Opinion of the European Economic and Social Committee on the 'White paper — An agenda for adequate, safe and sustainable pensions'

COM(2012) 55 final

(2012/C 299/21)

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On 16 February 2012, 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

White paper - An agenda for adequate, safe and sustainable pensions

COM(2012) 55 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 27 June 2012.

At its 482nd plenary session, held on 11 and 12 July 2012 (meeting of 12 July 2012), the European Economic and Social Committee adopted the following opinion by 180 votes to 27 with 19 abstentions.

1. Conclusions and recommendations

1.1 Public pension systems are one of the most important components of the social security safety net in almost all Member States and a fundamental part of the European Social Model, as pensions are the main source of income for pensioners. The Committee regrets that in its White Paper the Commission concentrates more on other aspects of pension systems and does not seek solutions for strengthening public pensions.

1.2 Pension systems do not operate in isolation from national economic systems. The Committee therefore calls on the Member States to ensure that their pension policies tie in closely with their labour-market, social-protection, fiscal and macro-economic policies (as pensions are funded by savings from wages during people's working lives or from fees paid to private pension schemes) and that the social partners and organised civil society are actively involved in the framing process.

1.3 There is no one-size-fits-all solution to the challenge posed by ageing populations to pension systems. The majority of Member States that have reformed their pension systems over the last decade have directed their policies towards cutting expenditure, by raising the statutory retirement age and shifting to a pension-indexation system based on price increases. The Committee has already made clear that raising the statutory retirement age falls short as a response to the ageing of the population, and points out that this approach could pose a social risk in the long run as it may expose many pensioners to the risk of poverty.

1.4 The Committee feels that the Member States should reallocate wealth; they should focus their reform efforts over the next decades on increasing the revenues that fund their pension systems by extending them to all socio-occupational categories, increasing employment, improving the mechanisms for collecting contributions, and tackling undeclared work and tax evasion. The Committee is pleased that the White Paper places much greater emphasis than previous Commission documents on the importance of the labour market and higher employment rates for coping with demographic change and meeting the key pension objectives. It regrets, however, that this acknowledgement of the importance of the labour market is not reflected in the key recommendations on pensions, which have largely been taken unaltered from previous documents.

1.5 The Committee believes that when reforming their domestic pension systems, Member States should take account of the fact that for millions of future pensioners the pension constitutes their only form of protection against the risk of poverty during old age. The Committee thus recommends that standards on minimum pensions or pension income protection mechanisms be included in future legislation to provide income above the poverty threshold.

1.6 By their very nature, pension systems operate over the long term. Member States should thus envisage a sufficiently long timeframe for their pension reform process, tailoring it to their domestic economic and social situation and securing broad public acceptance. The Committee advocates such an approach, bearing in mind that imposing the costs of pension reforms on the current generation of young workers or on current pensioners is unfair. The Committee is in favour of an approach that ensures fairness between generations in terms of the sustainability of the system and an adequate level of benefits, allowing a decent standard of living.

1.7 The Committee urges the Commission and the Member States to focus their efforts on promoting active measures to prolong working life, which has to entail closing the gap between the actual age of retirement and the statutory pension age. This is one of the keys to securing the sustainability of Europe's pension systems. The most important measures to be taken here are to centre on negotiating working conditions between the social partners, e.g. adapting workplaces to the skills and state of health of older workers, taking into account the hardness of certain jobs, improving access to further training, better preventing disabilities, making it easier to balance work and family and removing legal or other barriers to a longer working life. Changing employers' attitudes to this age group and developing positive attitudes among older employees, allowing them to choose to stay in their jobs for longer, must be part of the reform process. Labour market reforms that create the conditions enabling companies to provide quality jobs are necessary to make longer working lives a reality. All these policies have to be framed and implemented in close cooperation with the social partners. In the Committee's view, early retirement schemes should nevertheless be maintained to ensure that workers who have worked for long periods in arduous or hazardous jobs or who began their career very early, i.e. before the age of 18, continue to have a right to retire early.

1.8 The Committee notes that the Member States have already progressed in their statutory reforms but is at the same time convinced that the legal framework for complementary retirement schemes should be improved, as these will play a role in the future adequacy and sustainability of pension systems. The Committee is therefore seriously concerned about some of the proposals for occupational pensions. As pension schemes are very different from life insurances services, the Committee doesn't support the stated aim of reviewing the IORP Directive, to maintain "a level playing field with Solvency II", but recommends introducing specifically designed measures for securing pension fund assets after previous consultation of the social partners and other stakeholders.

1.9 Pensions aim at ensuring an income for pensioners, which is a replacement income for the salary they obtained during their working life, and which is proportional to it. The Committee believes that in the future it will be necessary to reduce the gap between the pension income of male and female workers and to ensure a proper coverage of the risks of old age among workers who have had an atypical profession or an atypical career. The difference that still exists between men and women on the labour market has serious consequences for the accumulated rights and therefore also for the prospects of retirement income for women. The Committee calls on the Member States to seek solutions to bridge the gap in pension rights between men and women caused by the rules and labour market practice, in cooperation with the social partners.

1.10 The Committee encourages the Commission to follow through on its intention to use part of the ESF during the 2014-2020 programming period to support projects aimed at the employment of older workers or at promoting a longer working life. Also meriting support are educational projects aimed at increasing workers' financial literacy, especially with regard to retirement planning. The Committee believes that the social partners and other civil society organisations, alongside other public bodies, have a key role to play in promoting such projects.

2. **Introduction**

2.1 On 16 February (later than planned), the European Commission published its White Paper on *An agenda for adequate, safe and sustainable pensions*, following consultations launched through its July 2010 Green Paper. Although it has taken on board a series of recommendations made by the European Economic and Social Committee in its opinion on the matter, the Commission has not changed its stance regarding the solutions that Member States should implement to ensure sustainable and safe pension systems against the backdrop of ageing populations, stressing the need to reduce pension expenditure rather than increase revenues to fund them, and recommending that the retirement age be indexed to increasing life expectancy – all proposals that the Committee has repeatedly criticised.

2.2 To support its view on the need for pension reform, the Commission draws on statistics that may paint a misleading picture of the problems posed by population ageing. For instance, the graph set out in Figure 1 of the White Paper compares projected trends in the number of people aged 60+ and the number of people aged 20-59, and shows that the number of people in the first age group is set to increase by two million every year over the next two decades, while the number of people in the second age group will fall by an average of one million per year. By 2020 the statutory pension age in the majority of the Member States will be 65 or over, which means that the population group 60+ will include employees as well as pensioners. In line with its previous recommendations ([1]), the Committee believes that in assessing the effects of ageing populations on financing social security systems, the economic dependency ratio should be used, as it provides an accurate picture of actual funding requirements. The Commission recognises this in the White Paper. In this sense, the Committee is pleased that the White Paper places much greater emphasis than previous Commission documents on the importance of the labour market and higher employment rates for coping with demographic change and meeting the key pension objectives. It regrets, however, that this acknowledgement of the importance of the labour market is not reflected in the key recommendations on pensions, which have largely been taken unaltered from previous documents.

([1]) OJ C 318, 29.10.2011, p. 1–8.

2.3 The Commission believes that the success of pension reforms in the Member States is a major determining factor for the smooth functioning of economic and monetary union, which will also affect the EU's ability to achieve two of the Europe 2020 targets – raising the employment rate to 75 % and reducing the number of people at risk of poverty by at least 20 million. However, the Committee has highlighted the fact [2] that many of the austerity measures implemented by Member States coping with the effects of the financial and sovereign debt crises may have negative repercussions on achieving these goals. Any fiscal stability measures must always be complemented with employment-promoting investment and measures leading to growth.

2.4 The Commission wishes to suggest policy guidelines and initiatives to the Member States to address the reform needs identified, inter alia, in the 2011 country-specific recommendations under the European semester. The Committee regrets that these recommendations refer in particular to increasing the statutory retirement age and amending pension-indexation systems. For some Member States, which have concluded standby arrangements with the IMF, World Bank and European Commission, the recommendations have included solutions such as temporary freezing or even reduction of the value of pensions.

3. **General comments**

3.1 *The current pension challenges*

3.1.1 The Committee agrees with the Commission that the sustainability and adequacy of pensions depends on the degree to which they are underpinned by contributions, taxes and savings. However, these do not derive solely from people in employment, but also from pensioners themselves. In other words, any long-term projection with regard to the balance between active taxpayers and retired beneficiaries must take account of this.

3.1.2 Public pension systems are the main source of income for pensioners in almost all Member States. Therefore, it is imperative to make every effort to ensure that they remain sustainable and affordable. The Committee considers that the financing of public systems can be best assured by a high employment rate and additional funding measures, such as those taken in some Member States (for example: budgetary subsidies, additional revenues, reserve and stability funds). These pension systems are based on the principle of solidarity and create solidarity between and within generations, which is beneficial to social cohesion. Furthermore, in some Member States, they allow pension rights to be built up during periods of unemployment or career breaks due to illness or for family reasons. These systems proved their role as financial stabilisers during the financial crisis of 2008, even if in some Member States individuals' pensions were adversely affected. Conversely, some private funded pension schemes which invested part of their asset portfolio in some very risky financial products have faced heavy losses which resulted in a sharp reduction in pensions for many pensioners. Decision-makers have to consider the impact of cuts on global demand in light of the fact that social benefits are not simply "expenses" as they provide means for action and consumption for one third of Europe's population.

3.2 *Securing the financial sustainability of pension systems*

3.2.1 The Commission states that pensions could increase by an EU-wide average of 2,5 percentage points of GDP by 2060. As stated in its previous opinions, the Committee suggests that the Member States exercise caution when using these figures to promote pension reforms, as many of them are based on long-term assumptions, which in some cases are not borne out by reality. However, there is currently a difference of 9 percentage points of GDP in Member State pension expenditure, ranging from 6 % in Ireland, to 15 % in Italy. This shows that there may be some flexibility in the composition of public expenditure without this significantly affecting the competitiveness of Member States that, from a cyclical perspective, may have a higher outlay on social security systems.

3.2.2 Pension system reform undertaken by the Member States over the last decade has focused primarily on cutting expenditure, by raising the statutory retirement age and changing pension indexation systems in a dominant or sole price index. The Committee considers that this last change may have long-term adverse effects, with pensions being sharply eroded. According to an ILO study [3], a difference of only 1 percentage point between salary increases and pension increases over a period of 25 years may result in pensions reduced by 22 %.

3.2.3 National pension systems do not operate in isolation from national economies. They are effectively subsystems interacting with others at national and global levels. The Committee therefore considers that to secure the financial sustainability of pension systems, the Member States should focus their efforts over the next decades on increasing revenues. This increase cannot be achieved solely by increasing the number of employed contributors, and prolonging working life, but also requires better management of public finances, and efforts to combat tax evasion and undeclared work. Sustainable growth and a high level of employment would create an environment conducive to pension systems. Labour market reforms that create the conditions enabling companies to provide quality jobs are necessary to make longer working lives a reality. Also, decent working conditions that help reconcile work and family responsibilities can help increase fertility rates, thus relieving some of the ageing-population pressure on pension systems. At the same time, measures also need to be put in place to increase individuals' willingness to work for longer, which also requires a positive attitude to lifelong learning and preventive healthcare.

(2) OJ C 143, 22.05.2012, p. 23-28.

(3) ILO: *Pension Reform in Central and Eastern Europe*, 2011, p. 16, ISBN 978-92-125640-3 (web pdf).

3.2.4 In line with its previous opinion, the EESC points out that pension reforms (including the shift from fully Pay-As-You-Go to mixed pension systems, composed of mandatory Pay-As-You-Go and funded schemes) leading to changes in the financing of pension systems, which increase explicit public-sector liabilities and reduce implicit ones, should not be penalised in the short term due to the higher explicit public debt ([4]). Therefore, consideration should be given to revising the Stability and Growth Pact rules.

3.3 *Maintaining the adequacy of pension benefits*

3.3.1 The Commission acknowledges that in most Member States the pension reforms carried out will result in lower pension-system replacement rates. As pensions are the main source of income for older Europeans, the Committee believes that maintaining the adequacy of pensions allowing a decent standard of living should be a priority for the Member States.

3.3.2 Governments are responsible for ensuring that every older European has an adequate pension. The Committee therefore considers that establishing a comprehensive definition of an adequate pension should be taken into account by the Member States, in cooperation with the social partners.

3.3.3 For future generations of pensioners, the adequacy of their income will increasingly depend on additional funded pension pillars. The Committee points out, however, that some of the Member States that promoted mandatory funded pension schemes, funded by transferring a portion of contributions from the public pension system, have chosen to discontinue these schemes, mainly due to the deficit they created in the public system budget. The Committee is in favour of occupational funded pension schemes, established and administered by employers and employee representatives, and calls on the Commission to provide support to the social partners to bolster their administrative capacity in this area.

3.3.4 In light of the gradual move towards additionally funded pension schemes, in particular schemes connected to labour market participation, it is of significant importance that Member States ensure adequate pensions for people who are outside the labour market throughout their adult life. Thus, people who are excluded from the mainstream labour market due to e.g. severe disabilities or severe and complex social problems must be guaranteed sufficient pensions in order to avoid even wider social inequalities at older age.

3.4 *Raising the labour market participation of women and older workers*

3.4.1 The Commission points out that if Europe achieves the Europe 2020 employment goal of a 75 % employment rate in the 20-64 age group and further progress is made in the following decades, the economic dependency ratio could remain below 80 %. This means that the pressure of ageing populations on pension systems could remain bearable.

3.4.2 The Committee disagrees with the Commission's view that a fixed retirement age would create considerable imbalances between active years and years in retirement. Through their pension reforms in recent years, most Member States have linked the right to early retirement with the number of years spent in work, significantly reducing the number of privileged employees. In the Committee's view, early retirement schemes should be maintained to ensure that workers who have worked for long periods in arduous or hazardous jobs or who began their career very early, before the age of 18, have a right to retire early.

3.4.3 The Committee has set out its views in a number of opinions ([5]) on key factors to be considered by the Member States when implementing reforms aimed at a longer working life, and commends the Commission for taking a number of them on board in the White Paper. However, the Committee feels that much remains to be done at Member State level to ensure that workplaces are properly adapted to the skills and state of health of older workers.

3.5 *The role for Member States and the EU in pensions*

3.5.1 The Committee welcomes the Commission's decision to take a holistic approach to pension reform, given the interrelated character of the macroeconomic, social and employment challenges related to pensions. Although Member States have the primary responsibility for designing their pension systems, the Commission should make creative use of the tools it has available to firmly support the Member States through the pension reform process; but, as we generally avoid moving backwards, this should be done without affecting rights or creating new rules inspired by the current recession, which could be detrimental to people's interests once the economy has recovered. Under the Europe 2020 strategy and the new European governance framework, the Commission has sufficiently broad scope to promote pension reform solutions, taking into account the fact that pensions are not savings. The Committee also encourages the Commission to pursue its intention to use part of the ESF during the 2014-2020 programming period to support projects aimed at employing older workers or at promoting longer working lives. Involving the social partners and organised civil society in the implementation of such projects must be a prerequisite.

3.5.2 Given that employment and labour productivity growth should be the key areas of concern for Member States, faced with the effects of an ageing population on their pension systems, the Committee recommends that all policies that governments intend to implement be underpinned by the prior consent of the social partners.

([4]) This situation prevails in some of the Member States which have developed supplementary pension schemes, funding them with part of the public pension funds.

([5]) OJ C 318, 29.10.2011, p. 1–8, OJ C 161, 13.7.2007, p. 1–8, OJ C 44, 11.2.2011, p. 10–16.

3.6 *The need for pension reforms*

3.6.1 With regard to the pension reform recommendations made by the Commission to the Member States under the 2011 and 2012 Annual Growth Surveys, the Committee considers that:

a. raising the effective retirement age needs to be brought about by policies negotiated with the social partners to encourage a longer working life and not by automatic mechanisms increasing the statutory retirement age, as recommended by the Commission;

b. restricting access to early retirement should take account of the specific situation of certain categories of workers, especially those whose work was particularly arduous or hazardous and those who began their career very early (before the age of18);

c. prolonging working lives through better access to training programmes, adapting workplaces to a more diverse workforce, developing employment opportunities for older workers, supporting active and healthy ageing, and removing legal or other barriers impeding access to employment for older workers, constitutes the best approach to raising the effective retirement age;

d. equalising the statutory retirement age for men and women should be done within a timeframe that takes account of the specific labour market situation of each Member State; specific attention should be given to bridging the gap between men's and women's pension rights;

e. encouraging the development of complementary retirement savings should be achieved with the involvement of the social partners, particularly in the form of occupational pension schemes, as during the financial crisis they proved to be more secure than other types of funded schemes, as well as in the form of private savings with targeted tax incentives, especially for those who cannot afford such services.

3.7 *Balancing time spent in work and retirement*

3.7.1 The Committee believes that Member States can support an increase in the effective retirement age, which means an increased period in work, through active measures to encourage a longer working life on a voluntary basis. Automatic increasing of the statutory retirement age on the basis of projected increases in life expectancy could prove counterproductive, with many older workers, especially those with health problems, opting to turn to other social security pillars [6].

3.7.2 The Committee agrees with the Commission that pension reform should not be done in such a way that the costs are borne by generations of younger workers or only by current pensioners. It is possible for Member States to implement reform measures that do not affect workers' interests or those of pensioners.

3.7.3 The Committee recommends to Member States that measures to restrict access to early retirement be implemented with due regard for the interests of workers who have worked for long periods in arduous or hazardous jobs or who have begun their career very early (before the age of 18). For many workers in these categories, restricting their access to early retirement may effectively mean removing their pension rights. The Commission recognises that workers in these groups have a lower life expectancy and poorer state of health compared to other workers. Such arrangements have to remain in the hands of the Member States according to their national practices and conditions, and based on the agreements with the social partners.

3.7.4 The Committee acknowledges the Commission's position on the need for reform processes undertaken by Member States to concentrate on promoting a longer working life. Simply raising the statutory retirement age or cutting pensions by changing the indexation system could push millions of pensioners below the poverty line.

3.7.5 According to a Eurostat report [7] over 35 % of workers aged 50-69 would be prepared to work beyond the age of 65. The Committee acknowledges the Commission's view that removing barriers to a longer working life is, among others, one solution for the Member States.

3.7.6 The Commission acknowledges that closing the pensions gap between men and women cannot be achieved by merely equalising the retirement age, and recommends that Member States deploy a mix of pension and employment policies to eradicate these disparities. As part of the review of EU pensions legislation, the Committee calls on the Commission to consider introducing provisions aimed at closing the gender gap.

3.8 *Developing complementary private retirement savings*

3.8.1 The Committee welcomes the Commission's decision to enhance EU pensions legislation. However, the Committee believes that consideration should be given here not only to aspects related to pension funds' cross-border activities and worker mobility but also to the issues of pension body supervision and oversight, administrative costs and consumer information and protection.

(6) OJ C 84, 17.3.2011, p. 38–44.

(7) Active ageing and solidarity between generations – a statistical portrait of the European Union 2012, p. 57.

3.8.2 The Committee endorses the Commission's proposal to establish an EU system of pension tracking services, by inter-connecting national-level services. This would be of real benefit to people who have worked in several Member States.

3.8.3 The White Paper does not take the right approach to supporting the cost-effective provision of occupational pensions and therefore their future growth. In particular, the Committee doesn't support the stated aim of reviewing the IORP Directive "to maintain a level playing field with Solvency II". Such measures are not justified by a need to create a level playing field with insurance provided pension funds, as they operate in different ways. In most cases, pension funds do not operate in retail markets and/or are non-for-profit organisations. They are generally provided through an employer or group of employers in a sector, whereas insurance pension products can also be provided to individuals. Pension funds have a collective character (subject to a collective agreement). However, the Committee supports the Commission's commitment to introducing specifically designed measures for securing pension fund assets.

3.8.4 Alongside public pension systems, additional collective complementary systems have also been developed. Since the latter provide an additional income to pensioners, they should be generalised to all workers. However, they should not be an alternative to the payment of public pensions and, as they are based on collective agreements, should certainly not compromise them. All employees within a sector or company should have access to these additional systems, which also treat men and women equally. In addition, it is important that the social partners be involved in implementing and monitoring the management of these systems. Alongside the complementary pension systems, which usually operate as investment funds, social partners should also work on finding solutions to cover some other risks which often cut future pension income (such as risks over the lifetime, during periods of illness or even of unemployment or absence from work for family reasons) in order to secure adequate level of future pensions.

3.9 *Deployment of EU instruments*

3.9.1 The Committee urges the Commission to make use of all available legal, financial and coordination instruments to support Member States' efforts to secure adequate and safe pension systems. Also, to ensure that the objectives here are achieved, it is vital to involve civil society organisations and the social partners at all stages of the consultation, framing and implementation of pension reform policies. At the same time, when any EU regulation not directly linked to the pension systems is proposed, it is important to include an assessment of its impact on the pension systems (especially their stability and the levels of future pensions).

Brussels, 12 July 2012.

The President
of the European Economic and Social Committee
Staffan NILSSON

APPENDIX

to the Opinion of the European Economic and Social Committee

The following amendments, which received at least a quarter of the votes cast, were rejected in the course of the debate (Rule 54(3) of the Rules of Procedure):

Point 3.6.1, b.

Amend as follows:

b. restricting access to early retirement should take account of the specific situation of certain categories of workers, especially those whose work was particularly arduous or hazardous ~~and those who began their career very early (before the age of18)~~;

Voting

For: 88

Against: 124

Abstentions: 14

Point 3.7.1

Amend as follows:

The Committee believes that Member States can, ~~support an increase in the effective retirement age, which means an increased period in work,~~ through active measures, ~~to~~ encourage a ~~longer~~ working life that extends beyond the statutory retirement age on a voluntary basis. Automatic increasing of the statutory retirement age on the basis of projected increases in life expectancy could prove counterproductive, with many older workers, especially those with health problems, opting to turn to other social security pillars[6].

Voting

For: 80

Against: 135

Abstentions: 10

Point 3.7.3

Amend as follows:

The Committee recommends to Member States that measures to restrict access to early retirement be implemented with due regard for the interests of workers who have worked for long periods in arduous or hazardous jobs ~~or who have begun their career very early (before the age of 18)~~. For many workers in these categories, restricting their access to early retirement may effectively mean removing their pension rights. The Commission recognises that workers in these groups have a lower life expectancy and poorer state of health compared to other workers. Such arrangements have to remain in the hands of the Member States according to their national practices and conditions, and based on the agreements with the social partners.

Voting

For: 88

Against: 124

Abstentions: 14