

Adjustment of Pensions in European States

The following table describes the basis for adjusting pensions in payment in states in the European Economic Area (European Union plus Iceland, Liechtenstein and Norway) and Switzerland. The date on which pensions are adjusted varies between states: in some cases the increase takes place on 1st January; in others it make take place, for instance, in April or July or November.

Most states determine increases in line with increases in an index of wages and/or prices over a past period. This means that pension increases are always to catch up with increases in wages or prices and can mean that, where there is high inflation, pensioners' incomes and purchasing ability are proportionately lower in the period before the adjustment. Some states, however, calculate adjustments on the basis of anticipated or projected increases during the coming year. Although this is intended to maintain pensioners' income and purchasing power, it does not always do so, for instance, if Governments adopt a figure that either intentionally understates the anticipated increase to avoid pressure for salary increases, or is based more on hope than expectation.

Increases in line with price increases is intended to maintain the purchasing power and net standard of living of pensioners, but this has the effect of pensioners having a lower standard of living in comparison with the employed population whose standard of living increases as their wages increase in comparison with prices. Increases in line with wages ensure that pensioners' standard of living keeps pace with that of the employed population and so improves as their income improves in comparison with prices. (This assumes that wage inflation is higher than price inflation, which, except on very rare occasions, has always been the case in recent years.) Some states adopt a formula taking account of both wage and price inflation, thereby improving pensioners' standard of living, but not to the same extent as the employed population. The United Kingdom used to have a provision under which adjustments were in line with the higher of wage or price inflation, which had the effect of pensioners' standard of living always keeping pace with, but occasionally outperforming, the average earnings and purchasing power of the employed population. However, this was deemed to be too expensive and so was abolished.

Although most states have a statutory basis for annual adjustments, the governments of some states from time to time make provision for higher increases than the statutory requirement. The British government, for instance, undertook to ensure that, although statutory increases were required to be in line with the retail price index, they would guarantee that the annual increase would not be less than a fixed cash amount where the statutory requirement was less than that amount.

Where states have a social assistance scheme for the elderly in addition to the social insurance scheme, they may choose to increase the social assistance level at a higher rate than the social insurance pension to direct higher income to the poorest pensioners. Italy and Austria provide a lower increase in the social insurance pension to those with high state old age pensions than

to those with lower state old age pensions.

Whereas most state social insurance pension schemes in Europe operate on a pay-as-you-go basis, certain state provisions and almost all 2nd and 3rd pillar supplementary pension schemes operate on a funded basis. For these schemes, whether there is an adjustment and, if so, how it is calculated, may depend on the rules of the scheme and the ability of the scheme to pay following an actuarial review. Some states impose a requirement for a limited statutory increase of pensions paid by supplementary schemes, but the schemes may provide discretionary increases above, or where there is no, statutory requirement. Where the supplementary pension scheme requires the participant to receive an annuity, the annuitant may in some cases choose whether to have annuity that is at a fixed rate (with a higher initial rate) or has provision for indexation adjustments at or up to a specified rate.

Where supplementary schemes operate on a pay-as-you-go basis, eg public service schemes in the United Kingdom, increases are generally on the same basis as for state social insurance schemes.

Country	Adjustment of state pensions
Belgium	Automatic annual adjustment of 2% if the average consumer price index increases by 2% from previous basis.
Bulgaria	Automatic annual increase in accordance with an index of 50% consumer price increases and 50% increase in contributory income of the preceding year.
Czech Republic	Automatic annual increase by the higher of 100% of the increase in the price index or 1/3 rd of the increase in average wages, with further adjustments if the price index increase exceeds 10%.
Denmark	Social pension: Adjustment based on wage increases. Supplementary pension: adjusted when the scheme has sufficient funds.
Germany	Adjusted annually in line with income development on the basis of the new current pension value. This is determined in accordance with changes in the contribution rate, private pension provision and demographic factors.
Estonia	Automatic annual increase in accordance with an index of 50% consumer price increases and 50% increase in social tax revenues.
Greece	Adjusted annually in accordance with the Government's income policy, generally in accordance with the consumer price index.
Spain	Adjusted annually in accordance with the anticipated increase in the consumer price index.
France	Adjusted annually in accordance with the anticipated increase in the consumer price index (excluding tobacco).
Ireland	Normally there is an annual adjustment at a rate determined by the Government.
Iceland	National pension: Adjusted annually in accordance with the state budget taking account of wage trends, but always at least in line with increases in the cost of living index. Supplementary pension: Adjusted according to the decision of the pension fund in the light of an actuarial assessment.
Italy	Annual adjustment in line with increases in the cost of living, but for pensions up to twice the minimum pension at 100% of that increase; for pensions between twice and 3 times the minimum pension at 90% of that increase; and for pensions exceeding 3 times the minimum pension at 75% of that increase.

Cyprus	<p>Basic pension: adjusted annually in accordance with basic insurable earnings, which are increased annually in line with an annual survey of wages and salaries.</p> <p>Supplementary pension: adjusted in accordance with the cost of living increase on the basis of a comparison of the last 6 months of the two previous years.</p> <p>In addition, basic and supplementary pensions are also increased after 6 months if the increase in the cost of living index for 1st 6 months of the year is at least 1% compared with last 6 months of previous year, with the half-year increase offset against the next full year increase.</p>
Latvia	<p>Annual adjustment according to an index consisting of the level of prices and earnings on which social insurance contributions are based. Pensions up to 3 times the state social security level are adjusted every 6 months, with one 6-monthly increase based on increases in prices and the other 6-monthly increase based on prices and social insurance earnings (50% of the real growth of aggregate wages); pensions above 3 times the state social security level are adjusted only once a year in accordance with price increases, but pensions above 5 times the state social security level are not adjusted.</p>
Liechtenstein	<p>1st pillar: Adjusted every 2 years according to the average of increases of wages and prices.</p> <p>2nd Pillar: Adjustment determined by the rules of each pension fund.</p>
Lithuania	<p>Basic part of pension: increased according to a decision of the Government;</p> <p>Supplementary part of the pension: increased in accordance with average insured income.</p>
Luxembourg	<p>Automatically increased in line with price increases when the index increases by 2.5%</p>
Hungary	<p>1st pillar pension: Annual adjustment in January according to 50% of the predicted increase in the consumer price index and 50% of the predicted net increase in net average monthly earnings. Corrections are made in November according to changes in consumer prices and net average monthly earnings.</p> <p>2nd Pillar pension: adjusted in accordance with the decision of the pension fund in the light of an actuarial assessment.</p>
Malta	<p>Annual adjustment according to a formula based on increases in the cost of living and increases in wages awarded to the present occupant of the last post occupied by the retired person.</p>
Netherlands	<p>Automatic adjustment every 6 months in line with average wages.</p>
Norway	<p>Annual adjustment by an amount determined by the Parliament.</p>
Austria	<p>Annual adjustment starting from the second year after retirement. The increase is by a fixed percentage, subject to a ceiling above which the increase is a fixed cash amount.</p>
Poland	<p>Annual adjustment by price increases, but only when the price index has increased to at least 105% of the rate at the previous increase.</p>
Portugal	<p>Normally increased annually in accordance with a decision by the Government, taking account of price increases.</p>
Romania	<p>Adjustment of pension point value by at least the projected inflation rate for the following year. The pension point value must be not less than 30% or more than 50% of the projected average gross wage.</p>
Switzerland	<p>1st pillar: Adjusted every 2 years in the light of wage and price increases, but adjusted earlier if the price index has increased by more than 4% in one year.</p> <p>2nd pillar: Adjusted in line with price increases, subject to the financial</p>

	position of the pension institution.
Slovenia	Adjusted twice a year in accordance with increases in average monthly salaries.
Slovakia	Adjustment every 6 months; the 1 st adjustment being based on the increase in gross earnings for the 3 rd quarter of the previous year compared with the 3 rd quarter of the year before that; the 2 nd adjustment being determined by a formula taking account of increases in consumer prices and average wages.
Finland	National pension: adjusted annually in accordance with increases in the cost of living index. Statutory earnings-related pension: adjusted annually in line with the earnings-related pensions index, which has a weighting of 80% of changes in the price level and 20% in changes in the earnings level.
Sweden	Guaranteed pension and Maintenance support for the elderly: Annual adjustment on the basis of price increases. Supplementary pension and Earnings-related old age pension: Adjusted in accordance with increases in average income.
United Kingdom	Adjusted annually in line with increases in the general level of prices, but legislation is being adopted to increase pensions in line with wages.