Opinion of the European Economic and Social Committee on the Green Paper — Towards adequate, sustainable and safe European pension systems

COM(2010) 365 final

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On 9 July 2010, the European Commission decided to consult the European Economic and Social Committee, under Article 304 of the Treaty on the Functioning of the European Union, on the

Green Paper – Towards adequate, sustainable and safe European pension systems

COM(2010) 365 final.

The Section for Employment, Social Affairs and Citizenship, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 16 December 2010.

At its 468th plenary session, held on 19 and 20 January 2011 (meeting of 20 January 2011), the European Economic and Social Committee adopted the following opinion by 185 votes to 9 with 8 abstentions.

1. Main recommendations

1.1 As stated in the **Green Paper – Towards adequate, sustainable and safe European pension systems**, the Member States are free to define and fully responsible for defining the fundamentals of their social security systems and thus the design and performance of their pension systems. However, the EESC believes that a coordinated EU-level approach can contribute to coherence and ensure that national pension systems are in line with the social and employment pillars of the Europe 2020 strategy, bearing in mind that employment is crucial for the sustainability of pension systems. The EESC's comments should be taken as a whole, not picked out individually.

1.2 The reform of pension systems is a matter decided at national level, taking account of country-specific conditions and history and directed towards guaranteeing an adequate and sustainable pension system. No specific type of pension reform should be promoted or penalised – either directly or indirectly – by EU regulations. In its opinions adopted in 2000 and 2004 [1], the EESC stressed that this area should be left to the social partners. Despite major differences in national pension systems, the EESC feels that there are enough common features which could be tackled at EU level, from policy coordination to regulation, without exceeding EU competences in the area of funded pension schemes.

1.3 The proposals in the Green Paper should be reconsidered in the broader context of the social market economy. The crisis is detrimental to growth, employment and pensions. The EU would be fulfilling its supportive role by setting up in the same time a structured recovery policy designed to increase quality oriented growth by the means of active labour policy, vocational training, investments and innovation thus promoting the creation of more and decent workplaces so stabilising the pay-as-you-go schemes existing in the Member States. These schemes are powerful 'shock-absorbers' in times of crisis. Ahead of a possible shifting from fully solidarity-based pension schemes to mixed schemes (Pay-As-You-Go and pension funds) Member States, using among others the argument that solidarity-based Pay-As-You-Go schemes increase public deficit, should keep in mind that funded pension schemes could not help people overcome the effects of economic crises – rather, such schemes could be damaged by every financial and stock market crisis.

1.4 As a result of low birth rates and rising life expectancy, Europe is ageing. The EESC agrees that projections on demographics should be analysed and monitored on a regular basis to allow adequate and timely adjustments of pension systems to new conditions. However, these projections, including future public expenditure on pensions, must be used and viewed with care, as they may include many assumptions hard to predict in the long term [2]. Eurostat's assumption that life

[1] EESC opinions: OJ C 14, 16.1.2001, p. 50 and OJ C 157, 28.6.2005, p. 120.

[2] Projections carried out in 2000 for 2010 by the OECD, Eurostat or even the United Nations did not match actual developments.

expectancy will increase by seven years in the EU over the next 40 years, although based on the best expert knowledge, cannot be certain. Further improvements in longevity can be influenced by changes in working and living conditions. The EESC considers that the proposals made by the Commission in the Green Paper, which are based essentially on demographics and 50-year projections, fail to take into account the fact that the effects of the crisis on pension schemes owe more to the lack of jobs and investment than to demography.

1.5 The EESC doubts that a mere rise in legal retirement age can solve the problems connected with demographic challenges. On the contrary, it believes that this could push millions of elderly people below the poverty line, particularly women. What is needed is to increase the effective retirement age up to the existing legal retirement age using initiatives to foster extended working life, flanked by effective growth and employment policies. Only a real 'active ageing' policy, aimed at increased participation in training and lifelong learning, can sustainably boost employment rates for older people, who give up work early due to health problems, the intensity of work, early dismissals, and lack of opportunities for training or re-entering the labour market. In addition, a rise in legal retirement age can increase pressure on other pillars of social security ([3]), such as invalidity pensions or minimum income, as happened in some Member States, making the progress towards healthier public finances fake, so it needs to be considered on a voluntary basis.

1.6 Automatic adjustment mechanisms for retirement age, based either on longer life expectancy or demographic change, are assessed as dangerous for society as a whole and therefore not supported by the EESC. Most of these mechanisms automatically increase retirement age in correlation with extended life expectancy and other economic or labour market parameters. Such fundamental decisions on living conditions should be taken by parliaments, not computers, after a broad public debate, including social partners and other important stakeholders. In addition, any Member State introducing this mechanism should take into account the fact that although it reduces public pressure against reforms, in the absence of real job opportunities for older workers it could shift financial support for these workers to other social security pillars. Thus, implementing bluntly this mechanism into pension schemes to make pensions adequate and sustainable would fail to deliver the promised benefits.

1.7 Both Pay-As-You-Go and funded schemes are affected by the current economic crisis but in a different way. It should be stressed that the launch of funded mandatory pension schemes in some Member States in the 1990s was seen as a way of avoiding pension risks, such as sustainability or adequacy, caused by population ageing. The financial crisis and its consequences show that funded mandatory pension schemes are exposed to specific financial risks. Nevertheless, Pay-as-You-Go pension schemes are affected as well by economic crisis and ageing, due to the reduction of the aggregated wage sum. It is now clear that all pension schemes, regardless of financing method, can be affected both, but in different ways, by economic crises and by ageing. Therefore, good management and supervision of these schemes and economic policy are necessary to reduce considerably the risks that threaten their sustainability. Despite the diversity of pension systems in the EU, attempts to ensure adequacy and sustainability of these systems must take a holistic approach. The EESC believes that Pay-As-You-Go mandatory schemes must continue to play a fundamental role in assuring future pensions and therefore special attention should be devoted to them in order to inverse the observed tendency in many EU countries of decreased replacement ratios.

1.8 At a time of population ageing, success in ensuring sustainable public finances will depend on the EU's efforts in the following key areas: supporting quantity and quality of employment, raising productivity and economic performance, improving flexicurity in the labour market, lifelong learning, immigration and the integration of migrants. The EESC believes that the Commission should recommend working on a concept of employment for all, with decent work at every time of life, focusing in particular on bringing young people into the labour market, fostering active ageing and participation in training and lifelong learning. What people want is for everyone to work and work better, starting now. This means that it is crucial to create the right conditions to create new jobs.

1.9 The EESC underlines that a pension system must be credible and adequate, what implies searching for and implementing new financial resources in order to guarantee an intergenerational balance. Only then will future generations contribute to a pension system, a crucial condition for making pension schemes sustainable. Pension systems must be transparent, and information and statistics on their functioning as well as on all rights of the participants must be available and understandable. Training in financial literacy should become part of school curricula.

1.10 The EESC urges the Member States and the Commission to make gender equality a reality. Different retirement ages for women and men should be reviewed. When combined with women's lower retirement age, the interrelationship between benefits and demographic factors puts women at higher risk of poverty in old age. This adds to women's already higher risk of earning lower pensions as a

([3]) This phenomenon took place during the last 10 years in some Member States: Eurostat: Population and social conditions; Statistics in focus 40/2009.

result of lower wages (gender pay gap), longer parental breaks and higher risk of long term unemployment. Women's careers are also more unstable. In this sense it is important to avoid long periods of disconnection with the labour market. For example improved provision of care facilities for children and elderly can help considerably many women entering and remaining on the labour market. The EESC urges the Member States to implement real policies addressing those issues.

1.11 The EESC reaffirms that pensions are not, as stated in the Green Paper, a 'reward' but rather a form of deferred wage or saving, irrespective of the type of system. Pensioners are a very important socio-economic category and should not be seen as a burden but a key economic player comprising on average 25 % of the population, who fuel global demand.

1.12 It should be borne in mind that even in Member States with Pay-As-You-Go schemes, the voluntary funded-pension schemes cannot be filled only by employees able to put money aside. In case of mandatory pension funded systems, if they were to become standard practice and the Pay-As-You-Go schemes were to shift partly towards funded pension schemes, the result must avoid creating inequalities and jeopardising the income of future pensioners.

1.13 Adequacy and sustainability of pensions should be considered as a priority both from a macroeconomic and a social perspective. This is a vital issue for the economy, and so the competent authorities should consider looking for sources of funding or ways of complementing it, other than levies on salaries, to help financing the pension systems.

1.14 The Commission should encourage the Member States to reform national pension schemes for reasons of adequacy, sustainability and security, with strong participation and involvement by the social partners.

2. Responses to questions put by the European Commission

2.1 *How can the EU support Member States' efforts to strengthen the adequacy of pension systems? Should the EU seek to define better what an adequate retirement income might entail?*

2.1.1 The Commission's first step should be to define guiding principles of adequacy at EU level. Pensions must offer material security and dignity. There are many EU instruments providing support for Member States. These include the Open Method of Coordination, the Stability and Growth Pact and the Stockholm Strategy [4]. Similarly, under the TFEU, regulations on social security and pension schemes can be approved at EU level. The EESC acknowledges the difficulty of regulating at EU level, but the Commission could assess and, if necessary, review the existing regulatory framework especially concerning funded pension schemes at least in the following areas:

— the prudential aspects of investment for funded pension schemes;

— gender aspects of funded pension schemes;

— solvency of all funded pension schemes;

— administration costs of funded pension schemes; and

— guarantee systems for privately administered pension schemes.

2.1.2 The assessment should look, in particular, at the development of mandatory funded pension systems managed by private institutions with individual choice, which some Member States began to introduce in the late 1990s. The existing EU regulation is based on the experiences of countries which have not included this kind of solution in their pension systems. Therefore, the Commission should focus specifically on mandatory funded pension systems, looking at:

— the treatment of assets of these schemes from the perspective of public finance;

— the issue of dealing with currency risk;

— ensuring proper supervision to guarantee appropriate safety for such schemes, which have a certain degree of public guarantees.

The EESC recommends caution when reforming, as transferring part of the contributions currently tapped by Pay-As-You-Go systems into funded systems should not weaken Pay-As-You-Go systems, in order to guarantee real benefit for future pensioners. The absence of effective regulation leads to increased financial risk, especially in times of economic crisis. Pension fund investments should take into account the need for lifecycle asset allocation.

[4] Council Conclusions – March 2001.

2.1.3 The EESC considers that under the OMC, the Social Protection Committee and its Indicators Sub-Group, supported by the Economic Policy Committee and its Working Group on Ageing Populations, could develop and improve instruments for evaluating the potential impact of ageing on the sustainability of public finances and decent pension. Calculations of poverty risk for pensioners' households based on the general Eurostat method fail to shed sufficient light on pensioners' exposure to poverty, given the different income and expenditure structure of these households. A better method for estimating pensioners' exposure to poverty should be developed. It could also monitor the adequacy of retirement income. More statistical estimates should be carried out to evaluate the adequacy of pensions in the light of their ability to prevent poverty in old age and to ensure decent living standards for pensioners, allowing participation in public, social and cultural life ([5]). However, the adequacy of pensions needs to be defined at national level.

2.2 *Is the existing pension framework at the EU level sufficient to ensure sustainable public finances?*

2.2.1 The European pension framework focuses on monitoring future spending on the basis of accepted rules. This method pushes policy-makers to focus on the cut-off point for their projections. The EESC stresses that monitoring the general level of pension system liabilities is fundamental. Accordingly, the current framework could be supplemented by monitoring and reporting on implicit pension liabilities using an approved methodology.

2.2.2 Consideration could be given to revising Stability and Growth Pact rules to ensure that the outcome of reforms (including the shift from fully Pay-As-You-Go to partially funded pension systems) leading to changes in the financing of pension systems, which increase explicit and reduce implicit liabilities, are reflected appropriately. If this were done, such reforms, aimed at resolving long-term sustainability challenges, would not be penalised in the short term due to higher explicit public debt.

2.2.3 However, promoting today effective reforms on the basis of 2060 projections may lead to missing the target of adequacy and sustainability of pensions. The EESC recommends supplementing mandatory Pay-As-You-Go pension systems with buffer funds on a case-by-case basis in order to avoid risks of rapid adjustments for the most vulnerable.

2.2.4 The EESC considers the question of the Commission to be misleading for the general public. It is essential to guarantee sustainable public finances. This has to be done at national level and involves much more than merely looking at pension systems.

2.3 *How can higher effective retirement ages best be achieved and how could increases in pensionable ages contribute? Should automatic adjustment mechanisms related to demographic changes be introduced in pension systems in order to balance the time spent in work and in retirement? What role could the EU level play in this regard?*

2.3.1 By 2020, the legal retirement age in most Member States will be 65. According to Eurostat data, the average effective retirement age in the EU in 2008 was 61.4 ([6]). However, the employment rate of people in the 55-64 age bracket is still low, at around 40 %. Initiatives to create jobs for older workers, to change employers' attitudes to this age group and to change the attitudes of older employees themselves as well as initiatives to create conditions for active ageing are needed, as the introduction of automatic adjustment mechanisms for retirement age leading to increased legal retirement ages would shift millions of workers to other pillars of the social protection system (i.e. unemployment benefit, invalidity pension or guaranteed minimum income), with the risk of poverty for this category rising sharply. The EESC believes that policies supporting employment should be a priority in the EU. The key response to the demographic challenge has to be targeted at growth policy and increasing employment.

2.3.2 It is vital to promote EU-level initiatives under the current Europe 2020 strategy to give workers the opportunity to work. Member States should enhance employability and establish conditions for businesses to create jobs and employees to remain in employment if they so wish. Promoting longer working lives requires joint efforts on the part of the state, employers and individuals. Employers need vigorous support to provide more jobs for older workers, who quit work early due to health problems and working conditions, the intensity of work, early dismissal as well as due to lack of opportunities for training or re-entering the labour market. Elderly people should also be encouraged and stimulated in order to enhance their employability and to remain active in the labour market. Given that the right to retire is a fundamental right, any automatic increase in legal retirement age would be out of the question. The EESC notes that the issue of legal retirement age is a separate issue, distinct from that of the length of time spent contributing or paying in.

([5]) Private pension schemes, European Commission, 2009, page 5.

([6]) Eurostat, MISSOC, Ageing Report, 2010 Interim Joint Report on pensions of the Economic Policy Committee and the Social Protection Committee.

2.3.3 Whether merely raising the legal retirement age can increase the effective retirement age is debatable. This would certainly be the case if active labour market policies, proper industrial relations, active ageing strategies and measures to enhance solidarity in the pension system were not implemented. Only a conscious policy of 'active ageing', fostering further training and lifelong learning can raise the employment of older people.

2.3.4 The EESC is convinced that automatic adjustment mechanisms cannot replace a standard political decision. Fundamental decisions on people's living conditions have to be taken by parliaments after a broad public debate. If they were implemented, automatic adjustments would risk inappropriately combining extensions to periods of employment and retirement. In the past, changes in life expectancy have been accompanied by longer periods of education and retirement and reductions in the time spent in active employment. Increasing the retirement age should not be a stand-alone measure but should also be flanked by measures to improve employment opportunities for people close to retirement.

2.4 *How can the implementation of the Europe 2020 strategy be used to promote longer employment, its benefits to business and to address age discrimination in the labour market?*

2.4.1 Extending employment is relevant to all the goals of the Europe 2020 strategy. The social partners must be included in the initiatives oriented towards increasing the employment rate to 75 % of the active population. The EESC considers that a special approach is needed to meet the challenge of increasing the employment rate in the 55-64 age group. The EESC recommends that the Member States set a target negotiated with the social partners for this age group in their National Reform Programmes.

2.4.2 In the past, the EESC has issued detailed recommendations for the EU and the Member States [7] on policies encouraging longer employment. Alongside lifelong vocational learning, active labour market measures, financial incentives to continue in employment, including for self-employed workers, and changing corporate attitudes to older employees, the following measures must also be promoted to offer new choices to older workers:

— amending legislation which, in some Member States, does not allow salaries and pensions to be combined for pensioners or beneficiaries of invalidity pensions who wish to work;

— introducing a bonus system to encourage workers to continue working beyond the legal age of retirement: benefits accrued after reaching retirement age should be more attractive than those acquired previously;

— encouraging the Member States to work with the social partners on the issue of onerous employment;

— offering comprehensive advice and support for jobseekers and rehabilitation measures for long-term reintegration into the labour market;

— implementing socially acceptable incentives for later retirement and, where desirable, development of attractive models for a flexible transition from work to retirement;

— measures alleviating the physical and mental burden of work enabling employees to remain longer in employment;

— encouraging older workers to upgrade their skills;

— awareness-raising among older workers and companies, especially SMEs, about innovative staff management and organisation of work favourable to older workers [8].

2.4.3 Policies favouring longer employment should also address the issue of young people entering the labour market much later then previous generations. Extending working life also means tackling both unemployment, in particular long-term unemployed, and career breaks caused by childrearing, caring for a dependant family member, or temporary disability.

2.5 *In which way should the Directive on Institutions for Occupational Retirement Provision be amended to improve the conditions for cross-border activity?*

2.5.1 The Commission states in its report [9] on the implementation of the Directive on Institutions for Occupational Retirement Provision (IORP) that there are no reasons to amend the rules at this time. If after an assessment of its functioning a revision of the directive is needed, the EESC believes that the ambiguity surrounding the expression 'venture capital markets' should be addressed as it could lead to risks for

(7) EESC opinion (OJ C 157, 28.6.2005, p. 120).

(8) EESC opinions OJ C 256, 27.10.2007, p. 93 and OJ C 228, 22.9.2009, p. 24.

(9) COM(2009) 203 final.

pension funds and their members. Prudential aspects need to be clarified, and the right of funds to invest assets in risky financial instruments must be limited.

2.5.2 The EESC notes the possibility of additional individual **voluntary** private pension schemes, functioning alongside the current pension systems. In this context, the possibility of European guarantees could be studied in order to benefit cross-border workers. The demand for and possibility of developing pan-European individual pension accounts (along the lines of the Individual Retirement Accounts in the USA or a similar system (IKE) in Poland) **for mobile workers** could be studied, including the principles of operation, supervision and monitoring of such a system. Here the Commission could also consider using the 28th Regime, as proposed in the Monti Report and recommended by the EESC ([10]).

2.6 *What should be the scope of schemes covered by EU level action on removing obstacles for mobility?*

Should the EU look again at the issue of transfers or would minimum standards on acquisition and preservation plus a tracking service for all types of pension rights be a better solution?

2.6.1 EU regulations on the coordination of social security systems have proven to be extremely useful in protecting mobile workers. They have supported the principle of the accrual of pension rights for insurance periods spent in another Member State. The application of the same principle, adapted to all supplementary – occupational and individual - funded pension schemes, could be investigated The EESC believes that consideration should be given to the option of cross-border accrual of pension rights in funded-pension schemes.

2.6.2 The EESC asks the Commission to assess the option of defining a basic framework at EU level for the cross-border accrual and preservation of all pension rights. However, it believes that it would be difficult to combine this with the freedom of choice of the Member States. A tracking service for these rights coordinated at EU level would be useful. Likewise, within countries, European labour market mobility requires mobility of pension rights between employers. Each EU regulation should reflect the increased diversity of pension provision. Cross-border mobility of workers should be encouraged by removing barriers to the mobility, in particular tax and administrative burden, for all pension rights accumulated in funded voluntary pension schemes.

([10]) OJ C 21, 21.1.2011, p. 26.

2.7 *Does current EU legislation need reviewing to ensure a consistent regulation and supervision of funded (i.e. backed by a fund of assets) pension schemes and products? If so, which elements?*

How could European regulation or a code of good practice help Member States achieve a better balance for pension savers and pension providers between risks, security and affordability?

2.7.1 The Commission acknowledges that EU regulations on funded pension schemes are patchy and inadequate. The EESC urges the Commission to evaluate and, if necessary, consider the possibility of regulating the accumulation and payout phases of these schemes at EU level, analysing the following:

— the prudential aspects of investment;

— gender aspects;

— solvency;

— costs;

— non-discrimination in accessing the scheme (coverage);

— guarantees for vested pension rights;

— minimum requirements on information provided for individuals covered by the scheme;

— guarantee or minimum return systems; and

— supervision.

2.7.2 In the case of many funded pension schemes with defined contributions, the risks are largely borne by the participants. The administration costs of these schemes are also high. The EESC feels that some aspects of funded pension schemes need to be evaluated and, if necessary, regulated at EU level. According to the 2010 EPC Ageing Report, these pension schemes will play an important role in some Member States in assuring a decent income for future pensioners. Common European principles could therefore help Member States to ensure that these pension schemes, managed by financial institutions, are efficient and operate in the best interest of pensioners. The profits of pension fund managers should be performance-related and linked to the profits of pension fund members. A code of good practice is useful but insufficient. Payout systems from mandatory funded schemes are also a challenge that should be further discussed and analysed within the framework of the OMC.

2.8 *What should an equivalent solvency regime for pension funds look like?*

2.8.1 The Solvency II Directive focuses on general and life insurance and therefore could not be applied to pension products. However, the EESC believes that it could be a good example for designing a similar system for funded pensions, given the specific nature of pension products and what distinguishes them from insurance products.

2.8.2 A general system for the solvency of pension systems at national level, coordinated at EU level, would be the best solution for ensuring the solvency of all funded pension schemes, regardless of their structure. A similar type of solvency regime should cover at least the following:

— monitoring implicit liabilities;

— monitoring solvency and the level of reserves for mandatory funded pension systems;

— monitoring the level of funding and potential risks for occupational pension schemes;

— setting up an institution at national level to ensure solvency of occupational pension schemes [11].

2.9 *Should the protection provided by EU legislation in the case of the insolvency of pension sponsoring employers be enhanced and if so how?*

2.9.1 The occupational pension schemes and mandatory funded systems where they exist, play or will play an important role in ensuring a decent retirement income. The EESC considers that the EU should require Member States to regulate the setting-up of guarantee mechanisms (in the form of special funds) to protect future retirement income.

2.10 *Is there a case for modernising the current minimum information disclosure requirements for pension products (e.g. in terms of comparability, standardisation and clarity)?*

Should the EU develop a common approach for default options about participation and investment choice?

2.10.1 Funded pension products are complex and choice and responsibility are increasingly placed with the individual. In this context, the EESC believes that the EU should ensure that the regulatory framework at national level is improved to cover all pension schemes. A common approach through guidelines at EU level to investment choice and minimum information obligations (in particular on risks for participants) for pension providers is imperative.

2.10.2 The Commission admits that fully informed decisions by individuals are a factor in the adequate provision of pensions. The EESC calls on the Commission to introduce an EU initiative to raise citizens' level of financial literacy with regard to pension products. Given the complexity of this issue, the heavy responsibility for making strategic choices cannot be borne by individuals alone and, while it is primarily a government responsibility, the social partners should be involved as much as possible.

2.11 *Should the policy coordination framework at EU level be strengthened? If so, which elements need strengthening in order to improve the design and implementation of pension policy through an integrated approach? Would the creation of a platform for monitoring all aspects of pension policy in an integrated manner be part of the way forward?*

2.11.1 The policy coordination framework at EU level is currently relatively patchy. The EESC welcomes the Commission's idea of a common monitoring platform for all aspects of pensions, bringing together the public authorities, the social partners, civil society and the pension sector. The platform should make it possible to compare the situations of Member States and the living standards of retired people using a raft of indicators.

2.11.2 A common platform for monitoring all aspects of pension policy, including adequacy, coverage, risk of poverty, financial stability, investments, risk and solvency, would require up-to-date and reliable data. An EU methodology on pension statistics would therefore need to be developed, involving social partners and other main stakeholders. Similar instruments would also need to be developed to monitor the implicit liabilities of pension schemes operating at national level.

Brussels, 20 January 2011.

The President
of the European Economic and Social Committee
Staffan NILSSON

[11] Along similar lines to the PBGC (Pension Benefit Guaranty Corporation) which operates in the USA.