public pension spending increase by changes in: dependency; employment; take-up; relative benefit level	<i>NSR 2005, Casey et al. 2003; EPC 2006</i>	I	
			ii) Decomposition of projected total pension spending increase ... (if available)			
		SUS04d	i) Sensitivity test for public pension spending projections: increased employment, increased employment of older workers, higher life expectancy	<i>EPC 2003, EPC 2001, EPC 2006</i>	II	
			ii) Sensitivity test for total pension spending projections ...			
		SUS04e	i) Public pension spending covered by contributions (operationalisation: yearly contribution revenue as a % of pension expenditure)	<i>NSR 2005; EPC 2006</i>	I	
			ii) Total pension spending ... (if available)			
		SUS04f	i) (Accumulated) assets in public pension schemes	<i>EC 2003; NSR 2005; EPC 2006</i>	II	
			ii) (Accumulated) assets in all pension schemes			
SUS05	Age-related Public Expenditure	SUS05a	i) Age-related public expenditure (pensions, health and long-term care) in % of GDP	<i>EPC 2003, 33f; EPC 2006</i>	I	
		SUS05b	Projected expenditure in % of GDP:		II	
			i) health care	<i>EPC 2003, GVG 2002, OECD 2006; EPC 2006</i>	II	
			ii) long-term care	<i>EPC 2003, GVG 2002, OECD 2006; EPC 2006</i>	II	
SUS06	Sustainability of Public Finances	SUS06a	Sustainability gap indicators: S1, S2 (former tax gap indicators: T2, T3)	<i>EPC 2003, Salomäki 2006</i>	I	
		SUS06b	Projections for public debt evolution	<i>No data so far; EC, EPC to come</i>	II	
SUS07	(Dis-) incentives for Early Retirement	SUS07a	Replacement ratio for early retirees	<i>See above - SUS01b</i>		
		SUS07b	Exploring the incentive to retire			
			i) Accrual: change in social security wealth by postponing retirement for 1 year	<i>Casey et al. 2003</i>	I	

¹ The definitions for public spending will follow the distinctions made by the EPC, this concerns especially the question whether expenditures for mandatory private funded 2nd tiers of the pension systems are included or not. Data for total pension spending will be provided as far as it is available.

² Also takes into account possible decreasing expenditures in other areas, e.g. education, unemployment (projected expenditures education, unemployment in % GDP see EPC 2003, 29f).



			ii) Tax rate: the accrual divided by the (potential) gross earnings, during the year of postponement	<i>i) + ii): OECD: April 2006 new data (Ed. Whitehouse)</i>	I	
			iii) System accrual rates, decreases for early retirement, increases for deferral of retirement	<i>iii) OECD 2005, NSR 2005, MISSOC 2005: EU-25, OECD countries; OECD/ Ed Whitehouse</i>	I	
		SUS07c	System dependency ratio (SDR) in public pension schemes	<i>See below - SUS08a</i>	Core	Outcome indicator
		SUS07d	Lifetime allocation of work and non-work (one point in time) (pension reciprocity duration / employment duration)	<i>Burniaux et al. (OECD) 2004</i>		Outcome indicator, See LM02f
		SUS07e	Take-up Ratio: Number of pensioners receiving public pensions relative to the population aged 65+	<i>EPC 2006; World Bank Pensions Database</i>	I	Outcome indicator
SUS08	(System-Related) Dependency Ratios	SUS08a	System dependency ratio (SDR) in public pension schemes SDR = number of pensioners / number of insured workers	<i>EPC 2006; HV österr. SV; GVG 2002, IMF 2004; NSR 2005</i>	Core	
		SUS08b	Difference between SDR and old-age dependency ratio (as a measure of the system's efficiency)	<i>See SUS08a</i>	Core	Same chart as SUS08a
		SUS08c	Ageing burden indicator (replacement rate * SDR)	<i>Data: see SUS01a and SUS08a; Concept: Lefèbvre/Perelman 2005</i>	I	
SUS09	Life-Time Allocation	SUS09a	Life cycle support ratio (ratio: the number of working years to the number of retirement years over time * inheritance gains [deaths prior to retirement] * expected growth)	<i>Data and concept: see Settergren / Mikula 2001</i>	I	
		SUS09b	Lifetime allocation of work and non-work (one point in time)	<i>Burniaux et al. (OECD) 2004</i>		See LM02f
		SUS09c	Drop-out-ratio in working age (total number of benefit years of persons younger than 65 vs. total number of labour years of persons older than 15)	<i>Peters et al. 2004 (early retirement pensions, persons aged 15-64, 1990-1998)</i>	II	
SUS10	Private Pension Provision	SUS10a	% of working age population / active population participating in private pension schemes	<i>SPC 2005, OECD 2005b</i>	I	
		SUS10b	Average contribution to income of retirees	<i>SPC 2005, OECD 2005b</i>	I	
SUS11	Gender, Reconciliation of Work and Family	SUS11a	<u>Instrumental</u> indicator: Age differential in statutory retirement age (between men and women)	<i>MISSOC 2005</i>	Core	
		SUS11b	<u>Instrumental</u> : Possibility and fairness of widow pensions	<i>MISSOC 2005</i>	II	
		SUS11c	<u>Instrumental</u> indicator: contribution base for child caring times (how child care does / does not count for pension benefit calculations) (+ figures OECD)	<i>MISSOC 2005, NSR 2005; OECD: to come 2006</i>	Core	
		SUS11d	<u>Instrumental</u> indicator: parental leave schemes, etc. *) <i>this measure will be addressed at a later stage (see Care indicators)</i>	<i>MISSOC 2005; World Bank Database; UNECE</i>	Core	



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