Agenda for adequate, safe and sustainable pensions

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PURPOSE: presentation by the Commission of a White Paper on an agenda for adequate, safe and sustainable pensions.

CONTEXT: pensions – mostly from public schemes – are the main source of income of older Europeans, who are a significant and growing part of the EU population (120 million or 24%). An ageing population presents a major challenge to pension systems in all Member States. **Unless women and men stay longer in employment and save more for their retirement, the adequacy of pensions cannot be guaranteed** as the required increase in expenditure would be unsustainable. By 2060, the life expectancy at birth for males is projected to increase by 7.9 years and by 6.5 years for females, when compared to 2010. The number of people of prime working age (20-59) will fall every year over the coming decades. Together, longevity growth and the transition into retirement of baby-boomers will have far-reaching economic and budgetary consequences in the EU, reducing the economic growth potential and exercising pressure on public finances.

Pensions represent a very large and rising share of public expenditure: more than 10% of GDP on average today, possibly rising to 12.5 % in 2060 in the EU as a whole. But with spending on public pensions ranging from 6% of GDP in Ireland to 15% in Italy today, countries are in rather different situations although they face similar demographic challenges.

These prospects are further aggravated by the current financial and economic crisis. Sluggish economic growth, budget deficits and debt burdens, financial instability and low employment have made it harder for all pension systems to deliver on pension promises. Pay-as-you-go pension schemes are affected by falling employment, and hence lower pension contributions. Funded schemes are affected by falling asset values and reduced returns.

In this context, the Commission considers that it is a matter of urgency to draw up and implement strategies adapting pension systems to economic and demographic changes.

CONTENT: the White Paper reflects the common concerns about problems in pension systems outlined above and sets out an agenda for making pensions adequate and sustainable in the long term, by **creating the conditions for a high level of labour force participation of women and men throughout their lives and enhancing the opportunities to build up safe complementary retirement savings.**

It suggests forward policy orientations and initiatives at the European level through whereby the EU can support national policy makers in their efforts to address reform needs, notably those highlighted in the Annual Growth Surveys 2011and 2012 which highlighted key orientations for pension reforms which contribute to growth-friendly fiscal consolidation and specified in the **2011 Country-Specific Recommendations**.

The EU can harness a range of policy instruments to promote adequate, safe and sustainable pensions, even though the main responsibility for achieving these goals clearly remains with Member States.

The White Paper also reflects the results of the wide-ranging consultation launched by the Green Paper on adequate, sustainable and safe European pension systems.

The main points of the **agenda, set out in the White Paper,** are as follows:

1) Balancing time spent in work and retirement: to reach this objective, it will be necessary to adapt pension systems, raise the pension age and strengthen the incentives to extend active life.

During the European Year 2012 on Active Ageing and Solidarity between Generations, the Commission will raise awareness of the benefits and possibilities of working longer and stimulate the dissemination of good practices of age management in work places and labour markets. In the framework of Europe 2020, the Commission will step up its support for policy coordination and joint work on **enabling and encouraging older workers, women in particular, to stay longer on the labour market**.

The Commission will:

- encourage reforms linking retirement ages to increases in life expectancy, **restricting access to early retirement** and closing the pension gap between men and women.
- call on the social partners to develop ways of adapting work place and labour market practices, including career management notably regarding strenuous jobs, so as to facilitate longer working lives for women and men.
- building on its proposal for the **European Social Fund** in the 2014-2020 programming period, encourage Member States to make use of the ESF for supporting active and healthy ageing, including reconciliation of work and family life, and closely monitor whether ESF programmes effectively support the reform needs identified in this area in the Country Specific Recommendations.
- ask the relevant committees (e.g. the Social Protection Committee, Advisory Committee on equal opportunities between women and men) to identify and recommend **best practice in reducing the gender gap in pensions** (e.g. promotion of equal pay, minimum pension entitlements, care credits, pension rights splitting at divorce).

2) Developing complementary private retirement savings: there would be added value in stepping up European support for better coverage of women and men and the proliferation of good practices including in the optimal targeting of tax incentives for prefunded pension schemes. These can be promoted by governments (via the optimisation of tax or other incentives) or by encouraging the social partners to develop such schemes. In addition, it needs to be borne in mind that opportunities for complementary retirement savings through occupational and third pillar arrangements are underdeveloped and lacking in cost-effectiveness and safety in many Member States. The Commission will:

- as from 2012, cooperate with Member States following a **best practices approach t**o assess and optimise the efficiency and cost-effectiveness of tax and other incentives for private pension saving, including better targeting of incentives on individuals who would otherwise not build up adequate pensions;
- in 2012, present a **legislative proposal to review the Institutions for Occupational Retirement Provision** (IORP) Directive, the aim of the review being to maintain a level playing field with Solvency II and promote more cross-border activity in this field and to help improve overall pension provision in the EU;
- 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;
- resume work on a **pension portability Directive** setting minimum standards for the acquisition and preservation of supplementary pension rights;
- by 2013, present an initiative aimed at **raising the quality of third-pillar retirement products** for women and men and improving consumer information and protection standards via **voluntary codes** and possibly an EU certification scheme for such products, building, where appropriate, on measures to improve information for consumers planned for 2012 on 'packaged retail investment products' (PRIPs);

- promote the development of **pension tracking services.**

3) Enhancing the EU's monitoring tools on pensions and strengthening synergies across policy areas: the Commission will release the **2012 Ageing Report**, assessing the economic and budgetary impact of ageing, which will form the basis for a thorough assessment of the sustainability of public finances envisaged for release in the Commission's 2012 Sustainability Report.

In cooperation with the Social Protection Committee it will also prepare in 2012 **a Pension Adequacy Report** which can help Member States, in the context of the Platform against Poverty, to assess the adequacy of their pensions systems for women and men.