

# EPSR 2030 Scenario – What would it mean for pensions if the Action Plan's 78% employment target was achieved, with quality jobs

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## 1. Introduction

In 2005, the British Trade Union Congress published a report entitled "The 80 per cent solution. How to keep the state pension age at 65".<sup>1</sup> During this period of widespread concerns about the deterioration of dependency ratios and the resulting call for an increase in the statutory retirement age, the report looked at the implications of full employment for pensions. It concluded that achieving the 80% employment rate among those of working age targeted by the then UK government would be a better way to deal with population ageing. In 2011, an ETUI Policy Brief addressed the same topic. It pointed out the enormous potential of more inclusive labour markets to counteract the deterioration of the relationship between benefit recipients and people in employment and to strengthen both pension adequacy and fiscal sustainability.<sup>2</sup>

In spring 2012, the EU Commission's White Paper on Pensions, in its analytical part, also highlighted this issue: "Many countries have considerable scope for improving the future adequacy and sustainability of their pension systems by raising employment rates .... catching up with the best-performing countries would almost neutralise the effects of population ageing and the weight of pensions in GDP".<sup>3</sup> Unfortunately, these considerations have been ignored in the White Paper's demands for reform.

The same year, a study published by the European Policy Centre entitled "1000 billion Euros at stake"<sup>4</sup> showed that the full exploitation of the labour market potential is not only the best strategy for coping with demographic change in the field of pensions but would also have an enormous positive effect on public budgets.

In 2021, a study prepared within the ETUC's SociAll project<sup>5</sup> presented long-term calculations building on the assumption that by 2070, the EU 27 will achieve a labour market integration at the level of the best-practice countries from 2019. It was shown that if this target were achieved, the 'economic dependency ratio' would only increase by 8%, despite the expected 72% increase of the 'old-age to working-age ratio' in the same period.

In 2023, the EU Commission's High-Level Group Report, "The Future of Social Protection and of the Welfare State in the EU", also highlights the importance of more inclusive labour markets for tackling the ageing challenge. "It is essential for society to tap into the potential of everyone, and to enable people to thrive in inclusive labour markets, by fostering high-quality jobs and gender equality, and by integrating migrants and disadvantaged groups."<sup>6</sup> The present study builds on this previous work and examines what it would mean for pensions and, above all, for the future development of the numerical relationship between benefit recipients and contributors if the European Pillar of Social Rights (EPSR) Action Plan's 78% employment target was achieved.

<sup>1</sup> TUC (2005)

<sup>2</sup> ETUI (2011)

<sup>3</sup> EU Commission (2012) p 8 f.

<sup>4</sup> European Policy Centre (2012)

<sup>5</sup> ETUC SociAll (2021a)

<sup>6</sup> EU Commission (2022)

After a brief discussion of the key employment objectives of the Action Plan, the demographic environment in which its implementation will have to take place is described. The development of the proportion of older people in the total population and the effect of the 'old-age-to-working-age ratio', often the focus of the pension debate, are discussed. In addition, further essential aspects, such as the differences in life expectancy depending on the socio-economic group and their significance for pensions, are briefly addressed.

Based on the demographic background<sup>7</sup>, the next step is to compare the EU and the national employment rate targets with the baseline situation in 2019 and with the projections in the Ageing Report. Calculations carried out for this study show what effects the achievement of the employment targets would have on core variables, such as the number of people in employment, the number of unemployed, the number of pensioners and, as a result, the development of the economic dependency ratio. Based on the labour market effects, the impact on GDP growth, government revenues, etc., is also roughly estimated.

Comparing the development of the 'economic dependency ratio' with projections based on other indicators in use for this purpose, demonstrates the extent to which the indicators underestimate, or in some cases even completely ignore, the positive effects of improved labour market integration within the working age population. The background to this is briefly examined.

In addition to the overall calculations for the EU-27, specific analyses for Italy, Croatia and Germany are also carried out, and the results are presented.

The concluding chapter summarises the effects of implementing the EPSR 2030 Scenario and provides an outlook beyond 2030.

## 2. The EPSR Action Plan's employment target

In March 2021, as its contribution to the *Porto Social Summit*, the European Commission presented an Action Plan to implement further the European Pillar of Social Rights (EPSR)<sup>8</sup> principles. The document sets out concrete actions and proposes three headline targets for the EU 27 to be achieved by 2030:

- At least 78% of people aged 20 to 64 should be in employment,
- At least 60% of all adults should participate in training every year, and
- The number of people at risk of poverty or social exclusion should be reduced by at least 15 million.

<sup>7</sup> The demographic data used in this study comes from the Ageing Report 2021, which is based on europop 2019.

<sup>8</sup> At the Social Summit for Fair Jobs and Growth in Gothenburg on 17 November 2017, the European Parliament, the Council, and the Commission jointly signed and proclaimed the European Pillar of Social Rights (EPSR). It sets out 20 key principles and rights to support fair and well-functioning labour markets and welfare systems. By proclaiming the EPSR, the EU institutions reaffirmed their commitment to work towards a fairer and more equal Europe. Since then, the Social Pillar is the guiding instrument for EU social policy and should be at the centre of the recovery strategy to ensure that the digital and green transitions, in the context of which the recovery will unfold, are just and fair.

The Action Plan also includes a proposal to revise the Social Scoreboard by updating and enlarging the previous set of indicators.

In May 2021, in its Porto Declaration, the European Council declared the Action Plan as helpful guidance for implementing the EPSR and welcomed both the headline targets and the revised Social Scoreboard.

The Action Plan's employment target and the subsequent national sub-targets<sup>9</sup> are important for this study. It should be noted, however, that all three headline targets are closely intertwined. The necessary improvement in education and training would significantly contribute to achieving the employment objective. Likewise, 'more and better jobs' would substantially reduce poverty.

### 78% employment rate by 2030

Building on an employment rate of 73.1% within the age group 20 to 64 in the base year 2019, the Action Plan sets a 78% target for 2030. In addition, the document lists three sub-goals:

- at least halve the gender employment gap compared to 2019 ("paramount to progress on gender equality and achieve the employment target for the entire working age population")
- increase the provision of formal early childhood education and care ("thus, contributing to better reconciliation between professional and private life and supporting stronger female labour market participation")
- decrease the rate of young people neither in employment, nor in education or training (NEETs) aged 15–29 from 12.6% in 2019 to 9% ("special attention needs to be devoted to young people ...")

In addition to women and young people, the Action Plan identifies some other groups needing better integration into the labour market, such as migrants, low-skilled, persons with disabilities and older people.

The Action Plan's emphasis on the cross-cutting objective of improving job quality further substantiates the employment target. "... focusing our policy efforts on quality job creation ... is essential to channel our resources where they are most needed" (p 9). "Reaching full employment will require not only a significant increase in labour market participation but also adequate working conditions underpinning quality jobs" (p 18).

<sup>9</sup> On 16 June 2022, EU Employment and Social Affairs Ministers presented their national targets. Combined, Member States' commitments set the EU firmly on the path to achieving or even exceeding (78.5%) the EU 78% employment target - see: EU Commission (2023) p 26

**Job quality – cross-cutting objective but no corresponding indicator**

The Action Plan rightly classifies the creation of quality jobs as a precondition of sustainable recovery: "As Europe moves from crisis response to recovery, more forward looking support to quality job creation and employment is necessary in order to build a sustainable path towards the 2030 employment target of 78%." (p 16).

Recently, the European Council, in its Decision on 21 November 2022<sup>10</sup>, has re-emphasised the importance of job quality for the Action Plan's 78% employment target, in its guidelines for the employment policy of the Member States: "Member States should ... facilitate and support investment in the creation of quality jobs ... in the light of the Union headline target for 2030 on employment" (Guideline 5).

Given such statements, it is difficult to understand why the 'Revised Social Scoreboard'<sup>11</sup> does not include any headline indicator that covers job quality. In its section 'Fair working conditions', there are four headline indicators: employment rate, unemployment rate, long-term unemployment rate and GDHI per capita growth.

Thus, only one headline Scoreboard indicator relates to employment, but even this one has no relation to the conditions under which work is carried out. Only a few secondary indicators have a connection with the quality of work, such as: 'share of involuntary temporary employees' or 'fatal accidents at work per 100,000 workers'. These are important, but they are related to specific problems and far from giving an overall picture. A composite job quality indicator that assesses the overall degree of employment quality is urgently needed and should be implemented as an additional headline indicator in the Social Scoreboard.<sup>12</sup>

Since, in essence, only quantitative calculations can be carried out within the framework of this study, it is of particular importance to highlight the cross-cutting goal of improving job quality. It is hoped that this crucial component of the 78% employment target will be given due consideration in its implementation.<sup>13</sup>

### 3. Demographic background<sup>14</sup>

In the context of this pension-related study, it is of particular interest to find out what contribution achieving the Action Plan's employment target would make to coping with demographic change.

Population ageing has been the key defining topic in the pension debate in EU Member States for many years. Almost all major pension reforms implemented over the past 30 years were justified to contain demographically induced cost increase and, thus, ensuring financial sustainability. Against the background of the increasing number of older people and increasing life expectancy, most countries opted for reducing the income replacement capacity of their pension schemes, restricting access to disability pensions and early

<sup>10</sup> European Council (2022)

<sup>11</sup> See Annex 2 to the EPSR Action Plan

<sup>12</sup> ETUI's Job Quality Index, created in 2008, could be used as a guide – see ETUI (2023a)

<sup>13</sup> More on the topic of job quality and its impact on pensions can be found in the accompanying SociAll study 'More inclusive labour markets for more adequate pensions – a key tool for achieving EPSR pension targets'.

<sup>14</sup> Unless otherwise noted, demographic data is taken from the 2021 Ageing Report.

retirement, and raising statutory retirement age. Despite fierce opposition from the trade unions, reforms were implemented at the expense of the workers.

Although other factors, such as the evolution of employment (see below), productivity growth (and its distribution), etc., may ultimately be more important for the long-term financial sustainability of pension systems, there is no doubt that demographic change is one of the critical challenges. Although population ageing is not a new phenomenon<sup>15</sup>, it is now gaining additional importance as the baby boomers are reaching retirement age.

However, it must be noted that demographic forecasts, like all other predictions that reach far into the future, have considerable uncertainties. To give an example: in Spain, 20 years ago, a total population of 39.5 million was predicted for the year 2020<sup>16</sup>, but the actual value is almost 20% higher. But despite uncertainty about its extent, derived from the current age structure, there is little doubt that there will be a significant ageing of the EU population.

In the context of pensions, two key figures are of particular importance for describing the ageing process:

- the proportion of older people in the total population (old-age ratio)
- the old-age to working-age ratio

### 3.1 The proportion of older people in total population

The proportion of older people in the total population (hereinafter referred to as 'old-age ratio') is usually defined as 'age group 65+ relative to the total population'.

In 2019 to 2030, which is the focus of this study, a robust increase of this ratio is expected, from 20.4% in 2019 to 24.4% in 2030 in the EU 27. Expressed as a percentage of the 2019 baseline, this represents a 20% increase. The highest increases are expected in Slovakia (+29.4%) and in Poland (+27.4%), the lowest in Sweden (+7%).

In the longer term, Eurostat's demographic projections suggest a further increase but much slower and with quite different developments from country to country. In some countries, such as Germany and Italy, the proportion of older people is expected to almost stagnate at a high level from 2040 onwards. From 2050 onwards, their proportion is likely to decline in several EU Member States (Czech Republic, Greece, Spain, Italy, Portugal, Slovenia).

Especially in the long term, a significant proportion of the expected increase in elderly people is accounted for by the age group aged 80 and over.

### 3.2 Old-age to working-age ratio

In pension discussion, the evolution of the 'old-age to working-age ratio', commonly defined as the number of people aged 65+ relative to those aged 20-64, receives even more attention than the development of the 'old-age ratio'.

<sup>15</sup> To give an example: In Germany, between 1950 and 2020, the number of people of working age (age group 20-64) relative to older people has diminished from 6.3:1 to 2.7:1 ([www.destatis.de](http://www.destatis.de))

<sup>16</sup> Economic Policy Committee (2001) - Table A7-1; EU Commission (2021a) - Table III.1.8



Note to the terminology: While the OECD, since its 2019 'Pensions at a Glance' edition, has switched to the correct designation demographic 'old-age to working-age ratio', the EU Commission in its 2021 Ageing Report still sticks to the wording 'old-age dependency ratio', a terminology susceptible for misinterpretation (refer to 4.3.3).

A look at the development over the last 60 years<sup>17</sup> shows that the shift towards the elderly is no new phenomenon. In 1960, the old-age to working-age ratio in today's EU countries ranged from 10% in Poland to 21% in France. 30 years later, in 1990, values were between 17% in Poland and Slovenia and 31% in Sweden. Currently, in 2020, values between 26.5%<sup>18</sup> in Ireland and Slovakia and 40% in Finland are recorded. This shows that the 'old-age to working-age ratio' has increased substantially in the last 60 years, albeit with vast differences from country to country.

Looking at the expected development until 2030 for EU 27 and the member states, table 2 shows both the Ageing Report's baseline values for 2019 and its projected values for 2030, listed together with the percentage changes.

**Table 1: Expected evolution of the 'old-age to working-age ratio' in the period 2019-2030 (ranking of countries by percentage increase)**

	EU	SK	LT	PL	LV	AT	SI	LU	NL	DE	HR	ES	PT	CY
2019	34.4	25.9	32.9	29.0	34.6	30.7	33.2	22.6	32.9	36.1	34.8	32.1	37.3	26.2
2030	43.1	35.9	45.4	38.9	45.7	40.3	43.5	29.6	42.4	46.4	44.5	40.9	47.2	33.0
Change %	+ 25.3	+ 38.6	+ 38.0	+ 34.1	+ 32.1	+ 31.3	+ 31.0	+ 31.0	+ 28.9	+ 28.5	+ 27.9	+ 27.4	+ 26.5	+ 26.0

	IE	BE	IT	FR	EL	DK	EE	FI	RO	BG	CZ	MT	HU	SE
2019	24.2	32.5	38.9	36.5	37.9	34.1	33.8	38.9	31.1	36.0	33.0	29.7	32.2	35.2
2030	30.3	40.5	48.0	44.9	46.1	41.4	40.9	46.8	37.1	42.7	38.6	34.4	36.6	38.4
Change %	+ 25.2	+ 24.6	+ 23.4	+ 23.0	+ 21.6	+ 21.4	+ 21.0	+ 20.3	+ 19.3	+ 18.6	+ 17.0	+ 15.8	+ 13.7	+ 9.1

Source: EU Commission (2021), Table III.1.62; own calculations

The increasing proportion of older people and the decreasing proportion of the 20 to 64 age group means that the 'old-age to working-age' ratio is rising more strongly than the 'old-age ratio'. Between 2019 and 2030, the EU average is expected to increase by 8.7 p.p., this represents a 25.3% increase. In the Member States, the rates of increase range from 38.6% in Slovakia to only 9.1% in Sweden.

In 2019, the highest 'old-age to working-age ratios' were recorded in Italy and Finland, the lowest in Luxembourg and Ireland. The EU average was 34.4%. In 2030, the highest ratios are expected in Italy and Portugal, and the lowest in Luxembourg and Ireland. The EU average is expected to be 43.1%.

<sup>17</sup> OECD (2021), Table 6.2. It should be noted that the UN data used by the OECD differ somewhat from the Eurostat data used in the Ageing Report.

<sup>18</sup> Luxembourg, with only 22%, is an outlier.



In the longer term, the Ageing Report's demographic forecast predicts a further increase. Yet, the 25% increase predicted in EU 27 in this decade is significantly higher than the expected later expansion rates, with +19% between 2030 and 2040, +11% between 2040 and 2050 and +4% between 2050 and 2060.

However, as explained in more detail below (section 5), the development of the 'old-age to working-age ratio' has only limited significance for the economically much more relevant development of the numerical relationship between benefit recipients and contributors, which is determined not only by demography but to a large extent also by the labour market.<sup>19</sup>

### **The lower the 'old-age to working-age ratio', the better for the economy?**

There is a widespread opinion that an 'old-age to working-age ratio' will have a negative impact on the economic performance of the countries concerned. However, the real-world realities are much more complex, as demonstrated above all by looking beyond the borders of the EU. Among OECD countries, there are currently two poles regarding the 'old-age to working-age ratio': on the one hand, Japan has a 52% ratio, a value that some EU countries will probably not exceed even in 2070. On the other hand, this ratio is currently only between 13% and 15% in countries such as Mexico and Turkey, which is even lower than in most European countries back in 1960. However, despite this supposedly much worse demographic position, economic performance in Japan is much higher than in the other two countries.

### **3.3 Life expectancy – significant disparities along socio-economic status**

Three determining factors for population change are birth rates, life expectancy and migration. In this study, the development of life expectancy and, especially, the remaining life expectancy of older people is of particular interest.

Since 1980, the EU life expectancy at age 65 has increased by an average of about one year per decade, with considerable variations from country to country. This is much less than is often claimed, where reference is usually made to the development of life expectancy from birth, even if this is much less important for pensions than the development of the remaining life expectancy of older people.

What is predicted for the coming decades? The Ageing Report's demographic projections for the 50 years up to 2070 are based on the assessment that the life expectancy of the 65-year-olds will see a further significant increase, both for men and women. For women, a rise between 3.8 years in France and Spain and 6.8 years in Romania is predicted. For men, the predictions range between 4.0 years in Sweden and 7.2 years in Bulgaria, Romania and Latvia.<sup>20 21</sup>

<sup>19</sup> Legal regulations, such as the inclusion or non-inclusion of certain groups of people in employment in social protection systems (and thus among benefit recipients or contributors), can also play an important role.

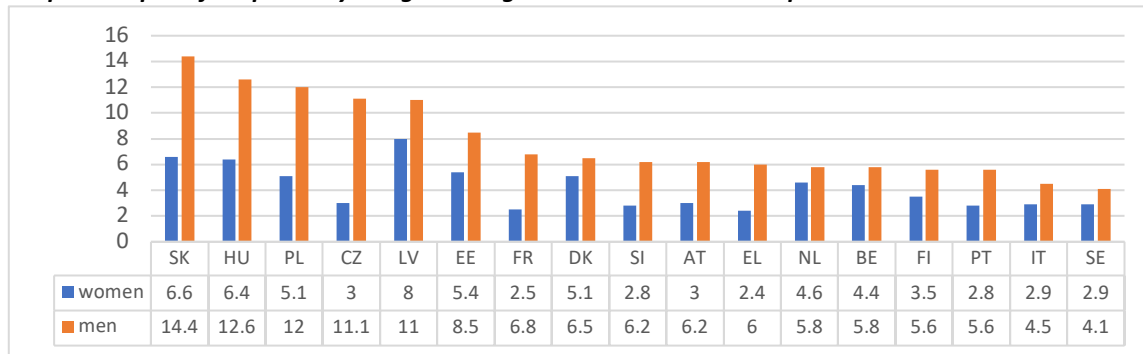
<sup>20</sup> EU Commission (2021a) Tables III.1.4 und III.1.5 (based on EUROPOP2019)

<sup>21</sup> It has to be noted that the long-term projections, on which the 2021 edition of the Ageing Report is based, date back to the pre-Corona period. Since then, remaining life expectancy from the age of 65 has fallen in almost all EU countries. Between 2019 and 2021, the remaining life expectancy of 65-year-olds in the EU-27 fell from 18.3 to 17.3 years for men and from 21.8 to 20.9 years for women (Eurostat 2023a). And even before the Corona crisis, a significant weakening of the previous increase was recorded. It remains to be seen what importance demographers will attach to the changed situation in their future mid- and long-term projections.

The figures given for the development of further life expectancy are average values. There is no doubt that these values are of great importance for developing the duration of pension payments and thus, for the cost of pensions. Still, they do not reveal something that unfortunately receives far too little attention in the pension debate: the fact that there are significant disparities in life expectancy depending on the socio-economic group to which someone belongs (and that increasing life expectancy does not necessarily imply an increase in the capacity of a person to remain in employment).

As shown in many studies<sup>22</sup>, enormous disparities result from education level, occupation or income. For example, OECD's 2019 edition of its 'Health at a Glance' report<sup>23</sup> points out that people with a low level of education have a significantly shorter life expectancy than academics. In several EU Member States (Slovakia, Hungary, Poland, Czech Republic, Latvia), 30-year-old men with low education can expect to live more than 10 (!) years less compared to men with tertiary education.

**Graph 1: Gap in life expectancy at age 30 - highest education level compared to the lowest level<sup>24</sup>**



Source: OECD (2019); own graph

The Eurostat's demographic data<sup>25</sup> also show shocking disparities. For example, in Slovakia, 50-year-old men with low education, on average, only have a remaining life expectancy of 18.4 years. This means that, on average, they don't even reach 70. In Hungary, Romania and Bulgaria, the average life expectancy of this group ends between the ages of 71 and 73. These figures clearly show strict limits to a general increase in the statutory retirement age beyond the age of 65 in response to demographic change if the principles of fairness are to be upheld.

#### 4. Employment rates – Action Plan targets versus Ageing Report projections

The Action Plan's 78% employment target refers to the 20-64 age group. The Plan rightly assumes that there is considerable potential for improving labour market integration within

<sup>22</sup> Mosquera et al (2019); Eurostat (2010)

<sup>23</sup> OECD (2019)

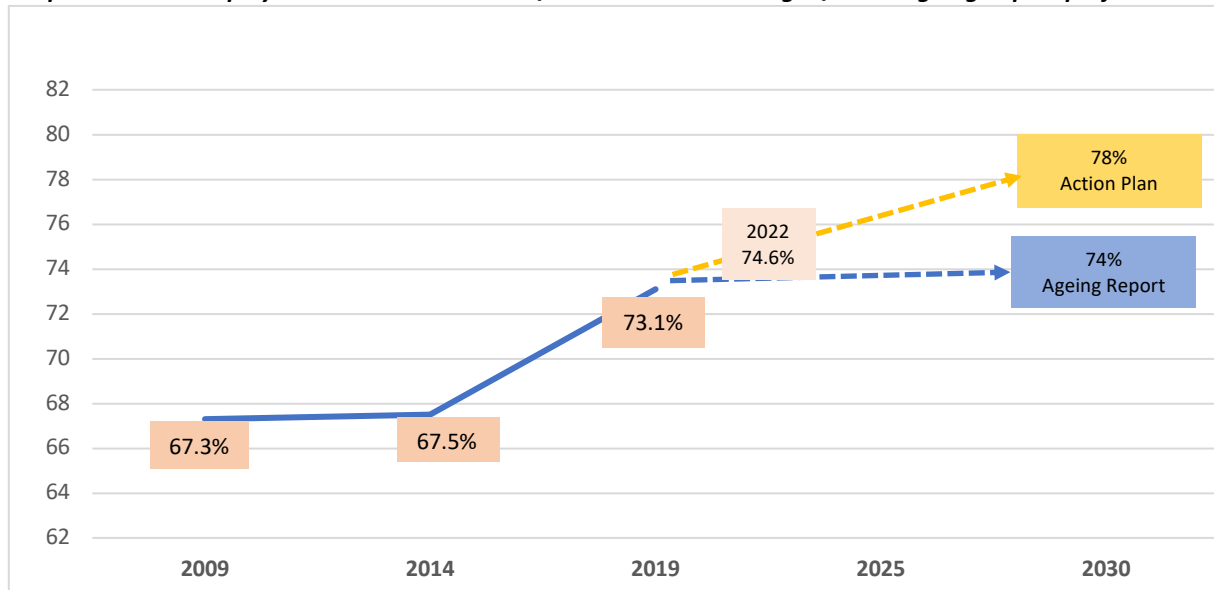
<sup>24</sup> OECD (2019), Lowest education level: ISCED 0-2. Highest education level: ISCED 6-8. Data from 2015-2017, except France, Belgium, Austria, Latvia – data from 2010-2012. Data for EU countries not listed in the graph are not reported by OECD.

<sup>25</sup> Eurostat (2023b), the last published values are from 2017

this age group in terms of the number of people in employment (reflected in the employment rate) and job quality.

Graph 2 shows the evolution of the employment rate in the 20-64 age group from 2009 to 2019, with a considerable increase from 2014 onwards. In addition, the graph compares the Action Plan's 2030 target with the Ageing Report's 2030 assumption. The Ageing Report assumes that the employment rate will be almost stagnant between 2019 and 2030 (with the assumed 2030 level already exceeded in 2022), while the Action Plan target is based on a somewhat weaker continuation of the trend given between 2014 and 2019.

**Graph 2: EU 27 - Employment rate 2009 to 2019 / 2030 Action Plan target / 2030 Ageing Report projection**

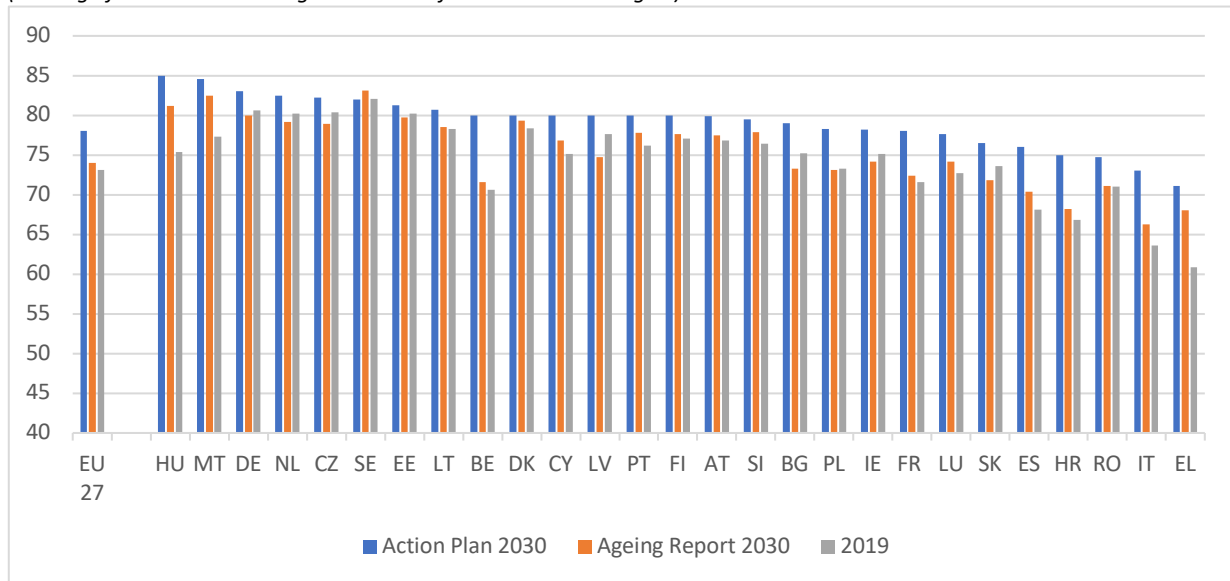


Data sources: Eurostat, Ageing Report 2021, EPSR Action Plan; own graph

In Graph 3, the EU 27 target and the associated national targets are compared with the baseline values in 2019 and those projected in the Ageing Report for 2030. All values vary considerably from country to country.

It should be noted that the figures given are based on Eurostat's broad definition of employment, according to which just 1 hour of work for pay in the reference week is sufficient to be counted as employment. Unfortunately, Eurostat's key employment rate indicator does not provide information on its composition, for example, the proportion of full-time, substantial part-time and marginal part-time.

**Graph 3: The Action Plan's employment rate targets within the age group 20 to 64 in comparison with the Ageing Report's 2030 assumptions and the 2019 baseline values**  
(ranking of countries according to the level of the Action Plan targets)



Data Sources: Ageing Report 2021; Action Plan - national targets (as of 16.6.2022); own graph

In 2019, only 73.1% of those aged between 20 and 64 were employed in EU 27. The lowest values were recorded in Greece and Italy, with 60.9% and 63.8%, respectively, and the highest in Germany and Sweden, with 80.6% and 82.1%.

Based on its 'no policy change' assumption, the Ageing Report predicts a small increase in the employment rates in most EU Member States by 2030, and a decline in nine countries. In EU 27, an increase of 0.9 p.p. is expected. The fact that already in 2022 - the first year after the Corona slumps - employment rates in EU 27 and 18 Member States were higher or the same as estimated in the Ageing Report for 2030 shows that its labour market forecast (which underlies all the Ageing Report's further calculations) is pessimistic. In all countries where the Ageing Report assumes declining employment rates up to 2030, there was an increase between 2019 and 2022, except in Latvia.<sup>26</sup>

Unsurprisingly, the different baselines from 2019 resulted in significant differences in the Action Plan's target values. The target values vary between 71% in Greece and 73% in Italy at the lower end and 85% in Hungary at the upper end.

Some surprising results are provided by comparing the Action Plan targets with the projections in the Ageing Report. Expressed in percentage points, the target value in Belgium is furthest above the Ageing Report's 2030 employment rate with + 8.4 p.p., followed by Croatia and Italy with + 6.8 p.p. and + 6.7 p.p. The lowest employment growth is in Denmark, with + 0.7 p.p. The Action Plan target value in Sweden is even 1.1 p.p. under the Ageing Report's 2030 forecast.

<sup>26</sup> Eurostat

## 5. EPSR 2030 Scenario

### 5.1 Key assumptions

The central assumption in what we call the 'EPSR 2030 Scenario' is that in EU 27, the 78% employment rate target in the age group 20 to 64 will be achieved by 2030. The calculation results are compared with the Ageing Report's 2030 forecast. As in the last edition of the Ageing Report, the 2019 values serve as the starting point.

For those aged 65 and over, the EPSR 2030 Scenario adopts the 2030 values of the Ageing Report without modification, which implies that no further increase in the statutory retirement ages is assumed.

As a first step towards attaining the 78% employment rate target, the EPSR 2030 Scenario assumes that the gender employment gap will be halved, differentiated by age groups in the range 25 to 64, by a corresponding increase in female employment rates. The remaining need for employment increases is derived from reducing unemployment across all ages with a focus on bringing down very high youth unemployment and increasing employment at the older working age, partly by assuming a reduction in high inactivity rates within this age group. Finally, a corresponding decrease in pensioners aged below 65 is assumed.

#### Unemployment (extended)

Based on ILO's/Eurostat's very narrow definition, only jobless people who fulfil strict searching and availability criteria are recorded as unemployed in official statistics. Thus, looking only at official unemployment rates does not give a complete picture of existing joblessness.

As in the long-term oriented predecessor study<sup>27</sup>, we therefore use an extended concept of unemployment for our analysis and calculations. In addition to the 'official' unemployed who appear as such in the statistics, jobless people registered in Eurostat's Labour Market Slack<sup>28</sup> are also included. These are persons 'available for work but not actively seeking' (referred to by Eurostat as the discouraged) and those 'seeking a job but not immediately available for work'.

Unless specified otherwise in the further calculations, a constant ratio between unemployment and 'extended unemployment' is assumed. Therefore, changes in the unemployment rate result in proportional changes in 'extended unemployment' (baseline 2019).

With the halving of the gender employment gap and a focus on reducing youth unemployment, thus the NEET rate, two key employment sub-goals of the Action Plan are addressed.

In addition, the Scenario calculations also consider, at least partly, the Action Plan's cross-cutting target of quality job creation by separating marginal part-time employment, usually

<sup>27</sup> ETUC SociAll (2021)

<sup>28</sup> See Eurostat (2023c)

defined as working less than 15 hours per week.<sup>29</sup> Marginal part-time employment does not fulfil quality criteria from various points of view, especially in the context of social protection and pensions, but are nevertheless put on an equal footing with other workers in the labour market statistics due to Eurostat's very broad definition of employment.

The EPSR 2030 Scenario assumes that, by 2030, the proportion of those in only marginal part-time employment can be reduced by about half, by sex and age groups between 20 and 64.

### Marginal part-time employment

The usual equation of marginal part-time employment with people working full-time or substantial part-time in employment statistics is highly problematic, both in terms of employment policy and from the point of view of social security systems. In almost all cases, working only a few hours per week generates an income that does not allow for a decent standard of living (EPSR principle 6) nor adequate social security protection, including pensions (EPSR principles 12 and 15).

To be assigned as a 'contributor', earnings should be sufficient to enable decent living through one's income, substantially contribute to financing pensions, and acquire significant pension entitlements. People in marginal part-time employment do not fulfil these criteria. Therefore, in the further calculations of 'economic dependency ratios', the number of employed is adjusted for the number of only marginal part-time employed.

The concrete forms of employment falling under the category 'marginal part-time employment' can be very different, such as 'on-call' work with only short real working hours in the Netherlands and in Denmark or so-called 'nur geringfügige Beschäftigung' in Germany. To give an idea of the prevalence of this form of employment: in a survey carried out by the ILO in 2015, the proportion of marginal part-time employees in the total number of employees aged 15+ was 12.7% in the Netherlands, 9% in Germany, and 3.3% in Italy, with the proportion of women being much higher than that of men in all countries.<sup>30</sup> Another study related to Denmark shows that 11% of the Danish workforce falls into this category.<sup>31</sup>

An analysis of data including information about the number of worked hours from EU's Labour Force Survey, carried out for this study, shows that in EU 27, in the age group 20 to 64, 3.5% of all people in employment work less than 15 hours per week (2019 value). The share of only marginal part-time employment among women (5,5%) is much higher than among men (1,7%). Among those aged 65 and over, who are not the focus of this study, the share of only marginal part-time employment is much higher.

## 5.2 Impact on the number of employed, unemployed, and pensioners.

Table 2 shows what impact the achievement of the EPSR 2030 Scenario would have on employment, unemployment and the number of pensioners aged below 65, both with the baseline values in 2019 and with the values expected in the Ageing Report in 2030. The

<sup>29</sup> See ILO [What are part-time and on-call work? \(ilo.org\)](https://www.ilo.org/gateway/topics/what-are-part-time-and-on-call-work/). The ILO distinguishes three types of part-time employment depending on the number of hours worked: substantial part-time (21-34 hours per week); short part-time (20 hours or less) and marginal part-time (fewer than 15 hours per week).

<sup>30</sup> ILO (2015)

<sup>31</sup> Mailand/Larsen (2018) - referring to Statistics Denmark, 2017

development of the number of people in employment shows the values with and without only marginal part-time employment.

The underlying demographic developments follow Eurostat's projections referred to in the Ageing Report.

For completeness, in addition to the values in the 20 to 64 age group that are the focus here, the values for the 65+ age group are also listed. As mentioned earlier, in this age group, the EPSR 2030 Scenario adopts the values from the Ageing Report without any change.

**Table 2 – EU 27 - People in employment (including/excluding marginal part-time) / unemployed / pensioners (EPSR 2030 Scenario in comparison to 2019 baseline values and 2030 Ageing report projections)**

		2019	2030 Ageing Report	2030 EPSR 2030 Scenario	2030/2019 Ageing Report	2030/2019 'EPSR 2030 Scenario'
Age group 20-64	People aged 20-64	265.0 m	253.5 m		-11.5 m	
	Employment rate	73.1%	74%	78%	+ 0.9 p.p.	+ 4.9 p.p.
	Employed	193.7 m	187.6 m	197.8 m	- 6.1 m	+ 4.1 m
	of which: not fewer than 15 hours/week	187.0 m	181.0 m*	194.2 m	- 5.9 m*	+ 7.2 m
	share of marginal part-time employment	3.5 %	3.5 %*	1.9 %	no change	- 1.6 p.p.
	Unemployed (extended)**	21.7 m	22.4 m**	15.8 m	+ 0.7 m	- 5.9 m
	Pensioners ***	25.6 m	22.6 m	18.9 m	- 3.0 m	- 6.7 m
Age group 65+	People aged 65+	91.3 m	109.4 m	109.4 m	+ 18.1 m	
	Employed	4.6 m	8.0 m	8.0 m	+ 3.4 m	
	Pensioners***	90.9 m	106.6 m	106.6 m	+ 15.7 m	

\* Constant proportion assumed (the Ageing Report does not include specifications referring to marginal part-time employment)

\*\* Including jobless persons 'available for work but not actively seeking' and those 'seeking a job but not immediately available for work'; Ageing Report 2030 value: constant proportion assumed

\*\*\* The values given in the table differ somewhat from the Ageing Report's number of pensioners since there are some inconsistencies in the numbers in the Ageing Report (as regards the distribution of pensioners into those under 65 and older in France and Austria)

The 2021 Ageing Report, with its pessimistic assessment of labour market developments, assumes a significant decline in the number of persons employed within the age group 20 to 64, to the extent of minus 6.1 million. As for the number of unemployed (extended), an increase of 0.7 million is expected. The number of pensioners under 65 is likely to fall by 3 million.

If the Action Plan's employment targets within the age group 20 to 64 are met and if it is achieved to nearly halve the proportion of those only marginally employed (EPSR 2030 Scenario)<sup>32</sup>, the development up to 2030 would be quite different, much better:

- + 7.2 million people in (more than marginal) employment
- 5.9 million unemployed (extended)
- 6.7 million pensioners aged below 65

<sup>32</sup> In the EPSR 2030 Scenario the share falls from 3.5 % in 2019 to 1.9 % in 2030 (age group 20 to 64)



Significantly improved employment integration among those of working age thus leads to many more people in employment on the one hand, and consequently to fewer jobless people and much fewer people in early retirement due to labour market shortcomings.

### 5.3 Impact on 'dependency' ratios

As shown in section 2.2. the demographic 'old-age to working-age ratio' is expected to deteriorate significantly, and mostly this will happen within the current decade. Unfortunately, the most promising response to this challenge, which is to increase employment rates with quality jobs and decrease the number of those in need of income replacement benefits within the age group 20 to 64, is often obscured because of inappropriate indicators.

#### 5.3.1 How to define economic dependency

When calculating economic dependence, contrary to what the leading indicators in use do, the focus must be on the economic status of the people and not on their age.

In the context of pensions (and of the general discussion on the sustainable financing of social benefits), the EU Commission's definition of the 'economic dependency ratio' in its White Paper on Pensions seems to be the most suitable when it contrasts people in need of income-replacement on the one hand and people who can provide the necessary funding by paying contributions or taxes from their earnings<sup>33</sup> on the other.

→ **"The real issue is the economic dependency ratio, defined as the unemployed and pensioners as a percentage of the employed." (White Paper, p 7)**

To reflect the economic realities as well as possible, we use the White Paper's definition to calculate the current state and the future development of economic dependency. For the calculation, we refer to the values shown in Table 2, and this means we relate unemployed (impacted) + pensioners (below and above age 65) to people in (more than marginal) employment.

#### 5.3.2 Impact on the 'economic dependency ratio' and other 'dependency' ratios

Against the background of extensive population ageing and its assumption of no further increase in the statutory retirement age, the EPSR 2030 Scenario's impact on the evolution of the 'economic dependency ratio' is likely to come as a surprise to many:

→ **Implementing the EPSR 2030 Scenario would reduce the 'economic dependency ratio' by almost 3% up to 2030, despite the expected 25% increase of the 'old-age to working-age ratio'.**

Table 3, in its first two rows, lists the values of the key 'dependency' indicators used in the Ageing Report. First, the 'old-age dependency ratio' is nothing more than the 'old-age to working-age ratio' (see 4.3.3.) The second row shows the Ageing Report's 'economic old-age

<sup>33</sup> Almost all pension systems in the EU countries are based on contributions, in many cases supplemented by financing from tax revenues, mainly to cover social compensation mechanisms.

dependency ratio' (see 4.3.4.), and the bottom row shows the 'economic dependency ratio' defined in the White Paper (an indicator not used in the Ageing Report). The values listed indicate how much the first two indicators obscure the positive effects of improving employment integration within those of working age.

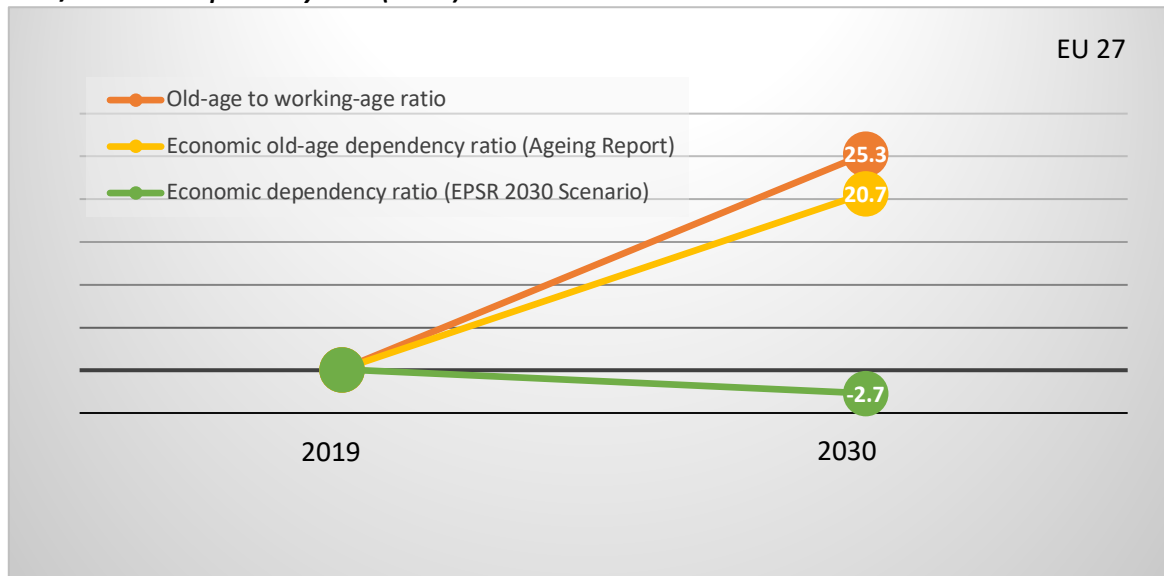
**Table 3: EU 27 - Development of 'dependency' ratios (EPSR 2030 Scenario / Ageing Report assumptions)**

	Definition	2019	2030 Ageing Report	2030 'EPSR 2030 Scenario'	2030/2019 Ageing Report	2030/2019 'EPSR 2030 Scenario'
Old-age dependency ratio (= old-age to working-age ratio)	People aged 65+ per 100 people aged 20-64	34.4	43.1		<b>+ 25.3 %</b>	
Economic old-age dependency ratio (20-64)	Inactive aged 65+ per 100 employed aged 20-64	44.8	54.0	51.2	<b>+ 20.7 %</b>	<b>+ 14.5 %</b>
Economic dependency ratio	Pensioners + unemployed per 100 people employed (15 hours+)	72.7*	81.2*	70.8	<b>+ 11.6 %*</b>	<b>- 2.7 %</b>

\*not reported in the Ageing Report (own calculations)

Graph 4 compares the expected development of the purely demographic 'old-age to working-age ratio', the development of the 'economic old-age dependency ratio' as assumed in the Ageing Report and the development of the 'economic dependency ratio' when implementing the EPSR 2030 Scenario.

**Graph 4: Development of 'dependency' ratios – old-age to working-age ratio/economic old-age dependency ratio/economic dependency ratio (EU 27)**



The graphical comparison shows how much more favourable economic dependency could develop than the 'dependency' ratios suggested in the Ageing Report. Implementing the EPSR 2030 Scenario would also have a huge positive impact in the long term. If it is realised, it is likely that even only 8% increase in the 'economic dependency ratio'

between 2019 and 2070 which was calculated in the long-term oriented predecessor study's<sup>34</sup> High Employment Scenario, could be significantly undercut.

### 5.3.3 Note to the 'old-age dependency ratio'

What the OECD correctly calls 'old-age to working-age ratio' since its 2019 'Pensions at a Glance' edition is referred to in the Commission's Ageing Report as 'old-age dependency ratio', a terminology susceptible to serious misinterpretation such as in the Commission's 'Report on the Impact of Ageing', published in 2020. The number of people of working age is erroneously equated with the number of people in employment, and the number of older people with the number of benefit recipients, a common mistake with enormous socio-political relevance as shown by an often-quoted statement in the Commission's 2021 Green Paper on Ageing: "... the EU old-age dependency ratio in 2040 would only remain at the same level as in 2020 if working life were extended to the age of 70". Based on the misconception that only the number of people of a given age group counts, but not their economic status, the drastic increase in the statutory retirement age ('extension of working life to the age of 70') is presented as the lever for stabilising the 'dependency' ratio.

Creating more and better jobs for people of working age and reducing the number of unemployed and the number of labour market-related early retirements made possible by this remains without any effect on this indicator, which is easy to explain. The indicator only refers to the size of age groups and thus only follows demographic change. The only way to change this indicator in a given demographic development is to shift the age limit between the two groups.

### 5.3.4 Note to the 'economic old-age dependency ratio'

The widespread use of inappropriate definitions of the 'economic dependency ratio', such as the so-called 'economic old-age dependency ratio' emphasised in the Ageing Report, is almost as problematic as the misinterpretation of purely demographic relations. "An important indicator to assess the impact of ageing on budgetary expenditure, particularly on its pension component, is the 'economic [old-age] dependency ratio'. This indicator expresses the inactive elderly population (+65) as a share of total employment (aged 20-64 or 20-74)."<sup>35</sup> However, what is referred to as the 'economic [old-age] dependency ratio' is, in fact, only a mixture of demographic and economic considerations. Not counting the unemployed or pensioners under the age of 65 automatically means that the future development of the number of people included in this indicator is essentially determined solely by the (sharply increasing) number of older people.

Thus, a large part of the positive effects of improved labour market integration among those of working age is ignored from the outset, that is, the reduction in the number of unemployed and early retirees within this age group made possible by this. The values in table 3 show this very clearly: the positive effects of the increase in the employment rate with its reduction of the 'economic dependency ratio' by 2.7% are obscured mainly in the so-called 'economic old-age dependency ratio' indicator with its increase by 14.5% even in the EPSR 2030 Scenario.

<sup>34</sup> ETUC SociAll (2021)

<sup>35</sup> EU Commission (2021a) p 38

## 5.4 EPSR 2030 Scenario: Impact on economic growth and public budgets

Turning the EPSR 2030 Scenario into reality would also have a substantial positive impact on economic growth and public finances. The significant increase in the volume of hours worked (resulting from increased employment rates and decreased proportion of only marginal part-time work) would lead to substantially higher GDP growth and thus greater scope for distribution. Even if productivity assumptions remain the same as in the Ageing Report 2021, additional growth of around 7% could be expected in the EU 27. If it is considered that better job quality would, in all likelihood, also generate an additional increase in productivity, the positive growth effect would be even higher.

Positive effects of a similar magnitude could also be expected on public revenues. In addition, public budgets would benefit from lower expenditure due to the reduced need for transfers in the areas of benefits for the unemployed and early retirement pensions. This would far outweigh the additional costs from the other pension entitlements acquired.

## 6. EPSR 2030 Scenario calculations for selected countries

Achieving the EU target of increasing the employment rate from 73.1% in the base year 2019 to 78% in the target year 2030 requires appropriate steps to be taken at a national level.

Hereunder, calculations for three countries are presented as examples to show the effects of achieving the national targets set in June 2022: Italy, Croatia, and Germany. All three countries are currently experiencing significant population ageing, with a sharp increase in older people and a declining number of people aged 20 to 64. In Croatia, the expected decline in the number of people of working age is significantly higher than the EU average. In Italy it is considerably lower and in Germany it is close to the average. The 2019 baseline employment rates are low in Italy and Croatia but much higher in Germany. The achievement of the national targets is ambitious in all three countries, including Germany, if the halving of the proportion of marginally part-time employment in the 20 to 64 age group presumed in our scenario is implemented.

The calculations for each of the three countries show that turning the EPSR 2030 Scenario into reality would have a huge positive impact on the labour market and, in a more indirect but very effective form, on pensions (see final chapter). Unsurprisingly, the effects are most substantial in countries with very poor baselines for employment rates, unemployment rates, gender employment gaps, etc. and national targets striving for significant improvements. However, there is also considerable room for improvement in other countries, especially by exploiting hidden potentials such as better labour market integration of those who have been marginally employed, as illustrated by calculations for Germany.

## 6.1 Italy

In Italy, between 2019 and 2030, a rather moderate 4.5% decrease in the number of people of working age and a sharp 18% increase in the age group 65+ are expected, leading to a massive 23.4% increase in the 'old-age to working-age ratio'.

However, the meagre baseline employment rate among 20 to 64 years olds of only 63.6% in 2019 with correspondingly high rates of unemployment (including a very high proportion of hidden unemployment) offers a huge potential to prevent ageing from harming economic dependency.

Italy: EPSR 2030 Scenario – impact on economic dependency

Building on the assumption that by 2030, the national 73% employment rate target within the 20 to 64 age group will be achieved in combination with a significant decrease in particularly high (extended) unemployment, our calculations show:

**Implementing the EPSR 2030 Scenario would reduce the 'economic dependency ratio' of 18.9%, despite the expected 23.4% increase in the 'old-age to working-age ratio'.**

The development of the Ageing Report's 'economic old-age dependency ratio' is expected to be plus 12.5% based on the labour market development assumed there and 2.3% assuming the implementation of the EPSR 2030 Scenario. The significant deviation from the 18.9% decline in the 'economic dependency ratio' is because this indicator does not consider the decline in the number of unemployed and pensioners under the age of 65.

In our calculations, to achieve the 73% target, which is 9.4 percentage points above the 2019 baseline, the following assumptions are made: as in the EPSR 2030 Scenario for EU 27, we first assume that the (particularly high) gender employment gaps will be halved, differentiated by age groups in the age range 25 to 64 with a corresponding increase in female employment rates. Then we assume a substantial decrease in the particularly high unemployment rates among people aged up to 34 and a 30% reduction in unemployment in the age group 35 to 64, accompanied by corresponding increases in the employment rates. In addition, a further rise in employment rates with a corresponding decrease in inactivity rates is assumed, mainly in the older age groups.

Since marginal part-time employment plays only a minor role in Italy in the age group 20 to 64 (1% of men, 4.5% of women), the reduction in the proportion of this form of employment made in the calculations only has a relatively small effect.

Compared to the 2030 values in the Ageing Report, the implementation of the EPSR 2030 Scenario would lead to 2.5 million more people in employment with at least 15 working hours per week within the age group 20 to 64 and 2.1 million fewer unemployed ('extended'). The number of pensioners under 65 would broadly correspond to the Ageing Report projection.

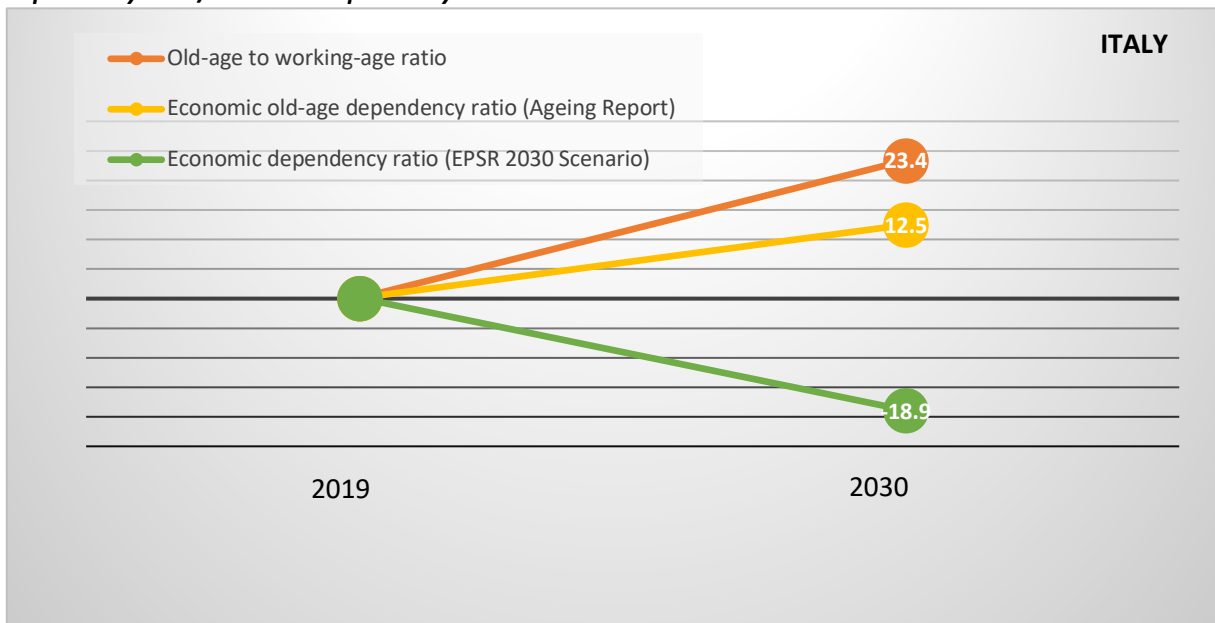
In the age group 65 and older, according to the definition of the EPSR 2030 Scenario, the Ageing Report assumptions remain unchanged. However, it should be noted that even if the high employment growth expected in the Ageing Report in this age group were much lower and the number of pensioners correspondingly higher, the 'economic dependency ratio' would fall significantly if the EPSR 2030 Scenario were implemented.

**Table 4: Italy – EPSR 2030 Scenario versus Ageing Report projections**

	2019	2030		2030/2019	
		Ageing Report	EPSR 2030 Scenario	Ageing Report	EPSR 2030 Scenario
Population aged 20-64	35.7 m	34.1 m		- 4.5%	
Population aged 65+	13.9 m	16.4 m		+ 18.0%	
Employment rate 20-64	63.6%	66.3%	73.0%	+ 2.7 p.p.	+ 9.4 p.p.
People in employment 20-64 (15 hours+)	22.1 m	22.0 m	24.5 m	- 0.1 m	+ 2.4 m
Unemployed (extended)	5.3 m	4.8 m	2.7 m	- 0.5 m	- 2.6 m
Pensioners aged below 65	2.1 m	1.7 m	1.7 m	- 0.4 m	- 0.4 m
People in employment 65+ (15 hours+)	0.5 m	1.4 m		+ 0.9 m	
Pensioners aged 65+	12.7 m	14.2 m		+ 1.5 m	
Old-age to working-age ratio (People aged 65+ per 100 aged 20-64)	38.9	48.0		<b>+23.4%</b>	
Economic old-age dependency ratio (Inactive 65+ per 100 employed 20-64)	58.5	65.8	59.9	<b>+ 12.5%</b>	+ 2.3%
Economic dependency ratio (Unemployed + pensioners per 100 employed/15 hours+)	89.0*	88.7*	72.2	- 0.3%*	<b>- 18.9%</b>

\*not reported in the Ageing Report

**Graph 5: Italy - Development of 'dependency' ratios – old-age to working-age ratio/economic old-age dependency ratio/economic dependency ratio**



## 6.2 Croatia

In Croatia, a massive increase in the 'old-age to working-age ratio' is expected this decade. This is because the number of people of working age is expected to fall sharply (- 11%), and in parallel, there is a considerable increase in the number of people aged 65 (+ 14.1%).

However, there is also an enormous potential for increasing employment within the working age. This potential is taken up in the national employment target of 75%, which is 8.2 percentage points above the baseline of only the 66.8% employment rate from 2019 and 6.8 percentage points above the value assumed in the Ageing Report for the year 2030.

Implementing the EPSR 2030 Scenario would prevent the massive decline in employment expected in the Ageing Report. Other than a 10% decline, the number of people in employment between 20 to 64 would remain roughly the same. On the other hand, a substantially higher number of people in employment would significantly reduce the number of unemployed and pensioners under the age of 65.

Croatia: EPSR 2030 Scenario – impact on economic dependency

At plus 27.9%, Croatia faces a massive increase in the 'old-age to working-age ratio' this decade. Because of its very pessimistic assessment of the development of the labour market, the Ageing Report expects an almost equal increase in what it calls the 'economic old-age dependency ratio', with an increase of 24.5%.

**However, if Croatia succeeds in implementing the EPSR 2030 Scenario, there would be a significant decrease in the 'economic dependency ratio', minus 8.7%.**

Due to its definitional exclusion of the positive effects on the number of unemployed and pensioners under 65, the Ageing Report's 'economic old-age dependency ratio' would still increase by 13.5% even if the EPSR 2030 Scenario were to be realised.

The Scenario calculation, in addition to its standard first step of halving the gender employment gap, envisages a massive reduction in unemployment and a corresponding increase in employment, especially among young people with high unemployment rates.

In the age group 35 to 64 a 25% reduction of unemployment is assumed. In addition, a further increase in employment and activity rates with a corresponding decrease in inactivity rates is assumed in these age groups, to a considerable extent, especially in the older age groups.

As a result, the Scenario calculations lead to a more pronounced decline in the number of pensioners under 65. However, even after the assumed reduction, the proportion of pensioners in the 55 to 64 age group remains relatively high compared to other countries. The number of unemployed is less than half, compared to the Ageing Report's 2030 assumption.

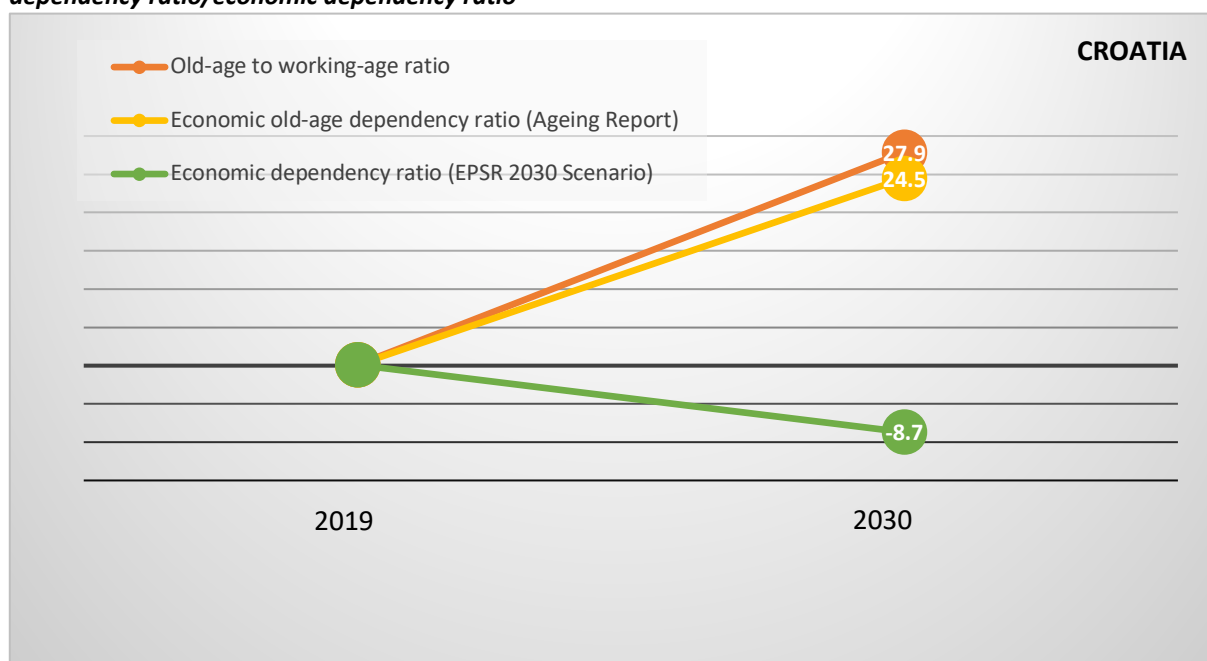


**Table 5: Croatia – EPSR 2030 Scenario versus Ageing Report projections**

	2019	2030		2030/2019	
		Ageing Report	EPSR 2030 Scenario	Ageing Report	EPSR 2030 Scenario
Population aged 20-64	2.43 m	2.17 m		- 11.0%	
Population aged 65+	0.85 m	0.97 m		+ 14.1%	
Old-age to working-age ratio (65+/20-64)	34.8	44.6		+ 28.2%	
Employment rate 20-64	66.8%	68.2%	75.0%	+ 1.4 p.p.	+ 8.2 p.p.
People in employment 20-64 (15 hours+)	1.63 m	1.48 m	1.62 m	- 0.14 m	nearly no change
Unemployed (extended)	0.23 m	0.25 m	0.11 m	+ 0.02 m	- 0.12 m
Pensioners aged below 65	0.33 m	0.22 m	0.19 m	- 0.11 m	- 0.14 m
People in employment 65+ (15 hours+)	0.02 m	0.03 m		+ 0.01 m	
Pensioners aged 65+	0.91 m	1.05 m		+ 0.14 m	
Old-age to working-age ratio (People aged 65+ per 100 aged 20-64)	34.8	44.5		<b>+ 27.9%</b>	
Economic old-age dependency ratio (Inactive 65+ per 100 employed 20-64)	50.6	63.0	57.5	<b>+ 24.5%</b>	+ 13.5%
Economic dependency ratio (Unemployed + pensioners per 100 employed/15 hours+)	89.5*	100.9*	81.7	+ 12.8%*	<b>-8.7%</b>

\*not reported in the Ageing Report

**Graph 6: Croatia - Development of 'dependency' ratios – old-age to working-age ratio/economic old-age dependency ratio/economic dependency ratio**



### 6.3 Germany

Germany is experiencing a solid increase in the 'old-age to working-age ratio' during this decade, with more than 28.4% in 2030. This sharp increase is due to the expected 7.4% decline in the number of people of working age on the one hand and the expected 18.9% increase in the number of people aged 65 and over on the other.

Unlike Italy and Croatia, Germany has relatively good 2019 baseline values in the official labour market statistics, with an employment rate of 80.6% within the age group 20 to 64 and low unemployment. However, the Ageing Report expects the employment rate to fall slightly to 80% by 2030.<sup>36</sup> The National Action Plan target is 83.0%, 2.4 percentage points above the 2019 baseline.

It should be noted, however, that Germany has a very high proportion of marginal part-time employment. Even among those of working age, women are particularly affected. In the EPSR 2030 Scenario, the overall 7.1% share of this type of employment in the age group 20 to 64 is reduced to 3.7%, meaning a significantly higher increase in more than marginal employment is required to achieve the 83% target. As the shares of only marginally employed people are exceptionally high among women and in the older age groups, a reduction to 3.7% requires a cut greater than 50% in some groups. Therefore, a more substantial reduction of the share among women of roughly two-thirds is assumed, reducing the massive disparities compared to men.

#### Germany: EPSR 2030 Scenario – Impact on Economic Dependency

Based on the expected massive ageing of the population and the pessimistic assessment of the development of the labour market, the Ageing Report expects an increase of 25.1% in its 'economic old-age dependency ratio'. In this indicator, even the implementation of the EPSR 2030 scenario shows a 20.7% increase due to its exclusion of the positive effects of a reduced number of unemployed and pensioners under 65 and the inclusion of only marginal part-time employed.

The total effect of implementing the EPSR 2030 Scenario becomes apparent when looking at the development of the 'economic dependency ratio', defined as the number of unemployed and pensioners (including those aged below 65) in relation to the number of people in (more than marginal) employment:

**Implementing the EPSR 2030 Scenario allows to limit the increase in the 'economic dependency ratio' to + 7.1% up to 2030. This means the increase of this ratio could be reduced to 1/3 of what the Ageing Report expects.**

In the Scenario calculations, additional employment is mainly taken from the increase in women's employment by halving gender employment gaps, and from higher employment within the age group 55 to 64 and corresponding decreases in inactivity rates. Starting from the low 2019 baseline unemployment rates in the official labour market statistics, no further

<sup>36</sup> This assessment is rather pessimistic as the employment rate in 2022 is 80.7%, despite the previous Corona slump (Eurostat, lfsi\_emp\_a)

decline is assumed. Still, in line with decreasing inactivity rates we assume a halving of the rather high proportion of hidden unemployment.

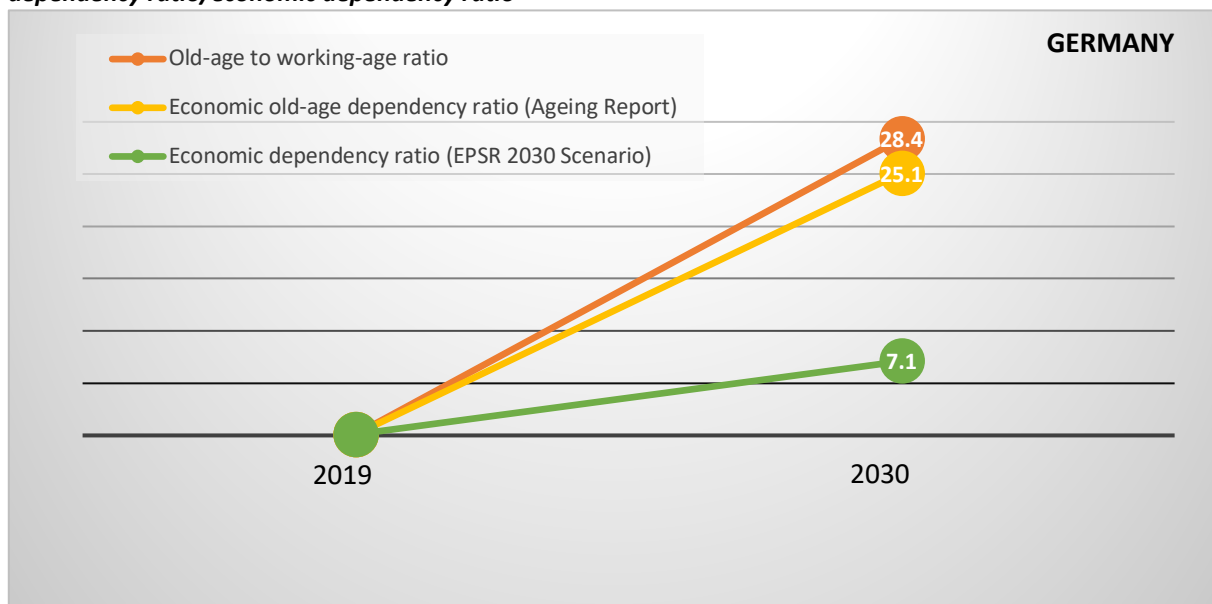
By implementing the EPSR 2030 Scenario, the number of people in (more than marginal) employment could be kept almost stable, with minus 0.5 million within the age group 20 to 64 compared to minus 3.1 million estimated in the Ageing Report. At the same time, the number of (extended) unemployed could be reduced by 0.6 million instead of 0.4 million, and the number of pensioners under 65 reduced by 0.8 million instead of 0.3 million.

**Table 6: Germany – EPSR 2030 Scenario versus Ageing Report projections**

	2019	2030		2030/2019	
		Ageing Report	EPSR 2030 Scenario	Ageing Report	EPSR 2030 Scenario
Population aged 20-64	49.8 m	46.1 m		- 7.4%	
Population aged 65+	18.0 m	21.4 m		+ 18.9%	
Employment rate 20-64	80.6%	80.0%	83.0%	- 0.6 p.p.	+ 2.4 p.p.
People in employment 20-64 (15 hours+)	37.3 m	34.2 m	36.8 m	- 3.1 m	- 0.5 m
Unemployed (extended)	2.2 m	2.6 m	1.6 m	+ 0.4 m	- 0.6 m
Pensioners aged below 65	3.1 m	2.8 m	2.2 m	- 0.3 m	- 0.8 m
People in employment 65+ (15 hours+)	0.6 m	1.0 m		+ 0.4 m	
Pensioners aged 65+	19.8 m	23.0 m		+ 3.2 m	
Old-age to working-age ratio (People aged 65+ per 100 aged 20-64)	36.1	46.4		+ 28.4%	
Economic old-age dependency ratio (Inactive 65+ per 100 employed 20-64)	41.9	52.4	50.6	+ 25.1%	+ 20.7%
Economic dependency ratio (Unemployed + pensioners per 100 employed/15 hours+)	66.2*	80.7*	70.9	+ 21.9%*	+ 7.1%

\*not reported in the Ageing Report

**Graph 7: Germany - Development of 'dependency' ratios – old-age to working-age ratio/economic old-age dependency ratio/economic dependency ratio**



## 7. Impact on Pensions

The calculations shown in the previous sections reveal the enormous positive effect that implementing the employment targets would have on developing the economic dependency ratio.

In this final chapter, we turn to the question of what impact the achievement of the EPSR 2030 Scenario would have on issues such as pension adequacy, retirement age, financial sustainability, and intergenerational solidarity.

### 7.1. Significant contribution to the achievement of the EPSR's pension targets

The EPSR's principle 15 stipulates that "everyone in old age has the right to resources that ensure living in dignity" and that both workers and the self-employed have "the right to a pension ... ensuring an adequate income". In 2019, the Council's "Recommendation on access to social protection for workers and the self-employed" provided a clarification of the term adequate income. *"Social protection is considered to be adequate when it allows individuals to uphold a decent standard of living, replace their income loss in a reasonable manner and live with dignity ..."*<sup>37</sup>

As the calculations of (overall) pension entitlements are closely linked to previous employment history in all EU countries, significant improvement in the employment integration of working-age people would significantly improve the pension entitlements of those affected. The greatest potential for improvement is among today's young people, who still have their entire working career ahead of them.

To give some examples of groups that, as a rule, would particularly benefit in their old age pension entitlements from achieving the employment targets (for a more in-depth analysis, see studies 2 and 3)

- Women: who interrupt their gainful employment for a more extended period due to a lack of support in caring for children or relatives in need of care<sup>38</sup>, whereby the disadvantages that a career break brings to future pension entitlement are often exacerbated by subsequent part-time periods or missed career opportunities. No pension system provides full compensation.
- Unemployed people: Most pension schemes offer only lower entitlements for periods of unemployment or even no entitlement at all, especially in the case of long-term unemployment.
- Persons with reduced work capacity: Improving working conditions and creating suitable jobs for people with reduced work capacity would put them in a much better position in retirement. Furthermore, many early retirements due to health could be reduced.
- NEETs: In the longer term, today's younger people would benefit most from more inclusive labour markets. They are the ones who still must go through most of the working life. Young people who spend long periods without education, employment or training (NEETs) are at high risk of finding

<sup>37</sup> EU Council (2019) – Recital 12

<sup>38</sup> Of course, these problems can also affect men, but this is much less often the case.

it difficult to access quality jobs with good pay, even at an older age.

- People of higher working age: More health protection, better working conditions and age-appropriate workplaces would allow many older workers to stay in work longer and acquire additional pension rights instead of accepting deductions due to earlier retirement.
- People in marginal part-time employment: As mentioned (chapter 4), people who are only marginally integrated into gainful employment usually acquire very little or no pension entitlements. Switching to quality jobs with longer working hours and good pay would significantly improve their pension rights.

Better pension entitlements for people who have so far been poorly integrated or not into the labour market would also significantly contribute to reducing old-age poverty.

## 7.2. Better alternative to further raising statutory retirement age

As already mentioned, the demands for a further massive increase in the statutory retirement age that have been made again and again are backed up by the alleged deterioration of the numerical relationship between benefit recipients and contributors. Our calculations make it clear that this deterioration can be counteracted in another way, notably through 'more and better' jobs for working-age people, as envisaged in the Action Plan. From a social and economic point of view, this is a much more promising strategy.

From a social point of view, it is imperative that a strategy of 'more and better' jobs addresses critical societal needs that go far beyond the elderly, with measures such as:

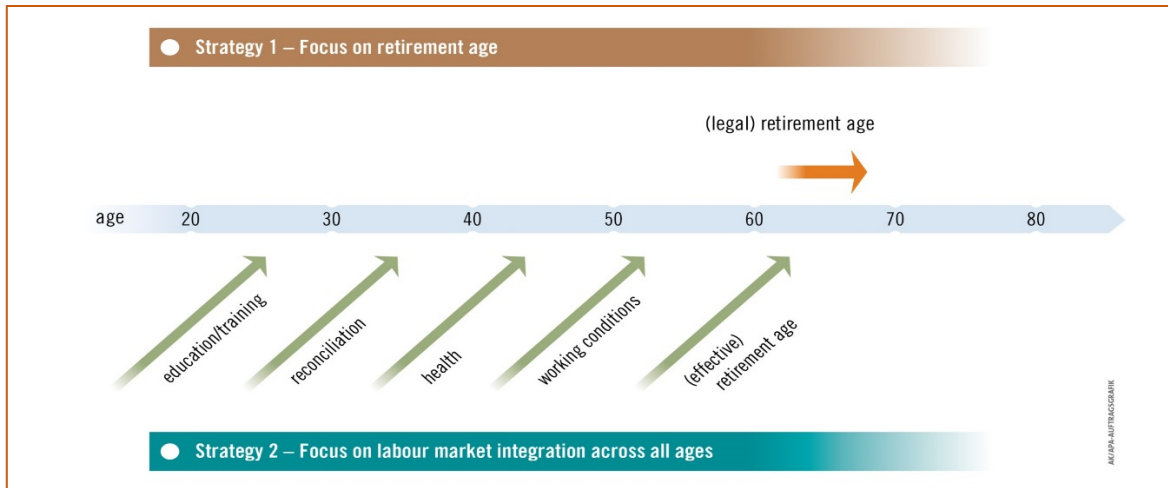
- Improvement of education and training
- Reduction of far too high unemployment, especially among young people
- Creation of equal opportunities for women in the labour market
- Improvement of working conditions and thus prevention of health-related early retirement
- Elimination of precarious forms of work

Thus, turning the Action Plan's employment targets into reality would significantly contribute to the achievement of the poverty reduction target not only among the elderly but also among those of working age.

From an economic point of view, too, such a strategy is much more efficient than focusing on preventing older people from retiring. For example, the fact that a far too high a proportion of young people are neither in education, employment or training not only creates current (and future) problems for those affected but also has a significant negative impact on the economy (unused labour potential, loss of purchasing power, etc.) and on public finances (need for social support, loss of tax revenues, etc.).

In Graph 8, the mainstream strategy of extending the statutory retirement age is contrasted with the Action Plan's focus on the improvement of the employment integration of those aged 20 to 64.

**Graph 8 – How to best respond to population ageing? Increasing statutory retirement age versus improving labour market integration across all ages**



### 7.3. Strengthening financial sustainability

The long-term calculations in the EU Ageing Report, updated every three years, are at the centre of attention for assessing the financial sustainability of pension systems at the EU level and in many Member States. However, there is some reason for caution.

- Despite considerable uncertainties about the probability of key "projections" (demographics, labour market, productivity), developing the GDP share of pension costs shown in the Ageing Report's baseline scenario serves as the financial framework for reform proposals across Europe.
- In the public debate, sustainability is often questioned regarding indicators highlighted in the Ageing Report that either ignore entirely or largely obscure the positive effects of improved labour integration (see Chapter 5)

The EPSR 2030 Scenario calculations demonstrate that achieving the employment targets would significantly increase the number of people in employment and, consequently, lead to a substantial increase of public revenue.

The additional costs due to the accrual of higher pension entitlements would be far outweighed by additional contributions and tax payments on the one hand and savings due to lower unemployment and the reduction of the number of early retirement pensions due to health reasons or labour market reasons on the other. Apart from this, improving the pension entitlements of people with hitherto poor integration into the labour market should be highly welcomed as an important step towards achieving pension adequacy goals.

### 7.4. Ensuring fairness and solidarity both within and between generations

Against the backdrop of rapid demographic change, fairness and solidarity are often discussed with reference to generations. However, it should not be overlooked that the probably more significant challenge is ensuring justice and solidarity within the respective generations. The

widening disintegration of rich and poor takes place mainly within generations. Creating more inclusive labour markets would be an essential step towards counteracting this.

That said, a few words about intergenerational fairness and solidarity: Societies in Europe are characterised by an underlying intergenerational social 'contract' based on the understanding that the prime age generation carries responsibility for the generation that preceded and the next one. As for pensions, this means: "The working generation of today assumes the responsibility of supporting today's retirees, under the supposition that it in turn will be supported by the subsequent generation of workers."<sup>39</sup>

What can we derive from the above demographic developments and the EPSR 2030 scenario?

- Significant population ageing requires an increasing share of GDP devoted to older people.

Unfortunately, this simple conclusion is not shared by everyone; not exceeding the current share of GDP is frequently put forward – at least implicitly – as the target to be pursued. Yet, "neglecting the impact of population ageing when setting fiscal sustainability goals raises fundamental questions of intergenerational unfairness at the expense of today's youth."<sup>40</sup>

- Making better use of existing employment potential within those of working age, as envisaged in the Action Plan, would not only improve younger peoples' financial and social position; beyond that, it would lead to a substantial increase in opportunities for the working generation to assume "the responsibility of supporting ... retirees".

## 8. Concluding remarks

It is to be hoped that the EU and the Member States will make the necessary efforts to achieve the employment targets they have set themselves. The EU funding through the Recovery and Resilience Facility, European Social Fund Plus, European Regional Development Fund and Just Transition Fund provide support for policy action. It is particularly important to focus on the creation of quality jobs.

"It is essential for society to tap into the potential of everyone, and to enable people to thrive in inclusive labour markets, by fostering high-quality jobs and gender equality, and by integrating migrants and disadvantaged groups." (EU Commission / High Level Group on the future of social protection and of the welfare state)

<sup>39</sup> Musgrave and Musgrave (1989)

<sup>40</sup> ETUC SociAll (2021b), p 28



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