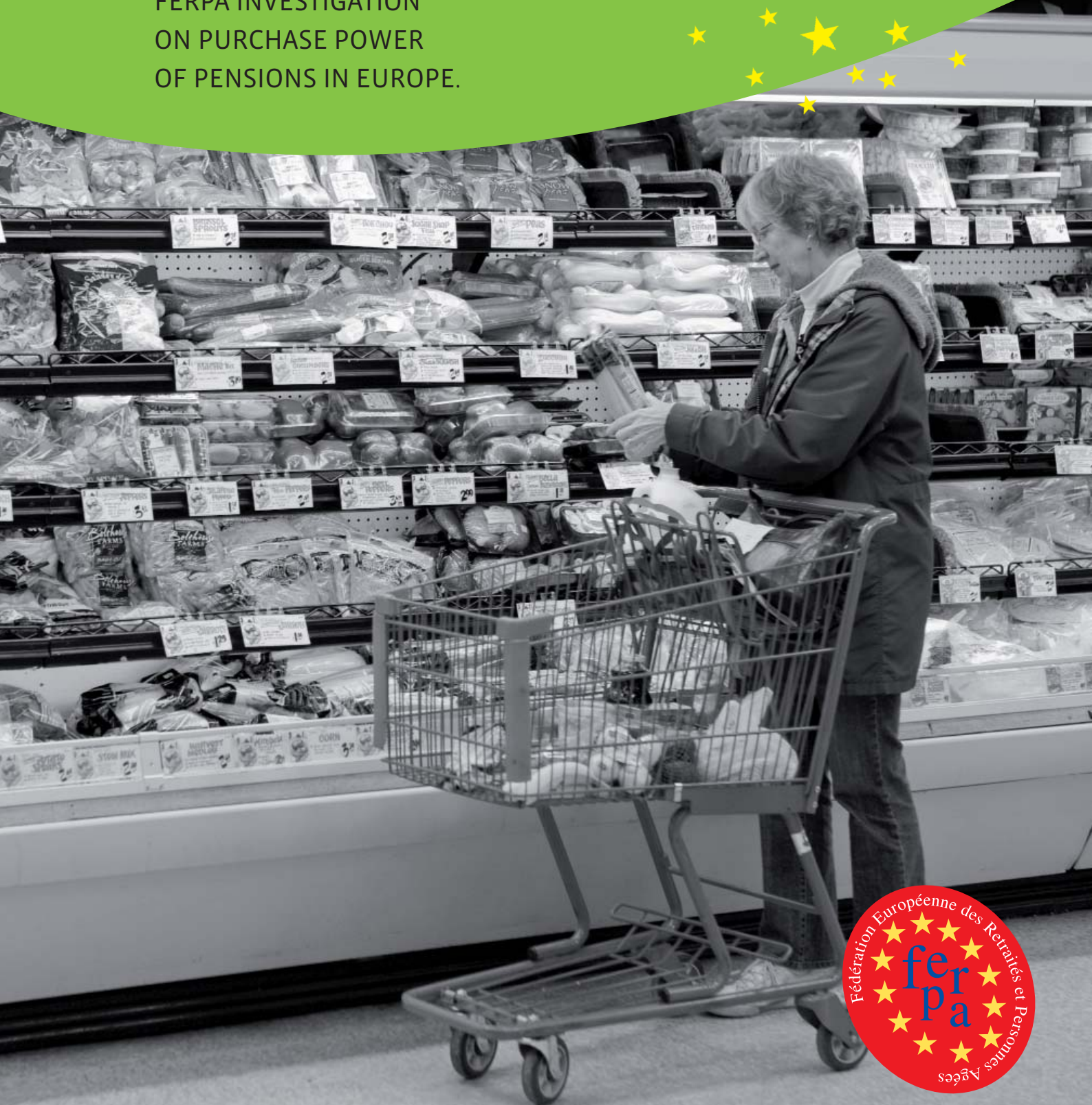


Living in Europe as a pensioner How much does it cost?

FERPA INVESTIGATION
ON PURCHASE POWER
OF PENSIONS IN EUROPE.





with the collaboration of Marco Cilento

March 2009, Brussels



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Introduction

A year after a previous publication entitled *“The Purchasing Power of Pensions in Europe,”* FERPA is placing at the disposal of its members and the entire international socio-political community a new research study with the significant and challenging title: *“Living in Europe as a Pensioner: How much does it cost?”*

The new study is obviously a follow-up on the previous one, but with particular features all its own. Our objective in launching the research study, after noting and documenting the serious loss in the purchasing power of pensioners, was to understand how the family income of elderly persons was affected by prices increases for essential goods and services in daily life.

We therefore used a questionnaire to gauge the opinion of FERPA members “in the field” and to compile and compare the results with official data and statistics at both the national and the European level.

We received many and highly qualified answers, which enabled us to carry out a significant qualitative study which the reader will find in these pages, accompanied by data, tables, etc.

What we had not (nor could anyone have) foreseen, was the financial and economic crisis that exploded in the autumn of 2008, the consequences of which are still eluding a systematic and consolidated assessment – especially in terms of future prospects, duration, scope and repercussions on the budgets of families and, by extension, on their standard of living.

This event, however, does not invalidate the results of the report. On the contrary, the report provides a reliable and informed cross section, up to date until the most recent months.

The most direct indication is that confronted with a trend of constantly rising basic costs, family budgets are faced with uncertainty and are full of risks. Elderly persons are confronted with an “economic” world that puzzles them and shows signs for concern.

There is a great deal of talk about the demographic boom, people living longer, and the increase of life expectancy. But in what conditions will retired and elderly people really be living in the coming years?

No one can say, at this time. With this research study, FERPA wants to draw attention to a problem of everyday life, yet one that is often ignored by politicians and the managers of the common welfare. Furthermore, not everyone is covered in the same way: the protection provisions differ considerably from one country to the other, and from one social group to the other; women have a longer life expectancy but under economic conditions far worse than men; certain services (housing, health, energy) are encroaching more and more on the meagre resources of pensioners.

I wish to thank everyone who has contributed actively to this study, which is intended to shed greater light on the problems at hand, and to call on courageous and concrete action from political power, at national and EU level, to overcome the difficulties older citizens are experiencing in leading decent lives.

FERPA will become the advocate of these demands, in every forum, starting with the dissemination of this publication among all institutional bodies.

Happy reading.

Bruno Costantini
General Secretary, FERPA

1. International scenario and some introductory remarks

The world economy has been in good health in the last five years, registering sustained growth throughout the globe. This phenomenon has deluded many about the benefits of globalisation and has given confidence to the neoliberal stance.

The exponential growth in emerging countries has offered hope in the fight against poverty and in fact, certain countries that are home to a sizeable portion of the planet's population, from China to India and Brazil, have been able to improve the standard of living of their own citizens. The distortions in the distribution of wealth caused by the strict application of neoliberal orthodoxy become "sustainable" because they are in fact concealed by the widespread advantages of strong growth which does, after all, enable more people to benefit from them.

The neoliberal paradigm has moreover put the governance of world trade in the service of the large financial corporations. The latter have acquired power shares at the expense of governmental institutions. The effect has been to turn away from the embryonic system of world government; if not exactly from the hypothetical structures of government, certainly from the conceptual categories that define the grounds of democracy. It suffices to think of the incapacity of the international institutions to govern the world market, or to adopt globally shared measures from time to time, from the WTO to Kyoto and other world institutions.

The European and international institutions have often denounced this model of world government, incapable of giving a voice to people, or to be more precise to citizens, workers, consumers – to all those, in fact, who in various degrees depend on a fair distribution of the wealth produced in the market economy for the quality of their existence.

Europe too has gone through a period of economic expansion, albeit at a rate lower than in other areas of the world, where competitive growth has been compensated by a rise in employment levels. Unemployment in the last five years has fallen to the current estimated rate of 6.9% (7.4% in the eurozone), down from 8% in 2002¹.

And yet, the social distress is perceptible and indeed serious, and as we shall see presently, runs across the "old" Europe of the 15 in particular. There is a feeling of aversion to phenomena attributable to globalisation, which are seen increasingly as a threat. For their part, the European institutions have on several occasions claimed that the perception of a worsening in the living and working conditions by citizens did not reflect the actual situation. The European Commission, for instance, has on several occasions touted, with figures in support, the benefits of an open economy when broaching the matter of restructuring operations, when it stresses corporate social responsibility, when talking about the unacceptable differences of social dumping through the various geographic areas of the Union.

¹ The data referred to the European Commission's Report on Employment for 2008.
Cf.: <http://ec.europa.eu/social/main.jsp?catId=119&langId=en>



But is it merely a question of perception? Or is there something real in the distress felt by European citizens?

The organised civil society, which defends interests different from those of production, or better yet of business, has denounced the net deterioration in the quality of life, access to wealth and income opportunities. It has therefore denounced such deterioration not only as a threat, but also as a loss already suffered, and is unsheathing its own defence weapons.

The analysis of certain data could be helpful in this regard.

Income inequality has grown in most of the Western industrialised countries (source: OECD2008) in particular since the mid 1980s, and has followed a constant trend to the present day. If we analyse the income of the segment of the population in the highest income bracket (which represents 10% of the world population), with the segment in the lowest bracket (or 10% of the population at the opposite end of the scale), we will discover that the income of the richest segment of the population exceeds that of the poorest population by about 9 times.

The countries with the widest difference are the USA, Mexico and Turkey. The United States continues to produce disparities at extremely high rates, but Europe too has registered a sharp shift of wealth to the wealthy classes.

The pressure on consumption cannot therefore be reduced exclusively to the lack of growth, but can also be attributed to the modes of distribution of the existing wealth.

In light of the foregoing, certain social demands seem fully justified. The recent ETUC campaign on salaries introduced demands for the recovery of purchasing power from paid employment that is already penalised and not simply threatened.

In this respect, economists are reporting other socially alarming economic phenomena. We have just seen how the gap between the richest and poorest segments in Europe is widening. In addition, the numerical consistency of the groups of the rich, the poor and the middle class is constant in time. This means that there is scarcely any mobility between the different social categories in Europe.

The condition of the poorer segment is getting worse, the richer segment continues to accumulate wealth, with no evident variation in the condition of the middle class.

The factors behind this stability stem above all from the increasing difficulties of the poorer segment to access education and vocational training. Economists are warning of a wide disparity concerning the capacity of underprivileged people to access positions of power in institutions and companies. Government positions are the prerogative of the richer groups, thereby perpetuating the widening gap between the rich and poor segments of the population.

The fair distribution of wealth is still a difficult challenge, because there is scarcely any consensus, squeezed between the urgency of those who suffer, and the instinct of those who hold power to keep it.

The imperatives of liberalism continue to condition the government of the national institutions and above all of the international institutions.

The recent events marked by the financial crisis which has spread from the United States to the entire world, point to the end of a cycle which will require the definition of new

economic paradigms. The search for world consensus and the new political and economic choices will nonetheless take years to produce results. The world economy is now in recession, and governments are trying to provide a coordinated response.

The diminution of purchasing power from paid employment due to an unfair distribution of wealth has been fed by a strong inflationist thrust caused by an increase in the prices for raw materials. Many consider that the increases in prices of the latter are the result of speculation by large financial corporations, as seats of government seem incapable of coping with the situation. In spite of all this, the States are suffering from a volatility in the prices of a number of basic commodities, from fuels to cereals. The phenomenon has shown the limits, in the long term, of a government, whether at world or regional level, that is not very efficient and removed from democratic values.

However, the effects of an economic period that has changed the internal balances, habits, and expectations of people, still have to be managed.

The future economic policy choices of Europe will be made more complex because they will have to be measured against certain phenomena, including of world scope, that require a response from the national and international governmental authorities. These include the demographic decline, which imposes important choices in the implementation of policies capable of checking the negative trend, while creating the conditions for the sustainability of pension and social security systems.

The European population will actually shrink, especially the working population. People between the age of 15 and 65 in the EU 27 will decline by 16% generating a gap in the labour market which not even the migration phenomenon will manage to fill.

There are many factors therefore that drive our society to change our habits, our consumption and consequently, also our customs.

This report will focus on the development of prices for certain essential goods and services and how these trends affect consumers. The latter, very vast category, will be filtered to show the specific problems of pensioners.

Income policies are often geared to the working population. Some concern pensioners directly. First of all, the wage trends have an effect on the capacity to save for pension schemes, both public and private, and therefore on income expectations.

The active policies for working longer have also had an effect on the life of future pensioners and on their income expectations. Family policies may change the requirements for assistance and change the need for income to be allocated for assistance to the elderly.

The problem of current pensioners, but also the condition of future pensioners will persist, however, if the government of the EU, together with all the national governments, do not manage to meet the challenges described above efficiently.

This report endeavours to reason out certain essential components of a pensioner's expenditures: fuel for heating and energy, housing cost (rent), food and public transport.

The starting element to be examined will be inflation. This element makes it possible to assess the degree to which one of the components of the shopping basket entails an

improvement of purchasing power or a simple shift in expenses from one item of the basket to the other, leaving the pensioner's capacity to access these goods unchanged.

The inflation element should not be deceiving. Many national reports have shown how the shopping basket changes according to the individual's spending capacity, at times to bring the basket in line with reality, at others to bring the inflation parameter in line with contingent policy requirements.

The less well off classes suffer more from the increase in prices for essential goods and services, and may therefore feel more of an inflation burden than the official figures show. It is not merely a matter of statistics. An imbalanced increase in the price of certain components of the basket may lead to real impoverishment for certain groups without being registered as such in the national averages.

Figure 1: Inflation in the Member States.

Sorico 1997 – 2008 (Eurostat, 2008)

Annual average rate of change in Harmonized Indices of Consumer Prices (HICPs)												
geo\time	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Unione europea	1.7	1.3	1.2	1.9	2.2	2.1	2.0	2.0	2.2	2.2	2.3	3.7
Euro area	1.6	1.1	1.1	2.1	2.3	2.2	2.1	2.1	2.2	2.2	2.1	3.3
Belgio	1.5	0.9	1.1	2.7	2.4	1.6	1.5	1.9	2.5	2.3	1.8	4.5
Danimarca	2.0	1.3	2.1	2.7	2.3	2.4	2.0	0.9	1.7	1.9	1.7	3.6
Germania	1.5	0.6	0.6	1.4	1.9	1.4	1.0	1.8	1.9	1.8	2.3	2.8
Irlanda	1.3	2.1	2.5	5.3	4.0	4.7	4.0	2.3	2.2	2.7	2.9	:
Grecia	5.4	4.5	2.1	2.9	3.7	3.9	3.4	3.0	3.5	3.3	3.0	4.2
Spagna	1.9	1.8	2.2	3.5	2.8	3.6	3.1	3.1	3.4	3.6	2.8	4.1
Francia	1.3	0.7	0.6	1.8	1.8	1.9	2.2	2.3	1.9	1.9	1.6	3.2
Italia	1.9	2.0	1.7	2.6	2.3	2.6	2.8	2.3	2.2	2.2	2.0	3.5
Cipro	3.3	2.3	1.1	4.9	2.0	2.8	4.0	1.9	2.0	2.2	2.2	4.4
Lussemburgo	1.4	1.0	1.0	3.8	2.4	2.1	2.5	3.2	3.8	3.0	2.7	4.1
Ungheria	18.5	14.2	10.0	10.0	9.1	5.2	4.7	6.8	3.5	4.0	7.9	6.0
Olanda	1.9	1.8	2.0	2.3	5.1	3.9	2.2	1.4	1.5	1.7	1.6	2.2
Austria	1.2	0.8	0.5	2.0	2.3	1.7	1.3	2.0	2.1	1.7	2.2	3.2
Polonia	15.0	11.8	7.2	10.1	5.3	1.9	0.7	3.6	2.2	1.3	2.6	4.2
Portogallo	1.9	2.2	2.2	2.8	4.4	3.7	3.3	2.5	2.1	3.0	2.4	2.7
Romania	154.8	59.1	45.8	45.7	34.5	22.5	15.3	11.9	9.1	6.6	4.9	7.9
Slovenia	8.3	7.9	6.1	8.9	8.6	7.5	5.7	3.7	2.5	2.5	3.8	5.5
Slovacchia	6.0	6.7	10.4	12.2	7.2	3.5	8.4	7.5	2.8	4.3	1.9	3.9
Finlandia	1.2	1.3	1.3	2.9	2.7	2.0	1.3	0.1	0.8	1.3	1.6	3.9
Svezia	1.8	1.0	0.5	1.3	2.7	1.9	2.3	1.0	0.8	1.5	1.7	3.3
Regno Unito	1.8	1.6	1.3	0.8	1.2	1.3	1.4	1.3	2.1	2.3	2.3	:
Turchia	85.6	82.1	61.4	53.2	56.8	47.0	25.3	10.1	8.1	9.3	8.8	10.4

As we shall see, the prices for certain categories of basic goods and services are increasing at a substantially higher rate than that of inflation. Whereas the budget policies of the Member States, coordinated by the European Union, have brought about a constant reduction of the rate of inflation in all countries, we shall see that groceries and energy prices have continued to rise more and more. The calculation of the inflation is highly dependent on the shopping basket used as a reference. The calculation of the inflation is actually a subject of debate and of political interventions in every country. It would be very complicated to go over the course of indices for the cost of living or the adequacy of pensions in every Member State. This report provides below the British experience, by way of example, and indicates certain trends in common with the other countries. Certain references are then made to national charts.

One issue that can be anticipated from the analysis of the data collected in this report, is that the deterioration in the quality of life of pensioners is due to the loss of purchasing power or the alternative sources of income for workers who are not active on the labour market. The loss of purchasing power cannot be explained solely by the maximum aggregation of inflation. The report contains other general indications as to how the cost of living for an elderly person is the result of a combination of elements that include: the rise in prices for particular goods and services, subjective factors such as confidence and the propensity to consume and to save, more extensive policies geared to income opportunities for elderly persons.

2. Trends in consumer prices and the cost of living in Europe

The table below shows the inflation rate attributed to the different expenditure categories based on the calculations of Eurostat. The table is provided as a reference for determining the official survey of the variation in the cost of certain goods investigated further on in this study.

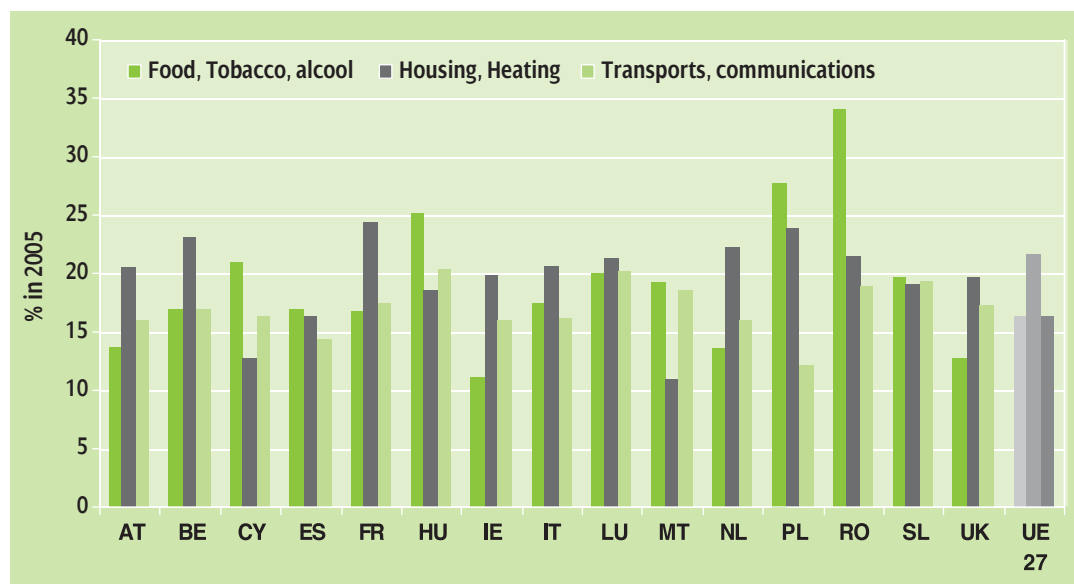
Figure 2: Inflation per expenditure aggregate in Europe (Eurostat, 2008)

		Annual rates					12 months average rates
Euro area (MUICP)	Weight used in 2008	May 08 May 07	Apr 08 Apr 07	Mar 08 Mar 07	Feb 08 Feb 07	May 07 May 06	May 08-07 May 07-06
00 All-items	1000.0	3.7p	3.3	3.6	3.3	1.9	2.8p
01 Food 157.8	6.4p	6.0	6.2	5.8	2.1	4.3p	
02 Alcohol and tobacco	37.2	3.4p	3.2	3.1	3.0	3.6	3.1p
03 Clothing	68.3	0.7p	0.8	1.0	1.0	1.3	0.9p
04 Housing	153.0	5.7p	4.8	4.4	4.0	2.2	3.5p
05 Household equipment	70.1	2.0p	2.2	2.2	2.1	1.6	1.9p
06 Health	40.5	1.6p	1.6	1.6	1.5	1.8	1.6p
07 Transport	156.6	5.9p	4.8	5.6	5.4	1.6	4.1p
08 Communications	32.9	-1.7p	-1.6	-1.5	-3.1	-1.8	-1.9p
09 Recreation and culture	96.8	0.1p	-0.4	0.6	0.0	0.2	0.1p
10 Education	10.4	3.7p	3.6	9.6	9.6	9.2	8.4p
11 Hotels and restaurants	92.8	3.3p	3.2	3.6	3.3	3.2	3.3p
12 Miscellaneous	83.6	2.4p	2.4	2.4	2.3	2.3	2.3p
All-items -excl. energy	901.9	2.6p	2.5	2.8	2.5	2.0	2.3p
-excl. energy, FoodAlcTob*	706.8	1.7p	1.6	2.0	1.8	1.9	1.8p
-excl. energy, unproc. food	825.8	2.5p	2.4	2.7	2.4	1.9	2.2p
-excl. energy, seas. food	862.6	2.5p	2.4	2.7	2.5	2.0	2.3p
-excl. tobacco	977.4	3.7p	3.3	3.6	3.3	1.8	2.8p
Energy 98.1	13.7p	10.8	11.2	10.4	0.3	7.0p	
FoodAlcTob*	195.0	5.7p	5.4	5.6	5.2	2.4	4.1p

The data that will be subsequently illustrated and presented in this chapter, on the other hand, are from the OECD.

The first table illustrates the weight that the various aggregates (expenditure on food, heating and housing, transport and communication) have on the income of families in a sample of European countries.

Figure 3: Impact of consumer prices on income (OECD, 2008)



Countries with a lower per capita income register a greater impact of food and energy expenditures on income, owing to the effect of necessary goods. The latter is an analysis element that we must bear in mind in order to gauge the full effects that the increase of consumer prices has on the behaviour of people as well as on the breakdown of the shopping basket. This is a basic economic exercise, but extremely useful for getting a picture of the actual situation.

For instance, in countries like Poland and Romania, food and energy expenditure items take up more than half of the annual income, while the European average is below 40%.

It is moreover useful to bear in mind that the data recorded by the OECD diverge from what organisations, such as FERPA, that have taken part in the research study, have indicated. The differences are at times substantial. For example, the data supplied by the national organisations of FERPA in Ireland and Cyprus differ widely from those given in the table above. The trade union in Ireland reported an impact of energy expenditure exceeding 50%, compared with 19.8% given by the OECD. The reverse is the case in Cyprus, the 4% of which contrasts with the 12.8% in the table (which nonetheless confirms that Cypriots spend a far lower share of their income for energy). In addition to income levels, climate is also a factor for the expenditure on energy, as for necessary goods.

In the light of the foregoing, the trend in the prices of certain expenditure aggregates is given below: food, energy and other products. The data are based on OECD figures and use the prices for 2000 as reference. The value of 100 is attributed to prices in 2000, so as to calculate comparable variations between the different countries. The price variation is then given in percentage.

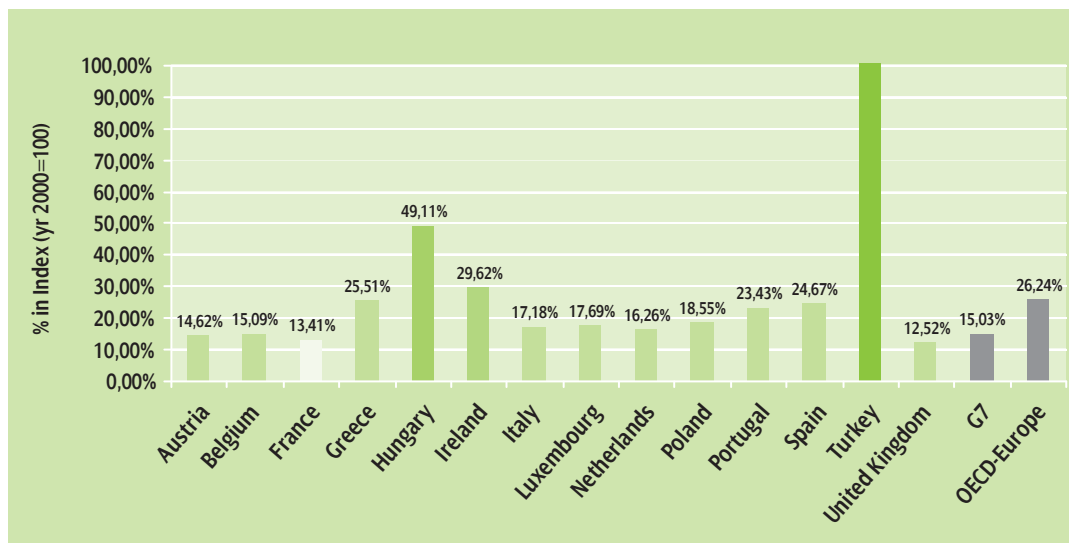
Figure 4:

Food consumer prices 2000-2007, itemised for the last 3 years (OECD, 2008)



Figure 5:

Food consumer prices 2000 - 2007 (100 = prices in 2000) (OECD, 2008)



The two tables clearly show how in the two years under review, food consumer prices have increased constantly, ranging from over 13% in France to over 49% in Hungary.

The average increase in the European Union stands at about 27%, thanks in part to the containment of the inflation thrust, which has conversely hit the Hungarian economy. Turkey, on the other hand, is paying for the sustained fall in the price of its currency and the relative devaluation. In more general terms, an irregular trend in food consumer prices has emerged in the last three years from country to country. Whereas the increase in prices of food consumer goods has been rather regular in countries like Italy, France, Ireland, the Netherlands, Luxembourg and Greece, countries like Poland and Hungary experienced a steep increase between 2006 and 2007. The increase was less sharp, but likewise more sustained in 2007 in the United Kingdom, Belgium and Austria.

In any event, the cost of food consumer goods causes the inflation rate to rise. It is worth noting, however, that the beginning of the new century has witnessed more sustained increases in food consumer prices as regards the last three years. The data do not however take account of the sharp rise in prices for groceries on the way between 2007 and 2008.

The trend in energy costs is more problematic, on the other hand. Here too, costs for the supply of electric power vary widely in Europe. The European average during the period of reference was up by about 50%, including Turkey, where the devaluation of the lira has had an impact analogous to that on food consumer prices. Many factors have an impact on the energy bill of households. Very often, policy decisions are taken to reduce the exposure of households to the volatility of prices on the market.

A reading of the table makes it possible to identify virtuous and less virtuous countries in terms of energy price stability. The data cannot however shed light on the difficulties that the price of oil caused for the budgets of pensioners in 2008.

Figure 6: Consumer prices from 2000 to 2007 (100 = prices for 2000) (OECD, 2008)

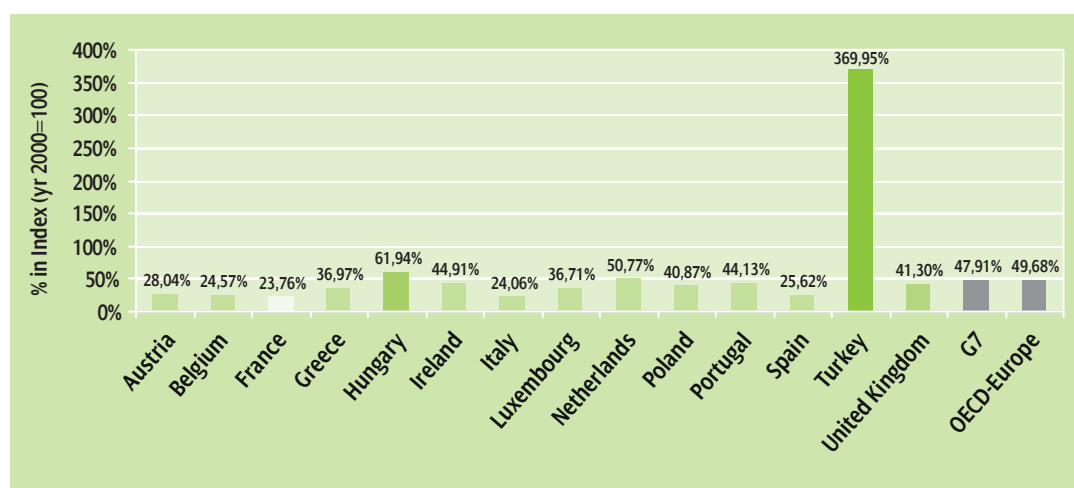
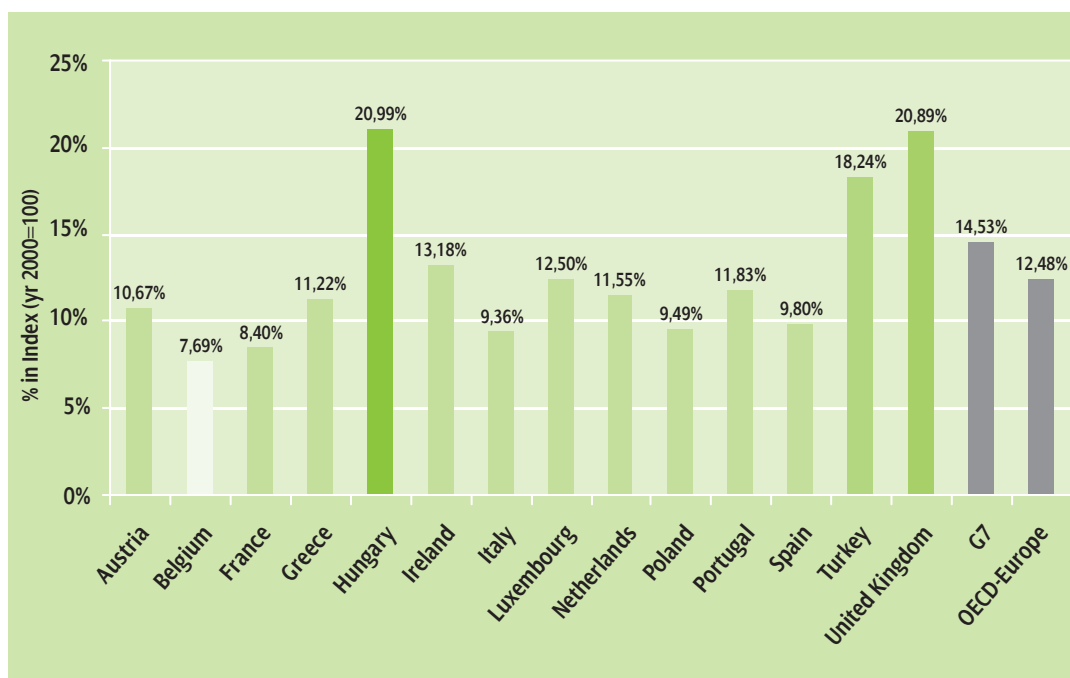


Figure 7: Consumer prices for 2005-2007, itemised for the last 3 years (OECD, 2008)



Figure 8: Food consumer prices from 2005 – 2007 (100 = prices for 2000) (OECD, 2008)



Goods other than food and energy too have gone up, and the trend has picked up steam in the last three years. The statistical survey, however, does not take into account the inflationist turbulence in 2008, and only partially that registered in 2007.

The graphs below show a lesser inflationist thrust for non-food and non-energy goods. In particular food and energy expenditures have gone up sharply in recent months, and have in turn changed the cost of living substantially in certain countries.

This is attested in the national charts provided in the next paragraph. The aggregation of the available data does not permit to go beyond the analysis. There is pressure on purchasing power due to the increase of prices for necessary goods such as food and power supply.

As already mentioned, this element must be considered together with the other factors that determine the spending capability of pensioners. The consumer inflation index does not reflect the rise in prices for these essential goods. The distorting effects caused when such inflation indices are used to determine the suitability of pension income or other aid to the income of pensioners, can be guessed. As we shall see, governments can pursue many policies to reduce such distortions. Mutual assistance or solidarity elements can be brought into play regarding the cost of electric power or the support for food staples. The same composition of the pension income structure (see last chapter) can have an impact on the purchasing power of an elderly person. Other factors are only partially available to governments, such as trust indices that determine the propensity of elderly people to spend or to save.

Figure 9: Food consumer prices from 2000 to 2007 (100 = prices in 2000) (OECD, 2008)

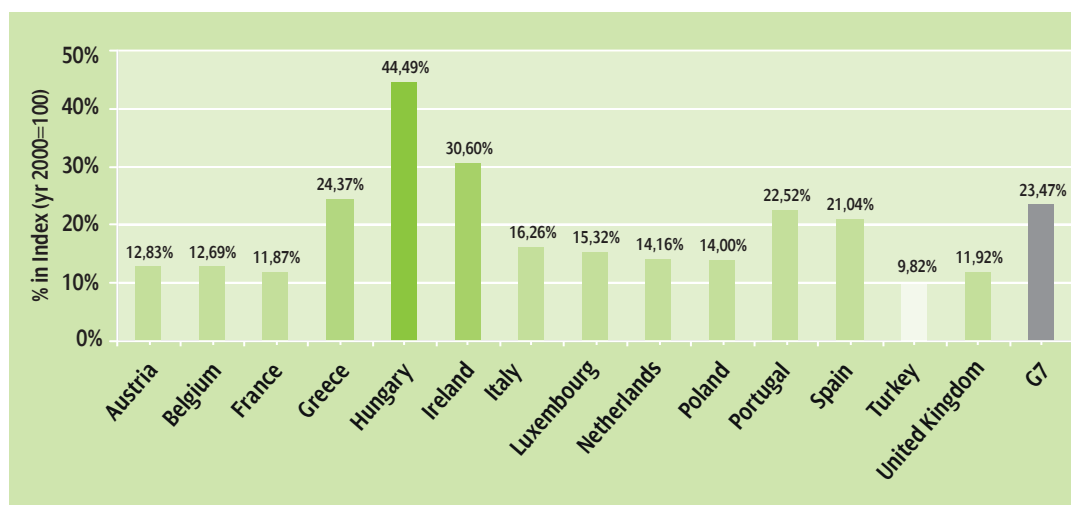


Figure 10: Non-food and non-energy consumer prices from 2005 to 2007 (100 = prices in 2000) (OECD, 2008)

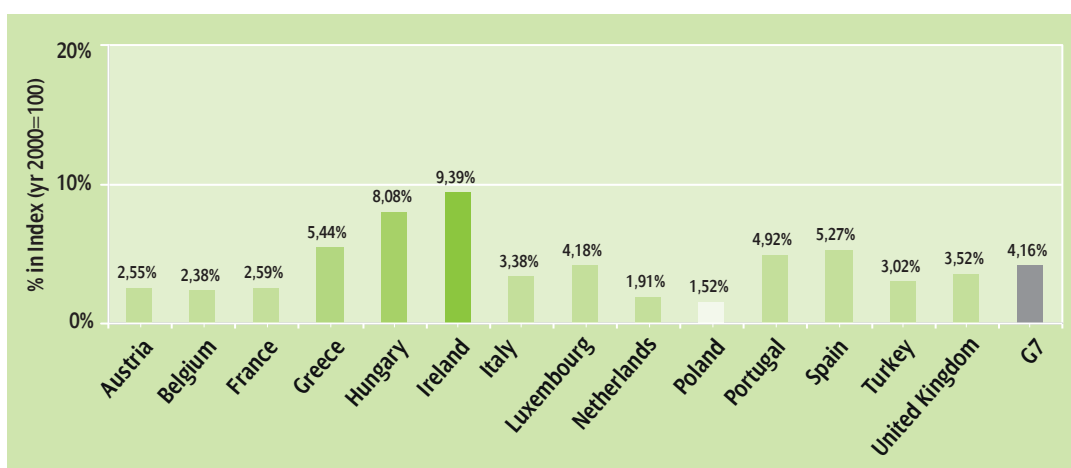
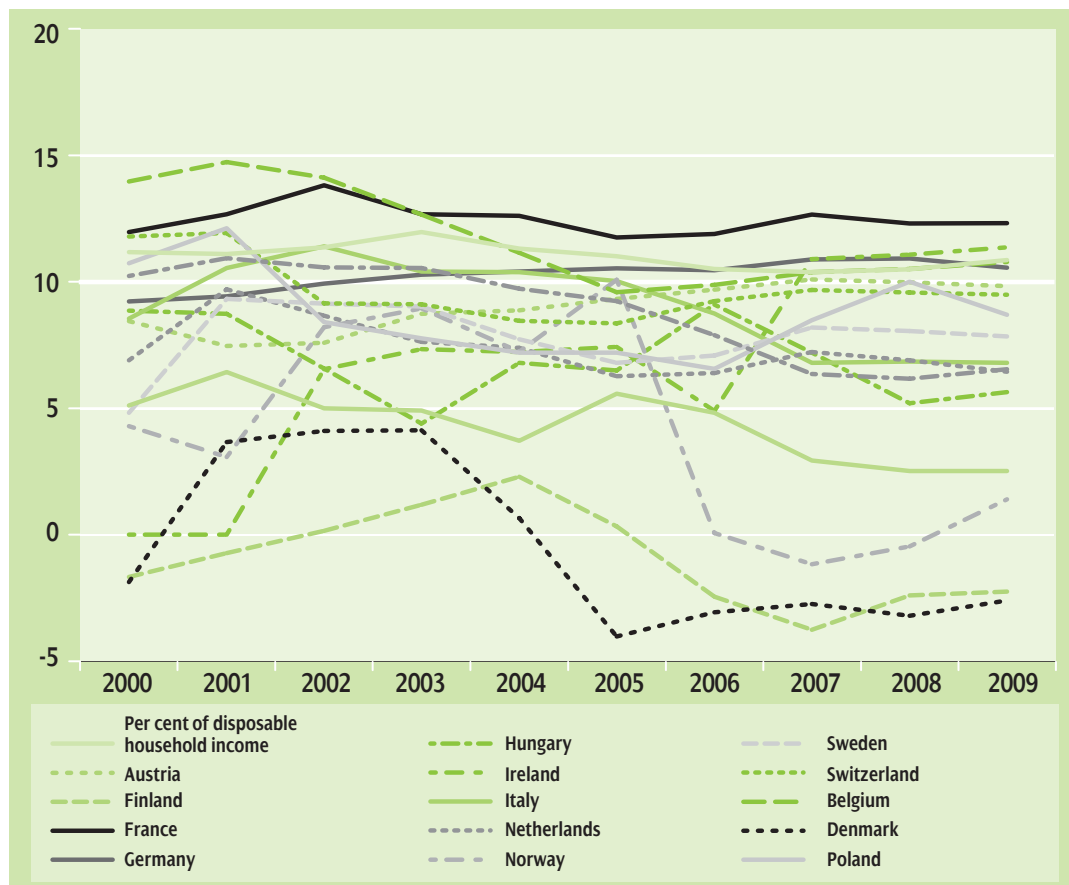


Figure 11: Non-food and non-energy prices in 2005-2007, itemised for the last 3 years (OECD, 2008)



Another interesting graph illustrates the impact of the propensity to save on sustainable domestic income. As we shall see in the paragraphs that follow, the capacity to save is a fundamental factor for determining the impact that price increases of basic goods such as food and energy have on the quality of life of pensioners.

Figure 12:
Percentage of disposable household income (2000 – 2009) (OECD, 2008)



The graph clearly shows a reduction in the amount of income destined for savings. Furthermore, the pressure on low salaries shows that the OECD data, reported in the previous graph, reduce the capacity to sustain current consumption levels in the future. This has a direct effect on the capacity to preserve purchasing power when pension income replaces income from work.

As a result, the pension income from the public system represents more and more the only source on which an elderly person's spending capacity can count.

Furthermore, as we have seen, the reduction of the capacity to spend will increase the share of spending on necessary products, thereby transforming pension income more and more into pure survival income. And the prices for necessary goods, or rather for goods of which an individual cannot deprive himself because they meet primary needs (such as food and heating, for instance) are showing an inflationist trend that exceeds that of non-fundamental goods.

This can also be gauged from the trust indices that will be presented further on. These considerations may prove helpful in interpreting the choices of those who govern. The increasingly high levels of poverty of the greater part of the population, or those with a low and medium-

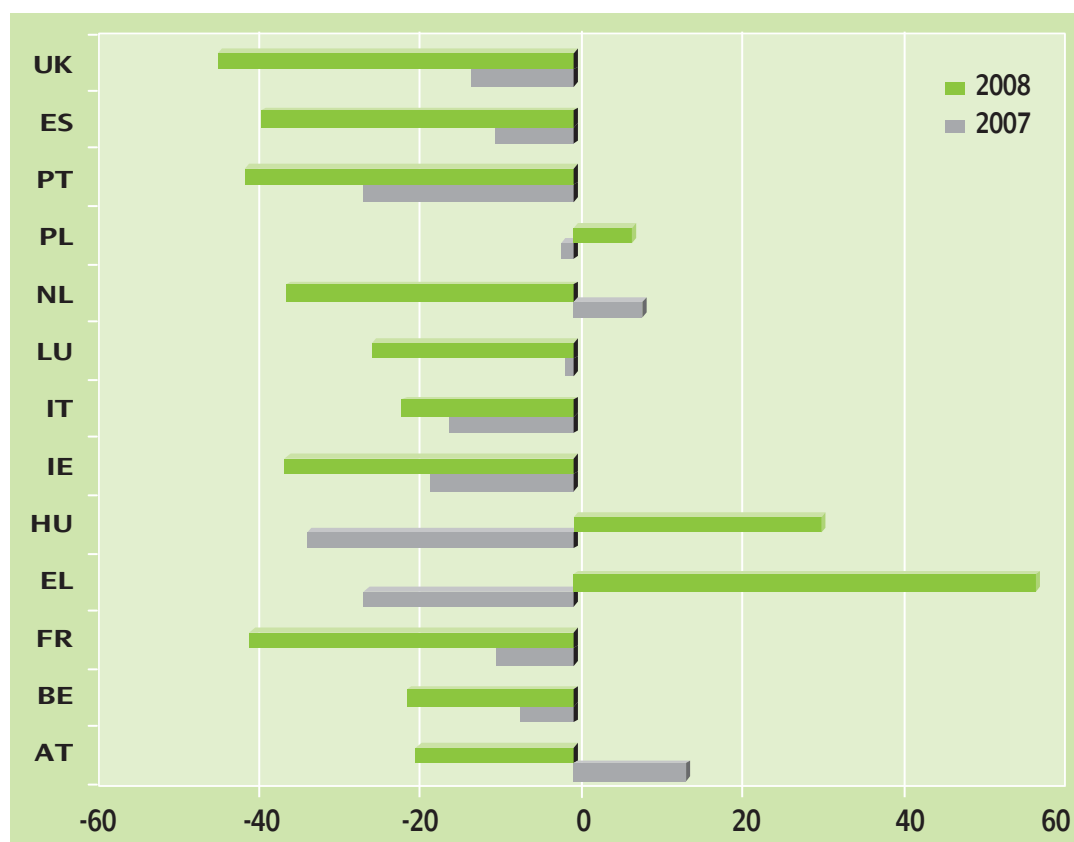
low income, are attracting the attention of both sides of industry and the national governments. Impoverishment is the result of a combination of various factors:

- ▶ The negative dynamics of wages that hinder the capacity to save;
- ▶ The absence of a protective shield against speculation;
- ▶ The exposure of the weakest segments to prices for necessary goods;
- ▶ Imprudent or inefficient tax policies for the redistribution of wealth.

For pensioners, there is also the incapacity to save, or better put, to generate the part of savings so as to facilitate their capacity to spend in the future.

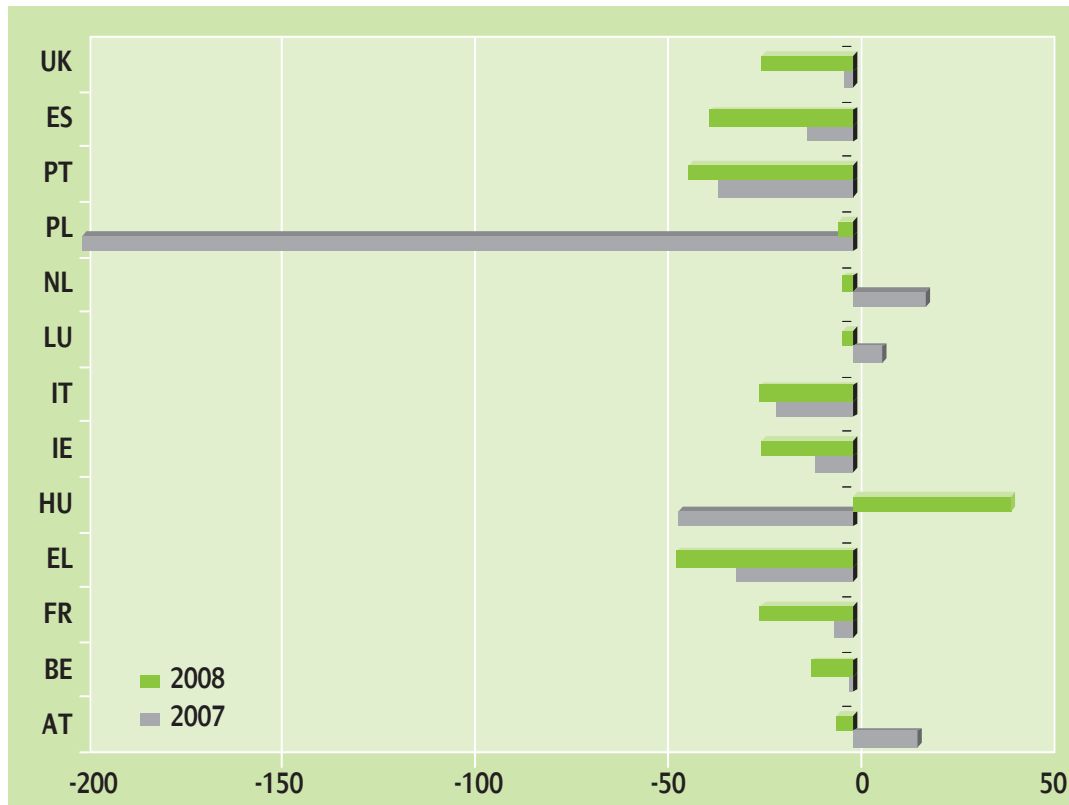
Pensioners are moreover suffering from the scarce protection of purchasing power because they are excluded from income generating opportunities unlike those who are active on the labour market (which include training and vocational retraining, according to some experts). The pressure on state budgets to reduce the public debt and to contain the deficit for the sake of monetary stability, has a negative impact on the capacity of the social protection system, which accounts for a further element of change in the consumer index.

Figure 13: Consumer trust index: economic situation (2008/2007) (Eurobarometer, 2008)



The graph shows that the trust index increases in countries with a higher economic growth. In particular, the new EU Member States benefit from the reforms introduced as a result of accession to the EU.

Figure 14: Consumer trust index (2008/2007) (Eurobarometer, 2008)



In this case, the majority of consumers is located on the left side of the table, or on the mistrust side – which is growing. This trend confirms that there is a high feeling of insecurity for the future even though the world economic situation had been positive up to 2007.

3. Trade Union Observatory: *Focus on the national situations*

It is worth bearing in mind that the comparability of the trade union data that follow is very limited. The data refer to different timeframes during the questionnaire's five-year period of reference (2002-2007) and the way in which they were compiled is often unknown. The effort made by the members of FERPA is considerable and noteworthy, nonetheless. Official data often do not indicate how the "pensioner" perceives trends in the cost of living, inasmuch as the comparison focuses on wages or rather on putting into perspective social spending, in which pensions are only one of the components. The indications provided by the members do however make it possible to gauge the perception of pensioners and to ascertain how the economic cycles impact pensioners in real life. A real life sensor has thus been activated that can guide policy makers on how to read scientific or statistical data.

In the light of this preliminary warning, a comparative overview of pension spending will be provided as gauged by the European Federation of Retired and Elderly People.

BELGIUM

In Belgium, spending on energy accounts for about 15% of the annual income (below the OECD average) and on food around 18%. Whereas the cost of energy has gone up significantly by 30%, that of gas and heating fuel have literally skyrocketed, by 100% and 170% respectively. 25% of the increase in food spending climbed sharply in the 2006-2007 period. For lower incomes, there is an imbalance between the weight of the consumer price index and the actual weight of consumer spending. The two can be said to correspond as of an income of €96,000.

It is worth adding that liberalisation efforts have not produced the expected benefits: prices have gone up, consistently, in fact, for all.

The Belgian organisations deplore the absence of a legal framework to guarantee the quality of public services. However, there are various assistance programmes for the weakest segments and for underprivileged categories financed by the tax system. The most interesting experiment is that of the "cheque mazout" where public funds are used to pay the energy bills of low-income families or underprivileged categories.

CYPRUS

Unlike other countries, the Cypriot trade union has reported that power supply has had a minor impact on the annual income, although the cost of electricity went up by 34.4% and that of gas by about 160% during the five-year period of reference of the FERPA report. The cost of domestic heating weighs in at 115% more on the annual budget of families.

Spending on food, which takes up about one fourth of the income, went up by about 22.8% in the last five years.



There is a constant growth of services in Cyprus for people, although the distribution of access to such services does not cover those who do not have the necessary means to enjoy them. The government intervenes from time to time with cash allocations to disadvantaged groups. Those who do not receive an employment pension can have access to a social pension when they reach the age of 65. Income support can be provided by the Ministry of Labour and of Social Security based on assessments of the individual situation of those who find themselves in a state of poverty.

FRANCE

In France, energy costs take up about 16% of the annual income. Between 2002 and 2007, spending on gas and electricity has gone up by 20%, with similar repercussions for domestic heating.

Spending on food, on the other hand, takes up 35% of the income, and has gone up at an annual rate of 5%.

The official inflation rate, registered constantly below 3%, has led to a considerable loss in purchasing power. This has led to protests that brought the trade union into the streets in 2008 to demand adequate pensions for lower incomes.

These spending items are underestimated and not detectable in consumer indices. This is the case of medical expenses, for instance, owing to illicit or abusive practices by doctors. The current sampling system based on surveying indices excludes extreme situations: it does not take into account the consequences of costs for different social categories (wage-earners, pensioners or the unemployed) nor does it consider wage differences, and therefore not the differences in the structure of consumption either.

The upward trend in energy costs exerts pressure on a large part of the population that depends on pensions for its income. The State is trying to define measures to contain increases.

In anticipation of new measures, prices will have to be monitored through notification procedures or requirements set by the public authorities for providers of public services. This applies particularly to certain services such as rail transport and electricity.

Certain programmes for disadvantaged groups in France concerning housing, are at times geared to protecting the landlord from the risk of the tenant becoming insolvent owing to sickness or loss of employment; they moreover provide aids for structural changes in buildings to adapt them to requirements for elderly persons, and tax relief for access to ownership. From the taxation point of view, exceptions are made to help low-income people, and total or partial tax exemption is granted to low-income pensioners (for which nearly half of pensioners qualify). The price of transport is reduced by 50%, and at times is completely free. Social welfare provides personalised assistance for the autonomy of the elderly. There are discounts for admission to free-time activities, such as the cinema, theatre, etc.

IRELAND

In Ireland, a sizeable impact of energy spending on income has been reported, which can amount to 60%. The cost of energy went up by 20% between 2002 and 2007. There is reason to suppose that this percentage rose subsequently as a result of the sharp rise in energy prices registered in 2008 and indicated in the country chart.

Spending on food accounts for about 35%, having gone up by 11.4% in the last 5 years.

There is no index for pensions, which are nonetheless linked to the inflation index. The

latter, however, does not take account of the sharp increases in energy and food prices, which penalises low and fixed incomes.

The liberalisation of gas and electricity services has not been carried out. The provision of services does not follow specific rules to protect the weakest segments in society. In this respect, the ten-year framework social partnership agreement concluded in 2006 (“Towards 2016”), is intended to guide public services to address the specific needs of various categories, including that of pensioners. The agreement follows the indications of the national plan for social inclusion aimed at eliminating poverty by 2016². The Supplementary Welfare Allowance provides weekly financial aid to those who have no income. People with a low income can qualify for the plan for certain categories of spending, such as rent or pressing needs.

ITALY

Energy supply takes up about 12% of the Italian pension income as a whole. Prices for various utilities have in the last five years gone up by 32% for electricity, 30% for gas, and 25.6% for water. Heating with sources other than the utilities indicated above has gone up by 79.6%. Spending of food takes up 28% to 35% of the annual income, and has gone up by 13% in the last five years. Housing takes up 18% of the annual income.

Spending for urban and extra-urban transport takes up 16% of the annual income, and has gone up by 16.3% and 12% for urban and extra-urban transport respectively.

The Employees’ and Workers’ Household Index (“Famiglie operai impiegati” or “FOI” in Italian), used to measure inflation, is less sensitive (0.2-0.5 points per quarter) than the European Harmonised Index of Consumer Prices (HICP), because certain items have been removed (such as tobacco, for instance) or pertain to products no longer consumed in a significant manner. The fiscal drag is not recovered, even though provided for by legislation (which is not applied). The different exposure to inflation, which varies according to the volume of income allocated for consumption, is not taken into consideration either.

Pensions are therefore linked to the consumer price index for employees’ and workers’ households. This is a basket that does not reflect the consumption of a pensioner household, one that underestimates the equalisation in favour of pensioner families. The pensioners’ federations on the other hand propose a basket composed of the consumption of a pensioner household that would guarantee a fairer recovery of purchasing power.

For their part, privatisations have affected many sectors for the provision of essential services. Privatisation has moreover remained an incomplete process. The benefits would purportedly emerge from a concomitant liberalisation effort. The difficulties relating to governance, (role, independence and respect for the authorities) together with the concentration of supply (up to the limit of private monopoly) have not brought about the expected reduction in prices for pensioner households. One example should suffice: the electricity exchange, which has liberalised the market, rather than reduce prices, has actually increased them.

As to quality, there are different authorities in each sector to control the standards. There are certain criteria applied to the “service cards,” agreed with the trade union. There is even a social contract that involves mainly the trade unions at local level on these matters. Social policies for access to services by disadvantaged groups are having difficulties in finding a

² Cf: <http://www.taoiseach.gov.ie/index.asp?locID=181&docID=2755>



definitive form. Certain initiatives are in progress, even if the succession of governments with different social sensitivities penalises the continuity and sustainability of the actions. The aim is to boost the income of citizens, which is the case in only a few Italian regions at this time.

What are known as “silver cards” are provided for assistance to elderly people (aged over 60 or 65). They guarantee discounts on various services, established by each provider or by the local entities, often defined in negotiations with the trade unions. There is an income and wealth indicator (known as the Equivalent Economic Situation Indicator – “Indicatore della Situazione Economica Equivalente or ISEE” in Italian) based on the household, which is used for obtaining such discounts. Tax exemptions for contributing to health services are linked to age and certain diseases. Finally, it is worth mentioning that retired and elderly people are eligible for certain important benefits in Italy, including financial measures to support household income, the free use of public transport, and free medical care for those over 70.

LUXEMBOURG

The inflation rate in Luxembourg was more or less in line with that of the eurozone for the period between 1992 and 2004. A slight acceleration between 2000 and 2004 notwithstanding, Luxembourg remains one of the European countries with a less sustained inflationist intensity against the positive trend of economic growth in recent years.

Between 2004 and 2005, the difference in inflation between Luxembourg and the euro zone was to the detriment of the former, because of the sharp increase in fuel prices during that period. Luxembourg has with time emerged as one of the countries in Europe where fuel prices have gone up the most (ranking first in 2004 and second in 2005).

As indicated the inflation rate should be interpreted in the light of different consumer habits and in accordance with the different product categories. On the one hand, there is the nearly daily purchase of food, or the payment of rent at regular intervals; on the other, a new car or furniture for the house may be purchased, expenses that are not foreseen and which are incurred more sporadically in the course of one's life. In Luxembourg, it is precisely the necessities (such as food and rent, but also water and electricity) and therefore “regular consumption items” that figure among those in which the inflation rate is going up faster, and which are more relevant for pensioners in particular. Being essential for daily life, these goods become indispensable expenditure items that a pensioner cannot do easily without. When prices for these goods rise faster than inflation, low-income households (and consequently in large measure pensioners too) are those most affected by the negative repercussions that price increases have on their purchasing power.

Prices of goods whose cost increases in proportion with the increase in income have also been recorded in Luxembourg. Nevertheless, these goods weigh in slightly, such as financial products or organised tour packages, or restaurant and bar prices. They are clearly not necessary goods, and expenses for them can be reduced more easily than for necessities. Finally, they are goods that concern mostly people with a high income. It is natural, for instance, that people with a higher income have more of an interest to invest it in the bank, to open more savings accounts, and are therefore more exposed to paying costs for financial services.

Conversely, price categories that have gone slightly down between 1995 and 2005 include telephone costs (-2.3%). This has undoubtedly had a positive impact on the cost of living of many pensioners for whom the fixed telephone remains an important means of communication with the outside world.

The national consumer price index has registered a relatively weak weight for housing in Luxembourg (47.6 x 1,000 in 2005). This is generally explained by the fact that nearly 70% of the people of Luxembourg own a home. Nevertheless, this low weight in the inflation rate leads to an underestimation of the “sudden” inflation of tenants with regard to landlords, in view of the high growth in real estate registered in recent years. Between 1995 and 2005, the expenditure items that comprise housing, water, electricity and fuel went up by 11.9%; foods and beverages by 13.7%.

The cost of transport, even though it has a more limited impact on the consumption of pensioners in Luxembourg (who can buy annual passes at reduced rates for public transport) has nonetheless gone up by 20%.

Finally, it is worth underscoring that given these increases, and the increasingly more pressing demands of trade unions on the government, pensions in Luxembourg were increased by 2% as of 1 January 2009 and by 2.5% in March. The trade unions have obtained state allowances for pensioners in support of heating costs.

(http://lcgb.lu/fr/articles/show/id/401/sf_highlight/pensions).

ROMANIA

A Romanian pensioner has an income of about €135 per month. The electricity bill eats up about 30% of this bill, while 50% goes to food.

To give an idea of the situation, in April 2008, nearly 50% (2,426,000 pensioners) of five and a half million Romanians lived with a pension below the value of the monthly average shopping basket (about €100), and about 2,555,000 live below the decent living level. It is worth underscoring that the purchasing power, obtained from a 1% pension raise in 2008, to wit 37.5% of the gross average wage (about €370 per month) has still depreciated substantially due to the sharp rise in prices for certain necessary products.

The inflation rate for March 2008, compared with March in the previous year, was 8%, while that in the eurozone was just over 3%. Prices for food went up by 10.8%; for cooking oil by 52.5%, for vegetables and tinned foods by 23%, for milk by 17.7%, for fruit by 25.4%, and for bread by 13.1%. Prices for non-food items went up by 59.9%, for fuel by 12.3%, for gas by 12.4%, and for electricity by 7.2%. Prices for services were up by about 10.7%, for housing by 104.6%, for postal services by 37.6%; fares for rail transport were up by 16.5% and for urban transport by 11.1%; and prices for drinking water by 12%.

Prices and fares were liberalised in October 1990. The consumer price index, which reflects all prices for goods and services used by the population, went up substantially.

There are quality standards for all products and services intended for the population. Warranty periods guarantee that goods will be replaced if they deteriorate. There are exemptions of up to 90% for heating bills for income levels below €146. People living in particular hardship can rely on home care services which are accessible to them at very reduced rates.

UNITED KINGDOM

According to surveys conducted by the Trade Unions Congress (TUC), with a yearly income of about £6,000 per individual and £9,400 per couple, the costs of the various goods of the shopping basket gauged in the FERPA report underwent the changes that ensued in the reference period.



Spending for electricity in the United Kingdom accounts for 7% to 10% of one's income. The average increase (i.e. the final price depending on the place and way of consumption) has been 34.5% in 5 years. The price is expected to go up again in the near future (although the cyclic nature of fuel prices could thwart such forecasts).

The same can be said for gas and heating. The latter accounts for nearly 10%, the price for which has increased even more significantly by 90% over five years. The rate levels for both types of energy supply are static for many customers, especially for the elderly, who are little inclined to change, even if such a change would entail benefits in the forms and quantities of payments. Spending on heating has in absolute terms gone up from £300 to about £1000 per year.

The water bill, which accounts for 3% to 5% of one's income, has gone up by 17.5% in the last five years. It is worth pointing out, however, that privatisations have in general caused the price of water to skyrocket, making it a significant item in a pensioner's annual consumption. The cost of rent (or loan), which can account for up to 15% of the annual income, practically doubled from 2004 to 2008. Moreover, the real estate market seems to be in difficulty at this time. Things are different in social housing. This expenditure weighs more heavily on incomes that determine eligibility for social housing, at about 25%, and rents have gone up by about 70% in ten years.

Urban transport is relevant when considering the use of private vehicles against the increase in the price of petrol. Free access to urban transport for the elderly makes the question about price increases irrelevant. However, the service provided to the elderly is decisive. Difficulties arise when non-urban transport is taken into consideration, where the social dimension is less prominent, and which suffers from considerable inadequacies because the private companies that run it are discontinuing non-profitable lines. Transport fares went up by 5% in 2007. It is difficult however to determine the extent to which spending on extra-urban transport impacts a pensioner's income.

Spending on food takes up 10% of the annual income, and has gone up between 20% and 25% in the last 5 years, owing to the combined effect of price rises for raw materials and for oil. The price variations in the reference basket are highly unbalanced and the costs of certain staples of the English diet have skyrocketed, requiring an additional expenditure of £1,400 per year per family.

The price and cost-of-living indices are calculated by the National Statistical Office, which surveys some 120,000 prices per month in a basket composed of at least 650 goods. The price variations for these goods are used to determine two basic indices. The Consumer Price Index (CPI) and the Retail Price Index (RPI). The CPI determines the inflation rate for the Bank of England and the RPI determines increases for pensions and other social services.

The contents of the basket are revised every year, with goods being introduced or removed, and the weighting system adjusted on the basis of many criteria. At times, there are attempts to increase the incidence of consumption sectors where spending has gone up. The aim is to give greater weight to those goods that people consume the most. One example comes from the growing relevance attributed to services in determining the basket compared with the declining weight of material goods.

In the view of the TUC, because of recent innovations, the use of the consumer price index to calculate the increase of pensions tends to underestimate the inflation and in particular fails to record the high volatility of certain goods. As a result, increases of pensions do not reflect the real variation in spending which pension income has to cover.

The privatisations have not produced the expected price control effect, as energy has gone up by 34% and water by a whopping 250% since the privatisations.

Basic utilities (gas, electricity, water) should meet the needs of the most vulnerable segments of the population. In reality, the disadvantaged groups are often forced to cut back on such goods when they cannot afford them. The social support programmes are on a voluntary basis, and the government is currently exerting pressure on companies to honour commitments they have undertaken in this respect.

The British government is moreover managing a wide range of social welfare instruments. In addition to the minimum pensions and pension credits, there are fuel vouchers for heating, facilities for loans, and tax exemptions. Public transport is generally free of charge for those over 60, the television licence fee is waived for those over 75, and those born before 1929 are exempted from the passport tax.

SPAIN

In Spain, about 66% in the over 65 age bracket has a monthly income of €450 to €1050. 11% of this segment of the population lives on less than €450 per month, while only 14% have an income exceeding €1,051. The average minimum income of the people in this age bracket is €625 per month, and this average later decreases (by about 11%) for women over the age of 65. It is important to point out that this income comprises not only the old-age pension, but also the calculated average of disablement pension and other types of revenue. A study conducted in 2006 by the Union for Assistance to and Integration of the Third Age (“Unión para la Asistencia e Integración de la Tercera Edad” or “UNIATE” in Spanish) and the Union of Workers Retired on a Bridge Pension, Retired Workers and Pensioners (“Unión de Prejubilados, Jubilados y Pensionistas” or “PUJP” in Spanish), – the federation of pensioners of the General Union of Workers (“Unión General de Trabajadores” or “UGT” in Spanish) – has actually ascertained that the average minimum pension of Spaniards is below the average minimum income, at about €614 per month, if calculated for both sexes, and down to €536 per month if only women pensioners are taken into consideration.³ The research study has revealed other elements that can shed light on how the overall situation of pensioners in Spain does not consist of a single block with the same possibilities, and that the level of the pensions changes depending on sex, civil status and level of education.

As already mentioned, the average minimum pension is actually lower for women (in particular for housewives), for pensioners who are not married or who are widowed, for those who live alone and for those without a diploma. In this respect, it should be borne in mind that more than 31.5% of men over 65 and 69.4% of women have no diploma or only a primary school leaver’s certificate (55%).

The afore-presented key data relating to the income of pensioners and the differences that characterise this important section of the population will help provide a better understanding of how variations in the prices for the goods basket have impacted the quality of life of these people.

The elderly in Spain spend about 43.8% of their income on food, 34.4% for housing (rent, loan, etc.), and 4.4% for transport. On the whole, these necessary expenditures as they are known (which moreover include items mentioned above as well as clothing and medicines) account for 91.3% or €608 per month (on the basis of the average minimum income). Only a minimum

³ “Estudio Sobre la distribución del Gasto y Consumo de las personas mayores que viven de forma independiente en su domicilio”, 2006, UNIATE, UPJP, Fundación Universidad Empresa, 006. The average pension calculated by this Study is lower than the figure of the Spanish National Statistical Institute, according to which the average pension in Spain is €644.



part of said income goes to free time activities and savings. It is important to underscore that these figures are based on a study carried out in 2006, and therefore prior to the financial crisis which has hit hard the real economy in Spain.

The purchasing power of the elderly in Spain was in difficulty already in 2006, having declined by 3.42% from the previous year. It is therefore highly likely that it has worsened further these last two years. This is chiefly due to the vertiginous increase in prices for important items in a pensioner's budget.

In 2007, spending on electricity accounted for 15% to 20% of one's income. The average increase from 2005 to 2007 is about 10%. In spite of the fact that the national press had in recent weeks announced reductions in energy costs, the bills have not gone perceptibly down in the short term. It is all the more difficult to contend that prices will fall in the medium term, as fuel prices are subject to wide cyclical variations.

The cost of urban and extra-urban transport has had a more limited impact on the income of pensioners, in part due to the reductions enjoyed by those over 60 when using public transport. There are considerable regional differences, as the cost of living is higher for pensioners who live in cities with more than 200,000 inhabitants.

The increase in food prices has had an even greater negative impact, as this expenditure item is extremely important for pensioners as it concerns more necessary goods. More specifically, food prices have gone up by 8% since 2005.

The cost of real estate, a sector now in serious difficulty in Spain, with house prices going down, deserves separate treatment. According to the Economist, the number of home sales in Spain slumped by 32% from the previous year. Nevertheless, this element does not favour a category like pensioners, who often own a house. If anything, it reduces the value of their property.

Life does not seem rosy for Spanish pensioners in future. Many difficulties have already been underscored by a report in 2006 financed by the Ministry of Labour and Social Policies. At that time, only 5% of the pensioners interviewed said that it was "easy" to make it to the end of the month. Once again, women and elderly persons with a low level of education (here once again, often women) were those who experienced a greater degree of difficulty. About 68% of those interviewed, on the other hand, said that they had no difficulty making it to the end of the month. It is nonetheless important to underscore, that these data had already registered a worsening of the situation compared with those contained in a similar statistical report relating to 2004 and 2005, when a higher number of people said they made it easily to the end of the month.

HUNGARY

Wage increases are calculated every year on the basis of a common proposal accepted in negotiations conducted in a tripartite joint committee (employers, trade unions and the government). A 5-7% increase was proposed for 2008.

The annual pension increases are calculated on the basis of the legislation on pensions, which is based on an index determined by reference to the forecast inflation and net salaries.

The shopping basket is calculated at the national level. The indices are taken into consideration as one of the two factors for the annual adjustment of wages and pensions.

In Hungary, fixed prices linked to the market are still in force. In the case of gas for domestic use, consumers benefit from social rates, and the price can therefore vary depending on the annual consumption.

The private consumer receives discounts and other benefits, depending on the number of dependents. There are no benefits concerning electricity consumption. The local authorities may grant other benefits to the underprivileged.

Certain consumer goods and services are subject to fixed prices. The public authorities can check and impose sanctions for the violation of state regulations. The violations can be sanctioned by consumer associations or users. Organisations of the civil society, including pensioners' organisations, can be consulted and acquire a role.

Social welfare measures include, in particular: the reimbursement of 50% of urban transport costs for pensioners, and free travel on all modes of transport, including extra-urban transport, for those over 65. Other benefits include access to cultural services in general (cinema, theatre, etc.).

There are programmes for getting out of poverty and for free medical services for those below a certain income level. The decentralised local authorities can initiate programmes for the homes for the poor.





4. Consumption on and purchasing power of pension income

The analysis of the cost of living should be gauged in the light of and in combination with the system of minimum wages or social income, or rather the forms of mutual assistance intended to fight against poverty.

This is a “sensitive” sector of the social apparatus of a State because selective intervention must strike its own balance between the efficacy of solidarity, that encourages expansion, and the principles of sustainability, that move in the other direction.

The expansion of solidarity determines the need to create a system that is sufficiently comprehensive and flexible to meet the real and urgent needs of the individual (and not of categories of individuals). Conversely, its inefficiency would mean maintaining or commandeering in a state of living without dignity. On the other hand, there is the problem of measuring resources that a community can plausibly allocate steadily to this item of social spending.

We know that social spending for the purposes of minimum pension or basic income for elderly persons is correlated with other social policies. For example, access to pension forms not tied to the previous formation of a capital may have effects on the accumulation of savings and the continuation to work, for those who so wish, to prolong their working life and to continue contributing to the pension system.

At issue are policies being continuously adjusted to respond to changes in behaviour that the consolidation of certain welfare aid instruments are causing in the way the community behaves.

Certain systems provide incentives for prolonging working life. This is an option for an individual who, in that capacity, must be able to save, or to improve his or her own pension situation. Although there is no statistical evidence, policies geared to minimum pensions or basic income are said to encourage the tendency to save for retirement on the part of workers.

Working longer (which in the view of FERPA, should not be compulsory but optional) is therefore one of the elements of sustainability of the public pension system. The cost of living must therefore be gauged from the capacity to react to the adjustment of the pension income, including in terms of the sources of income at the disposal of the pensioner in different income brackets – A truth blatant in its simplicity, and yet contradictory in practice. Whereas the experts have not come up with a right answer to the efficacy of the combined income from work and pension, the problem of opening up income channels for the elderly, including in the lower brackets, remains.

The analysis of the cost of living has shown the difficulty of predicting the trend of the cost of living and the fallaciousness of statistics in the short term, and we have seen moreover how necessary goods can be subjected to inflationist flare ups that put pensioners in a critical situation, while the political or economic radar fails to pick up the needy state of the individual.

In March 2008, the French trade unions organised a pensioners' demonstration to denounce the decline of the purchasing power of pensions, in particular the stress to which lower incomes were subjected. Pensions in France were raised by 1.1% last year, compared with an inflation rate of about 2.6%. The 14 million French pensioners are too large a number, compared with the 600 thousand individuals on social welfare benefit of €628 maximum. Vague promises from the French government followed as to the need to allocate resources for the financial crisis now at the gates.

The situation is similar in the United Kingdom. The official inflation rates (cf. the preceding paragraphs) do not register the impact of the exponential price increases; instead, in a game of means and weights, they dilute the increases that impact the quality of pension spending. The social protest therefore prods analysts to break down statistics with greater attention in order to understand the reason for the social hardship. The Daily Mail, a popular British tabloid, published a report in May 2008 on consumer prices for necessary goods (we have seen how these goods account for a good part of spending by those with a low income). The article showed how in one year, the spending of a pensioner went up by 20% with very high peaks for certain goods that compose the daily shopping basket such as, e.g. bread (+44%) and chicken (+41%), for an average increase for food of 19.1% (May 2007 – May 2008). For their part, energy costs had gone up by more than 12%. Then in the last 21 months, they underwent a sharp rise and then an unexpected and drastic relapse.

In Italy as in other countries, inflation data offset the trends in other goods, such as telecommunications and technology, which of course bring no great weight to bear on the shopping basket of pensioners with a low income.

France and the United Kingdom are two examples of the need shared by all EU countries to protect the purchasing power of those on a pension.

Should pension adjustments follow prices? Wages?

An argument for indexing pensions to prices can be based on the fact that consumption by pensioners is stable and may have even decreased through the years; it is worth pointing out that this has had a worsening effect on the relative income of pensioners, and in particular those on modest pensions. In point of fact, indexing pensions to prices removes pensions from average incomes, to the detriment chiefly of the lower income brackets.

Whereas a certain number of countries have adopted rules for adjusting pensions that are linked to prices (Belgium, Greece, Spain, France, Italy, Latvia, Lithuania, Poland, Portugal, the United Kingdom and Romania), others use indices that take into account trends in prices and wages (Bulgaria, Czech Republic, Estonia, Malta, Cyprus, Hungary and Slovakia), or essentially of in wages (Denmark, the Netherlands, Latvia, Slovenia, Finland, Sweden and the United Kingdom). In Germany, the indexing is based on wages and moderated by a sustainability factor that reflects changes in the ratio of those contributing to the pension system and those drawing a pension.

Furthermore, less favourable rules than the provisions on minimum income regarding other pension benefits may worsen the situation of the most destitute and more elderly persons. In most European countries, minimum pensions are adjusted in the same way as pensions in general. In a few Member States, the adjustments of social welfare income are more favourable, e.g. the higher pensions are increased at a lower pace in Cyprus, Italy, Latvia, Austria and Portugal, whereas in other states the adjustments of minimum pensions proceed at a low pace (Czech Republic, Finland and Sweden), because of the indexing on prices, while pensions in general are indexed also on wages. This means that many Member



States link the increase of minimum income to policy decisions taken from time to time in accordance with availability of resources and the perception, by governments, of the income needs of pensioners in the low-income bracket.

As a result, minimum pension benefits are actually linked to the condition of poverty.

Even when linked to prices, purchasing power is not maintained efficaciously. Pensioners on a low income are highly exposed to policy choices regarding the support for pension income. Indexing on prices does not guarantee any appropriate or timely adjustment, but generates social tensions periodically, especially owing to the inflationary dynamics of economic cycles which upset the balance in the shopping basket of reference.

The income opportunities vary from minimum pension benefits based on the principle of basic income (applicable not only to pensioners), to citizenship pensions (in the proper sense in that they guarantee basic income to all those living on the territory, generally over 65 years of age), and other forms of income aid. These forms of social solidarity are primarily for the benefit of pensioners.

Private pensions, on the other hand, are subject to very different mechanisms. They are frequent in high incomes and guarantee a better reconciliation of the pension income, expected and real, with purchasing power. Being “linked to the market,” they feel the full effect of the market, including the risk factor. It is very difficult to assess at this time the impact that the financial crisis may have on pension income. Private and collective pension savings have contributed to the speculation game. There is no evidence at present about the diversity of pensions funds on the proper behaviour on the financial market. Whereas there may be a very general awareness of a lesser propensity for investment risks on the part of pension funds, the scope of the financial crisis is such that every form of caution in investing takes precedence, and every form of investment in risk capital is penalised.

Whether it is difficult to sound alarms on the capacity of pension funds to expand pension benefits, expectations about the levels of pension income will probably be disappointed in future. Reviving the financial market could mean a recovery of the profitability of private pension funds. Policymakers are therefore faced with a serious dilemma, with no action pending.

The financial crisis that compresses the real economy penalises everyone, while governments are faced with trade-offs because of limited resources. More specifically, resources which, directly or indirectly, can be allocated for the benefit of those who take part in speculation for supplementary social security, may entail hardship for those who are counting on more social spending.

The choice is neither easy nor self-evident. In many Member States, the number of people on minimum pensions has been reduced thanks essentially to supplementary pension schemes – as confirmation that as pension systems mature, it is the elderly who benefit from them.

The financial crisis will however bring to a head contradictions that have never been resolved: intermittent employment, alternation between income and the capacity to save, all forms of discrimination are factors of widespread hardship, albeit segmented in terms of territorial distribution and social stratification. There are therefore pockets of poverty that

⁴ The press gave wide coverage to the demonstration, in particular Le Monde and France25 International news.

⁵ Cf. Daily Mail, 12 May 2008

are difficult to detect but which generate social tensions nonetheless. The crisis has done nothing else than exacerbate the contradictions just described.

It was pointed out at the beginning of this report that the potential purchasing power of pensions cannot be taken out of context of the income dynamics of working life, or of the capacity to save. The attitude to saving during one's working age determines the attitude to consume in the non-working phase. This may seem obvious, but it is not in fact. With regard to an all but totally public pension system, pension savings, or rather the postponement of consumption to the future, is not seen so much in terms of the individual's capacity to save as in the capacity of aid (or resources) that the State places at the disposal of the elderly. Today, the capacity of the elderly to save, including from their pension income, reflects the individual's earning history (wages) and capacity to save (where family care and the efficiency of the social welfare state also come into play). As shown in the FERPA report, the accumulation of resources to support savings for pension purposes has been shifted from the public to the private dimension, or rather savings for pensions have gradually shifted from a form of social policy – at a different pace but following a similar trend in EU Member States – to the responsibility of the individual – whereby the individual is made to assume responsibility, but also forced to perpetuate his or her life pattern in terms of consumption options in old age.

The hand of the state is limited to guiding the capacity of individuals to save for pension purposes and encourages them to resort to market mechanisms to make their savings grow. At times of a financial crisis, the co-existence of the public and private pillars does not come into question, although the role and the development of private funds differ widely from country to country. In a certain number of Member States, private pensions have not been fully developed yet, because courageous choices have not been taken to address in particular the payment phase of revenues.

The national experiences can be classified into four categories geared to a different functional approach to the pension system:

- (i) The first group consists of countries that use private funds in small dimensions and have no intention to change, in spite of the meagre revenues (e.g. France and Spain);
- (ii) The second group consists of Member States that have always assigned a partial role to private foresight in building up a pension for old age (e.g. Denmark, the Netherlands and the United Kingdom), an aspect nonetheless needs certain adjustments. Pension schemes with a retribution method or minimum pension schemes should protect against the risk of poverty, but cannot meet fully the expectations of a sufficient pension income, inasmuch as the final amount of said income is often completed by private funds to achieve a replacement full wage-pension effect;
- (iii) The third group consists of certain states who are redefining their required pension schemes towards private required pension schemes based on contributions to provide a prefinanced pension income alongside a pension that is not prefinanced (Bulgaria, Estonia, Latvia, Lithuania, Hungary, Poland, Slovakia and Switzerland). Clearly, part of the future adequacy of the pensions in these countries is based on these schemes (at times to a very considerable degree). Certain expectations are being nurtured from these schemes because they make a contribution to prevent the impoverishment of pensioners, and therefore to provide an adequate pension income;
- (iv) Finally, the fourth group includes the Member States with pension models based on retribution (often accompanied by minimum measures) which are shifting part of the



expected adequacy of the pension income today to current or future private pension schemes.

The spending capacity of the pensioner therefore depends on the capacity to strike a balance between the public and private dimension in directing savings for pension purposes and preventing impoverishment given the arbitrary yield of savings in terms of projected earnings in the long run. Our analysis should therefore be further supported by the capacity of the system to convert the expediency of spending in line with the cost of living (we have seen how the pensioner does not have the same scope of income opportunities as someone who is active on the labour market).

What is certain is that the income opportunities for pensioners vary in every state, because the pension models are different.

It should nonetheless be pointed out that the income opportunities of a pensioner in Europe stem from the public pension system, from private funds, but also from other benefits and pension income that can be combined to a different degree in different EU Member States. **The basic question from the point of view of the trade unions and of FERPA is that the strategic choices of each system at national level must always take into account the participation of and dialogue with the social partners.**

It is important for decisions to be preceded at all times by comparisons and by a search for an agreement that takes into account all the various aspects under discussion. **A more incisive presence of the European Commission would also be advisable at European level, at least with regard to common indications for the Member States. It is not enough for the Commission to focus simply on assessing the accounting and balance sheet aspects in relation to the Maastricht criteria.**

The FERPA report has shown that in EU countries, the pension system is based on non-prefinanced income, while the private system manages to cover at most one third of the overall income. It should be borne in mind that there are many countries (Greece, France, Malta, Luxembourg, Bulgaria, the Czech Republic, Estonia, Hungary, Italy, Latvia, Lithuania, Poland, Austria, Slovenia, Slovakia, Sweden and Romania) where private pensions are totally absent or absolutely marginal. In other Member States, the share of income from private pension funds varies from 5% to 20%: Belgium (20% of pensioners benefit from private pension funds for about a quarter of their net pension), Germany (in 2003, about 7% of the pension income came from collective company funds and social security funds), Finland (about 6%-7% of all pensions), Portugal (about 18% of pensions, although treated differently depending on the sector), and finally Sweden (between 15% and 20% of the overall income of those over 66).

In yet other Member States, private funds supplement the income of the elderly at a rate of 20-30%. These are Denmark, Ireland, the Netherlands and the United Kingdom.

Further in-depth examination reveals that integrated pensions feed the pensioner's income when the latter already has a high pension. For low incomes, integrated income forms are practically non-existent.

⁶ FERPA report, Purchasing Power of Pensions in Europe, February 2008.

5. Conclusions

In this report, we ascertained that the current crisis is the aftermath of a period of rapid economic expansion throughout the entire globe, which often benefited areas in the developing world. The weak point in this positive contingency was pinpointed in the governance of the economy. World governance is in an embryonic phase and a laissez-faire approach has perhaps been more of a necessity than a choice. The result, however, has been a contraction of the social welfare state in the life of citizens to the benefit of the market, that extends even to the services to enable citizens to lead a decent life.

At issue is “non-governance” of such phenomena that has led to dramatic differences in the distribution of wealth between the rich and the poor, and has penalised certain categories of citizens. These undoubtedly include pensioners, whose income is still strongly linked to the capacity of the state to redistribute wealth and to its social protection structures. In Europe in particular, budgetary constraints imposed on the States have led to a reduction in the mutual assistance capacity that typifies the public pension system, while the supplementary or integrated pension has not generated a source of income capable of making up for the shrinking purchasing power of public pensions.

The last table below shows that the risk of poverty for those over 65 in the European Union has remained unchanged since 1996, and that only countries that started with highly unfavourable economic conditions have reduced the risk of poverty among the elderly (Greece, Portugal, Ireland and the new Member States). The living conditions of the elderly in economically sound countries on the other hand have remained unchanged if not deteriorated (Germany, the Netherlands, Italy and France). The best performing countries are Denmark and Austria.

Furthermore, there has been a rather generalised increase in the poverty risk rate between 2006 and 2007.

Figure 15: Poverty risk rate among those over 65 (%)

geo\time	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
UE (27 pays)										19	19	19
UE (25 pays)			18	17	17	16		17	18	19	19	19
UE (15 pays)	20	18	18	17	17	18		19	19	20	20	21
Belgio	25	23	22	22	24	26		23	21	21	23	23
Bulgaria					15	15	14	14	16	18	18	
Repubblica Ceca						6				5	6	5
Danimarca						24		21	17	18	17	18
Germania	17	12	12	11	10	12				14	13	17
Estonia					16	18	16	17	20	20	25	33
Irlanda	22	27	33	34	42	44		41	40	33	27	29
Grecia	33	34	35	33	31	33		29	28	28	26	23
Spagna	14	16	15	16	19	22	28	28	30	29	31	28



geo\time	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
► Francia	18	17	18	19	19	11	10	11	15	16	16	13
Italia	18	17	17	14	13	17			21	23	22	22
Cipro								52		51	52	51
Lettonia					6					21	30	33
Lituania					14	12				17	22	30
Lussemburgo	9	9	9	8	9	7		11	8	7	8	7
Ungheria					8	12	8	10		6	9	6
Malta					20					21	19	21
Olanda	7	4	4	7	6	8	8	7		5	6	10
Austria	21	22	21	24	23	24		16	17	14	16	14
Polonia					8	7				7	8	8
Portogallo	36	37	35	33	33	30			29	28	26	26
Romania					17	19	19	20	17	17	19	19
Slovenia					21	20	19	19		20	20	19
Slovacchia										7	8	8
Finlandia	12	12	16	16	19	18	18	17	17	18	22	22
Svezia						16	15		14	11	12	11
Regno Unito	28	25	25	21	24	27	26	24		26	28	30
Croazia								31				
Turchia							23	21				
Islanda									10	9	10	15
Norvegia								21	19	19	18	14

Relying on official sources such as Eurostat and the OECD, and on data provided independently by pensioners' organisations affiliated with FERPA, the study has concluded that the loss of the purchasing power of pensions is real and not merely perceived to be so.

The adjustment mechanisms of public pensions are not capable of reflecting, in indices, the effect of the cost of living on the real behaviour of pensioners.

At issue are the scarcely concealed inefficiencies of economic growth, made all the more evident during the current period of recession.

Intermittent employment and pressure on wages moreover point to an even more difficult future for future pensioners. Savings for pension purposes are declining and supplementary and integrated pensions have betrayed the trust of the pensioners of today and tomorrow. People have difficulties to expound their own future consumption given the cynicism about financial speculation, unless more efficient and more participatory government mechanisms are introduced.

This final paragraph is intended to draw attention to trust and the social dialogue.

The trust of European citizens in the continent's economy is in a freefall. This will in turn influence the behaviour of workers and pensioners. FERPA is endeavouring, together with ETUC, to ensure that political power takes concrete steps to provide immediate support for the purchasing power of pensions (obviously in addition to wages). It is a matter of inducing sound behaviour in institutions and in people through a mix of policy and legislation proposals to reform the pension systems without seeking sustainability exclusively through

the contraction of earnings. The European Commission should do its part and monetary policy must also be geared to these objectives. In other words, what is needed is a tax system that renews the elements of mutual assistance and sets common criteria at European level to avoid any form of social dumping. It is necessary, moreover to succeed in imposing responsible management on private savings for pension purposes to secure the expected earnings.

On this last point, the study has identified different trends in European countries. The approach to private foresight is affected by philosophies and ethics that differ from system to system and from country to country. The search for an unambiguous formula at European level is complicated and perhaps not necessary either. A social sustainable balance may in fact be struck with various recipes. But this should not discharge the European or the national institutions, as the former issue from the latter. The need to consolidate the social dialogue method can certainly be shared. As already seen, the well-being of the pensioners of today and tomorrow depends on a complex system of choices that covers the entire span of an individual's working life. Consequently, the pension issue should be part of every choice concerning wages, the labour market, the taxation of work and the general tax system, the governance of the financial markets and the protection of savings. But it could go further: the social dialogue must remain a priority to be adopted by all EU decision-making centres, via the states. Organisations representing pensioners are capable of taking action at several levels and thus of making their own contribution to European economic and social governance to protect the quality of life of the pensioners of today and tomorrow.



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