Joint report by the Commission and the Council on adequate and sustainable pensions

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PURPOSE : to present the draft joint report by the Commission and the Council on adequate and sustainable pensions. CONTENT : the Council and Commission have produced a joint report detailing the first comprehensive assessment of national pension systems and policies at EU level. To recall, the open method of coordination on pensions was launched at the Laeken European council in 2001 on the basis of 11 common objectives under three headings: safeguarding the capacity of systems to meet their social objectives, maintaining their financial sustainability and meeting changing social needs. The report analyses the National strategy Reports on Pensions submitted by each Member State, with a view to assessing the achievement of the eleven common objectives. These are presented in the Annexes. The report states that the momentum must be maintained, since ageing will start to produce its effects on pension systems within the next ten years in most Member States. The general conclusion may be summarised as follows: - Adequacy of pensions : preventing social exclusion - all Member States ensure compulsory membership in pension schemes, and provisions to ensure a minimum income to people who have not earned sufficient entitlements in their own right. In some countries higher poverty risks persist, particularly for older women. In future, pensioners are likely to acquire more pension entitlements during their working lives. - Enabling people to maintain living standards : pension systems comprising flatrate or earnings-related first pillar scheme, private occupational schemes (second pillar) and individual retirement provision (third pillar) offer good opportunities for most Europeans to maintain their living standards after retirement. Most come from first pillar schemes. However, the national strategy reports present a wide range of pension reforms aiming to contain future public pension expenditure growth, leaving more scope for private provision. The report emphasised the importance of postponing retirement. Whilst occupational and personal pension provision is developing in many Member States, voluntary private provision would not be expected to automatically fill the gap left by reduced public provision. An increasing number of countries therefore allow the social partners to establish sectorwide pension schemes based on mandatory collective agreements, enabling high rates of coverage. - Promoting solidarity : Member States build strong redistributive elements into first pillar pension schemes, notably in the form of minimum pension guarantees or credits for certain periods without pensionable income (e.g. unemployment, studying, parental leave etc.). This is not incompatible with stronger links between contributions and benefits, particularly if solidarity elements are financed from general budgets. Strong solidarity elements can also be present in occupational pension schemes based on collective agreements. The latest available income survey data suggest, for the EU as a whole, somewhat smaller income disparities among older people than among the population as a whole. - Financial sustainability of pension systems : Raising employment levels - projections of public pension expenditure indicate that higher employment rates alone will not solve the problem of the financial sustainability of pension systems. - Extending working lives : currently, most Europeans retire before reaching the statutory retirement age. A one-year increase in the effective retirement age would absorb about 20% of theaverage expected increase in pension expenditure in 2050. Member States are reforming early pension systems and labour market policies and promoting active ageing. However, in many cases, the pace of reforms falls short of what is required to achieve the Stockholm and Barcelona targets for the employment rate of older workers (50% by 2010 compared to 38.5% today) and to increase the effective retirement age by about five years by 2010. - Making pension systems sustainable in a context of sound public finances - Large expenditure increases on public pensions are projected for most Member States. Some countries are still hampered by high debt ratios and the need for budgetary consolidation. - Adjusting benefits and contributions in a balanced way : to prevent adverse effects on employment, an increase in the total tax burden should be avoided, in particular on labour. Member States must achieve a sustainable balance between taxes on labour, on the one hand, and other forms of taxation, including on capital, on the other. No Member State envisages increased pension expenditure to be financed solely by raising contribution rates. Several

Member States set an upper limit for contribution rates. In the case of the new notional defined-contribution pension schemes, benefits are automatically adjusted to maintain the financial balance of the schemes, notably in the face of rising life expectancy. In view of the financial impact of the retirement of the baby-boom generation, several Member States have established reserve funds in public pension schemes which should allow them to avoid major increases in contributions. Some expect to be able to afford larger transfers from the general budget to their public pension schemes thanks to debt reduction over the coming years and hence reduced future interest payments - or thanks to increased tax revenue from future pension benefits that are subject to deferred taxation. Several Member States have taken measures to reduce gradually replacement rates under public pension schemes, while at the same time creating better opportunities for supplementary private provision. - Ensuring that funded pension provision is adequate and financially sound : the risks of funded pension provision can be greatly reduced through effective supervision and prudent management of the assets. Significant progress is being made towards sound regulatory frameworks for funded pension provision across the EU. Progress is also being made in reducing management costs of private schemes. - Modernisation of pension systems : adapting to more flexible employment and career patterns - In spite of improvements achieved in many Member States, the situation cannot yet be regarded as satisfactory. Atypical workers are less well covered by occupational schemes and workers who change jobs tend to end their careers with reduced occupational pension rights compared to workers who remain with the same employer Greater equality between men and women - significant differences between women and men's pension entitlements will persist for a long time to come. Further gender assessment is needed to understand the impact of recent reforms and notably the development of supplementarypension schemes on the relative situations of men and women. Demonstrating the ability of pension systems to meet the challenges - most Member States have undertaken efforts to improve the transparency of their pension Systems. The report emphasises the importance of this. - Further co-operation at EU level - This includes work on common indicators which would allow to measure the extent to which the common objectives are being achieved, and Improving the quality of income data and their timeliness. This co-operation on pensions will have to be extended to new Member States. The report suggests that applicant countries could be invited to prepare their own national strategy reports based on the 11 common objectives.