

CONSEQUENCES OF CURRENT LABOUR MARKET RISKS FOR FUTURE PENSIONS:

How to Ensure an Adequate Old-Age Income for Young Europeans

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Executive Summary

Insecurities created by the changes in the labour market affect young Europeans profoundly. For example, temporary employment, repeated periods of non-employment and new forms of works, such as, solo-self-employment, are more common among today's youth than older generations, resulting in a weakening of labour market attachment from beginning of the work life. At the same time, public pension reforms, most of which still rely on schemes that grant full pension benefits only for continuous full-time employment throughout the working life, diminish the generosity of future pension benefits. Young people are thus increasingly expected to save more for their retirement while they are less able to do so. Political action is therefore needed to guarantee adequate old-age income for young Europeans.

Key Messages and Recommendations

Challenge: Rising labour market uncertainties undermine young Europeans' ability to save for their retirement, while current trends in pension policy reforms increasingly expect them to do so. This poses a great challenge in ensuring adequate old-age income for today's youth.

Recommendation 1: Research should closely and continuously monitor short-term developments in young people's labour market situation

Recommendation 2: Policy makers should promote financial resilience by either promoting stable employment or by financially buffering the risks associated with flexible types of employment.

Recommendation 3: Contemporary pensions systems need to be reformed to ensure sufficient minimum contribution levels, even in cases of unemployment or other employment interruptions. Furthermore, they need to be more sensitive to new work forms and consider them adequately in the calculation of pension benefits

Recommendation 4: Policies should aim at improving the conditions of the most vulnerable labour market groups, for example, through the promotion of better educational opportunities for the lower educated.

Context

Unlike their predecessors, young people in Europe have been hit by a worsening of the labour market situation in recent decades. First, they face difficulties in entering national labour markets. Figure 1 illustrates this situation by the so-called “NEET rate” – percentage of young people who are “Not in Education, Employment, or Training”. There is a significant proportion of young people who are no longer in education, but have not yet entered the labour market, particularly in Southern Europe.

Second, even when young people can enter employment, they often find it hard to establish permanent employment. Under the pressures of globalisation, employers tend to shift flexibility demands particularly on youth entering the labour market, for example through non-permanent employment. Today, more than 40 percent of youth in Europe have only fixed-term contracts (see Figure 2), again particularly in Southern Europe. While for some, such jobs may serve as a “steppingstone” into permanent employment, many have become “trapped” in such non-permanent work, which is often also connected with lower pay and little or no contribution towards social insurance.

Previous research has mostly investigated the immediate effects of the precarious labour market situation of young peoples’ living conditions. This research fills a gap by paying attention to the implications of youth’s current labour market insecurities in the long run, as in on their pension rights and savings for the future. This is a crucial issue, given that most public pension schemes have been designed to grant full and adequate pension benefits to those with continuous, mainly full-time employment throughout their working life. Increasing employment uncertainties undermine this principle and thereby make it harder for today’s youth to accumulate sufficient benefits from public pensions.

At the same time, recent cuts in public

pension generosity and a growing prominence of private pension savings increasingly pressure youth to secure their old-age income through additional investments in private or workplace pension programmes. Particularly youth in unstable employment are likely to face disadvantages in making such savings, given their lack of sufficient and reliable income. In brief, this creates a paradox where youth are increasingly expected to save more for future pensions while they are less able to do so.

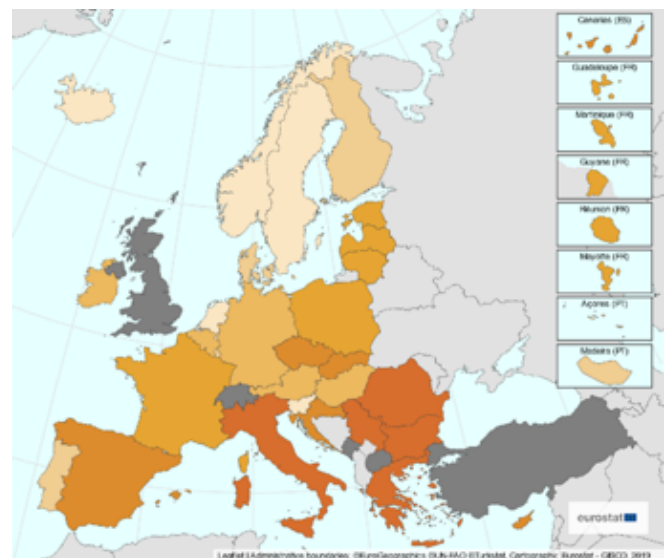


Figure 1: Young people neither in employment nor in education and training (NEET rates) in %, 2019

Source: Eurostat Database [[EDAT_LFSE_21]

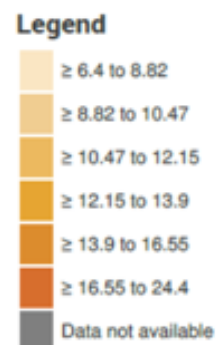
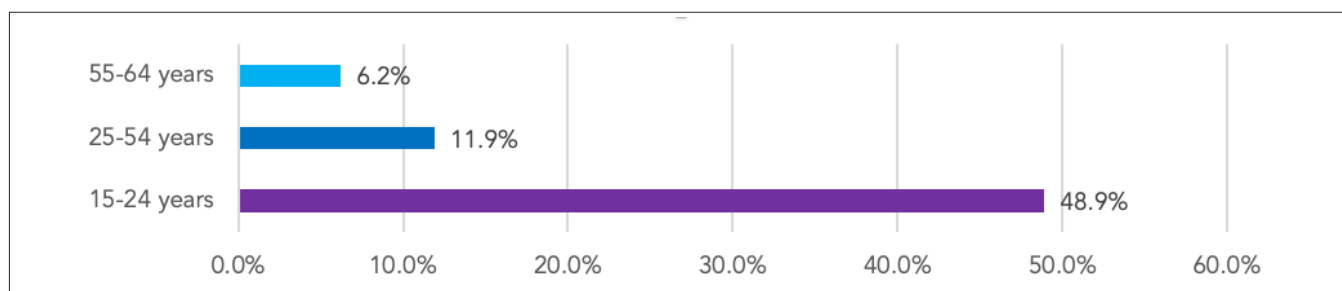


Figure 2: Relative share of fixed-term employment in %, per age group (2021)



Source: Eurostat Database

The Study: Results and Recommendations

Drawing on collaborative research of 15 international expert scholars, the edited volume “Youth Employment Insecurity and Pension Adequacy” (Edward Elgar, March 2023) provides in-depth and comparative evidence on the long-term consequences of labour market insecurities of today’s youth on pension adequacy. The book covers a variety of labour market risks and career interruption types for youth and how pension systems cushion or reinforce those risks in relation to future pension provision. Furthermore, it analyses attitudes towards private pensions and retirement saving behaviour of young people. The following key findings and related policy recommendations can be summarized based on this unique collaborative effort.

“The EU should continue to support national efforts to ensure adequate pensions, [...] by promoting gender equality in pensions and pension credits for care-related career breaks. Initiatives aimed to improve equality and income protection during working life, [...] as well as promoting youth employment and longer working lives can help today’s workers accumulate adequate pensions.”

[Pension Adequacy Report 2021, European Commission and Social Protection Committee]



Recommendations

Recommendation 1: **Alleviate the negative effects of non-employment in pension accrual**

Our research shows that unemployment – particularly when experienced early in career – can have severe consequences for future pension savings. Due to insufficient consideration in benefit calculations, it reduces young people’s entitlements in mandatory public pensions, and prevents them from investing in additional pension savings. Similarly, employment interruptions due to caring responsibilities for family members have been shown to reduce pension pay-outs. Contemporary pension systems thus need to be reformed to ensure sufficient minimum contribution levels, even in cases of unemployment or other reasons for employment interruptions.

Recommendation 2: **Extend the coverage of pension systems to better include atypical work forms**

Findings reveal that not only unemployment, but also being in atypical and precarious jobs can harm younger people’s future pensions. Even though public pensions partly consider their employment situation, there remain considerable gaps in the coverage of newly emerging work forms, such as platform work or zero-hour contracts. These are usually either partially or completely not covered by public pensions and thus frequently result in future pension gaps. With its increasing importance among youth, solo-self-employment includes similar problems, as it often relates to higher risks of future old-age poverty. Particularly, public pension systems will need to be more sensitive to such new work forms and consider them adequately in the calculation of pension benefits.

Recommendation 3: **Monitor short-term developments in young people’s labour market situation**

Developments in the last decades have shown that employment forms of young people have been in constant flux, given the frequent emergence of unprecedented new work forms. As a kind of “early-warning system,” future labour market research should closely and continuously monitor such developments to adequately and timely inform policymakers about necessary adaptations in labour market and pension policies.

Recommendation 4: Ensure “financial resilience” of young people through adequate labour market policies

Findings from the research show that young people’s ability and motivation to save for later are dependent on the subjective feeling of being “secure” or “financially resilient”. To promote adequate savings among youth for future pensions, policymakers should promote financial resilience by either guaranteeing stable employment through better legal protection or by financially buffering the risks associated with flexible types of employment. At the same time, young people will need to be supported in their often-difficult pension decisions by public measures to increase their knowledge about available pension options.

Recommendation 5: Create targeted programmes for the most vulnerable groups

Various results from the research show that pension problems particularly affect the most vulnerable groups within society, for example those with only basic education. The solution to young people’s future pension problems thus not only lies in general pension and labour market policies, but also in addressing the needs of specific populations. As such, targeted programmes for disadvantaged groups such as the promotion of better educational opportunities for the lower educated, need to be provided to reduce competitive disadvantage.

More information

This policy brief is based on edited volume by Dirk Hofäcker & Kati Kuitto (Eds.): Youth Employment Insecurity and Pension Adequacy, Cheltenham: Edward Elgar, forthcoming in Spring 2023.

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Policy Paper No.1 GENDER INEQUALITIES IN BECOMING A PARENT: How to Increase Gender Equality in Work-Family Balance

Policy Paper No. 2 CONSEQUENCES OF CURRENT LABOUR MARKET RISKS FOR FUTURE PENSIONS: How to Ensure an Adequate Old-Age Income for Young Europeans

Policy Paper No. 3 YOUTH WELLBEING DURING CRISES: How to Improve Young People's Resilience Through Civic Engagement

Policy Paper No. 4 REDUCING NEET RATE: How to Compose Efficient Policy Packages

Policy Paper No. 5 GENDER GAP IN CONFIDENCE TO GET INVOLVED IN POLITICS: How to Reduce It by Making Citizenship Education Inclusive

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