Supplementary pensions: towards a single market, consultations on the Green Paper

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PURPOSE : in response to the general consultations on the Green Paper on supplementary pensions in the single market, showing the advantages of and proposing the outlines of a future Community framework for supplementary pensions. CONTENT : following the publication of the Green Paper on supplementary pensions in the single market (see procedure 1997/2158/COS), the Commission received about 100 replies to the Green Paper from the Member States, the European Parliament, the Economic and Social Committee of the European Communities, consumer organisations, unions, industry and the financial services sector. This communication thus presents the policy conclusions to be drawn from the consultations and sets out the steps that the Commission considers necessary in order to move towards a single market for supplementary pensions. It also proposes a regulatory approach to pension funds that fall outside the social security systems in each Member State (it, therefore, deals with professional regimes and individual pension plans). The Commission's objective is to allow supplementary pension schemes to profit further from the single market and the euro, whereas, currently, pension funds only profit very marginally from the liberalisation introduced by the single market. There are various reasons for this: - professional pension funds are often subject to the investment and management rules which, without improving the protection of the beneficiary, prevent the funds from using the capital market and the euro effectively in order to recycle the contributions received (which limits the yield on investments and raises the costs of services); - labour mobility is held up by the current scheme of supplementary pensions (as pension rights are difficult to transfer from one Member State to another); - the free provision of services does not really operate in this sector owing to disparities between taxation systems. In view of these conclusions, the Commission considers that a Community framework will be necessary to allow pension funds to benefit from the single market. This framework would be along three lines: 1) a proposal for a Directive laying down prudential rules for pension schemes : this Directive would ensure the best possible protection of beneficiaries; allow the pension funds to profit fully from the single market and the euro (which clearly shows that the pension funds should not be limited in their investment strategy for prudential reasons and should also be able to use the services of any asset manager and agent duly approved in the Union); guarantee equal treatment between occupational pension providers and avoiding competition distortions with other service providers, such as life assurance companies; allow the mutual recognition of prudential regimes be put in place in the Member States (with the long-term aim of cross-border membership). The general idea is that of minimal harmonisation owing to the wide disparity between pension funds in operation in the Union. Thus three sets of rules would be introduced: basic prudential rules (with, in particular, the principle of the approval of a pension fund by a competent authority and the need to subordinate approval to strict criteria coveringresponsibility, competence and the managers' standing); rules concerning the investment of contributions compatible with the free movement of capital without going as far as absolute investment freedom (they have to be adapted to the nature and duration of the liabilities and diversified by currency, geographical area and economic sector); rules concerning the liabilities of pension funds and the link between the assets and liabilities (it is necessary to guarantee that the acquired rights are completely covered); 2) as the removal of obstacles to labour mobility in the Union: the lack of such coordination in the case of supplementary pensions is a real barrier to the free movement of workers, the Commission suggests simplifying the conditions for acquiring supplementary pension rights and limiting the long vesting periods; establishing the methods for transferring rights; to implement a better coordination of tax systems in the Member States and a mutual recognition of supervisory regimes with the idea of cross-border membership; creating a pensions forum in which to discuss the implications of labour mobility in the Union; 3) the coordination of Member States' tax systems : the national disparities in the tax treatment of life assurance and pension products, their complexity and specific characteristics, are major obstacles to labour mobility and freedom to provide services in the Union. While ruling out, at this stage, any attempt at harmonisation and taking care

to safeguard the tax income of the Member States, the Commission believes that it is necessary to abolish national tax discriminations against products offered by institutions established in other Member States (insurance companies, pension funds). Following this flexible and coordinated approach, the Commission and the Member States have started to cooperate in order to examine how to eliminate the main obstacles in this field. One of the main problems is the treatment of contributions and premiums paid to institutions that are established in a Member State other than in which the member or the policy-holder is established. This subject is being dealt with within the framework of the Taxation Policy Group, which serves as a high-level forum for discussion between the Commission and the Member States in the tax field.