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DRAFT REPORT

on the Green Paper entitled ‘Towards adequate, sustainable and safe European pension systems’
(2010/2239(INI))

Committee on Employment and Social Affairs

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MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

on the Green Paper entitled ‘Towards adequate, sustainable and safe European pension systems’
(2010/2239(INI))

The European Parliament,

- having regard to the Commission Communication of 7 July 2010, ‘Green Paper, towards adequate, sustainable and safe European pension systems’ (COM(2010)0365),
- having regard to its resolution of XX November 2010 on the demographic challenge and solidarity between generations¹,
- having regard to the report of the European Economic and Social Committee on the Commission Communication of 7 July 2010, ‘Green Paper, towards adequate, sustainable and safe European pension systems’²,
- having regard to the Commission proposal for a Council decision on guidelines for the employment policies of the Member States: Part II of the Europe 2020 Integrated Guidelines (COM(2010)0193) and to its resolution of 8 September 2010 thereon³,
- having regard to the Commission Communication of 29 April 2009 on ‘Dealing with the impact of an ageing population in the EU (2009 Ageing Report)’ (COM(2009)0180) and to its resolution of 7 September 2010⁴,
- having regard to its resolution of 6 May 2009 on the active inclusion of people excluded from the labour market⁵,
- having regard to its resolution of 6 May 2009 on the renewed social agenda⁶,
- having regard to its resolution of 20 November 2008 on the future of social security systems and pensions: their financing and the trend towards individualisation⁷,
- having regard to its resolution of 9 October 2008 on promoting social inclusion and combating poverty, including child poverty, in the EU⁸,
- having regard to the Commission proposal to the European Parliament and the Council (COM(2005)0507) and to its resolution of 20 June 2007⁹,
- having regard to Rule 48 of its Rules of Procedure,
- having regard to the report of the Committee on Employment and Social Affairs and the opinions of the Committee on Economic and Monetary Affairs, the Committee on Industry, Research and Energy, the Committee on the Internal Market and Consumer Protection and the Committee on Women's Rights and Gender Equality (A7-0000/2010),

¹ P7_TA(2010)XXXX

² XXXX

³ P7_TA(2010)0309.

⁴ P7_TA(2010)0306.

⁵ P6_TA(2009)0371.

⁶ P6_TA(2009)0370.

⁷ OJ C 16E, 22.1.2010, p. 25.

⁸ OJ C 9E, 15.1.2010, p. 11

⁹ OJ C 146E, 12.6.2008, p. 122.

- A. whereas people are entering the labour force at a later age due to longer and higher education, on average people leave the labour market earlier than the legal pension age, and longevity is increasing,
- B. whereas the number of people entering the labour market is declining (the EU population of a working age will start to shrink from 2012) and the number of pensioners is rising (in 2008 there will be four EU citizens of working age for every one aged 65 or over, by 2020 this figure will be five to one, and by 2060 two to one),
- C. whereas the economic governance of the European Union should take into account the holistic approach as presented in the Green Paper,
- D. whereas the financial crisis has led to a growth in unemployment, rising budget deficits in many Member States and problems in the financing of pensions (whether tax or otherwise funded),

GENERAL

EU level and Member States

1. Appreciates the holistic approach adopted by the Green Paper, which is intended to impart fresh impetus at national and EU level with the aim of safeguarding old-age pensions;
2. Stresses that Member States face enormous challenges in ensuring that pensions meet citizens' expectations;
3. Sorely misses any mention of SMEs, which are one of the main sources of employment in the EU and can, must and wish to make a major contribution to the sustainability and adequacy of pension systems;
4. Observes that sound economic and social policies make an important contribution to growth and stability;
5. Considers that long-term investment in pension systems requires a positive approach as part of economic governance and more particularly in the Stability and Growth Pact;
6. Stresses that pensions and pension systems are a primary responsibility of the Member States;
7. Observes that the EU lacks a set of common criteria which illuminate the various pension systems and that there is therefore a lack of transparent supervision applicable to all systems;

Gender

8. Regrets that the Green Paper does not devote any attention to the gender issue, particularly bearing in mind that, because of disparities in careers, women have smaller pensions on average;
9. Stresses the importance of individualising pension entitlements in such a way as to guarantee the economic independence of men and women;

ADEQUACY

10. Does not consider it possible to set an adequate pension at European level, because the amount required is very dependent on specific circumstances in the Member States;
11. Considers that Member States are themselves responsible for making adequate pension provision for their citizens as part of their social and economic policies;
12. Stresses that, within the diversity of pension systems, the general systems (first pillar) combined with work-related systems (second pillar) afford the best guarantee of adequate pension provision;
13. Stresses that the sustainability and adequacy of pension systems are certainly also affected by the third pillar, namely individual savings, facilitated or otherwise;
14. Notes that national budgets are under severe pressure and that many Member States are reviewing the efficiency of expenditure; calls on Member States to consider introducing compensation so that all taxpayers who cannot achieve the level of ambition in the first and second pillars are entitled to a supplementary offset of pension contributions in the second pillar or of contributions to private pension schemes in the third pillar; notes that this could also help Member States to establish a three-pillar structure;
15. Stresses that inflation damages the sustainability and adequacy of pension systems;

PENSION FRAMEWORK

RETIREMENT AGE

16. Considers that, in view of demographic trends and the need to ensure that pensions can be paid for, it is necessary for more people to participate in the labour market and to do so for longer; observes that life expectancy is growing and calls on Member States to consider linking the statutory retirement age to life expectancy;
17. Notes that there are major disparities in the statutory retirement age and in the actual age at which older people cease to be employed; calls on Member States and the two sides of industry, therefore, to exchange information about good experiences and to conclude agreements leading to a prolongation of working life, for example by rewarding people who work for longer;
18. Considers that, for older employees performing physically and/or mentally demanding work, a labour market geared to flexibility and security must offer creative solutions such as greater flexibility in the statutory retirement age, part-time pensions or adapted working conditions, with the emphasis on ability to work, to strike a lasting balance between the requirements of employment and the capacities of workers; considers there to be a need for an active policy to prevent discrimination on grounds of age;

EU 2020 STRATEGY

19. Regrets that the 2020 Strategy devotes no explicit attention to sustainable and adequate pension systems;
20. Considers that, if the 2020 Strategy is successful, this will mean that more people are in work and that economic growth will benefit from this, thus enhancing the sustainability of

pension systems;

21. Supports, in accordance with the 2020 Strategy, a targeted and active labour market policy which will lead to increased participation in employment on the part of older workers, women, members of minority groups and the long-term unemployed;

IORP DIRECTIVE

MOBILITY AND TRANSFERS

22. Stresses the growing importance of labour-market mobility in the EU, as well as the need for such mobility;
23. Notes that, in the first pillar, pension entitlements are governed by the relevant coordinating Regulation, but that, for second-pillar pensions, arrangements are needed to ensure portability;
24. Considers that, because of the diversity and complexity of the various second-pillar systems, conditions need to be laid down concerning the portability of acquired pension entitlements in the sense that portability begins when new contracts are concluded, an application for transfer being approved only if the actuarial sum transferred is to be placed in a fund whose purpose is payment of old-age pensions; considers that tax must be calculated and paid in the Member State where the entitlements have been accumulated;

REVIEW OF EU LEGISLATION

25. Notes that in many Member States the importance of second-pillar pension provision has been recognised, and that it must also be ensured that such provision meets European conditions and criteria applicable to second-pillar provision;
26. Considers that the second pillar must be available to all employees by right, without any discrimination on grounds of sex, sector and/or employment contract;
27. Calls on the Commission to investigate how employees' right to participate in the second pillar can be facilitated and to make proposals for developing such a pillar where it does not yet exist;
28. Calls on the Member States to support the development of a social dialogue in the field of old-age pension provision;
29. Considers that the EU rules concerning the third pillar and its smooth cross-border functioning must be examined in the light of the proper functioning of the internal market and the creation of a level playing field;

EUROPEAN LEGISLATION/GOOD PRACTICE

30. Supports the establishment of the European Insurance and Occupational Pensions Authority (EIOPA); stresses the need to equip it so that it can perform effectively the tasks entrusted to it;
31. Stresses the importance of using a uniform methodology to calculate the part of the national debt which is due to pension-related obligations;

SOLVENCY

EU LEGISLATION ON INSOLVENCY

INFORMATION

PARTICIPATION AND INVESTMENT

32. Is concerned about the inadequate information provided to the public by public authorities and bodies administering pensions concerning the necessity, possibilities, accumulated entitlements, likely results and actual state of affairs with regard to old-age pensions; calls on the Commission and Member States to launch campaigns to enable and encourage members of the public to take measures to ensure adequate pension provision for themselves;
33. Considers that the information provided to individual members of the public in Member States and by funds concerning the accumulated entitlements commonly recorded in a national pensions register should be linked at European level;
34. Considers that, when pension provision is reformed, or when there is a changeover from a promised pension to a promised pension arrangement, or from a final salary to a mean salary system, the public must be promptly and fully informed of the consequences;

POLICY COORDINATION

35. Considers that, in the further debate on an adequate, safe and sustainable pension system, it would be helpful to establish a pensions platform on which stakeholders are represented who contribute information about best practices and help to prepare policy initiatives;
36. Instructs its President to forward this resolution to the Council, the Commission and the governments and parliaments of the Member States.

EXPLANATORY STATEMENT

Demographic trends, i.e. the inverted population pyramid which we can expect in due course and the longer life expectancy which we have the good fortune to enjoy, in which context older people remain healthy and active and participate in society for longer, make it necessary to consider a strategy for fresh cohesion and coherence in the field of pensions.

It is high time for initiatives which redefine the future of young and old and solidarity between generations and people, thus contributing to sustainable, secure and adequate income provision after retirement.

The rapporteur fully realises that there are major disparities between pension systems in Europe, and that new Member States and their citizens face extra problems because it is so desirable to establish a diversified pension system (with several pillars), in order to spread risks.

In addition, many Member States with pay-as-you-go systems (particularly the EU-15) are confronted with big increases in costs now and in the future, which means growing pressure on solidarity and heavier burdens for the younger generation. Moreover, the financial and economic crisis has shown that no pension system is immune to such events but that large budget deficits, high unemployment and very limited scope for increasing the burden of taxation and other levies particularly hit pay-as-you-go systems.

Young people are entering the labour market later because they are better educated. In addition, there is a tendency to retire before reaching the statutory retirement age. People always work for less time than is necessary in order to cover their pension entitlements. The adoption of more flexible and individual pension and work systems can make it possible to participate in the labour market for longer, but these systems are too rare at present.

As a result of all this, it is even more difficult to achieve the conditions of the Stability and Growth Pact if savings have not been accumulated and the obligations towards pensioners which have been entered into are therefore fully included in calculations.

The rapporteur regards the Commission's Green Paper as positive, with the proviso that the responsibilities of Member States, the two sides of industry and Europe must each gain fresh impetus. We must therefore jointly, while recognising and preserving each party's responsibility, build a system which is sustainable and secure and results in adequate pensions at Member State level. A modern system which recognises that – and helps to bring about a situation in which – freedom of movement in Europe is not confined to first-pillar provision but is based on the assumption that the new generation in particular needs mobility, but so does an effective and efficient labour market. This, in other words, is a system in which solutions will be provided not only for present needs but also for the future.

I. Demographic change

- The population will be strongly dominated by the 55+ age group.
- Life expectancy will continue to rise: for men from 76 (2008) to 84 (2060), and for women from 82 (2008) to 89 (2060).
- Fertility will remain low in the EU (1.6).
- The ratio of the number of people aged over 65 to the working population will double from 25.4% (2008) to 53.5% (2060).
- Between 2007 and 2020, the working population will increase by 3.7% due to the growing number of women on the labour market. After 2020 the working population will fall by 13.6%.
- In 2008 there were 4 people in employment for every pensioner. In 2020 the corresponding figure will be 5 people in employment for every pensioner. In 2060 the corresponding figure will be 2 people in employment for every pensioner.
- Participation in employment (between the ages of 15 and 64) will rise from 70.6% (2007) to 74.1% (2060).
- In 2010 the average age at which people stop work in the EU is 61.4.

By 2060, average public expenditure relating to the ageing of the population will have risen to 4.75% of GNP and average public expenditure on pensions to 2.4% of GNP.

The financial and economic crisis, combined with demographic changes, will have an impact on pension systems. Because of higher unemployment, slower growth, smaller returns on investment and larger public deficits, it will be more difficult for pension systems to provide adequate pensions or in some cases to honour agreements. In most Member States, today's pensioners have not yet suffered on account of the crisis, while in some Member States cuts in public expenditure have included cuts in pensions.

In reforming their pension systems, many Member States have chosen to make cuts in the first pillar. Financial sustainability is important, but account must also be taken of the need to provide an adequate income. Keeping budgets sustainable and pension systems adequate are not conflicting objectives, but two sides of the same coin. Genuine sustainability cannot be achieved without ensuring that pensions are adequate. If pension systems are not adequate, this may lead to a decline in consumption and, because of reduced demand, to economic instability and hence financial problems. It may also put severe pressure on public expenditure on other forms of social security.

II. Responsibilities

Responsibility for a sustainable pension system and an adequate pension is shared between government, the two sides of industry and the individual.

The first pillar is based on solidarity among taxpayers. In most cases, it is a public pillar, financed by government using a pay-as-you-go system.

The second pillar is a shared responsibility of employers and employees, based on joint contributions governed by a legal framework established by the government and the two sides of industry.

It is also important to combat illegal work in order to preserve pension systems.

The first and second pillars are the basis for an adequate pension system. In this report the rapporteur defines an adequate pension as a minimum pension which is determined by each Member State itself.

The third pillar is based on individual contributions.

When pension systems are reformed in future, a link will need to be made between the first and the second pillars. These pillars, which in some Member States partially overlap, are closely related to the third pillar. At EU level a strong Open Method of Coordination must ensure that obligations of the first pillar are sustainable and adequate, while the second pillar must be adapted by increasing the role of the two sides of industry. Moreover, as regards the third pillar, the solvency of pension funds must be better regulated.

III. Competences

Pension systems are primarily the responsibility of the Member States, but in the case of certain aspects coordination at EU level is important: for example for the operation of the internal market, the requirements of the Stability and Growth Pact (SGP) and the EU 2020 Strategy. Other EU instruments provide support for the Member States, such as the Open Method of Coordination (OMC).

The impact of pension expenditure on public finances in one Member State may have a serious impact on other Member States. The SGP must therefore be a factor in national policies, particularly in the first pension pillar. Pension funds are an integral part of financial markets. The directive on supplementary pensions (second pillar) falls under the IORP Directive (2003/41/EC on the activities and supervision of institutions for occupational retirement provision). So far, this Directive has not applied to all the pension funds to which it would potentially have been relevant. This has resulted in inequalities of treatment and supervision between pension funds, depending on whether or not they are covered by it. The financial and economic crisis has made it clear how important it is to supervise pension funds at EU level. In this connection, an investigation of the cover and effectiveness of the Solvency I and II Directives would be desirable. The rapporteur strongly believes that such an examination of the three directives concerned should not be seen in isolation from responses to the Green Paper.

IV. A changing labour market

A balance between flexibility and security on the labour market supports the adaptability of the economy and strengthens the European social model. On the current-day labour market, people must be able to move between jobs easily and without facing financial obstacles. Employers must be able to appoint the right person with the right skills. This also makes it necessary to modernise pension systems in order to eliminate obstacles to mobility on the labour market. Incidentally, the labour market should also be flexible for pensioners.

As the labour market becomes more flexible and the number of women on it increases, the calculations made in pension systems, which are based on men with complete careers and

average incomes, are out of date, so that modernisation is needed here too. This is particularly true from the point of view that citizens have a right to accurate information about their pensions and the cost of the pension system (especially the first pillar).

Flexicurity schemes play an essential role in extending working life. People must be encouraged to prolong their careers, for example by modernising labour market policy and improving working conditions. At European, national and local level, policies must be geared to ageing actively.

V. Equal opportunities

The Green Paper does not devote any specific attention to equality between men and women. It is more common for women to work on atypical contracts than for men. On average, women earn less than men and interrupt their careers more often in order to act as carers. Consequently, their pensions are often smaller, which increases the risk of poverty for older women, as does the fact that they live longer (although the disparity between the sexes is declining). In some pay-as-you-go systems, caring periods are included in the contribution. However, this is not the case in supplementary pension schemes. The question to be resolved, therefore, is how solidarity should be financed.

The rapporteur considers that financial independence should be the general principle in social security. Individual pension entitlements guarantee economic independence for women and men.

One direction in which ways of increasing flexibility and eliminating differences between men and women could be sought is by assessing the adequacy of contributions to pension funds on the basis of the number of years for which contributions must be made in order to acquire the right to such a pension.

VI. Information

The transparency of pension systems and of the information about them given to citizens is vital to confidence. People must be made aware of the opportunities afforded by the various pillars of the pension system to secure an adequate pension. They must have access to the right information about the various risks. The crisis adds to the need for policy-makers to create stability by providing clear information about policy on pensions and about future pension income. Only then can members of the public make balanced decisions about their pension provision.

In this context the rapporteur considers it vital to cultivate awareness among members of the public that they should start saving for their pensions as soon as possible (financial education).