

Social security systems and pensions

European Parliament resolution of 20 November 2008 on the future of social security systems and pensions: their financing and the trend towards individualisation (2007/2290(INI))

The European Parliament,

- having regard to the Commission Communication of 12 October 2006 on the long-term sustainability of public finances in the EU (COM(2006)0574),
- having regard to the Treaty establishing the European Community and in particular Articles 99 and 141 thereof,
- having regard to the judgments of the Court of Justice of the European Communities, in particular the judgment delivered by the Court on 17 May 1990 in *Douglas Harvey Barber v Guardian Royal Exchange Assurance Group*¹,
- having regard to the legally binding Convention on the Elimination of All Forms of Discrimination against Women (CEDAW), adopted in 1979 by the United Nations General Assembly, and in particular to Article 11.1(d) and (e) and Article 11.2(c),
- having regard to the Commission Communication of 1 March 2006 on a roadmap for equality between women and men 2006-2010 (COM(2006)0092) ,
- having regard to the Presidency Conclusions of the Brussels European Council of 13 and 14 March 2008,
- having regard to the Commission Communication of 17 October 2007 on modernising social protection for greater social justice and economic cohesion: taking forward the active inclusion of people furthest from the labour market (COM(2007) 0620),
- having regard to the International Labour Organisation (ILO) Convention concerning Minimum Standards of Social Security 1952,
- having regard to the Commission Staff Working Document of 11 April 2008 on the implementation of Article 8 and the related provisions of Council Directive 80/987/EEC of 20 October 1980 on the approximation of the laws of the Member States relating to the protection of employees in the event of the insolvency of their employer, concerning supplementary company or inter-company pension schemes outside the national statutory social security schemes (SEC(2008)0475),
- having regard to the European social partners' recommendations in the report of 18 October 2007 entitled Key Challenges Facing European Labour Markets: A Joint Analysis of European Social Partners,
- having regard to the Commission's Green Paper on modernising labour law to meet the

¹ Case C-262/88, ECJ [1990] I-1889.

challenges of the 21st century (COM(2006)0708) and to Parliament's resolution thereon of 11 July 2007¹,

- having regard to the Commission Communication of 26 February 2007 entitled Social reality stocktaking – Interim report to the 2007 Spring European Council (COM(2007)0063) and to Parliament's resolution of 15 November 2007 on Social Reality Stocktaking²,
- having regard to the Commission Communication of 10 May 2007 on promoting solidarity between the generations (COM(2007)0244), and to the Parliament's resolution of 21 February 2008 on the demographic future of Europe³,
- having regard to Rule 45 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 Women's Rights and Gender Equality and the Committee on Economic and Monetary Affairs (A6-0409/2008),

A. whereas social security:

- is established, regulated, managed and financed (usually partly) by the state and also collectively through taxes or contributions paid by the insured, with the state having a public responsibility to fulfil the social security needs of its citizens,
- is characterised by accountability and ensuring adequate basic security for all,
- is based on the principle of solidarity,
- covers nine areas of the abovementioned ILO Convention,
- aims to ensure fundamental security in the areas of employment (insurance against unemployment), income (pension payment) and earning capacity (health care insurance),

B. whereas the total population of the European Union is expected to increase slightly until 2025 and to decrease slightly after 2025, becoming by 2050 slightly smaller and significantly older,

C. whereas, with immigration constant at present levels, the work force will decrease from 227 million people in 2005 to 183 million in 2050, the employment rate will rise to 70% in 2020, mainly due to higher female employment rates, the total number of people employed will increase by 20 million by 2017, but after that will decrease by 30 million by 2050 and the projected ratio of people over 65 to people of working age will rise from 1:4 in 2005 to 1:2 in 2050,

D. whereas a general increase in the pensionable age, based on the general trend of increased life expectancy, takes insufficient account of the fact that there are still numerous branches of industry in which the life expectancy of workers is significantly lower,

¹ OJ C 175 E, 10.7.2008, p.401.

² OJ C 282 E, 6.11.2008, p.463.

³ Texts adopted, P6_TA(2008)0066.

- E. whereas the social partners in general, and in those branches of industry with workers with a lower than average life expectancy in particular, have a serious responsibility with regard to the in and outflow of workers and can be the primary supporting parties in ensuring an effective age-conscious personnel policy,
- F. whereas, due to lower proportions of unemployed people, unemployment benefit spending will fall by about 0,6 percentage points of GDP by 2050, a decrease that is very modest and will not compensate higher expenditure in other sectors,
- G. whereas the European Union spends 27,2% of GDP on social protection (2008), the major share being spent on old age benefits and pensions (46%),
- H. whereas the term social security does not mean the relationship between spending and revenue but is rather a social contract, a relationship between rights and obligations both for citizens and for the state, and should be treated as such; whereas, under no circumstances should the budgetary character of social security, however, be undermined,
- I. whereas the fact of the ageing population is expected to lead to increases in public spending, most of it for pensions, health care and long-term care, in most Member States by 2050 if current policies are pursued, with the largest increase occurring between 2020 and 2040,
- J. whereas the objectives of the Lisbon Strategy as regards the employment of women, young people and the elderly and the Barcelona objectives as regards childcare services are essential for the viability of pension systems,
- K. whereas the 2000 UN Millennium Objectives, in particular Objective 3, presuppose gender equality,
- L. whereas, in general terms, women's careers tend to be more fragmented and the rate at which their pay increases slower, while men tend to have a more continuous employment record and their pay tends to increase more steadily, which means that there is a discrepancy between their respective contributions to the pension system and an increased risk of poverty for women, which is in addition a longer-term risk, given their greater life expectancy,

General concerns

1. Urges the Member States, in the light of the Lisbon Strategy and the need to cover social risks and secure the sustainability of the social security and pension systems and maintain the core of the European social models, to make more progress in balancing social expenditure and social activation and, furthermore, to attract and retain more people in quality, secure and mandatory social insurance employment, promoting growth and job creation and access to employment on the basis of greater market transparency, to modernise social protection systems (for example through greater differentiation in benefit formulas and funding mechanisms) and to increase investment in human capital by promoting research and development and innovation and through better education and vocational training in the context of lifelong learning for all;
2. Calls on the Commission to follow closely social security and pension reforms in the Member States, comparing their impact to date on the employment situation of women and focusing on the best practices that have emerged, particularly in reducing gender

discrimination regarding pay and in reconciling professional and family responsibilities;

3. Emphasises that sources of economic growth will alter as a result of demographic change and that increasing labour productivity and technological innovation will become sources of economic growth; recognises that, in order to maintain a higher level of productivity, it will be essential to invest more in research and development and better management methods, where synergy between technological and social innovation will be a high priority;
4. Highlights, in the context of current demographic, economic and social trends and the prevention of inter-generational and inter-societal conflicts, the importance of finding new methods for an efficient and equitable distribution of costs and benefits among what will be a smaller economically active and a larger economically inactive population: on a European and national level the aim should be maintaining the balance between the economic viability of the social security systems and pensions on the one hand and the coverage of social risks on the other;
5. Recalls its belief that, to promote an economically viable social protection system, Community labour law should reinforce employment contracts of indefinite duration as the usual form of employment under which adequate social and health protection is provided and respect for fundamental rights is ensured; recognises, however, that rights also need to be protected for those who have other working patterns, including the right to a pension which allows the retired to live in dignity;
6. Recalls that the core of European social models is the principle of solidarity between generations and social groups, and that it is primarily financed by work-related earnings, such as contributions by employees and employers and labour taxation; nevertheless points out that the ageing population will put serious pressure on the active work force and that solutions to the demographic change should be a political priority; stresses that, otherwise, demographic change could jeopardise the principle of solidarity and European social models as a consequence; stresses also the significant importance, therefore, of strengthening the principle of solidarity, including fair financial compensation;
7. Recalls that, under Article 141 of the EC Treaty, measures may be adopted to actively achieve equal pay and Community case-law regards social security contributions as an element of pay;
8. Notes that, as a result of changing demographics, it is estimated that by 2030 the ratio of active to inactive persons will be 2:1; calls on the Commission and Member States to develop policies to ensure that carers, many of whom are obliged to withdraw from the labour market because of caring responsibilities, are not adversely affected by pension insecurity;
9. Recalls that the trend towards individualisation contributes to the modernisation of the second and the third pillar, without calling into question the first pillar of social security systems, this to enable people, especially women and other vulnerable groups, to have more freedom of choice and thus become more independent and able to build up their own, additional pension rights;
10. Calls on the Commission to carry out more detailed research and studies concerning the impact of the individualisation of social rights on the equal treatment of women and men;

11. Considers that equality between men and women must be one of the objectives of any reform of social security and pension systems, while stressing that inequalities in this respect are fundamentally of an indirect nature, resulting from persisting inequality on the employment market, in pay and career prospects and in the way family and domestic responsibilities are shared, and can therefore only be corrected by more global measures;
12. Calls on the Commission and Member States to raise awareness among (young) adults of the importance of building-up pension entitlements early;

Work force

13. Believes that a decreasing work force will, if the present situation continues, lead to a decrease in the total number of hours worked; considers that, in order to reverse this trend, measures could be taken to reduce the unemployment rate and increase recruitment (combined with training and retraining) including persons who have a high labour potential such as disabled persons, women and the elderly; stresses the need to enable flexible retirement on a voluntary basis, change the organisation of working practices and make intelligent use of new technologies; stresses that it is also necessary that support services and services related to the care of children and family dependants are improved, in the light of reducing the number of people working part-time on a voluntary basis;
14. Recalls that higher employment rates are heavily dependent on the need to keep all groups – especially those excluded from the labour market – active; stresses, therefore, the need to fight discrimination on the labour market and to offer jobs to inactive persons in the labour force; stresses, furthermore, the need to provide reasonable accommodation so as to facilitate the employment of disabled persons and those with significant health problems, and to ensure that disabled persons and persons who are mentally ill have access to employment;
15. Stresses, therefore, the need for active policies on the employment of women, young people and the elderly so as to make proper use of manpower and business enterprise and to ensure that, inter alia, contributions to pension systems entitle the retired to a decent pension;
16. Stresses the need to discuss at national level raising the legal retirement age; considers that, irrespective of the various legal retirement ages in the Member States, it is necessary that employees should be encouraged to remain in employment on a voluntary basis and as long as conditions allow, until the age which applies or longer;
17. Calls on the social partners, among other things on the basis of experience gained in various sectors, to negotiate tailor-made sector-based measures in relation to ageing workers in general and an age-conscious personnel policy in particular;
18. Calls on the Member States to create financial and social incentives to encourage employees voluntarily to continue to work even after reaching the statutory retirement age;
19. Calls on the Member States to pursue an active policy to improve the prospects for safe working conditions in order to reduce risk in certain occupations and avoid the early retirement of a large proportion of skilled workers;
20. Recalls that any pro-active economic migration policy that addresses especially potential migrants of working age and offers fast-track immigration to highly skilled applicants

would need to be complemented by better integration of migrants into the labour market and society as a whole; stresses that intensified efforts to increase immigration might lead to a brain-drain in the countries of origin, which might have a negative effect on the economical and societal development of these countries and encourage new waves of uncontrolled migration;

21. Recognises that “brain waste” can also be an issue, for both the economy as a whole and the individuals concerned, when qualified migrant workers are employed to fill positions for the less-skilled; stresses the need for migrant workers to benefit from their contributions to pension schemes;
22. Calls on the Commission to take the necessary steps to ensure that Union citizens working and residing in a host Member State do not lose some or all of their social security rights;
23. Considers that the long-term impact of immigration on the ageing of the population is uncertain as it depends on the behaviour of migratory flows, on family regrouping and on the birth rate among migrants; considers that immigration can lead to a better balance of social security systems if immigrants are legally employed and therefore contributing to its financing;

Pensions

24. Draws attention to the existing discrimination against all vulnerable groups in terms of access to and the conditions on the labour market, especially those who are working in jobs where social security contributions are not mandatory, which leads to lower employment rates and lower wages and therefore fewer opportunities for those groups to build up adequate pensions; insists on the need to provide equal opportunities for all, thus ensuring higher employment rates, equal pay and adequate pension rights;
25. Recognises the fact that public pension systems strengthen social solidarity and are the responsibility of the Member States and that safeguarding these systems should be a political priority; believes that greater use of alternatives to state-funded pensions, such as supplementary schemes, could be a viable alternative; points out that private pensions could include occupational supplementary pension schemes by employers or other collective organisations and associations and individual supplementary pensions based on savings; emphasises that the existence of private pensions would increase the need for the appropriate regulation of private pension funds, the portability of such pensions and the promotion and continued modernisation (including more flexibility) of these alternatives; within this framework, believes that the risk should be taken into account that women in the context of the existing public pension system might lose insurance coverage if private provisions are to replace this system, but that this risk can be reduced by crediting pension entitlements for maternity leave, parental leave and breaks from work for personal reasons;
26. Calls on the Member States to take serious account of the need to redesign traditional pension systems which are based on systematic risk assessments and the assumption of a typical, standard life course and adjust the social security system in line with the reforms of the pension system, this given that the assumed standard course of life is changing rapidly, and that so-called 'patchwork biographies' will become more and more common; believes that this could lead to a new social risk of increasing unpredictability for many individuals and for vulnerable groups in particular, especially immigrants, low-skilled workers, single parents and those with other caring responsibilities; stresses that this can lead to an early

exit from the labour market or reduced participation in it; points out that a transformation of the pension systems is also necessary to achieve a flexible labour market;

27. Notes that a sustainable pension system needs to adapt to demographic and economic challenges and stresses that – provided that there is wide availability – a three-pillar structure is a balanced option; suggests that the statutory pensions (first pillar) be flanked by collectively funded occupational pension systems (second pillar) and by individual additional third-pillar products; stresses the value of pension systems that combine solidarity with often high returns because of volume, long-term and prudent but profitable investment strategies; invites the Commission to undertake the preparation of an appropriate and feasible framework of regulation and supervision of pan-European pension products; stresses that an internal market for occupational and third-pillar pensions would allow individuals to enjoy portable occupational pension arrangements, stimulate competition and reduce the cost of saving for retirement;
28. Observes that it is predominantly women who take care of children as well as elderly, ill or disabled members of the family, voluntarily or involuntarily under the pressure of cultural attitudes and social norms or of the poor quality or lack of childcare facilities and other care facilities (long-term care structures) and that they therefore have more interruptions in their working careers; stresses the need to compensate women and carers and to provide them with real choices as regards having children as in relation to caring responsibilities, without fearing possible financial disadvantages or suffering detriment to their career progression; welcomes action by Member States to prevent and compensate this situation, for example by crediting child and family care time in statutory pension insurance;
29. Calls on the Member States, the social partners and representatives of women's organisations to continue to pay close attention to the possible or actual effects of pension system reforms on equality between men and women and to ensure that remedial action is taken if necessary to guarantee equal treatment;
30. Requests that, as a matter of urgency, the Commission and the Member States take measures prohibiting direct discrimination in occupational pension schemes, including the practice of basing the level of payments and contributions on actuarial factors relating to sex;
31. Recalls its resolution of 21 February 1997 on the situation of spouses helping self-employed workers¹ which, inter alia, called for action to ensure that it was compulsory for spouses helping self-employed workers to be covered individually by a pension insurance scheme;
32. Recalls its resolution of 12 March 2008 on the situation of women in rural areas of the EU2, calling once more on the Commission to submit a proposal for amending Directive 86/613/EEC of 11 December 1986 on the application of the principle of equal treatment between men and women engaged in an activity, including agriculture, in a self-employed capacity, and on the protection of self-employed women during pregnancy and motherhood³ by the end of 2008 providing for independent social and pension entitlements for women assisting on agricultural holdings;

¹ OJ C 85, 17.3.1997, p. 186.

² Texts adopted, P6_TA(2008)0094.

³ OJ L 359, 19.12.1986, p. 56.

33. Recalls its resolution of 11 July 2007 on financial services policy (2005-2010) 1 and stresses the importance of developing a transparent, flexible European social security and pension market, by reducing fiscal barriers and obstacles to the transferability of pension rights from one Member State to another; is of the opinion that the creation of an internal market for pensions requires a European framework regulating pension products;
34. Urges the Commission urgently to review Directive 2003/41/EC of the European Parliament and of the Council of 3 June 2003 on the activities and supervision of institutions for occupational retirement provision² in order to provide a solid solvency regime appropriate to such institutions for occupational retirement provision, based on advice from the Committee of European Insurance and Occupational Pensions Supervisors and a thorough impact assessment, examining level playing field issues through differences in calculation and underlying assumptions for measuring liabilities; stresses that such a regime could be based on an extension of some aspects of the amended Commission proposal of 26 February 2008 for a Directive of the European Parliament and of the Council on the taking-up and pursuit of the business of insurance and re-insurance (Solvency II) (COM(2008)0119) to pension funds, taking into account the specificities of the institutions for occupational retirement provision, such as the long-term nature of the pension schemes they operate and the type of risk coverage or guarantees provided by pension funds; considers that such a special solvency regime would underpin financial stability and prevent regulatory arbitrage;
35. Recalls that the Court of Justice has ruled against obstacles to tax exemptions for cross-border pension contributions; emphasises that tax relief offers the best incentive for long-term savings and that further harmonisation may be needed to remove all obstacles to cross-border contributions to pension schemes;
36. Notes the current trend away from defined benefit pension systems to defined contribution pension systems and is concerned about the decline in employer contributions that evidently accompanies this trend; emphasises the need for strengthened participation and contribution levels of employees in existing pension schemes in order to ensure adequate retirement income for individuals and emphasises the need for continued adequate contributions from employers, particularly in defined contribution pension schemes; is concerned that the envisaged revision of International Accounting Standard (IAS) 19 regarding employee benefits, as for example in the case of the possible abolition of the so-called 'corridor-approach', could entail significant changes to pension systems that need to be carefully assessed, especially as regards possible adverse effects on the attractiveness of defined benefit schemes;
37. Observes that, in order to ensure decent living conditions for disabled persons and to avoid the 'benefits trap', it is necessary to provide compensation for the additional cost of living associated with disability and to coordinate it with pension systems and social integration policies;

Financial sustainability

38. Stresses the need for the Member States to preserve adequate levels of funding for social security and pensions systems and the need to find alternative and robust tax bases in the

¹ OJ C 175 E, 10.7.2008, p. 392.

² OJ L 235, 23.09.03, p.10.

face of the increased competition brought about by globalisation; stresses the importance of reducing reliance on labour taxation in order to increase the competitiveness of Member State economies and provide more work incentives; recognises the complexity involved in shifting to a more capital based taxation, given the smaller capital tax base and greater mobility of capital; suggests that shifting to new methods of taxation and/or other alternatives could be considered to improve the financial sustainability of social spending, which would reduce the tax burden on people with lower incomes; maintains that employers' social security contributions represent an investment because they result in increased productivity, this being one of the reasons why countries with high social spending are also the most competitive;

39. Underlines the fact that Member States must focus on the medium and long-term objectives of the Stability and Growth Pact (SGP) and ensure sustainable public finances to meet the increased pressure of an ageing population; notes that the Informal Economic and Finance Ministers Council held in Brdo on 5 April 2008 agreed that the focus on social spending should move from volume of expenditure to achievements and outcome; recommends that the Council reflect on further improvements to the SGP, for example by allowing longer term investments to be accounted for over a longer period of time;
40. Stresses that Member States should design their financial policies in a sustainable manner by fairly sharing the tax burden among employees, consumers, businesses and income from capital, and across generations;
41. Considers that regulation should aim to secure the solvency and protection of occupational pension schemes, not least in the event of a takeover or other significant changes in ownership or management;
42. Calls on the Member States to include in their annual budgets a fund for future pension payments;
43. Stresses the need to consider a phased transition from joint contribution-based to fund-based insurance-type pension schemes,

Healthcare and long-term care

44. Expresses the conviction that measures to improve health mean a need to invest, which can contribute to reducing the costs in light of the ageing population and improve the soundness of public finances; insists on the importance of preserving the values and principles underpinning all health care systems in the European Union, which comprise universal coverage, solidarity in financing, equity of access and the provision of high-quality health care, notwithstanding the need for rational consumption of scarce resources; emphasises that by improving the organisation and provision of services in accordance with the principles of subsidiarity, there is the potential for improving both the quality and financial efficiency of health services;
45. Given the projected higher costs of health care and long-term care, considers that Member States should reflect on their funding and take account of the fact that, given the possibility that less non-professional care will be available due to the trend towards smaller families and an increase in women's participation in the labour market, the increase in long-term care might be higher than projected;

46. Points out that the emphasis should be placed on persons needing expensive or long-term health care, persons and groups of persons facing particular access problems, such as ethnic minorities and persons on low incomes, on care for persons suffering from chronic illnesses and the development of open support structures for the rehabilitation, social integration and support of persons with physical or mental disabilities and the elderly, so as to avoid institutionalisation and to help them live independently;
47. Observes that the public funding of health care helps protect against financial risk, independently of the personal health risks and thus supports equality and social security, whereas, in contrast, private contribution mechanisms involve limited or no pooling of risks and usually link payments to the risk of ill health and ability to pay, while simultaneously guaranteeing a sustainable financing regardless of demographic change;
48. Recognises the importance of public financing in achieving the objective of solidarity, and the wide diversity of the levels of public and private financing of health care in the Member States; recommends that the Commission carries out research to determine the level and/or range of public financing that meets the objective of solidarity, both for the system as a whole and for particular service areas;
49. Recognises the increasing popularity of market-based solutions and privatisation in health care financing as a panacea for cost explosion, inefficiency and problems of quality of care, especially in the new Member States; recognises the increasing evidence that the functional privatisation of social health insurance systems, the profit motive and competition between financial intermediaries usually make the administration of health care systems more expensive, whilst their beneficial effects in terms of cost containment, efficiency and quality of care are dubious; for this reason, recommends that Member States with a single payer model preserve that model;
50. Notes that health care systems that are predominantly funded through employment-based social insurance contributions may benefit from broadening the revenue base to include non-earnings-related income;
51. Notes that, in the light of the principle of freedom to provide services and the right of the insured under health insurance schemes to choose a doctor or establishment freely, it is not permissible for Member States to refuse to reimburse their citizens for any treatment received abroad but that Member States can impose (fixed) individualised ceilings on the costs incurred and are not obliged to reimburse treatment that their nationals would not have received at home;
52. Calls on the Member States to avoid a purely financial approach when adopting reform policies aimed at redesigning the legal frameworks which underpin their respective national healthcare systems;
53. Is deeply convinced that the starting point for any reform should be a careful analysis of the existing health (financing) system to identify weaknesses and problem areas, combined with understanding of the contextual factors that may contribute to or impede successful reform; expects Member States to be fully aware of the considerable impact of healthcare reforms on the operation, capacity, and efficiency of their respective healthcare systems, and of the threats that insufficiently or inadequately prepared reform measures can have on the quality and availability of healthcare services, on the health of citizens, and hence on their employability;

54. Calls on the Member States to consider the whole range of health financing functions and policies, rather than focusing on contribution mechanisms alone; is convinced that raising the level of employment-based contributions, or raising the private contribution of patients to the cost of healthcare services are wrong-headed policies that can have disastrous consequences since they limit in an unacceptable way the access of citizens with low incomes to the full range of healthcare services;
55. Is convinced that the access of citizens with low incomes to high quality healthcare services should be seen as a clear priority that it is linked most closely with the European values of solidarity and equal rights, and that it constitutes a precondition for the successful achievement of the Lisbon objective of full employment;
56. Calls on the Commission to take into account the aspects of the equal rights of all Union citizens to high-quality healthcare systems, and to integrate the necessary guarantees against discrimination against citizens relating to financing into the revision of Community anti-discrimination legislation, or any new legislative instrument dealing with the issue of access to healthcare services;
57. Recommends that Member States contribute to efficiency and equity in their respective healthcare systems by lowering the number of risk pools or – better still – by creating a single, national pool that can facilitate strategic direction and co-ordination throughout the health system;

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58. Instructs its President to forward this resolution to the Council, the Commission, the Employment Committee, Social Protection Committee, and the governments and parliaments of the Member States and the candidate countries.