Social Exclusion of Youth in Europe

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Published by Bristol University Press

Unt, Marge and Michael Gebel.
Social Exclusion of Youth in Europe: The Multifaceted Consequences of Labour Market Insecurity.

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Syntheses of long-term socio-economic consequences of insecure labour market positions for youth in Europe

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Introduction

As a result of the projected ageing of Europe’s population, the sustainability of public pensions has become one of the most important political issues in recent decades, because the number of pension recipients is increasing while the number of pension contributors is decreasing. Hence, the period over which pension recipients receive pension payouts is expected to increase in many OECD countries (Chomik and Whitehouse, 2010). Pay-as-you-go pension systems, which are common across Europe, face increasing difficulties in ensuring their current and future sustainability.

These difficulties were already acknowledged in a report published by the World Bank in 1994, entitled Averting the Old Age Crisis: Policies to Protect the Old and Promote Growth. Here, it was argued that in the face of ageing populations, three-pillar pension systems should be established that combine standard public pensions with additional savings into both occupational and private pension plans. Up to now, many European countries have established such three-pillar pension systems, though with significant cross-national variations in the relative importance of the three pillars. At the same time, the generosity of public pensions, which previously accounted for the ‘lion’s share’ of old-age income, has generally decreased – for example, by reducing the gross pension replacement rate and increasing the retirement age (OECD, 2013). With the implementation of the three-pillar pension model, responsibility for ensuring a sustainable income in old-age has been shifted increasingly away from public authorities and on to individuals. This creates intergenerational inequalities,
because — unlike today’s pensioners who still retire with good public pensions — almost all young Europeans will retire under the new three-pillar pension system (Ebbinghaus and Gronwold, 2011). Hence, reforms of public pensions will affect young people in particular who are increasingly expected to invest in occupational and private pension plans as early as possible to ensure their future old-age income (Hofäcker and Blossfeld, 2011).

At the same time, employment conditions have changed substantially for European youth whose employment paths have become increasingly insecure. Young people frequently experience long-term unemployment and are also disproportionately found in atypical employment such as fixed-term contracts, platform working, or (fake) self-employment in the gig economy, which often pays lower wages than those for the regularly employed (Rokicka et al, 2015). The impact of employment uncertainty is likely to decrease young people’s capacity to save for their old age. Because the employment path has become more unpredictable, young people may find it difficult to commit themselves to long-term binding financial investment plans that require continuous contributions.

Taking all these factors into account, young people in Europe will be increasingly dependent on additional income in old age due to the cuts to public pensions. However, the current labour market situation is making it increasingly difficult for them to save towards pension income (Hofäcker et al, 2017). In the long-term, employment uncertainties such as periods of fixed-term employment could accumulate into substantial pension gaps. This suggests a more negative view of atypical types of employment, which previous studies have shown to be less detrimental in the short term (Rokicka and Kłobuszewska, 2016) or to act potentially as a stepping stone to secure employment in the medium-term (Hofäcker, 2017).

Against this background, this chapter aims to systematically address the long-term socio-economic consequences of insecure labour market positions such as unemployment or atypical employment for future pension prospects, considering all three pension systems: public, occupational, and private. These long-term socio-economic consequences will be analysed from both demand- and supply-side perspectives. On the demand side, it will investigate how far young people are aware of the increasing need to invest in occupational and private pension plans together with their actual saving behaviour. Are young Europeans building up savings for old age and, if not, what prevents them from doing so? On the supply side, it will investigate how far young people — if interested — have access to such pension schemes and how they
treat periods of employment uncertainty with regard to their future pension entitlements.

This investigation employs a mixed-methods approach. The methodological approaches used will be presented separately for the demand and the supply side.

**Demand side**

For the demand-side perspective, quantitative data are taken from a Flash Eurobarometer of 2008 (European Commission, 2009) and the European Social Survey of 2006 (ESS Round 3, 2006). These include single indicators on savings behaviour, though with a focus on the overall population rather than on youth.\(^3\)

Furthermore, interviews were conducted with experts from different fields and professions in six EU countries (Estonia, Germany, Italy, Poland, Sweden, and the United Kingdom [UK]) as well as the Ukraine. The selected countries – drawn from EXCEPT member states – represent different types of welfare system: conservative (Germany), Southern European (Italy), liberal (UK), social-democratic (Sweden), and Eastern European (Estonia, Poland, and the Ukraine) (Esping-Andersen, 1990). These countries differ widely in their general welfare logic (Myles and Peirson, 2001) and in the structure of their three-pillar pension systems.

One of the main reasons for expert interviews was that although there are some data on public pension savings for youth, cross-national comparative evidence about occupational and private pension schemes is scarce. This is due not least to the fact that the structure and management of occupational and private pension plans differ widely among European countries and are also often based on individual negotiated contracts rather than ‘standard models’. Faced with this variety, experts can take the role of specialist ‘informants’ who possess specific knowledge about the structure and administrative process and procedures for these schemes (Gläser & Laudel, 2010). Expert interviews were used to provide a deeper insight into the reasons behind the savings behaviour of young people in all three pension pillars. In light of the relative importance of each pension pillar and the complexity of the national pension systems, at least three interviews were conducted per country.

**Quantitative results**

To investigate the importance attributed to savings by youth in Europe, Figure 14.1 displays results from a question included in a Flash
Eurobarometer study in 2008. This asked respondents: ‘thinking of the time when [they] retire, would [they] consider saving money or taking up insurance in case that [they] become dependent’, with the response categories ‘yes’ or ‘no’. Figure 14.1 shows the proportion of the full (non-retired) sample reporting individual readiness to save compared to respondents aged up to 39 years.

Results provide clear evidence of a high level of readiness to make additional savings among European youth, ranging from 80 to 90 per cent in countries such as France, Ireland, Luxembourg, and Sweden to between 50 and 60 per cent in some Eastern European countries (Bulgaria, Czech Republic, Estonia, and Latvia), but also the Netherlands and Cyprus. Notably, this readiness is often slightly higher among younger respondents than among the overall population. Despite their temporal distance from retirement, young people seem well aware of the need to make additional provision in a changing pensions landscape.

Figure 14.2 goes beyond the mere readiness to save by focusing on actual savings behaviour. Data originate from the third wave of the European Social Survey 2006 in which respondents were asked ‘are you currently saving or have … saved in the past specifically in order to live comfortably in your old age?’ The figure reports the percentage
of respondents making own savings, again contrasting young people (respondents aged up to 29 years) with the entire population.

In contrast to the readiness to save (see previous discussion), Figure 14.2 shows a clear gap in actual savings between younger people and the overall population. Overall, the proportion of people who save varies widely between around three quarters of the population in countries such as Austria, Denmark, the Netherlands, and Switzerland, and one third or less in a number of Eastern European countries. In contrast, less than half of young people effectively have savings, with particularly low levels in Eastern and Southern European countries. A more detailed breakdown of figures among youth (see Hofäcker et al, 2017) shows that savings behaviour is particularly low among young people in fixed-term employment, suggesting that it is not only their age, but also their insecure labour market situation that prevents young people from saving for the longer term. As other research such as Tosun et al (2019) has shown, young people may also be discouraged from further savings by their perceptions of their own financial situation which they view as being worse than that of the previous generation.

**Findings from expert interviews: financial literacy of youth**

Besides the delaying effect of insecure employment on pensions as reported previously, experts from different European countries indicated
that the financial literacy of youth – that is, their understanding of multi-pillar pension systems and their key characteristics – could be another factor that keeps young people from putting savings into occupational or private pension plans. Most interviewed experts claim that the financial literacy of young people in Europe seems to be low in general (see Moiso, 2017; Schadow, 2017; Stasiowski, 2017; Unt and Reiska, 2017).

‘It’s a problem that many people, especially young people – no matter which country you look at – are not well prepared to make financial decisions.’ (EXP02, Germany)

In particular, young people with a low level of education apparently face difficulties in making rational financial decisions because they often do not possess the necessary knowledge about pension systems.

‘I do not know if children in Poland are taught to save money [pause] I do not know if a lower secondary school graduate who goes to high school has any idea what the interest rate is on credit, how much it costs him to borrow like this [pause] why it is worth having some savings.’ (EXP03, Poland)

These findings are in line with those of other studies reporting low levels of financial literacy across the population as a whole (Lusardi and Mitchell, 2011b) and for young people in particular (Lusardi et al, 2010; Garg and Singh, 2018), and showing that financial literacy correlates highly with socio-demographic characteristics such as educational background (Lusardi and Mitchell, 2011b; Garg and Sigh, 2018).

Without doubt, increasing individual responsibility for one’s own pension provision and the associated investment in financial markets increase the importance of financial education (Lusardi and Mitchell, 2011a), especially when the market for pension plans is highly complex as in Germany, Italy, and Poland (Moiso, 2017; Schadow, 2017; Stasiowski, 2017). However, it is questionable how far financial literacy alone can improve the situation and lead to greater engagement in occupational or private pension savings plans. On the one hand, information provided about different occupational and private pension schemes is inconsistent, and this makes comparisons difficult even for the financially literate (for Germany, see Schadow, 2017). On the other hand, it is problematic to estimate the future development of global financial markets over a time horizon of about 30 or 40 years even for experts or rating agencies (Fachinger, 2018). Furthermore, financial
literacy can do little to improve the situation when the possibility of putting savings into additional pension programmes is limited by low and unpredictable income.

**Supply side**

Attention now shifts from young people’s understanding of the need for pension savings to the supply side – that is, the type of pension schemes offered to young people and how they treat employment uncertainties. In this respect, the initial focus will be on public pension systems that still make up the major pillar of pension income in European countries. To this end, stylised institutional data will be used from various cross-national databases such as the Mutual Information System on Social Protection in Europe (MISSOC, 2016) or the OECD Pension at a Glance Report (OECD, 2015). The analyses here consider existing regulations for the period 2014–15 whenever possible. For occupational and private pension schemes, again findings from the expert interviews were utilised (for the methodological approach, see earlier discussion).

**Characteristics of public pension systems**

One key characteristic of public pension systems is that they are in principle universal – that is, they cover the entire population of a country. In some countries, certain groups such as the self-employed, are exempt from public pensions and have their own old-age insurance schemes.

The following typology developed from the literature and data focuses on how employment uncertainties influence future pension outcomes. Pension systems are expected to be less ‘youth-friendly’ when periods of employment uncertainty effectively reduce the extent of pension rights, or when they endanger eligibility for pensions in general. Four dimensions regarded as key components of public pension systems are considered here (see Hofäcker et al, 2017: 42ff.): the assessment basis, the qualifying period, the treatment of periods of unemployment, and the treatment of periods of childcare. For each dimension, each national public pension system is classified as being either favourable for youth (3), partly favourable for youth (2), or unfavourable for youth (1).

- The **assessment basis** of a pension scheme reflects the calculations on which pensions are computed. As marginal cases, they can be based on either the amount or the length entirely decoupled from a contribution logic when a flat-rate basic pension is paid out. It
is assumed here that the stronger the logic of proportionality with contributions, the more negatively such systems will penalise youth with employment interruptions, lower wages, or less stable wages. Based on this assumption, one can classify countries in which pension systems depend solely on the level of previous contributions as being unfavourable (1), those in which means-tested minimum pensions are targeted at specific individuals as partly favourable (2), and those in which later benefits are not means-tested and entirely independent of previous working life as being favourable for youth (3).

• A pension’s **qualifying period** refers to the minimum requirement in contribution years to become eligible for a pension. It can be assumed that the higher the number of years required, the more difficult it will be for those with employment interruptions to reach eligibility. Again, countries can be clustered into three groups based on their actual distribution within Europe: those with a qualifying period of up to five years are considered as favourable for youth (3), those with a qualifying period of between six and 15 years as being partly favourable (2), and those with more than 15 years as being unfavourable (1).

• Whereas the previous dimension refers to the more general logic of pension systems, countries can also differ regarding how employment interruptions are treated as contribution periods when calculating pension benefits. The more comprehensive they are, the less disadvantageous they are to young people with discontinuous careers. On the one hand, this concerns **periods of unemployment**. Countries in which unemployment spells are not considered at all or are considered only for minimum pension entitlements are assumed to be the most disadvantageous for youth (1). Countries in which pension benefits are considered only for a first period of unemployment and/or are considered at a rate of up to 80 per cent of previous contributions are assumed to be partly favourable (2), whereas those in which pension benefits are paid continuously at higher rates are considered to be favourable (3).

• A similar approach is applied for **periods of childcare**. Countries that do not consider such interruptions when calculating pension benefits, that factor them in at 25% of normal contributions or less, or that restrict the consideration of such contributions to one year are considered unfavourable (1). Countries that consider childcare breaks for a period between one and three years are assumed to be partly favourable (2), and those that consider them for more than three years or consider them close to previous earnings are taken as being favourable (3).
Data from cross-national institutional databases were examined systematically and values for 2014–15 were assigned to countries based on the typology. Values for the single dimensions were then added up to form a composite unweighted index value (see Figure 14.3).

Figure 14.3 shows the respective results for European countries, reflecting both the overall index value as well as values for the single dimensions. It is clear that European countries vary substantially in their consideration of employment uncertainties for public pension benefits. On the one hand, in a number of mostly Central and Northern European countries (with the single exception of Malta as a Southern European country), various characteristics of the national pension system account for labour market uncertainties of youth positively, and this is reflected in high index values. In Denmark, for example, the basic pension shows no connection to previous earnings (score of 3 for assessment basis), and there is also no minimum number of years required for qualifying for a pension (score of 3 for qualifying period). Contributions for periods of unemployment and childcare are paid at up to double the amount of standard contributions (score of 3 for consideration of unemployment respectively childcare). In contrast, in a number of Eastern European countries in particular, the situation for young people facing employment uncertainty seems
to be particularly unfavourable with regard to their future public pension rights.

One possible drawback of the focus on institutional differences in considering employment uncertainties applied here without considering the actual incidence of such uncertainties, is that if employment uncertainties are not widespread, the outlined pension consequences may apply to only a small group of youth. However, further evidence shows that particularly in countries in which, for example, unemployment is accounted for comprehensively when calculating public pensions, youth unemployment rates are comparatively low with values roughly between 10 to 25 per cent (see Hofäcker et al, 2017). Vice versa, the highest unemployment rates are found particularly in countries where unemployment is accounted for least favourably (Hofäcker et al, 2017). This suggests a negative relationship between the consideration of unemployment uncertainties and their incidence among youth. In other words, in contexts in which youth unemployment is a major problem, unemployment will have severe consequences for young people’s income in later life because employment interruptions are not accounted for in pension calculations.

Findings from expert interviews

Public pensions

The findings in the previous section focused on the consideration of employment uncertainties for public pensions. In the following, this information is supplemented with evidence from the qualitative expert interviews. For virtually all countries in the sample, experts expected that the (gross) pension replacement rate would decrease in the future (see Merritt, 2017; Moiso, 2017; Schadow, 2017; Stasiowski, 2017; Unt and Reiska, 2017). At the same time, the retirement age is rising almost universally. The increase in potential contribution years, however, is likely to be “eaten up” (EXS01, Germany) by employment interruptions, particularly in countries in which periods of unemployment are not considered in calculating public pensions. In sum, these developments imply that young people will need to work longer to receive relatively less (Schadow and Kletzing, 2017). As occasional evidence suggests, however, youth are not always aware of this projected decrease (Stasiowski, 2017).

Experts also highlighted that there are still several groups that are not covered by mandatory insurance, particularly in flexible employment forms that apply disproportionately to youth. In some countries (in
the present set, Germany, Poland, Sweden, and the Ukraine), the *self-employed* are not mandatorily covered by public pensions or, where they have the possibility of voluntarily joining the scheme, can choose to reduce their contributions; an option that is used widely (see Choi, 2009; ifo Institute, 2015; Nikolaieva and Vakhitova, 2017; Schadow, 2017; Stasiowski, 2017; Strandh, 2017).

**Occupational pensions**

Expert interviews also allow an assessment of current trends in the second pillar – occupational pensions – and their implications for the future income of young people in old age. One main advantage of occupational pensions is that future pension rights are often co-financed by employers, thereby increasing the amount of pension payouts. In the UK, for example, employers often double the amount that employees contribute to occupational pensions.

‘A lot of employers do give more than the minimum. And often double what people put in up to a set amount. For example, if the employee puts in 2 per cent they will give 4 per cent. Usually up to 8 or 10 per cent.’ (EXP02, UK)

Occupational pensions are much more common in established welfare states (Germany, Italy, Sweden, and the UK), whereas in the relatively new welfare states of Eastern Europe (such as Estonia and Poland), such second-pillar pensions schemes do not exist or are of only minor importance.

Notably, when occupational pensions are not made mandatory, they frequently have only rather low coverage rates due to restrictive access conditions. The coverage rate of occupational pension plans is naturally limited, because they do not cover the *self-employed* or *unemployed*. Furthermore, even among the dependent employees, occupational pensions effectively apply only to those on regular work contracts, whereas the *atypically employed* are often not covered (Moiso, 2017). In Germany, occupational pensions have a wider coverage, but are frequently used as a human resource policy instrument and thus are often offered only to higher-skilled employees in internal labour markets (Schadow, 2017). Even in the UK in which an auto-enrolment into occupational pensions’ has recently been established for new working contracts, specific groups of employees such as those with *zero-hour contracts*, *low-waged* employees, or those on *fixed-term contracts* with a duration of less than three months are still excluded from
occupational pension plans, (see Merritt, 2017). Only in Sweden do occupational pensions cover about 90 per cent of Swedish employees. However, they are not common in the health sector in which many Swedish young people work nowadays (Strandh, 2017).

Pensions portability can be an issue for occupational pensions – that is, savings from these schemes are often not portable between sectors and employers internationally or even on a national level (Schadow, 2017). If the transfer of pension entitlements between different occupational pension schemes is possible, such transfers often have high transaction costs.

Furthermore, occupational pension plans are frequently connected to a minimum qualifying period. Particularly young people on fixed-term contracts may find it hard to fulfil the qualifying periods because of their frequent job mobility. This problem of portability could also affect successful and highly mobile young people who may accumulate savings in multiple occupational pension plans, yet with only low or no revenues (Hofäcker, Schadow and Kletzing, 2017). Furthermore, one main disadvantage of occupational pension plans is also that in contrast to public pensions, contributions cease during periods of unemployment or childcare, effectively punishing employment interruptions.

Even for young people enrolled in occupational pension plans, the effectiveness of savings in the second pillar to ensure a sustainable income in old-age has deteriorated dramatically since the financial crisis in 2008. Since then, many good schemes with high revenues – often defined benefits schemes in which revenues are guaranteed – have closed to new members (Merritt, 2017; Moiso, 2017; Schadow, 2017). Hence, young people in Europe face specific disadvantages in the second pillar, because their savings conditions are worse in comparison to those of older generations. As one expert strikingly put it:

‘Previously, there were more promises for occupational pensions and also higher promises.’ (EXP06, Germany)

**Private pensions**

Private pensions are individual investment accounts that are offered by insurance companies and based on individually negotiated contracts. In some countries, such plans are subsidised generously by tax benefits, as with the so-called ‘Riester Pension’ in Germany (Schadow, 2017). The expert group report that all countries had implemented third-pillar private pension plans and that there are explicit state subsidies
in Estonia, Germany, Italy, Poland, and the UK. In comparison to occupational pensions, there are no access conditions and virtually all individuals are advised to invest in such schemes to complement public pensions. The only exception is Sweden where private pension plans intended for some risk groups such as the self-employed or migrants, or for people who have frequent interruptions in their career due to unemployment or periods of childcare (Strandh, 2017).

One main finding from the expert interviews in all countries in which they were conducted is that the use of private pension plans seems to vary strongly with educational and financial background. In most countries, private pensions are used disproportionally frequently by high earners and higher educated people. Experts pointed out that the observed problems of distribution could arise from, on the one hand, the strong connection of private savings to individual resources. On the other hand, especially experts in Germany indicated that high earners will benefit more from tax benefits than low earners, because their tax load is particularly high (Schadow, 2017). But not only income and educational backgrounds seem to be a strong predictor of participation in private pension plans. Experts claimed that it is especially young people who do not often participate in such schemes (Moiso, 2017; Schadow, 2017; Stasiowski, 2017; Unt and Reiska, 2017). On the one hand, they claimed that young people normally have low wages at the beginning of their careers that naturally limit their ability to sacrifice some savings for pension products. On the other hand, retirement seems to be a remote topic.

‘The main problem we see in pensions with young people is that they are not interested in pensions when they are 18, 19, or in their 20s; they have other things they want to spend their money on, and retirement seems an awfully long way away and you sort of think, I’d rather go out and have a few beers tonight. It’s too far away to be of interest.’ (EXP02, UK)

Furthermore, particularly in well-established welfare states, the private pension market has reached a high level of complexity and increasingly lacks transparency (Merritt, 2017; Moiso, 2017; Schadow, 2017). Considering the generally low financial literacy of young people, it is nearly impossible for them to make rational investment decisions. As a consequence of this situation, if they join such a scheme at all, many young people simply join the first scheme they are offered by their consultants without comparing different pension products:
'You could say, they give themselves into the hands of the consultants. Do what you want with me.' (EXP04, Germany)

Particularly the young **unemployed** may not be able to pay contributions to private schemes. Even when private pension plans offer the possibility of lowering the contributions or pausing them, times of no or lower contributions will negatively affect future revenues from such schemes. For young people on **fixed-term contracts**, the assumption of continuous contributions could also be a barrier that may prevent them from committing themselves to long-term financial investments, because they also need their savings for transition times between working contracts.

‘To have a decent supplementary pension they have to have so much money [pause] that young people do not have! … if young people save in a pension fund, they will get their money back when they retire, while there are other products they can withdraw when needed.’ (EXP03, Italy)

Furthermore, in countries such as Estonia in which the poverty rate is high, private pension products will not ensure additional incomes for old age, because the potential of savings is low, which is why many people will not be covered by such schemes.

Like occupational pensions, private pension plans were hit hard by the financial crisis and that has dramatically reduced their effectiveness in ensuring future income in old age (Antolin and Stewart, 2009), because interest rates still have not recovered ten years after the crisis. Private pension products in Eastern Europe were particularly badly affected. In the Ukraine, the financial crisis has left the stock market for private pension products largely ‘dead’ (Nikoleiva and Vatikova, 2017).

**Policy recommendations**

From the previous discussions, it emerges almost unanimously that today’s youth is in a very difficult situation with regard to future pension outcomes. Up to now, none of the three pension pillars have adapted to employment flexibilisation and increasing labour market mobility. For youth in uncertain labour market positions, this means that it has become increasingly difficult to invest in savings for old age. Nevertheless, from our consideration of overall trends and single country results, some more general challenges and policy conclusions
can be derived that could help to improve the situation of young people in the future.

One basic problem for the future savings of young people is that the three pension pillars – even public pensions – do not in effect offer universal coverage. In order to protect ‘weaker groups’ of young people at the margins of or outside the labour market, public pensions should be reinforced to ensure they really are universal by including groups such as the self-employed or atypical workers in compulsory insurance schemes.

Another problem is that the overrepresentation of young people in atypical employment, especially at the beginning of their careers, leads to difficulties in accessing secondary and third-pillar schemes. Access conditions for both occupational and private pension schemes should be made more flexible for the self-employed or those in atypical employment as young people will need savings in all three pillars to provide a sustainable pension income in old age.

Restricted portability of different pension plans in cases of high job mobility was also identified as a major problem for youth. This may apply on either a national or international level, as national differences in pension systems can make the international transfer of pensions difficult. Thus, old-age savings problems arise not only for young people in precarious work situations but also for mobile and successful young people with sufficient earnings. Partly in response to this, the EU has recently proposed the Pan-European Personal Pension Product (PEPP), intended as a move towards solving the problem of portability. The major advantage of the PEPP product is that it represents an EU-wide pension plan with portable entitlements. Furthermore, the PEPP programme does not change with employment status. This ‘open access’ circumvents the problem of various existing private pension plans. Nevertheless, as already described at the beginning, it may well be that it is primarily successful young people who benefit from this new type of product.

However, the present findings strongly suggest that there is no one-size-fits-all solution for all countries. Especially for countries in Eastern Europe or some Southern European countries, different solutions have to be developed that take the country-specific context into account. The implementation and maintenance of a three-pillar pension system rests on specific requirements including stable labour market conditions, stable financial markets, low poverty and unemployment rates, and relatively stable political conditions. Those conditions are often not met in Eastern European countries, either because of high youth unemployment rates or limited budgets that make it difficult
for governments to support multi-pillar pension systems. This is particularly critical in the Ukraine (Nikoleiva and Vatikova, 2017). Enforcing pension privatisation could make their situation even worse, because transitions to funded pension systems frequently imply an increasing burden on government finances in the short to medium term (Orenstein, 2011). Case studies in Poland (Stasiowski, 2017) and the Ukraine (Nikoleiva and Vatikova, 2017) showed that in countries in which such systems were not securely established, the 2008-09 financial crisis further increased the burden of pension schemes on public finances. Under these conditions, stabilising the labour market and financial situation must take first priority before further reforms of the pension system.

For countries in which the aforementioned preconditions in terms of labour market conditions, financial markets and political conditions are fulfilled, the case studies suggest that there are at least two best-practice examples in countries which have reformed their pension systems in a way that makes them more sustainable with regards to old-age security for today’s youth: Sweden and the UK. Both countries have developed differential multi-pillar pension systems, yet both options rely on intrinsically different policy assumptions about responsibility for the maintenance of such a system.

In Sweden, the public pension system combines different types of pensions – universal and private – directly within the public pillar: the income-based pension system covers all employees and the self-employed. A quasi-private ‘premium pension’ is added, into which employees can invest 2.5 per cent of their taxable income. In this pillar, Swedes can choose to invest their money in five of more than 700 funds, including independent fund managers as well as one offered by the National Swedish pension fund (Strandh, 2017). Effectively, 90 per cent choose this ‘default’ option provided by the Swedish government (Barr, 2013: 78). A third subpillar is the ‘guaranteed’ pensions provided through the government as a minimum pension to those on low incomes. In addition to this differentiated public pillar, occupational pensions cover 90 per cent of the population, and are jointly governed through collective bargaining between unions and employers. The third pillar consists of private insurance and savings solutions, but its importance is clearly decreasing. Taken together, Sweden has differentiated its pension system into a multi-pillar system that includes public, occupational, and private components. Yet, the role of the state in the governance and administration of these funds has remained high. The offer of a private ‘default fund’ in the first pillar has reduced the complexity of choice that frequently overburdens
(young) individuals in their pension choices. The Swedish model thus combines sufficient security through a multi-pillar pension structure with state-based governance of pensions that facilitates young people making lasting decisions for security in their old age.

The UK’s pension system consists of three pillars: a public pension ensuring basic security through modest replacement rates, an occupational pension, and an additional private pension (Merritt, 2017). The peculiar feature of the UK pension system lies in the construction of the occupational pillar. The British government decided in 2017 that by 2018, every employer must automatically enrol its employees in an occupational pension plan, thus making second-pillar pensions available for larger groups of employees. Employers will make additional pension contributions supplementing those of their employees which will increase the amount of savings and spread responsibility to different actors. Young people are then ‘released’ from the sole burden of making long-term binding decisions for old age that are particularly hard to take under conditions of labour market uncertainty (Hofäcker et al., 2017). Individuals can ‘opt out’ of this occupational pension system, but have to do this deliberately. The coverage of this pension pillar had risen to 84 per cent of eligible employees in 2017 (DWP, 2018), whereas opt out rates have remained modest with little difference according to salary (DWP, 2014). The ‘default’ occupational pension equally secures more and differentiated savings for young people in an insecure labour market. Yet, unlike Sweden, the key responsibility has shifted more toward the free market of employer–employee negotiations on occupational pensions and individual deliberation about investing in such schemes rather than relying primarily on state governance.

Yet, even in these two policy models, a relative disadvantage remains for weaker groups of young people in both the UK and Sweden (Hofäcker et al., 2017). This may result from one of the main problems of funded pension provisions, because the tight link between pension payouts and paid contributions tends to discriminate against people in weaker labour market positions. Thus, funded pension provisions always involve problems concerning social inequalities that they do not and cannot compensate adequately, thus making the future of old-age security one of the most important social issues faced today.

Notes

1. This chapter presents a synthesis of results from the analysis of long-term socio-economic consequences of insecure employment. More detailed information is available in Hofäcker et al (2017).
Though it may be interesting to look at further long-term outcomes of employment uncertainty – on, for example, career progression, acquisition of poverty, or physical or mental health – this chapter is restricted to an analysis of the consequences within different types of pension systems. This is either because these aspects have been covered in other parts of the EXCEPT project (physical/mental health) or are very difficult to trace empirically given their large variation across countries (property ownership or firms, career patterns).

It was necessary to go back to this older data as a rough proxy, because, up to now, hardly any cross-national comparative data are available on young people’s savings behaviour apart from some national studies such as the German SAVE study (Börsch-Supan et al, 2009). Furthermore, these focus mainly on the general attitudes of populations towards pension systems and their legitimacy (for example Bechert and Quandt, 2010).

The item was asked as part of a larger item battery focusing on post-retirement behaviour without a clear temporal focus on the proposed behaviour. This makes it somewhat difficult to link the item directly to the current individual savings behaviour of non-employed persons. Yet, in the absence of alternative indicators, this item is used in the following as a rough proxy indicator of the importance attributed to savings for old age going beyond mere pension savings.

Given small sample sizes on the national level, the age window had to be opened up to 39 years.

Higher sample sizes allowed the use of a narrower age bracket for this indicator.

The auto-enrolment rule was implemented in 2017. Since 2018, all employees over 22 years of age are automatically enrolled in an occupational pension scheme. Employees can also decide to opt out within 30 days (for more detailed information, see Merritt, 2017).

The ‘Riester Pension’ is a specific state-subsidised private pension plan with tax benefits. The state funding consists of supplements from the state (€178 from 2018 on per year for each contract and €300 per year for every child born from 2008) and tax benefits (the contributions to the Riester Pension are tax free). Taxes have to be paid on pension payouts from private pension plans in retirement. To receive the full state funding, people should invest 4% of their yearly gross income, otherwise the state funding will decrease according to the amount of investment.

However, previous results were based on the extrapolation of existing standards and trends in contemporary pension systems. Naturally, these standards are not necessarily stable, so there is also the opportunity for changes that could improve the socio-economic situation for youth (Hofäcker et al, 2017).


This group includes employees who are over 22 and under state pension age and earn more than £10,000 a year (Merritt, 2017: 69).

However, a sizeable number of young people will not be covered by this reform, because they are self-employed or on zero-hour contracts which are both still largely excluded from occupational pensions.

References


