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WHITE PAPER

An Agenda for Adequate, Safe and Sustainable Pensions

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(Text with EEA relevance)

1. INTRODUCTION

There has long been widespread concern about the future of pensions in view of the rising number of older people relative to the number of people of working age. These concerns are being amplified by the financial and economic crisis that started in 2008 and which affects pay-as-you-go pension schemes through falling employment, and hence contribution revenues, and funded schemes through falling asset values and reduced returns. The future adequacy of pensions for Europeans is put at risk by a lack of sustainability of public finances and by rising uncertainty on financial markets.

As the economies and societies of the Member States are becoming more and more integrated, the success or failure of national pension policies has ever stronger repercussions beyond national borders, particularly among the countries sharing a common currency. Demographic ageing, low levels of growth and employment as well as imbalances in outflows and inflows of people contribute to pressures on the balance of revenues and expenditures of individual Member States' pension systems, with fiscal and macroeconomic implications for other Member States.

Pension reforms are essential for improving Europe's growth prospects – and are urgently required in some countries to restore confidence in government finances. Pensions represent a very large and rising share of public expenditure: 10% of GDP on average today, possibly rising to 12.5% in 2060¹. Pension systems strongly influence retirement patterns and hence the supply of labour. Pensions – mostly from public schemes – also represent the main source of income of a significant and growing part of the EU population (120 million or 24%) and are hence a major source of demand for goods and services. Yet, if good pensions are not based on strong labour force participation of the entire working age population, the high level of public spending for pensions can squeeze out other public expenditure, for instance on education, research and infrastructure, thereby reducing future growth prospects.

The central importance of pensions for Europe's social and economic success and the increased risk of cross-border spill-overs from national pension policies lead to pensions increasingly becoming a matter of common concern in the EU. Indeed, the stability of the Euro, as well as the EU's ability to achieve two of the five targets of the Europe2020 Strategy – raising the employment rate to 75% and reducing the number of people at risk of poverty by 20 million – will also depend on the success of retirement reforms in the Member States.

¹ 2009 Ageing Report. *European Economy*, April 2009.

Growing concerns have led to a focus on Member State pension policies in the 2011 Annual Growth Survey² and the Pact for the Euro. Country-specific Recommendations on pension reform have been addressed to the majority of Member States. These concentrate mostly on raising pensionable ages and reducing early retirement, which can bring benefits for public finances and improve the future adequacy of pensions, provided that the effective length of working lives indeed increases.

This White Paper aims to set out a vision for making adequate pensions affordable and sustainable in the long run, by creating the conditions for a high level of labour force participation of women and men throughout the life-cycle and enhancing the opportunities for safe complementary retirement savings. It presents 25 policy initiatives at the European level through which the EU can support national policy makers in their efforts to address reform needs, notably those identified in country-specific recommendations. This White Paper also reflects the results of the wide-ranging consultation launched by the Green Paper *Towards adequate, sustainable and safe European pension systems*³ to which hundreds of stakeholders, as well as the European Parliament, the European Economic and Social Committee and the Committee of the Regions, have responded and expressed their expectation for pension issues being addressed at the EU level in a comprehensive and coordinated way.

2. AN EU VISION FOR ADEQUATE, SUSTAINABLE AND SAFE PENSIONS

The basic purpose of pension systems is to deliver adequate retirement incomes and to allow older people to enjoy decent living standards and economic independence. On average, this has been largely achieved across the EU, although important gaps remain. People over 65 have an income of almost 94% of that of the average for the total population⁴, but about 22% of women over the age of 75 fall below the at-risk-of-poverty threshold⁵.

While there is clearly a need to improve the adequacy of pensions for some population groups, unsustainable public finances and the declining working-age population relative to those above retirement age will reduce the room for manoeuvre for better pensions. Moreover, reforms already adopted in a number of countries will imply lower public pensions for future cohorts of retirees, at least at unchanged retirement ages.

This does not imply that adequate pensions will no longer be achievable in the coming decades. There are indeed ways to secure the future adequacy of pensions without jeopardising the sustainability of public finances. The key in many countries will be to achieve a higher rate of employment of the working age population, women in particular. The scope for improvement can be considerable and some countries it could almost neutralise the effect of declining working-age populations by an increase in employment rates, thereby avoiding a dramatic increase in the economic dependency ratio (people on benefits relative to people in employment).

² COM(2011) 11 final, 12.1.2011.

³ COM(2010)365 final, 7 July 2010.

⁴ Eurostat, EU-SILC data for 2009. Equivalised mean income of people aged 65+ as % of mean income of the total population in EU27. Across Member States, the level varies between around 70% and over just over 100%.

⁵ Eurostat, EU-SILC data for 2009.

The Commission's 2011 Annual Growth Survey⁶ highlighted two important types of retirement reforms which contribute to fiscal consolidation by reducing pension-related expenditure, but which, by contributing significantly to economic growth, are also key to adequate pensions in the future: (i) promote a better balance between the number of years spent working and those spent in retirement; and (ii) develop complementary retirement savings. These reforms, if successfully implemented, would enable Member States to offer their citizens adequate incomes in old age even in a much less favourable demographic context.

'Successful implementation' means that the phasing out of early retirement schemes and the raising of pensionable ages must be accompanied by measures that enable people to stay longer on the labour market. In the absence of these, the impact on public finances would be much less beneficial since such reforms targeting pension ages would lead to an increase in the numbers of people relying on other types of benefits (e.g. unemployment, invalidity, social assistance). Genuine dialogue in the Member States, bringing together governments, employers and workers as well as other stakeholders, in order to build consensus on policies that create opportunities for working longer, but also ensure solidarity with those who are unable to do so, will be of great importance for the future adequacy of pensions. It will also be important to explain that, with rising life expectancy, working longer does not imply that people will be enjoying fewer years of retirement.

Concerning complementary retirement savings, success depends on measures that raise the cost-effectiveness and safety of supplementary pension schemes, widen their coverage among women and men across all types of employment including self-employment and allow people to retain complementary pension entitlements even if they have been highly mobile throughout their careers.

This vision for the future of adequate pensions in the EU is based on better employment opportunities, particularly for older workers, and better opportunities to make complementary savings. This will allow Europe's ageing societies to secure adequate incomes for older people while preserving their capacity to invest in the human capital of future generations and ensuring solidarity with those who are unable to work until the normal retirement age and to make sufficient provision for their retirement.

Reforms in the spirit of this vision will not be about pitching the interests of the young against those of the old and finding the right balance between them. Staying active for longer does not mean that older people are being deprived of their well-deserved retirement for the benefit of the young, or that older workers will keep jobs that would otherwise be available to younger workers; indeed, those Member States with the highest employment rates for older workers also have some of the lowest youth unemployment rates. Over the longer run, the number of jobs is not fixed, but depends notably on the supply of qualified workers. The increased availability of experienced older workers will enhance Europe's growth potential and thus create more opportunities and better living conditions for the young and the old. This vision of a society offering better opportunities for people of all ages will be also at the heart of the European Year 2012 for Active Ageing and Solidarity between Generations.

Besides ageing, other demographic developments such as future fertility levels or migration will also influence pension outcomes. These will need to be reflected in pension reforms and

⁶ COM(2011) 11 final, 12.1.2011.

addressed by employment, social and other policies in a complementary way in order to encourage people to raise children and improve the integration of migrants.⁷

3. A COMPREHENSIVE EU FRAMEWORK FOR SUPPORTING REFORMS

The primary responsibility for the design of their pension systems remains with the Member States. The Treaty on the Functioning of the European Union requires the EU nevertheless to support and complement the activities of the Member States on social protection (Article 153) and to take into account the guarantee of adequate social protection in defining and implementing its policies (Article 9). There are many EU competences and policy initiatives that affect national pension systems and policies. The EU has been addressing very specific issues, such as removing obstacles to the free movement of people, defining how private pension providers can benefit from the Internal Market, promoting gender equality and combating discrimination or the increasingly important task of monitoring fiscal sustainability.

This White Paper respects the responsibilities of the Member States and proposes different types of initiatives ranging from legislation over financial incentive to policy coordination and monitoring in an integrated and comprehensive way.

3.1. Achieving a better balance between time spent in work and in retirement

The country-specific recommendations on pensions that have been addressed in July 2011 to the Member States focus strongly on the need to keep older workers longer on the labour market, notably by raising the pensionable age and possibly linking it to gains in life expectancy. Some Member States try to achieve a postponement of retirement by increasing the number of contribution years required to obtain a full pension other link the level of pension benefits to the financial balance of the pension scheme, which will be affected by demographic change, and allowing people to earn a higher pension by working longer.

Pension reforms aimed at retaining people longer on the labour market also need to focus on the removal of early retirement options which may apply to all employees or to specific professions. A number of countries also still have lower retirement ages of women. Equalisation of pensionable ages for women and men can make a significant contribution to raising the labour force participation of older workers, but needs to be considered in the wider context of gender disparities in pensions.

The Commission, in close cooperation with EU committees for employment (EMCO), economic policy (EPC) and social protection (SPC), will complement the country-specific recommendations with initiatives aimed at helping Member States in implementing those recommendations.

Supporting pension reforms for later retirement

- (1) In the framework of European Semester, the Commission will **closely monitor and encourage pension reforms** with the aim of bringing about later pension take-up and linking retirement ages to increases in life expectancy.

⁷ COM(2011) 455 final, 20.7.2011.

- (2) The Commission will, as from 2012, offer **financial support to Member States** wishing to make use of expertise from other countries or international organisations **in preparing reforms of their pension and retirement policies**, particularly in the light of their country-specific recommendations.
- (3) After consultations with EMCO and the SPC, the Commission will in early 2013 present a **recommendation on reducing the need for, and restricting access to, early retirement schemes** and other early exit pathways.
- (4) The Commission will present by 2013 a **recommendation on equal treatment of women and men in pension systems**, addressing also the wider gender differences in pension access and adequacy such as pay and contribution gaps, care crediting, job reinsertion after parental leave and entitlement splitting in case of divorce

Higher pensionable ages and the elimination of early retirement schemes will not automatically translate into longer working lives. To ensure that the pension reforms considered above will produce the expected benefits in terms of financial sustainability and adequacy, Member States will need to enhance people's ability to work longer through a set of work place and employment measures.

Such measures include eliminating mandatory retirement ages, promoting healthy ageing at work, providing access to life-long learning, adapting work places to the requirements of older workers and developing opportunities for extended working lives, including through incentives for the employment of older workers and by lifting obstacles to the creation of suitable end-of-career jobs. Removing disincentives to employment for women and men in tax-benefit structures and remuneration will also be important. Given the significant differences in employment rates for women and men aged 55-64, all initiatives will pay particular attention to gender aspects of longer working lives and active ageing, including through measures that facilitate the reconciliation of work and care responsibilities. The European Social Fund (ESF) can play a major role in bolstering the capacity of policy makers, employers and workers to bring about the necessary progress in the employability of older workers.

Enabling people to stay longer on the labour market

- (5) During the European Year 2012 on Active Ageing and Solidarity between Generations the Commission will raise awareness about the benefits and possibilities of working to higher ages and stimulate the dissemination of good practices of age management in work places and labour markets..?
- (6) In the framework of Europe2020, the Commission will, as from 2012, intensify its **support for policy coordination and joint work on enabling and encouraging older workers to stay longer on the labour market**. This will include promoting joint work by the SPC, EMCO and EPC on obstacles to, and opportunities for, extended working lives and the development of end-of-career labour markets across the Member States.
- (7) In the framework of European Social Dialogue, the Commission will **call on the social partners**, with advice from the European Foundation for the Improvement of Living and Working Conditions, **to develop ways of adapting work place and**

labour market practices, including career management notably for men and women in strenuous jobs, so as to facilitate longer working lives for women and men.

- (8) Building on its proposal for the **European Social Fund** in the 2014-2020 programming period, the Commission will encourage Member States to make use of the ESF for **supporting active and healthy ageing**, and will closely monitor that ESF programmes effectively support the reform needs identified in this area.
- (9) The Commission will, in 2012, propose a **new Strategy for Health and Safety at Work 2013-2020**; it will also invite the European Agency for Safety and Health at Work to focus on issues that can prevent or enable women and men to work longer.
- (10) The Commission will, in 2013, after consultations with stakeholders and in the light of the latest jurisprudence, present a **recommendation on abolishing mandatory retirement ages** and addressing other barriers to working longer in legislation and collective agreements.

3.2. Enhancing the contribution of complementary retirement savings to retirement incomes

Pension reforms already in place will, in a number of Member States, result in lower replacement rates (pensions relative to previous earnings) from public schemes. While individuals may be able to compensate for this by postponing their retirement, complementary retirement savings are also expected to play a greater role in securing adequate incomes in old age⁸. Many Member States have introduced measures to complement their public pay-as-you-go pension schemes with private pre-funded schemes.

However, in many countries the crisis demonstrated that the ability of pre-funded pension schemes to mitigate risks and absorb shocks are far from optimal. The recession and the subsequent deterioration of public budgets also revealed some fundamental weaknesses in the way several Member States had sought to build mandatory private pension schemes. Most of these Member States have therefore had to scale back their ambitions and will now have to reconstruct private pensions and adjust the timeframe for and the scale of their contribution to future pension adequacy.

If complementary retirement savings are to play a greater role in securing the future adequacy of pensions, Member States will have to find ways of improving access to such instruments, notably by extending the coverage of cost-effective and safe supplementary pension schemes. In this regard, tax and other financial incentives as well as collective bargaining play an important role. These tools are being used in very different ways across the EU so that there is considerable scope for mutual learning. Addressing gender aspects will be important as currently women have less opportunity to build up complementary retirement savings than men.

⁸ Complementary retirement savings include occupational and personal pensions, life insurance and other forms of asset accumulation that can be used to maintain living standards after retirement. In addition, there are instruments (e.g. reverse mortgages) which enable people to convert assets into a regular retirement income.

Promoting coverage and cost-effectiveness of complementary private pensions

- (11) The Commission will, as from 2012, offer **financial support to Member States and social partners wishing to design cost-effective supplementary pension schemes**, allowing them to benefit from the good practices and experiences of other countries.
- (12) The Commission will **cooperate with Member States to optimise the efficiency and effectiveness of tax incentives for private pension provision**.

The crisis has highlighted the vulnerability of pre-funded pension schemes to financial crises and economic downturns and the need to review the regulatory framework and scheme design with the aim of enhancing the safety of private pensions. In this area, the EU has legislative competences, and two instruments are already in place: the directive on the activities and supervision of Institutions for Occupational Retirement Provision (IORP)⁹ and the directive on the protection of employees in the event of insolvency of their employer¹⁰. In addition, there is a need to improve the quality of financial products for retirement savings that are not linked to employment.

Enhancing the safety of complementary private pensions

- (13) The Commission will, in 2012, **review the IORP directive** and present proposals to facilitate cross-border mobility and modernise supervision, including the solvency requirements.
- (14) The Commission will, in 2012, take initiatives to ensure a more effective **protection of workers' occupational pension rights in the event of insolvency** of their employer on the basis of article 8 of directive 2008/94/EC, taking into account a horizontal assessment of its state of implementation across the EU and as well as ECJ jurisprudence.
- (15) The Commission will, by 2013, present an initiative aimed at raising the **quality of third-pillar retirement products and improving the protection and information of consumers** (including annuities and instruments for accessing housing wealth) via voluntary codes and possibly an EU certification scheme for such products.
- (16) In collaboration working with stakeholders such as the social partners, the pension industry and advisory bodies such as the Pension Forum the Commission will develop a **code of good practice for occupational pension schemes** (2nd pillar) , addressing issues such the payout phase, risk-sharing and mitigation, cost-effectiveness, shock absorption and ways of avoiding pro-cyclicality in investments.

An increased reliance on supplementary pension schemes would undermine the protection of people who move across borders and whose statutory social security entitlements are guaranteed by EU legislation (in particular Regulation (EC) No 883/2004¹¹) whereas private schemes are outside the scope of this regulation. It is therefore important to adopt measures that prevent supplementary pension schemes from being obstacles to professional mobility and labour market flexibility.

⁹ 2003/41/EC of 3 June 2003.

¹⁰ 2008/94/EC of 22 October 2008.

¹¹ Regulation 883/2004/EC of 29 April 2004 on the coordination of social security systems.

Making supplementary pensions compatible with mobility

- (17) In 2012, the Commission will table a **modified proposal for a portability directive** setting minimum standards for the acquisition and preservation of supplementary pension rights.
- (18) The Commission will from 2012 **explore the possibility for extending the scope of Regulation 883/2004/EC** on the coordination of social security systems as regards certain occupational schemes.
- (19) The Commission will **promote the development of pension tracking services** allowing people to keep track of their pension entitlements.
- (20) The Commission will **tackle the issues of tax obstacles to cross-border mobility and cross-border investments** linked to discriminatory taxation of transfers of occupational pension and life insurance capital and of life insurance contributions paid to providers established elsewhere in the EU, as well as discriminatory taxation of cross-border investments by occupational pension funds and life insurance providers.
- (21) The Commission will **pursue the on-going work on a pan-European pension fund for researchers.**

3.3. Enhancing the EU's monitoring tools on pensions and strengthening synergies across policy areas

The successes or failures of national pension policies will be key determinants of the EU's ability to achieve its strategic goals as defined in the Europe2020 strategy. It is therefore important to develop good monitoring tools on the basis of the work that has already been done in particular by the Economic Policy Committee and the Social Protection Committee. This monitoring includes not only reporting on reforms, but also outcome indicators and projections (of future spending and future replacement rates, in particular), as well as effective surveillance mechanisms to prevent and correct macroeconomic imbalances with potential risks for the entire European economy.

Good monitoring tools are also a prerequisite for understanding what works and what does not in the Member States. They are the basis for mutual learning and cooperation in the context of the Open Method of Coordination where adequacy and financial sustainability are being considered jointly.

Coordinated monitoring of the adequacy, sustainability and safety of pensions

- (22) The Commission will promote cooperation between the EPC and SPC with the aim of jointly presenting future adequacy and sustainability challenges. In 2012, it will support the SPC in preparing a **Pension Adequacy Report** which should also help Member States, in the context of the Platform against Poverty, to consider the need for mechanisms to protect all older women and men against poverty.
- (23) The Commission will promote, in the context of the Open Method of Coordination, the use of agreed **indicators for benchmarking, the review of national policies and outcomes, the exchange of best practice** focusing on cost-efficient provision of

adequate living standards for older people, taking into account the gender dimension and the role of services (housing, health and long-term care).

The EU has a wide range of policy instruments for supporting Member States in achieving adequate pensions on a sustainable basis. Through the establishment of the Commissioners Group of Pensions and by presenting the Green Paper on Pensions in 2010, the Commission has underlined the importance of tackling pension issues in a holistic way and ensuring a maximum of synergies across policy areas. Moreover, in addition to close cooperation with Member State governments (notably in the existing policy committees, SPC, EPC and EMCO), it is important to ensure that other, non-governmental stakeholders can participate in the joint effort to achieve adequate, sustainable and safe pensions.

Coherent policy making at EU level

- (24) The Commission will review the mandate and functioning of the **Pensions Forum** with the aim of strengthening its contribution to the European pension debate.
- (25) The Commission will publish, in 2014, a **report on progress towards adequate, sustainable and safe pensions in Europe** to help focus the attention of all stakeholders on advances and remaining challenges in pension-related policies and the best ways to tackle them.

4. CONCLUSION

With this White Paper, the Commission tries to present ways in which Europe, through growth-enhancing retirement reforms, can secure adequate pensions over the coming decades. There can be no doubt that the challenges, notably those related to demographic ageing and the sustainability of public finances, are very significant, but there are also good ways of tackling them.

It is in the interest of the European Union as whole that every single Member States succeeds in reforming its pension system. The present White Paper acknowledges this and proposes a comprehensive strategy for tackling the main pension-related issues. It sets out practical steps through which the EU can support Member States to implement the recommendations on pensions they receive in the context of the Europe 2020 strategy.

The responses to the Green Paper have shown that a more active role of the EU in the area of pensions is expected. This White Paper responds to this call and offers to Member States and other stakeholders a close partnership through which a shared positive vision for the future of pensions in the EU can be realised.