

Future of social security systems and pensions: their financing and the trend towards individualisation

2007/2290(INI) - 07/10/2008

The Committee on Employment and Social Affairs adopted the own-initiative report drafted by Gabriele **STAUNER** (EPP-ED, DE) on the future of social security systems and pensions: their financing and the trend towards individualisation.

General concerns: given the need to cover social risks and secure the sustainability of the social security and pensions systems and maintain the core of the European social models, Members call on the Member States to make more progress in balancing social expenditure and social activation and, furthermore, to attract more people towards quality and secure employment with mandatory social insurance. The Members consider that growth and job creation need to be promoted, that social protection systems need to be modernised (for example through greater differentiation in benefit formulas and funding mechanisms) and investment in human capital increased by innovation and lifelong learning for all.

Members call 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.

Demographic developments: Members urge the necessity of preserving the balance between the economic viability of social security systems and pensions, on the one hand, and the coverage of social risks, on the other. They recall, in this regard, their belief that, to promote an economically viable social protection system, Community labour law should **reinforce employment contracts of indefinite duration** as the dominant form of employment under which adequate social and health protection is provided and respect for fundamental rights is ensured

Members also recall 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. According to the latest projections, by 2030, the ratio of active to inactive persons will be 2:1. This means that, in the future, the current system of solidarity will put serious pressure on the active work force. New solutions are needed if the principle of solidarity and the European social model are not going to be jeopardised.

The Members also invite the Commission and the Member States to draw up policies to ensure that people (who tend generally to be women) who look after **family dependants**, many of whom have to leave the labour market, are not penalised in relation to their pension entitlements.

As far as the **current trend towards individualisation** is concerned, Members consider that it contributes to the modernisation of the second and third pillars of social security systems, without bringing into question the first pillar. They ask the Commission to undertake further research into the impact of individualisation of social rights on the equality of treatment of women and men. They note that equality between men and women must feature among the objectives of the reforms of social security and pension systems.

The Members also urge the Commission and the Member States to promote awareness among young adults of the importance of starting to accumulate pension rights at an early age.

Workforce: in view of the falling numbers in the workforce, solutions need to be found. The Members stress the need to enable **flexible retirement** on a voluntary basis, change the organisation of working practices and make intelligent use of new technologies. 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. In this regard, there is a need for active policies on the employment of women, young people and the elderly so as to make proper use of manpower. It will also be necessary to discuss at national level **raising the legal retirement age** and encouraging workers to remain in employment on a voluntary basis, as long as conditions permit. The social partners should negotiate new agreements in this direction and financial incentives should be proposed to, encourage workers to remain in the labour market after the legal retirement age. In parallel, MEPs call on the Commission to take the necessary steps to ensure that EU citizens working and residing in a host Member State **do not lose out on some or all of their social security rights**.

As far as **migration** is concerned and its potential impact on social security systems, Members consider that the long term impact of immigration in the ageing of the population is uncertain as it depends on the behaviour of migratory flows, on family regrouping and on the birth rate amongst migrants. On the whole, however, Members recognise that immigrants can lead to a better balance of social security systems if they are legally employed and therefore contributing to its financing.

Pensions: Members call on the Member States to take serious account of the need to redesign traditional pension systems which 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 the so-called "patchwork biographies" will become more and more common resulting in increasing unpredictability for many (e.g. immigrants, low-skilled workers, single parents, etc.). Members point out that a transformation of the pension systems is also necessary to achieve a flexible labour market.

MEPs also believe that greater use of alternatives to state-funded pensions, such as supplementary schemes, could be a viable alternative. They mention, in particular, private pensions and individual supplementary pensions based on savings. However, the existence of this type of pension increases 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.

Members stress the need for a **sustainable pension system** and point out that a three-pillar structure is a balanced option, on condition that it is widely accessible. They suggest therefore that the statutory pensions (first pillar) be flanked by collectively funded occupational pension systems (second pillar) and by individual additional third-pillar products. In this regard, they call on the Commission to undertake the preparation of an appropriate and feasible framework of regulation and supervision of pan-European pension products stressing that these pensions would benefit from portability.

Given that women have more interruptions in their working careers (taking care of children or sick or elderly family members), they stress the need to **compensate women** 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. Members call on the Commission and the Member States to take measures prohibiting direct discrimination in occupational pension schemes, including the practice of basing the level of payments and contributions on actuarial factors based on gender.

In parallel, Members call for the review of Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision urgently in order to provide a solid solvency regime appropriate to such institutions for occupational retirement provision.

They emphasise the need for strengthened participation and contribution levels of employees in existing pension schemes in order to ensure adequate retirement income for individuals, as well as the need for continued adequate contributions from employers, particularly in defined contribution pension schemes.

Financial sustainability: Members emphasise the need for the Member States to preserve adequate levels of funding for social security and pensions systems. In order to do so, they stress the importance of reducing reliance on labour taxation in order to increase the competitiveness of Member States' economies and provide more work incentives.

They suggest that shifting to new ways 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. In this context, MEPs consider that Member States ensure sustainable public finances to meet the increased pressure of an ageing population. They also stress 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. They call on the Member States to include in their annual budgets **a fund for future pensions payments** and stress the need to consider a phased transition from joint contribution-based to fund-based insurance-type pension schemes,

Healthcare and long-term care: MEPs insist 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. In their view, **by improving the organisation and provision of services, there is the potential for improving both the quality and financial efficiency of health services.** Given the projected higher costs of health care, MEPs consider that Member States should reflect on their funding in particular for long-term care (knowing that some people will require costly care or very long-term healthcare).

Noting that privatisation of social security regimes, the profit motive and competition between financial intermediaries usually make the administration of healthcare systems most costly, Members recommend those Member States already with **a single payer model** to preserve it.

For MEPs, it is also unacceptable, given the principle of freedom to provide services and the right of the insured under health insurance schemes to choose a doctor freely, that Member States refuse to reimburse their citizens for any treatment received abroad.

As far as the reforms of the social security systems are concerned, MEPs consider that the Member States should avoid taking a purely financial approach when adopting reform policies aimed at redesigning the legal framework which underpin their respective national healthcare systems. They are convinced that the starting point for any reform should be a **careful analysis** of the existing (financing) system to identify weaknesses and problem areas. They also draw Member States' attention to the risks of ill-prepared reforms for the quality and supply of healthcare services in the future.

Member States should consider the whole range of health financing functions and policies, rather than focusing on contribution mechanisms alone. Members are convinced that raising the level of employment-based contributions, or raising the private contribution of patients to the cost of healthcare services would limit in an unacceptable way the access of citizens with low incomes to the full range of healthcare services. In fact, the access of citizens with low incomes to high quality healthcare services must be a priority of the Union and a precondition for the successful achievement of the Lisbon objective of full employment.

Members call on the Commission to take into account the aspect of equal rights of all European Union citizens to high quality healthcare systems, in order to avoid any form of discrimination between them with respect to healthcare. Lastly, MEPs recommend that Member States contribute to efficiency and equity in their respective healthcare systems by lowering the number of risk pools or by creating a single, national pool that can facilitate strategic direction and co-ordination throughout the health system.