

Consultation

UEAPME reply to the EC Green Paper towards adequate, sustainable and safe European pension systems

I. Introduction

On 7 July 2010 the European Commission launched its consultation on a Green Paper towards adequate, sustainable and safe European pension systems.

UEAPME welcomes this important and timely public debate at EU level on the future of pension systems. The provision of pensions in Member States have become affected by the pace of changing demographics, notably an ageing society with people living longer and a shrinking workforce, as well as the effects of the economic and financial crisis. Sound social security systems in particular pensions are essential to secure stable public finances and employment and contribute to the targets of the Europe 2020 Strategy for smart, inclusive and sustainable growth.

Therefore UEAPME agrees with the horizontal approach chosen by the Commission to tackle the pensions issue comprehensively involving the employment and social, internal market and economic and fiscal dimensions.

II. General comments

UEAPME shares the EU's analysis of the key challenges on demographic ageing, evolving pension systems and the impact of the crisis on higher unemployment, lower growth and public debt.

Moreover, the four priorities of the Green Paper need to be addressed consistently, as follows:

- Overarching objectives: adequacy and sustainability
- Achieving a sustainable balance between time spent in work and in retirement
- Removing obstacles to mobility in the EU
- Safer, more transparent pensions with better awareness and information

First of all, UEAPME strongly recalls that pensions must remain a prerogative of Member States according to subsidiarity. The main task of the EU should therefore be to support Member States in a more coordinated manner with some of the common issues in reforming their pension systems. This is necessary given the increased economic and financial interdependency in Europe, as well as the complexity and interlinkage of different pensions pillars in Member States and individual pension packages.

Second, UEAPME wishes to underline that whilst Member States clearly face similar challenges the situations are substantially different in the EU regarding economic growth, the type of pensions arrangements, the state of public finances, as well as tax, social and labour laws. These factors require different approaches and measures according to the national specificities.

Third, the consultation does not sufficiently take into account the actual situation on the labour market and economy in Member States. Whilst it is vital for Member States to increase employment levels and labour productivity, as well as undertake structural reforms in the area of pensions, public finance and labour markets, there are uncertainties regarding the choice of policies and success to address these issues. For instance, it should be avoided to raise labour costs to sustain pension systems, which would most likely affect employment negatively and hinder sustainable growth.

Fourth, as UEAPME we consider that it is essential to ensure the right framework conditions and incentives for employers to continue to provide supplementary pension schemes. SMEs provide 2/3 of employment in Europe and play an important role in the provision of supplementary pension schemes. Red tape for the handling of those schemes by employers should be reduced.

Fifth, the real question remains how to share the burden of a growing old-age dependency ratio and an increase in pensions. Inter-generational solidarity is a fundamental principle and the effects of the crisis on public finances cannot be ignored when looking for the best adapted ways of sharing the burden.

Sixth, UEAPME welcomes the recognition of the role of social partners regarding pensions. Social dialogue indeed makes a crucial contribution to designing and implementing the reforms of pension systems at European, national and sectoral levels, as well as for labour market reforms.

III. On the questions asked by the Commission

1. How can the EU support Member States' efforts to strengthen the adequacy of pension systems? Should the EU seek to define better what an adequate retirement income might entail?

UEAPME sees subsidiarity as the fundamental principle for pensions systems in view of very diverse national tax, social and labour laws. It is therefore not the task of the EU level to define an adequate retirement income, due to the fact that the definition of adequacy has grown over time and differs between Member States.

UEAPME agrees that a more multi-pillar approach in pension provision can play an important role to ensure an adequate retirement income spread across several pillars, but it should be left to member states to decide if and how to do this. Currently too many Member States still overwhelmingly depend on the statutory pension pillar for providing a retirement income, which may not be sufficient in future due to the pressure on public finances.

At EU level the recent horizontal cooperation to foster consistency between different policy areas linked to pensions should be continued. Here we welcome the stronger collaboration between the Social Protection Committee (SPC) and Economic Policy Committee (EPC). It makes sense in particular given the interlinkage between adequacy and sustainability and the need for a better coordination to tackle longevity and financial constraints.

2. Is the existing pension framework at the EU level sufficient to ensure sustainable public finances?

At EU level the current framework is mainly based on the Open Method of Coordination (OMC) which is the most adequate instrument to facilitate an exchange of good practice between Member States on social security systems, including pensions.

More broadly UEAPME fully recognises the role of the Stability and Growth Pact which is sufficient to provide a framework for monitoring sustainability of public finances including pensions systems. We particularly welcome the recent strengthening of the economic governance to foster reforms of social protections systems in Member States. The EU level gives an important impetus for Member States to evaluate their pensions policies and pensions systems and look at the possible short and long-term impacts, whilst respecting subsidiarity.

3. How can higher effective retirement ages best be achieved and how could increases in pension ages contribute? Should automatic adjustments mechanisms related to demographic changes be introduced in pension systems in order to balance the time spent in work and retirement? What role could the EU level play in this regard?

UEAPME welcomes the clear political signal given by the Commission on the need to work longer. There is a need for sustained awareness raising both at EU and national level to encourage longer working lives and counterbalance the growing old-age dependency ratio.

Increasing the legal pension age is an instrument strictly in the hands of Member States which certainly can contribute to achieving a higher factual retirement age. UEAPME emphasises the role of automatic adjustment mechanisms, in order to adjust working lives according to longer life expectancy, but this again is based on subsidiarity and the EU level should therefore only give guidance.

According to differences in Member States the focus should lie on either increasing the legal pension age and/or factual retirement age. Whilst some Member States require a stronger increase of the effective retirement age, others need to raise their legal pension age.

A higher effective retirement age needs to be accompanied through an integrated policy mix to enable persons to work longer covering flexicurity, the right interplay between tax benefit systems, effective social security and in particular health care systems. In particular gradual retirement schemes and flexible work forms are useful tools in delaying exits from the labour market, but they have to be complemented by the eradication of all incentives for early labour market departure and notably early retirement schemes.

At company level SMEs and crafts should be supported with regard to continuous training to allow employees and managers to adapt to changing situations and in order to maintain employability. On an individual level workers should clearly adopt the appropriate mindset and attitude on the need to work longer.

Further, the role of wage policies at member state level should not be underestimated. There needs to be a stronger emphasis on wages based on productivity to avoid automatic wage increases based on age/seniority, which often puts older workers at a competitive disadvantage in case of restructuring measures.

4. How can the implementation of Europe 2020 strategy be used to promote longer employment, its benefits to business and to address age discrimination in the labour market?

The Europe 2020 strategy has set out to achieve five long-term targets including a 75% employment rate of persons aged 20-64. To meet this goal there is a clear need to raise employment levels and increase in

particular employment of older women and men. The only way to succeed is to modernise the functioning of labour markets and put in place structural reforms based on the flexicurity approach.

Flexicurity is key to ensure the right balance between flexibility and security for all employment relationships accompanied through active labour market policies and by promoting transitions on the labour market while providing the right incentives for lifelong learning.

Most social partners, including UEAPME members¹ are already actively supporting measures to extend the working life of all workers. Despite the crisis SMEs and crafts in certain sectors are finding it difficult to attract and retain qualified workers and with a shrinking workforce the situation is likely to worsen.

Further, awareness has to be raised on the need for the employers and employees to share responsibilities when it comes to workplace arrangements. Notably SMEs need to be supported and encouraged with practical measures to help adapt workplaces where required, in particular for older worker in more physically demanding jobs. This should include voluntary measures such as workplace health promotion, as well as raising workers' awareness on the need to take responsibility for their own health.

UEAPME sees a role for the EU to promote active ageing together with continuing its awareness raising on the business case for diversity concerning the positive economic effects of a diverse workforce, including of older workers. All persons of working age should be able to work according to their capacities in order to not waste talent.

Successful implementation of the strategy requires strong governance. This needs to be notably translated to national, regional and local actions to make manageable progress with the full involvement of social partners.

Social partners have a strong role to play to facilitate employment at all levels. European social partners recently adopted a Framework Agreement on Inclusive Labour Markets². The agreement points out the need for strong partnerships between social partners and public authorities and other actors and also effective recruitment policies to attract applicants from different backgrounds based on non-discrimination.

5. In which way should the IORP Directive be amended to improve the conditions for cross-border activity?

8. Does current EU legislation need reviewing to ensure a consistent regulation and supervision of funded (i.e. backed by a fund of assets) pension schemes and products? If so, which elements?

The IORP directive addresses the activities and supervision of institutions for occupational retirement provisions. It intended to allow pension funds profit from the free provision of services and movement of capital and aimed at removing obstacles for the cross border movement of retirement provisions.

However, the uptake of the directive so far has been rather low and its scope has not covered all EU 27 Member States. Therefore the first step should be to analyse possible shortcomings of the directive and then define further objectives. UEAPME sees currently no need for a revision of the directive.

1 -Austria: Federal Economics Chamber (WKÖ): Advice for enterprises on age-management with the four pillars management, ergonomics – age adequate work organization, life-long learning and workplace health promotion, see www.arbeitundalter.at

- Germany: Federation of Skilled Crafts (ZDH): Cooperation between ZDH and Federal Labour Ministry to produce a guide on good practice instruments to promote longer working lives and a flexible transition into retirement, see www.zdh.de/soziale-sicherungssysteme/demografie.html

- Netherlands: Federation of Small and Medium-sized companies (MKB): Dutch social partner agreement on pension reform adopted on 4 June 2010, includes a section on fostering work for older workers, see www.mkb.nl/index.php?pageID=4&messageID=4906&ss=

2 See www.ueapme.com/IMG/pdf/Framework_agreement_ILM_25_03_10.pdf

6. What should be the scope of schemes covered by EU level action on removing obstacles for mobility?

7. Should the EU look again at the issue of transfers or would minimum standards on acquisition and preservation plus a tracking service for all types of pension rights be a better solution?

UEAPME fundamentally supports the aim to facilitate labour mobility in the EU. Enhancing worker mobility fundamentally contributes to efficient labour markets to improve their fluidity and helps to better match supply and demand in the EU.

However, concerning the portability of supplementary pension rights, it clearly appeared in the previous debates on the pending proposal for a directive that obstacles are manifold and very complex and that the EU portability of supplementary pension rights is not a realistic option.

According to directive 98/49/EC mobile workers are already able to safeguard their accrued supplementary pension rights, which is important given that labour markets are undergoing real changes with higher job mobility and different employment statutes becoming increasingly common. Instead the focus should lie on strengthening all pension pillars and in particular more flexibility for the second pillar provision in order to tackle more frequent breaks in the accrual of retirement income provision. Moreover, other key mobility obstacles need to be tackled, such as cross-border tax obstacles and reducing administrative burdens.

Furthermore, UEAPME is opposed to the EU level regulation with respect to the introduction of minimum standards on acquisition and preservation. SMEs and crafts in many Member States use supplementary pension schemes and in particular vesting periods as an instrument to reward employee loyalty to the enterprise and to reduce the risk of losing competences and skills. Introducing minimum standards would not create the right framework conditions and instead lead to considerable costs for SMEs, make the provision of occupational pension schemes less attractive for employers and therefore cause a decrease in employer financed contributions. In this context it should also be noted that pension rights should only be preserved if the administrative burden is not disproportionate to the value.

Regarding the idea of a tracking service for the different pension pillars we question the feasibility of such an initiative at European level notably due to data protection reasons and costs. At Member State level there may be a certain value for citizens, but it needs to be userfriendly and avoid any disproportionate burdens.

9. How could European regulation or a code of good practice help Member States achieve a better balance for pension savers and pension providers between risk, security and affordability?

UEAPME sees a role for the EU level to exchange good practice to support member states in ensuring that pension providers and pension savers can make informed decisions on pensions. It is important to improve the communication and understanding of benefits and risks of pensions to all stakeholders. To this end a regularly updated overview of the situation in member states could be useful.

10. What should an equivalent solvency regime for pension funds look like?

No comment.

11. Should the protection provided by EU legislation in the case of insolvency of pension sponsoring employers be enhanced and if so how?

UEAPME sees no need for further solvency rules at EU level for pension funds. The principles of the IORP directive on information disclosure are appropriately flexible to be applied to defined benefit and defined

contributions systems. We consider that plan sponsor(s) are suitable platforms for beneficiaries to provide an answer to queries and facilitate informed decisions.

12. *Is there a case for modernizing the current minimum information disclosure requirements for pension products (e.g. in terms of comparability, standardisation and clarity)?*

At present the IORP directive outlines that appropriate information for members and beneficiaries of a pension scheme is vital. This is highly relevant for information requests including on the financial health of the institutions, the contractual rules and the management of risks and costs. We therefore see no need to reform the minimum information disclosure requirements.

More widely, to facilitate informed decisions of citizens the quality of information available should be improved, notably by using a clearer language. Financial education should be stimulated and play a stronger role in schools to allow individuals to assume responsibility. This should be complemented by advice provided by associations or other bodies representing the interests of consumers.

13. *Should the EU develop a common approach for default options about participation and investment choice?*

A common approach for default options about participation and investment choice could be useful from the point of view of beneficiaries. However, the situation between member states differs widely concerning occupational pensions as part of income security and stability and therefore the benefits of a more principle based approach should be considered first.

14. *Should the policy coordination framework at the EU level be strengthened? If so, which elements need strengthening in order to improve the design and implementation of pension policy through an integrated approach? Would the creation of a platform for monitoring all aspects of pension policy in an integrated manner be part of the way forward?*

Subsidiarity remains the key principle underlying all discussions on pensions and pension systems. At EU level this has been complemented by the OMC which has proven to be useful to share good practice, in particular on pension fund management and pension fund governance. Regarding the possibility of a platform on pension policy we believe that further examination will be necessary and that it could be useful to build on the experience of the EU Pension Forum.

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