Supplementary pensions in the Single Market. Green Paper

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OBJECTIVE: submission of a Green Paper on supplementary pensions in the single market with the aim of ascertaining the views of the parties concerned as to whether or not Community action is needed in this field. Replies must reach the Commission by 31.12.1997. SUBSTANCE: Pension schemes are a fundamental aspect of social protection in the EU. At present they take 3 forms: -state pensions (pillar 1), -pension schemes linked to employment (pillar 2), -pension schemes subscribed to by individuals, usually with life insurance companies (pillar 3). At present there are five people of working age to support each pensioner. By 2040, the same number will be having to support two pensioners, in view of the aging of the population and the decline of the birthrate in Europe. Another consequence of demographic trends is that the number of retired people is growing; they already swallow up 10% of the GDP of the Member States. Public expenditure on state pensions (88.8% of pensions at present) cannot continue to rise indefinitely. Unless something changes, by 2030 the Member States will no longer be able to meet the needs of pensioners. The Green Paper therefore considers solutions, including greater use of pillar 2 and 3 pension schemes, which at present account for only 7% and 0.9% of pensions respectively. In this context it is imperative that the Member States should amend their legislation and redefine the role of supplementary pension schemes. In particular, the balance betwen these schemes and State pension schemes needs to be altered, and it may be necessary to make it compulsory to subscribe to occupational pension schemes. Taxation measures are also needed to encourage tax-payers to subscribe to supplementary schemes. Unlike public schemes, pillar 2 and 3 schemes are capitalization schemes, which means that they are guaranteed by assets invested long-term to cover future pension payments. According to the Green Paper, the number of such schemes will increase considerably in the years ahead, and they may come to represent substantial sums (in 1993, ECU 1200 billion was invested through supplementary schemes). This is why there is an urgent need to examine how these schemes could function better in the context of the single market and the free movement of capital. At present, employment-related pension schemes or life-assurance pension schemes invest a large proportion of their assets in domestic government bonds. However, the availability of this type of bond will become increasingly limited in view of the commitments associated with EMU. Consequently, pension scheme managers are likely to have to resort to other types of asset, such as equities and private sector bonds. In the field of legislation, the rules concerning prudential supervision of these funds entail extreme compartmentalization. In many cases disproportionate restrictions are applied, which hamper the establishment of a genuine common market in pension funds. It is therefore up to the Member States to review the legislation in force, while ensuring effective supervision of the funds invested. Other methods of supervision would be compatible with the free movement of capital and would allow pension funds to invest more of their assets in long-term financial instruments, increasing returns and indirectly promoting employment. Besides the call for greater freedom of management of pension funds, the Green Paper stresses the need to establish a genuine European market in services offered by approved investment fund managers so that they can offer their services in other Member States. This would increase competition and cut costs, for the benefit of members of pension schemes. The Green Paper stresses the need to adopt without delay European legislation which will allow workers to move between supplementary pension schemes (cf. CNS97265), comparable to the provisions concerning statutory schemes. The lack of mobility has a significant impact on the mobility of workers and hence on employment. The Green Paper points out how important a role taxation has to play in pension provision, and suggests a number of ways in which tax incentives could be provided without hampering the establishment of a single market in occupational and life-assurance pension schemes.