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II

COMMISSION STAFF WORKING DOCUMENT

ANNEXES TO THE IMPACT ASSESSEMENT

Accompanying the document

WHITE PAPER

An Agenda for Adequate, Safe and Sustainable Pensions

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Disclaimer

This Impact Assessment report commits only the Commission’s services involved in its preparation and the text is prepared as a basis for comment and does not prejudge the final form of any decision to be taken by the Commission.

Annex 1: Glossary

Accumulation phase – Period during which contributions are made and invested in a defined contribution scheme. (See also: Defined contribution (DC) schemes).

Annuity – A financial contract, sold by a life insurance company for example, that guarantees m a fixed or variable payment of income benefit (monthly, quarterly, half-yearly, or yearly) for the life of a person(s) (the annuitant) or for a specified period of time. It differs from a life insurance contract which provides an income to the beneficiary after the death of the insured. An annuity may be bought on instalments or by paying a single lump sum. Benefits may start immediately or at a pre-defined time in the future or at a specific age. An annuity is one way of securing a regular retirement income for individuals who have saved in a defined contribution scheme. (See also: Defined contribution (DC) schemes).

Defined benefit (DB) schemes – Pension schemes where the benefits accrued are linked to earnings and the employment career (the future pension benefit is pre-defined and promised to the member). It is normally the scheme sponsor who bears the investment risk and often also the longevity risk: if assumptions about rates of return or life expectancy are not met, the sponsor must increase its contributions to pay the promised pension. These tend to be occupational schemes. (See also: Defined contribution (DC) schemes).

Defined contribution (DC) schemes – Pension schemes where the level of contributions, and not the final benefit, is pre-defined: no final pension promise is made. DC schemes can be public, occupational or personal: contributions can be made by the individual, the employer and/or the state, depending on scheme rules. The pension level will depend on the performance of the chosen investment strategy and the level of contributions. The individual member therefore bears the investment risk and often makes decisions about how to mitigate this risk. (See also: Defined benefit (DB) schemes).

Economic dependency ratio – the non- and the unemployed population as a percentage of the employed and self-employed population. Contrary to the old-age dependency rate which looks at the population 65+ as a percentage of the population of working age (15-64) this rate reflects the relation between those that de facto are economically active contributors by being employed or self-employed and those that are non- or unemployed. Raising the employment rate of people of working age and above retirement age may substantially mitigate the economic impact of declining old-age dependency rates.

Effective retirement age – Age at which an individual actually retires from formal economic activity. Not necessarily the same as the labour market exit age or the pensionable age. (See also: Labour market exit age, and Pensionable age).

Funded scheme – Sometimes also referred to as pre-funded: A pension scheme whose benefit promises are backed by a fund of assets set aside and invested for the purpose of meeting the scheme's liability for benefit payments as they arise. Funded schemes can be either collective or individual. (See also: Pay-As-You-Go schemes).

Governance (of pension funds) - The operation and oversight of a pension fund. The governing body is responsible for administration, but may employ other specialists, such as actuaries, custodians, consultants, asset managers and advisers to carry out specific operational tasks or to advise the scheme administration or governing body.

Holistic approach - looks at the whole picture (i.e. is comprehensive) and the interaction between its parts (i.e. at their integration). Since the totality of something is greater than the sum of its component parts it cannot be understood by the isolated examination of these parts. In EU pension policy this would for example entail looking to all forms and types of pensions as constituent parts of the overall pension package and to all policy areas that impact on the goal of delivering adequate pensions in a sustainable and safe way.

Labour market exit age – The age at which an individual actually leaves the labour market. For data availability reasons labour market exit age is often used as a proxy for the effective retirement age. Differences between the two may exist, as some people leave the labour market before they actually take up a pension while others continue working after they begin to receive a pension. (See also: Effective retirement age).

Lifestyling or life-cycling strategies – Investment strategies used in defined contribution pension schemes to reduce investment risk and volatility by gradually and automatically reducing the investment risk taken by the scheme member as they approach retirement. (See also: Defined contribution (DC) schemes).

Mandatory retirement age – refers to the age stipulated in law or in national collective agreement at which people's employment cease as a function of chronological age. Often this corresponds to the pensionable age in the main statutory, public pension pillar but this is not necessarily so. Council Directive 2000/78/EC of 27 November 2000 Establishing a general framework for equal treatment in employment and occupation' in its preamble and article 6 on 'Justification of differences of treatment on grounds of age' permits Member States to set (minimum and) maximum ages of access to employment and thus to set or accept ages at which workers can be fired and denied recruitment or access to employment measures on no other grounds than their chronological age.

Occupational schemes – A pension plan where access is linked to an employment or professional relationship between the plan member and the entity that sets up the plan (the plan sponsor). Occupational pension schemes may be established by employers or groups of employers (e.g. industry associations) or labour or professional associations, jointly or separately, or by self-employed persons. The scheme may be administered directly by the sponsor or by an independent entity (a pension fund or a financial institution acting as pension provider). In the latter case, the sponsor may still have responsibility for overseeing the operation of the scheme. The qualification as a occupational scheme within this meaning is without prejudice for the question of whether they are to be considered as "legislation" within the meaning of Article 1(l) of Regulation (EC) No 883/2004 and thus fall within the scope of application of that regulation on the coordination of social security systems.

Old-age dependency ratio – Population aged over 65 as a percentage of the working age population (usually defined as persons aged between 15 and 64).

Pay-As-You-Go (PAYG) schemes – Pension schemes where current contributions finance current pension expenditure (See also: funded schemes).

Payout phase or decumulation phase – Period during which assets accrued in the accumulation phase are paid out to the pension scheme member in a funded scheme. An example of a payout phase is a period in which regular retirement income is received through the purchase of an annuity. (See also: Annuity).

Pensionable age – The age at which one can take up a pension in the main statutory public pension scheme and that constitutes the reference pension age sometimes also called the standard or normal pension age. The pensionable age is to be distinguished from the Retirement age which refers to withdrawal from activity in the labour market or as self-employed. The pensionable age may be different for men and women as presently is the case in 13 Member States.

Pension pillar – Different types of pension schemes are usually grouped into two, three, four or more pillars of the pension system. There is however no universally agreed classification.
Many pension systems distinguish between statutory, occupational and individual pension schemes, or between mandatory and voluntary pension schemes. Participation in occupational and individual pension schemes, usually private pension arrangements, can be mandatory or voluntary.

Replacement rate – Generally refers to an indicator showing the level of pension income after retirement as a percentage of individual earnings at the moment of take-up of pensions or of average earnings. Replacement rates measure the extent to which pension systems enable typical workers to preserve their previous living standard when moving from employment to retirement.

Retirement age – the age at which people stop formal paid work, i.e. leave their employment or cease their self-employment, to go into retirement. To be distinguished from the Pensionable age, the Labour Market Exit age, the Mandatory Retirement age

Statutory pension scheme - Social security and similar statutory programmes administered by the general government (that is central, state, and local governments, plus other public sector bodies such as social security institutions). Public pension plans have traditionally been of the PAYG type. The qualification as a statutory scheme within this meaning is without prejudice for the question of whether they are to be considered as "legislation" within the meaning of Article 1(l) of Regulation (EC) No 883/2004 and thus fall within the scope of application of that regulation on the coordination of social security systems.

Supplementary pension schemes – Mandatory or voluntary pension schemes which generally provide additional retirement income to the statutory pension scheme.

Transferability – The right to transfer accrued benefits or accumulated capital from one pension scheme to another, for example to the pension scheme of the new employer.

Annex 2: The Green Paper Consultation

The Green Paper on pensions[1] published on 7th July 2010 began a long formal consultation which ran for over four months until 15th November. The consultation sought views on 14 specific questions, designed to determine how the EU level could best support the efforts of Member States to ensure adequate, sustainable and safe pension systems for their citizens both now and in the future. It was supported by a Memo[2] and a Commission Staff Working Document[3].

The Commissioners Group on Pensions, chaired by Commissioner Andor and including both of his co-authors on the Green Paper, Commissioners Barnier and Rehn, met on 17th June to finalise the Green Paper launch and help set the tone for the debate. On the day the Green Paper was published Commissioner Andor held a well attended press conference which was followed by technical briefings to maximise publicity and interest in the paper and encourage engagement in the consultation.

To further maximise engagement, a large number of presentations were given at a range of events during the consultation period, including to the Pension Forum[4] meeting on 24th September 2010. The centrepiece of this work was a conference hosted by Commissioner Andor held on 29th October. This included speeches, workshops and debates and attracted participants including Government Ministers, senior national policy makers, trade union and business representatives, leading academics, social organisations, figures from the pension and insurance industry and Commission representatives including Commissioners and Director Generals. In all, over 350 people attended this conference which was also available online as a webcast to ensure that anyone who wanted could have the opportunity to follow the proceedings.

The European Parliament, the European Economic and Social Committee and the Committee of the Regions also formally considered the issues raised in the Green Paper. The Commission fully engaged with the relevant Committees, attending numerous Committee hearings and giving presentations and input to facilitate their deliberations on the issues raised in the Green Paper.

The European Economic and Social Committee (EESC) gave their formal opinion[5] on the Green Paper on 20th January 2011. In this opinion, they stressed that Member States are fully responsible for defining their social security systems whilst noting that a coordinated EU-

1 Green Paper "towards adequate, sustainable and safe European pension systems" SEC(2010)830 of 7.7.2010 COM(2010)365 final available at:
http://ec.europa.eu/social/main.jsp?catId=700&langId=en&consultId=3&visib=0&furtherConsult=yes

2 MEMO/10/302 Brussels, 7 July 2010 "Green Paper on pensions" available at:
http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/10/302&format=HTML&aged=0&language=EN&guiLanguage=en

3 "COMMISSION STAFF WORKING DOCUMENT EU LEGISLATION, COVERAGE AND RELATED INITIATIVES Accompanying document to the GREEN PAPER towards adequate, sustainable and safe European pension systems" of 7.7.2010 SEC(2010) 830 final available at:
http://ec.europa.eu/social/main.jsp?langId=en&catId=752&newsId=839&furtherNews=yes

4 The Pension Forum was established by Commission Decision of 9 July 2001 on the setting-up of a committee in the area of supplementary pensions (2001/548/EC). The Forum meets regularly and includes representatives from the Member States, social partners, civil society organisations and the pensions and insurance industry.

5 EESC opinion: Green Paper – Towards adequate, sustainable and safe European pension systems
20 Jan 2011Adopted References: CESE 72/2011 - SOC/386 available at:
http://www.eesc.europa.eu/?i=portal.en.soc-opinions.14892

level approach to pensions can contribute to coherence and ensure that national pension systems are in line with the social and employment pillars of the Europe 2020 strategy. Reforms should focus on increasing the effective retirement age using initiatives to foster extended working life, flanked by effective growth and employment policies and a real "active ageing" policy. Lastly the EESC urged the Member States and the Commission to make gender equality a reality including reviewing different retirement ages for women and men.

The Committee of the Regions (CoR) delivered its opinion[6] on 4th February 2011. The CoR also welcomed the Green Paper and the broad consultation it brought. It invited the Commission to develop the Open Method of Co-ordination and links to the Europe 2020 agenda. Other points included the importance of gender aspects and adequacy, the need to clarify boundaries between different pension pillars and to consider developing benchmarks and codes of good practice to help improve pension systems whilst balancing adequacy and sustainability.

On 16th February 2011 the European Parliament adopted a resolution[7] on the Green Paper following intensive work from their Committees on Employment and Social Affairs, Economic and Monetary Affairs, Internal Market and Consumer Protection and Women's Rights and Gender Equality.

In this resolution, the Parliament welcomed the holistic approach adopted by the Green Paper, pointed out the different situations in Member States and noted the need to respect subsidiarity. It went on to flag up enormous challenges Member States face in ensuring that citizens' expectations for adequate and sustainable pensions are met.

Specific points included that gender issues needed more attention, that pension adequacy levels would need to be set nationally rather than at EU level and that it is necessary for more people to participate in the labour market and to do so for longer. The Parliament also welcomed the links to the Europe 2020 strategy and wished for these to be strengthened and felt the impact of pension reforms on vulnerable groups should be closely monitored. On pension portability, Parliament felt the focus of EU activity should be on developing minimum standards for the acquisition and preservation of pension rights and on facilitating the establishment of national tracing systems for those rights. Social dialogue on pensions should also be encouraged in particular around establishing and managing occupational pension systems. The need to carefully assess the impacts of changes to solvency standards for occupational pensions was stressed. Parliament felt the Commission should also take action where necessary to ensure Member States protected occupational pension in accordance with the Insolvency Directive and better information on pensions in general was needed for citizens. A European pension's platform should be established and the Commission should consider setting up a special task force on pensions, involving all relevant DGs with competences relating to pensions issues.

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[6] Opinion of the Committee of the Regions on 'Towards adequate, sustainable and safe European pension systems' (2011/C 104/09) of 4th February 2011 available at: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2011:104:0039:0043:EN:PDF

[7] European Parliament resolution of 16 February 2011 on 'Towards adequate, sustainable and safe European pension systems' (2010/2239(INI)) available at: http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P7-TA-2011-0058+0+DOC+XML+V0//EN

The Green Paper consultation itself was very successful, receiving almost 1700 formal responses including around 350 from Member State governments, national parliaments, business and trade union organisations, civil society and representatives of the pension industry. All responses were published online verbatim in December 2010.[8]

A full official summary[9] of these responses was published in March 2011 and this is reproduced in full at Annex 3. Whilst there was, naturally, a range of opinions on the issues raised in the Green Paper, the paper was broadly welcomed. The holistic approach which considered both economic and social aspects of pension reform together and highlighted adequacy and sustainability along with safety issues came in for particular praise. Other areas of convergence included the need for pension reforms to support both the sustainability of public finances and the adequacy of pensions and that higher effective retirement ages are necessary. There was also recognition of an important role for the EU in the coordination of pension policies. Other points included that developing pension tracking services should be supported and EU regulations on occupational pensions should be reviewed.

But practically all the respondents agreed that Member States have different situations and priorities regarding pension systems so the issues must remain in the hands of Member States, although some coordination at EU level and some interaction with the EU was perceived as essential. Many other points with varying levels of support came out of the consultation. For instance, the majority felt that the implementation of the Europe 2020 strategy on the reduction of poverty provides the policy framework for Member States to assess the role of their own national minimum pensions. The ongoing debate about public and private pension provision had a variety of views with the development of private pension systems ranked fairly low among the priorities of some Member States and other respondents whilst many others see it as a given that Member States will need to boost 2nd and 3rd pillar private schemes in order to alleviate some of the burden of ageing on public budgets. These respondents, including BusinessEurope, also called on the Commission not to undermine incentives for employers to continue to provide supplementary pension schemes.

Some respondents, such as the ETUC, questioned the demographic situation and noted the change in the economic dependency ratio was less dramatic than simple age based ratios would suggest and that demographic changes could be well anticipated. Issues of fairness and ability to work longer related to arduous jobs, length of working life and different life expectancies were also raised in the context of longer working lives. A focus on quality of employment and wages was felt to be the major response needed to secure pension systems by ETUC and some other respondents. Some highlighted that Member States and the social partners should take the necessary measures to credit and guarantee pension rights for periods of involuntary absence from the labour market.

Some respondents, in the context of the widely accepted need to raise effective retirement ages, remarked that companies should offer more support for older workers, affording them real opportunities to continue working until the pensionable age. Age Platform Europe for instance highlighted the importance of developing comprehensive company and national level

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[8] Available at:
http://ec.europa.eu/social/main.jsp?catId=700&langId=en&consultId=3&visib=0&furtherConsult=yes

[9] Summary Of Consultation Responses to the Green Paper "Towards Adequate, Sustainable And Safe European Pension Systems" of 7th March Available at:
http://ec.europa.eu/social/main.jsp?catId=700&langId=en&consultId=3&visib=0&furtherConsult=yeshttp://ec.europa.eu/social/main.jsp?catId=700&langId=en&consultId=3&visib=0&furtherConsult=yes

age management strategies. While focusing on active ageing, some key stakeholders also underlined the difficulties that young people have in breaking into the world of work due to the extensive use by companies of short-term contracts and part-time employment. Intergenerational solidarity was a theme in a number of contributions.

Many responses emphasised that it would be too difficult to regulate pension schemes at EU level, and the EU's role therefore should be limited to setting the principles and objectives to which the Member States should refer when reforming their pension systems, and to encouraging Member States to ensure that citizens have access to adequate information about their pensions. A number of responses underlined that it would be very helpful if a common terminology and common criteria for classifying Member States' pension systems could be established.

On solvency rules for supplementary pension funds, many responses including those of BusinessEurope and the ETUC, cautioned against increasing the costs here and the need to ensure any rules reflect the specifics of such pension funds. On regulation in general, some respondents highlighted that while cross-border schemes are important, EU regulation to facilitate these should not put extra burdens on the domestic schemes, which involve a far greater number of members.

Many respondents, including a number of Member States, believed it would be appropriate to update current minimum requirements for disclosure of information on any pension product, and that this must be accompanied by promoting financial education. At the same time, others suggested that it would be useful to provide a default option for people who do not have the knowledge or confidence to make their own investment choice.

There were of course many other points made and shades of opinion from the large number of responses to the many questions raised in the Green Paper and the full official summary reproduced at Annex 3 gives more details.

On 7th March 2011 Commissioner Andor gave a report to the EPSCO Council[10] on the messages from the consultation process and the Parliaments Resolution and the EESC and CoR opinions. To coincide with this, a full formal summary was published online the same day[11] and this is reproduced in full in Annex 3. On publishing the Summary, Commissioner Andor stressed: "If pension reforms are to be politically acceptable and economically effective in consolidating budgets and ensuring adequate pensions for the future, they have to take the social and labour market dimensions fully into account".[12]

[10] Report on the consultation on the Green Paper: "Towards adequate sustainable and safe European pension systems" Presentation by the Commission of 7th March 2011 available at:
http://ec.europa.eu/social/main.jsp?catId=700&langId=en&consultId=3&visib=0&furtherConsult=yes

[11] Summary Of Consultation Responses to the Green Paper "Towards Adequate, Sustainable And Safe European Pension Systems" of 7th March Available at:
http://ec.europa.eu/social/main.jsp?catId=700&langId=en&consultId=3&visib=0&furtherConsult=yeshttp://ec.europa.eu/social/main.jsp?catId=700&langId=en&consultId=3&visib=0&furtherConsult=yes

[12] "Statement on the results of the EU-wide public consultation on pensions". Available at:
http://ec.europa.eu/commission_2010-2014/andor/headlines/news/2011/03/20110308_en.htm

The initial reactions of Ministers at EPSCO[13] to the report on the consultation given by Commissioner Andor included noting the importance of avoiding taking a one-size-fits-all approach and the need to fully respect the subsidiarity principle given the different situations in between Member States. The aim should be to achieve the right balance between work and retirement and facilitating a longer working life. Whilst a higher effective retirement age was widely recognised as necessary, Ministers felt it should be determined by national policies with the involvement of the social partners.

Some ministers expressed the view that the retirement age should evolve in line with life-expectancy while several others considered that pension reforms should be coupled with active labour market policies, lifelong learning opportunities, effective social security and healthcare systems and improvement of working conditions.

A number of ministers stressed the importance of EU policy coordination of pension policies by facilitation of observation, coordination and mutual learning between the Member States. In particular, the social Open Method of Coordination was seen as the right instrument to support Member States' efforts to improve the adequacy of pensions.

The overall theme to emerge from the consultation process and the debate it launched could perhaps be best summed up as strong support for the holistic approach of considering all the different interests and aspects of pension systems together and an emphasis on the EU level maximising its contribution via existing instruments in the first instance.

The Commissioners Group on Pensions met on 9th February to discuss the emerging outcomes of the consultation and next steps. It met again on 15th June to consider the development of the White Paper and discuss the shape and possible content of the paper. Discussions have also taken place at Cabinet level as a complement to this.

[13] PRESS RELEASE "3073rd Council meeting Employment, Social Policy, Health and Consumer Affairs Employment and Social Policy" of 7 March 2011 available at: http://europa.eu/rapid/pressReleasesAction.do?reference=PRES/11/52&format=HTML&aged=0&lg=et&guiLanguage=en

Annex 3: Official summary of the Green Paper consultation

EUROPEAN COMMISSION
Employment, Social Affairs and Inclusion DG
Internal Market and Services DG
Economic and Financial Affairs DG

Brussels, 7.3.2011

SUMMARY OF CONSULTATION RESPONSES to the Green Paper "TOWARDS ADEQUATE, SUSTAINABLE AND SAFE EUROPEAN PENSION SYSTEMS"

INTRODUCTION

On 7 July 2010, the European Commission published a Green Paper *"Towards adequate, sustainable and safe European pension systems"* (COM(2010)365 Final).

The purpose of the Green Paper was to initiate a European debate on the key challenges concerning pensions, and how the EU can best support the efforts of Member States to ensure adequate, sustainable and safe pensions for their citizens both now and in the future.

The Green Paper accordingly launched an open consultation setting out 14 questions and asking any interested parties to respond by 15 November 2010.

The consultation was extremely successful, receiving almost 1700 responses from across the EU including around 350 from Member State governments, national parliaments, business and trade union organisations, civil society and representatives of the pension industry.

In addition, a resolution was adopted by the European Parliament on the Green Paper following intensive work from their Committees on Employment and Social Affairs, Economic and Monetary Affairs, Internal Market and Consumer Protection and Women's Rights and Gender Equality. The European Economic and Social Committee (EESC) and the Committee of the Regions (CoR) also delivered opinions on the Green Paper.

The following text provides a summary of the responses, including the views expressed by the European Parliament, the EESC and the CoR, to the 14 questions, as well as the general comments from respondents. The text attempts to cover the full range of views expressed and aims to reflect the diversity of responses representing everything from a single individual's view to those of the European Parliament. The summary seeks to be a fair reflection of what the consultation has brought as a whole. The full text of all of the responses received was published on the website of the Directorate-General for Employment, Social Affairs and Inclusion in December 2010[14].

[14] See http://ec.europa.eu/social/main.jsp?catId=700&langId=en&consultId=3&visib=0&furtherConsult=yes

GENERAL COMMENTS

General comments of the respondents to the Green Paper on Pensions were largely positive and welcomed its holistic approach and the commitment of the European Union to support Member States in their efforts to make pension systems adequate and sustainable and to promote a sustainable economic growth in the longer term.

Practically all the respondents agreed that Member States have different situations and priorities in relation to key issues such as the increasing of retirement age, the reform of labour markets and their pension systems. Hence pension issues must remain in the hands of Member States, although some coordination at EU level and some interaction with the EU is perceived as essential. Whilst highlighting common challenges, Member States responses and the European Parliament tended to underline the need to respect the principle of subsidiarity.

Many respondents welcomed that the Commission will continue to build on the "open method of coordination" (OMC) in order to share best practices on important issues such as the sustainability and adequacy of pension systems. Several respondents furthermore indicated that they think that the introduction of reinforced EU policy coordination on public finances can help boost long-term fiscal discipline and support the sustainability of national pension systems. In view of the interdependence of economies, the European Parliament called on Member States to coordinate their pension policies. Given that systemic pension reforms entail transformation costs, the European Parliament believes that these should be taken into account when assessing sustainability. Likewise, it requested that the full scale of unfunded direct public sector liabilities be explicitly disclosed.

The implementation of the Europe 2020 strategy on the reduction of poverty provides the policy framework for Member States to assess the role of their own national minimum pensions.

Regarding the public/private mix in pension provision, a number of Member States affirmed that they will continue to base their systems primarily on a statutory public pension scheme and highlighted that the development of private pension systems ranked fairly low among their priorities. Many others see it as a given that Member States will need to adapt pension systems to demographic ageing by lowering the role of the public tiers while boosting 2nd and 3rd pillar private schemes in order to alleviate some of the burden of ageing on public budgets. These respondents also called on the Commission not to undermine incentives for employers to continue to provide supplementary pension schemes. Moreover, the European Parliament wished to increase the supplementary pension coverage of workers in SMEs. Some respondents emphasised that while demographic ageing is a reality, its impact should not be overdramatized as it can be both assessed and anticipated.

Some respondents remarked that companies should offer more support for older workers, affording them real opportunities to continue working until the pensionable age. While focusing on active ageing, some key stakeholders also underlined the difficulties that young people have in breaking into the world of work due to the extensive use by companies of short-term contracts and part-time employment. Intergenerational solidarity was a theme in a number of contributions, including the ones from the European Parliament, the CoR and the EESC.

A number of respondents point to the necessity of ensuring the quality of jobs and wages in order to achieve adequate, sustainable and safe pensions for future generations and highlight that Member States and the social partners should take the necessary measures to credit and guarantee pension rights for periods of involuntary absence from the labour market. The European Parliament found that more attention to gender issues would have been helpful and called on the Commission and Member States to continue their efforts to ensure equal treatment of women and men in pensions.

Many emphasised that it would be too difficult to regulate pension schemes at EU level, and the EU's role therefore should be limited to setting the principles and objectives to which the Member States should refer when reforming their pension systems, and to encouraging Member States to ensure that citizens have access to adequate information about their pensions. A number of responses underlined that it would be very helpful if a common terminology and common criteria for classifying Member States' pension systems could be established. The European Parliament in particular called on the Commission to develop a comparative typology of Member State schemes.

The Green Paper on Pensions has furthered the debate about how pension funds should be regulated, including the solvency rules, and which role insurance companies should have in private retirement provision. Most conclude that insurance companies and pension funds offer different pension products and therefore they need different rules. Many respondents underscored that changes to the rules for funded pension schemes should not raise the costs of operating such schemes.

Some stakeholders support the idea in the Green Paper to restrict the pensions label to products with predefined characteristics, and a clear distinction between pensions and other financial products should be drawn in any current and future legislative initiatives.

Many respondents, including a number of Member States, believed it would be appropriate to update current minimum requirements for disclosure of information on any pension product, and that this must be accompanied by promoting financial education. At the same time, others suggested that it would be useful to provide a default option for people who do not have the knowledge or confidence to make their own investment choice.

Finally, some respondents highlighted that while cross-border schemes are important, EU regulation to facilitate these should not put extra burdens on the domestic schemes, which involve a far greater number of members.

QUESTION 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?

Most respondents acknowledged that the best way the EU can support Member States' efforts to strengthen the adequacy of pension systems is by continuing the social Open Method of Coordination (OMC), where the EU has a very useful role in monitoring developments, fostering effective exchange of information and mutual learning. This implies in particular continuing the work of developing and improving indicators, modelling tools and statistical data that allow the measurement of adequacy and the comparability of adequacy developments between Member States.

Some of the answers elaborated on how these analytical tools could be improved by refining assumptions and definitions and also, for example, by including non-financial factors that influence living standards of pensioners. Specific proposals included the idea of exploring the possibilities of building a European model for using administrative data on pension systems to analyse the impact of pension reforms (e.g. through micro-simulation models) and the development of statistical estimates to evaluate the adequacy of pensions in the light of their ability to prevent poverty in old age.

Many respondents mentioned the interlinkages between adequacy and sustainability and argued that they should be looked at together, both from an analytical and a policy-oriented point of view. Along these lines, improved cooperation between the different policy areas linked to pensions (i.e. the economic and social dimension) is often called for. The monitoring of the balance between sustainability and adequacy, the improvement of the coherence of indicators used by both sides and the need to report jointly about the two objectives are mentioned by some respondents. Also many respondents saw that the best way to answer the adequacy concerns was, just as for ensuring sustainability, promoting employment of all persons of working age (with particular attention to vulnerable groups). It was widely believed that to support both adequacy and sustainability the EU had to promote employment, longer working lives, economic growth and should implement reforms aimed at achieving the targets of the Europe 2020 strategy.

The majority of respondents argued that the EU must not seek to define what adequate retirement income is. They often mentioned that the issue of adequacy of pensions is a national prerogative, based on political choice of Member States, and thus it is a matter for the individual Member States to decide upon. Others mentioned that the concept of adequate retirement income was country-specific, as it is very closely related to the economic, financial and social situation of each country and therefore no common meaningful definition could be found. Furthermore, social security and pension systems were too disparate across Member States to seek a uniform definition of adequacy. Some others pointed to the technical difficulties of translating any possible common definition of adequacy into standardised indicators (i.e. the aggregation of many diverse factors into a meaningful indicator that could also reflect economic changes in different countries seemed unfeasible).

For some respondents, however, the EU should help Member States to guarantee that their pension systems deliver benefits that avoid the risk of poverty in old age and ensure a decent standard of living for everybody. Thus they argued for a stronger focus on minimum income for older people at EU level. For these respondents the issue of adequacy had been understood as closely linked to the definition of minimum standards that would prevent pensioners from falling below the poverty line.

Along the lines above, the European Parliament also *"does not consider it possible for the EU to set adequate pension levels, because the amount required is very dependent on specific circumstances in the Member States; calls however on the Commission to come up with guidance that makes it possible for Member States to establish criteria for a minimum level of pensions; considers that Member States should define adequacy as the condition required for older people to live a decent life"*. Only a minority of responses claim that the EU should actually define (and in some cases enforce) what an adequate retirement income is.

Moreover, the European Parliament *"stresses that, within the range of pension systems, diversification of pension income from a mix of public (first pillar) and work-related (in most cases second pillar) schemes, can provide a guarantee of adequate pension provision"*.

Many other respondents also highlighted that a diversified, multi-pillar approach in pension provision can play an important role in guaranteeing adequate retirement incomes in the future. Adequacy should not only rely on the public pension schemes, even if it is often claimed that these should remain the most important ones. While the fundamental role of pay-as-you-go systems in ensuring a decent standard of living for everybody and solidarity between and within generations is often appreciated, the supplementary role of funded forms of pension provision (eg occupational pensions) is also stressed by some.

Given the likely future pressures on public finances some respondents found a strong case for promoting the culture of pension savings and private pension provision and for improving understanding among the public of how private pensions can contribute to an adequate retirement income. On the other hand, other respondents argue that private pensions are not the panacea for the challenges faced by pension systems regarding adequacy. They ought to be reliable and stable to really contribute their part to adequate benefits for future pensioners and above all, workers should not be exposed to new risks when complementing their retirement provision by funded pension instruments. For that, EESC among others, call for a limitation of the financial risks by appropriate revision of the existing regulatory framework.

It should be noted that around 1000 of the submissions to the consultation are from individuals responding only to Question 1. The respondents are UK state pensioners typically living in Canada and complaining as part of a campaign about one specific issue (ie the lack of uprating of their UK state pension and its impact on pension adequacy), calling into question EU guidelines and legislation on pension rights[15].

QUESTION 2. IS THE EXISTING PENSION FRAMEWORK AT THE EU LEVEL SUFFICIENT FOR ENSURING SUSTAINABLE PUBLIC FINANCES?

There is very wide recognition of the necessity of ensuring sustainable public finances in the EU in general and in the Eurozone in particular. A large number of respondents consider that, among others, a key policy field for ensuring this vital objective is pension policy. It has long-term repercussions for individuals as well as for the economies and the societies of the EU.

There is strong support for the integrated approach to pension policy adopted in the Green Paper. Many respondents stress that diversified pensions systems stand the best chance of providing sustainable, adequate and safe pensions. Moreover, pension policy issues are interlinked with other policy areas relevant for jobs and growth, which underlines the importance of an integrated approach. In this context, respondents generally pointed to the relevance of the Europe 2020 strategy for smart, sustainable and inclusive growth.

Most respondents perceive the Stability and Growth Pact as the major EU framework to this effect. Many also highlight the usefulness of the Open Method of Coordination when reviewing pension policy issues.

There are a large number of stakeholders that consider the current framework at EU level as largely appropriate for assessing the sustainability of public finances and for discussion and best practise exchange on pension policy issues. However, a widely-held consideration is that improvements within the existing framework would be beneficial for ensuring the sustainability of public finances, given that the fiscal positions crucially need to be strengthened in the aftermath of the crisis, and that the EU level has an important role in monitoring the situation and providing suggestions for action, including monitoring and reporting on implicit pension liabilities.

The European Parliament believes that account should be taken of public pension liabilities when assessing sustainability. It underlines that the sustainability of public finances requires the inclusion of total public and private debt in the assessment and points out that pension savings constitute something more than merely savings earmarked as pension.

As regards the Stability and Growth Pact (SGP), there is wide support of the Commission's initiative for reform of the Pact, as well as for the wider governance structure of policy coordination in the EU, as provided for by the legislative package proposed by the Commission on 29 September 2010.

A great many respondents welcome the Commission's initiative to improve the functioning of the SGP. It is seen as necessary both on account of the significant pressure on public finances brought about by the crisis and the longer term economic and budgetary trends. There is support for the Pact being a key component of the EU level framework insofar as it imposes restrictions on the conduct of fiscal policies and allows for regular reviews and policy adjustments where needed. At the same time, respondents support that pension policy continues to be determined at national level, as countries have different traditions and characteristics. One European respondent called for attention being paid to the social dimension and the local and regional dimension to the macro economic surveillance.

As regards the current review of the Pact, some respondents consider that sufficient account needs to be taken of impact of 'systemic' pension reforms on the budgetary position of the

[15] Whilst there are EU level rules on the co-ordination of social security (including social security pensions) designed to ensure the free movement of EU citizens, these only apply to intra-EU cross-border situations. The relationships with a third country like Canada are not covered by them.

general government, and sustainability-enhancing reforms should not be discouraged. They consider this as an important contribution to encourage reforms of pension systems that go in the direction of developing a multi-pillar approach with prefunded elements with a view to improving long-term fiscal sustainability while at the same time ensuring that the restrictions on fiscal policy conduct imposed by the Pact are respected. The European Parliament considers it regrettable that certain Member States reversed such pension reforms implemented in recent years.

As already underlined, some respondents stress that pension systems are matters that come within the exclusive competence, responsibility and decision making power of the Member States. They also recognise nevertheless that Member States' economies are interdependent and therefore call on the EU level to provide further input within existing EU level processes on pension policy issues. This includes a common set of definitions and a harmonised measures of pension indicators so as to pave the way for an informed and frank discussion of relevant pension policy issues and challenges at the EU level. Many underline that such additions should be developed within existing frameworks, which, in general, are deemed to be appropriate.

In terms of responses from individual EU citizens, a wide range of views emerges. Responses range from strong support of further policy coordination, including for pension policies and enforcement at EU level of stability-oriented macro and fiscal policy frameworks so as to ensure fiscal sustainability to calls for ensuring complete autonomy of pension policies, for less binding EU level rules for fiscal policy and more broadly of economic and social policies in general.

QUESTION 3. HOW CAN HIGHER EFFECTIVE RETIREMENT AGES BEST BE ACHIEVED AND HOW COULD INCREASES IN PENSIONABLE AGES CONTRIBUTE? SHOULD AUTOMATIC ADJUSTMENT MECHANISMS RELATED TO DEMOGRAPHIC CHANGES BE INTRODUCED IN PENSION SYSTEMS IN ORDER TO BALANCE THE TIME SPENT IN WORK AND IN RETIREMENT? WHAT ROLE COULD THE EU LEVEL PLAY IN THIS REGARD?

Pensionable age and effective retirement

In line with the majority of respondents, the European Parliament agrees that demographic ageing calls for longer working lives. The Parliament also recommends that priority should be given to ensuring that employees work until the statutory retirement age.

The majority of respondents agree that the effective retirement age should be increased so that the balance between working life and life spent in retirement is maintained. But all changes in pensionable ages need to be determined at the national level with involvement of the social partners, as the appropriate measures might depend on the national context.

Some respondents stress that increases in the pensionable age should be applied to both statutory and supplementary pension schemes. Others underline the signalling role of changes in the state pension age, and therefore expect such changes to lead to increases in the pensionable age of occupational schemes.

A few respondents maintain that longer working should be first pursued on a voluntary basis. Some suggest that the pension age should take into account life and healthy life expectancies of different professional groups. They argue that those who entered the labour market at an early age and those in arduous occupations should continue to be offered special treatment. Some respondents add that the number of professional groups that are entitled to a lower pensionable age should be significantly reduced, and periodic reviews of early exit entitlements should be carried out (e.g. for disability pensions).

According to the European Parliament and a number of respondents higher pensionable age and higher effective retirement age are two distinct issues. But there is a widespread recognition of a high degree of interdependence between the effective retirement age and the functioning of labour markets. Currently, a high proportion of the workforce retires early, due to lack of employment opportunities and inappropriate age management practices in labour markets and work places. This needs to be changed and Member States should encourage reforms in their labour markets and their systems in place to support the workforce. Thus, numerous respondents underline that pension reforms should be coupled with active labour market policies, flexicurity, lifelong learning opportunities, effective social security and health care systems, and improvement of working conditions. Several Member States or national parliaments mention the importance of the European Year 2012 for Active Ageing in this context.

Moreover, the European Parliament stresses that the EU should promote better employment opportunities for older workers and an age-friendly labour market. Increases in the statutory pension age should be contingent on the availability of work for older workers, as otherwise they would simply entail shifting public expenditure from old-age pensions to unemployment benefits. Some add that public awareness campaigns should be considered as one way of improving the image of older workers among employers. Business organisation underline that an appropriate wage policy is needed where wages are linked to productivity so that older workers are not pushed out of the labour market.

A few respondents maintain that gradual retirement schemes are good but should be complemented by the removal of incentives to retire early and by the provision of incentives for employers to create an inclusive labour market. Flexible work arrangements and part-time work are also proposed as solutions. Respondents had different views on whether flexibility in retirement age should be allowed only on an actuarially adjusted basis (with financial disincentive to retire earlier).

One European organisation suggested the EU should:

– support the development of new forms of work-life provisions adapted to the specific needs of the 50+ workers, mainly women, who care for dependent relatives i.e. a European Directive on carer’s leave;

– and strengthen the EU anti-discrimination legislation to combat age and gender discrimination in and outside employment.

Several respondents, including trade unions, highlighted the importance of enabling the young generations to enter the labour market earlier. Low employment rates among the young are not only the result of longer schooling, but results also from the lack of opportunities for stable employment. Some other respondents add that encouraging longer working and tackling youth unemployment must be pursued in tandem.

Automatic adjustments

Automatic adjustment mechanisms are presented as a possible approach by a number of respondents, but there is a predominant opinion that they should be designed at national level.

Linking increases in the pensionable age to increases in life expectancy is a natural option for some respondents, while others prefer the healthy life expectancy indicator, or entirely reject the idea. Proponents of the mechanisms underline their positive effects, as the automatic link creates predictable situation and helps people to plan their retirement. By contrast, frequent ad hoc reforms introduced under pressure of circumstances might lead people to retire at the first possible occasion as they are afraid of losing their rights. Opponents emphasise that automatic mechanisms can come under strong pressure in time of adversity. Moreover, they might not be effective and could create uncertainty.

According to a number of respondents, automatic adjustment is a positive solution but their entering into force should not be scheduled too much into the future, as this only creates an illusion of reform. A few others claim that while announcing automatic adjustments well in advance may help to raise the retirement age, politicians should be given an opportunity to fine-tune the extent and timing of adjustments in the light of evolving circumstances.

Some of the respondents, including a number of Member States, mention not only automatic adjustment to the retirement age but also to pension levels (e.g. sustainability factors that balance the value of contributions and benefits in the system), as both can have a similar effect provided people decide to stay longer in the labour market.

Role for the EU

There is a general agreement between respondents that the EU should offer advice and help to exchange best practices between Member States, and recognition that pension policy remains a national competence. Some respondents suggest that the profile of the OMC objectives should be raised but their scope is sufficient. Some respondents propose that the EU could monitor developments in sustainability and e.g. implementation of automatic adjustment mechanisms in times of crisis.

QUESTION 4. HOW CAN THE IMPLEMENTATION OF THE EUROPE 2020 STRATEGY BE USED TO PROMOTE LONGER EMPLOYMENT, ITS BENEFITS TO BUSINESS AND TO ADDRESS AGE DISCRIMINATION IN THE LABOUR MARKET?

Member State respondents stress their commitment to the existing Europe 2020 strategy. Other respondents (national parliaments, social partners, civil society, other organisations and individuals) stress the opportunities the strategy offers. Europe 2020 and its flagship initiatives provide a suitable framework to boost growth and employment. The respondents see links between the Green Paper on Pensions and the Europe 2020 strategy. It was clear to respondents that the strategy on growth and employment depends to a large extent on pensions policies, which have an impact on poverty rates, can encourage or discourage employment and have a direct influence on the state of government budgets. Equally, policies in the spirit of Europe 2020 are relevant for pensions: for example, increased labour market participation rates will benefit the sustainability of both PAYG and funded pensions.

In their replies to question 4, respondents also highlight the different aspects of the Europe 2020 strategy and their link to pensions and ageing policies in more detail. On raising labour market participation rates respondents note that although this is not an easy task, it is needed. Some see raising pensionable ages in itself as a stimulant, others prefer to consider flexible and gradual retirement. The need to consider ways of increasing the motivation of employees and employers to make longer working lives a reality is also raised. The equal and non-discriminating treatment of older workers should continue to be legally guaranteed. But beyond this, respondents saw the need to not only raise the quantity of the labour force in order to advance economic growth and pension sustainability, but also pay attention to the quality of work, as this is key for the success of efforts to extend working lives.

Stimulating life-long learning and the recognition and promotion of the skills and experience of older workers can be highly beneficial. Individual employer responses mentioned the responsibility that employers have in this regard. It would be helpful if Member States provided a more suitable incentive structure. This also links closely to the modernisation of the labour markets under the Europe 2020 strategy and is explicitly mentioned in the responses. Some respondents highlight here the opportunities presented by flexicurity, but also the potential positive impact that higher mobility of workers between companies, sectors, and countries can bring. Finally, some respondents welcome the role of the European Year for Active Ageing for promoting this agenda.

Member States and also other respondents note that there is no one-size-fits-all approach and see the implementation of the strategy as their own responsibility. Nevertheless they find that the European level will be beneficial to them in their endeavours. Some respondents point here also to the role the social partners have to play in this. The European level offers the opportunity to exchange best practices. The European Commission could be helpful by e.g. expanding the open method of coordination, undertaking more peer reviews and actively comparing Member States. The European Commission should also continuously monitor the achievements of the strategy and encourage exchanges of best practice; better information sharing and clear identification of what could be the best way forward for both the economy and pensions in the context of an ageing population by continuing on the holistic process of the Green Paper.

Like some respondents, the European Parliament stresses the contribution the Europe 2020 strategy can make in ensuring adequate and sustainable pensions. However, it regrets that there is no explicit mentioning of decent, sustainable and adequate pension systems. It therefore suggests incorporating the holistic objectives of the Green Paper into the Europe 2020 Strategy.

QUESTION 5. IN WHICH WAY SHOULD THE IORP DIRECTIVE BE AMENDED TO IMPROVE THE CONDITIONS FOR CROSS-BORDER ACTIVITY?

A large group of respondents mentioned that a revision of the IORP Directive is necessary to clarify legal uncertainties related to several concepts. Many respondents, as well as the European Parliament, stated that any revision of the Directive would need to be accompanied by a thorough impact assessment, in particular to quantify costs and the administrative burden. The European Parliament also mentioned the important role the European Insurance and Occupational Pensions Authority (EIOPA) should play in the preparatory process of reviewing the IORP Directive. However, a number of respondents suggested that revising the Directive may lead to legal uncertainty and is not necessary because of its recent implementation and the limited evidence of its full impact in practice, especially relating to cross-border activity.

The following suggestions for amending the IORP Directive were given.

1. A more consistent approach is necessary for IORPs which wish to operate across borders since the Member States have different legal interpretations of that very concept.

2. It may be necessary to remove the possibility for Member States to impose additional requirements for cross-border activity of IORPs. Reference was made in particular to the full-funding provision (Article 15), investment rules (Article 18) and information requirements (Article 20). The same regulatory oversight should apply to IORPs which operate domestically or across borders. This would avoid regulatory arbitrage between the IORPs, regardless of how they operate.

3. There is no clear definition of the scope of social and labour legislation and its interaction with prudential regulation as well as general-good rules.

4. Another group of respondents stated that the different fiscal regimes at the national level are a constraint for cross-border activity. Respondents acknowledged in this respect that the issues of social and labour law and fiscal matters fall in the remit of Member States' competences.

5. Some respondents mentioned that the application of the Directive would need to be extended to financial institutions other than those institutions which are currently within the scope of the Directive.

6. It was also stated that the Directive does not address the issue of secondary establishment in another Member State, as compared to the situation of insurers which are covered by the consolidated Life Assurance Directive. The establishment of a level-playing field would also be welcomed by several respondents, which could give EU citizens more choice of and lower prices for pension products.

Issues outside of the remit of the IORP Directive were mentioned by some respondent such as the introduction of a 28th regime, which could be a useful alternative for cross-border schemes. Others expressed the opinion that a parallel regime would be of little benefit for two reasons. It would only lead to confusion and undermine the existing national regimes; moreover, the differences in social and labour law at the national level could be an obstacle to develop such a regime. In addition, the role of venture capital markets should be clarified, including an assessment of the prudential aspects and the investment funds' strategies regarding high-risk financial instruments.

Finally, the creation of pan-European individual pension accounts, functioning alongside the current pension systems, is presented by some respondents as potentially beneficial for cross-border workers.

QUESTION 6. WHAT SHOULD BE THE SCOPE OF SCHEMES COVERED BY EU LEVEL ACTION ON REMOVING OBSTACLES TO MOBILITY?

As the Green Paper explained, policies and regulation need to facilitate the free movement of production factors, notably labour and capital, in the EU. In the context of pensions, the paper highlighted three EU level initiatives: first, the IORP Directive, which covers certain funded occupational pension schemes and is designed to facilitate cross border activity; second regulations 883/2004 and 987/2009, which are designed to co-ordinate social security (including pensions); and third, the proposal for a portability directive, which seeks to remove obstacles to the free movement of people that can be caused by the rules of some supplementary pension schemes. The Green Paper also spoke about the fragmented and incomplete natures of the EU level regulatory framework and how this, combined with developments in pension systems, raised issues about consistency and boundaries between different EU level instruments. Responses to this specific question on scope therefore covered a range of issues and EU level instruments.

Most responses focussed on the scope of the co-ordination of social security pensions and the portability initiative for supplementary pensions or related issues. , Some related it to both of these, others to the IORP Directive, while some replied without referring to specific instruments.

The European Parliament stressed that labour market mobility in the EU will be crucial for job creation and economic growth and went on to note the positive impact a more dynamic labour market could have on pension systems. Many respondents also stressed the importance of labour market mobility for the single market, jobs and growth. Some also went further to note the importance of international mobility beyond EU borders. However, views on what this should mean in terms of the scope of EU level action varied considerably. A number of respondents noted that many barriers, such as tax and social and labour law differences between Member States, were real could not be dealt with at the EU level.

In general, most respondents who mentioned it felt that the co-ordination of social security pensions under Regulation 883 worked well and that there was no need either to change this regulation or to expand its scope. Some noted that, in any case, social security was a Member State competence. Others stressed that this co-ordination approach was indeed the right way to go for social security pensions (rather than, say, a harmonisation approach); one response suggested. One Member State suggested that co-ordination regulations could be developed to ensure that statutory funded pension schemes have a freer hand on issues such as gender and the approach investment. Another view was that regulation 883 may need adjusting to cope with highly mobile workers.

The portability initiative aimed at supplementary pensions was mentioned less often, but of those who did refer to it, nearly all supported such an initiative, though there was little explicit comment on the scope. Specifics were mostly left to the responses under question 7, but a regulation 883-type co-ordination approach was felt to be unsuitable for supplementary pension schemes, and the acquisition and preservation approach was felt to be best. One notable response, however, thought the application of a co-ordination approach adapted to all supplementary – occupational and individual – funded pension schemes could be worth some investigation. Sharing of information and best practice was also mentioned by a couple of respondents as a good way forward. A few respondents mentioned pan-European pension schemes (a "28th regime"-type approach). But whilst some felt this may offer a way forward (and one felt it should be part of the Europe 2020 strategy given the importance of job mobility), others opposed it due to varying tax regimes and subsidiarity concerns. One response noted that defined-contribution (DC) pensions in any case represented much less of an issue, so there was no real need for action for these types of pensions.

Those respondents who mentioned or focussed on the IORP Directive felt the scope was fine as it was and one Member State response specifically referred to the need to continue to exclude book reserve schemes from the IORP Directive.

So, overall, although the answers varied in what they focussed on – IORP Directive, Regulation 883, supplementary pension rules – the message was consistently that there should be no change of scope, particularly as regards regulation 883.

QUESTION 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?

Reaching agreement on how to tackle obstacles to the free movement of workers that can be caused by supplementary pension rules has proved extremely difficult. The Green Paper sought to put new impetus into this long-standing work.

The vast majority of responses strongly supported the principles of free movement and felt it was important to avoid anything which could inhibit this. Some noted that reforms of pension systems and changes in labour markets meant that action was more necessary than ever. The European Parliament, as noted in the summary of question 6, stressed that labour market mobility in the EU will be crucial for job creation and economic growth and went on to say it considered that citizens' confidence will be improved when obstacles to internal and cross-border mobility are removed. Beyond this wide agreement on the principle, views differed on the scale of the problem caused by supplementary pension rules, what the solutions might be and who should be responsible for taking any action.

The first part of the Green Paper question concerned transfers. Transfers were included in the original proposal for a portability directive of 2005. It was subsequently dropped in the revised proposal of 2007 due to insufficient political acceptance. As the Green Paper was taking a fundamental look at how to make progress, it made sense to raise the issue again. However, perhaps not surprisingly, consultation responses showed that the positions have moved very little since this was last considered.

The majority of respondents felt transfers were not a viable option and strongly opposed them. Some responses noted that, at first sight, transfers appeared to be an intellectually neat solution as it meant that when a person moved jobs their pension went with them and their former employer and pension scheme would be free of any further responsibility and administrative burden. But they went on to note that on closer inspection and in particular in practical terms, transfers were too difficult to be a serious option. Major technical difficulties in terms of providing fair transfer values, associated administrative and cost burdens, the impact of different rules, social and labour law and tax treatment and the inherent risk of abuse of pension systems all weighed heavily on the majority of respondents who opposed transfers.

Other concerns included the possible impact of transfers on pension schemes, as significant withdrawals could put at risk the scale necessary to provide good value pensions. One or two felt that, regardless of other considerations, the political realities meant transfers was a dead end so other more hopeful options should be the focus and transfers should not be pursued. Nonetheless a minority of respondents did support looking again at transfers, perhaps using best practice exchange to try to overcome the formidable technical challenges. One response supported transfers subject to some specific conditions and felt such transfers could be promoted via the OMC and non-binding guidance and start via small-scale agreements between certain sectors and Member States, with researchers considered a good sector to start with.

The European Parliament noted the trend towards more defined-contribution pension schemes and fewer defined-benefit schemes, which has the effect of putting more of the investment risk onto pension savers. It also noted the diversity and complexity of the various capital based occupational pension systems and expressed the view that any transfers ought only to be permitted into another pension fund. Furthermore, the European Parliament called for an in-depth study on tax issues related to the capital-based occupational pension systems and life insurance capital systems.

Minimum standards of acquisition and preservation became the main focus of the revised proposal for a portability directive in 2007. On these issues, too, the views expressed were not unexpected. The majority of respondents supported this approach. Notably the European Parliament stated that in regard to cross border issues, the clear focus of EU level activity should be on developing minimum standards for the acquisition and preservation of pension rights and on facilitating the establishing of national tracing systems for those rights. The strength of support elsewhere varied, however. Some supported this approach very strongly, others were more cautious noting the importance of having reasonable time to adjust systems and ensuring that minimum standards were only introduced gradually.

A couple of responses, whilst supporting an approach based on acquisition and preservation, were against action on this at EU level, preferring this to be taken forward solely at national level (in one case citing the need for social partners to have the freedom to negotiate pension scheme rules). Only a few respondents expressed outright opposition to the acquisition and preservation approach. One issue cited was that some companies used pensions to reward staff loyalty and that minimum standards on acquisition would interfere with this and could discourage some employers from providing pensions in the first place. Another issue raised was that the large variety of supplementary pensions in Europe and their varying importance within national systems meant that minimum standards were not appropriate and could lead to higher costs and hence to pension scheme closures.

The issue of a tracking service, by contrast, was a new element in the long-running portability debate. This suggestion was widely supported, although there were different views in terms of how far this should go and how fast it should be done. The European Parliament welcomed this proposal and called for the Commission to submit proposals for a European tracing system, although it also supported facilitating tracing systems at national level. A few other respondents also felt that the EU should look to set up and regulate such a service, though some others cautioned that any move to an EU level or integrated system should respect existing national systems. Others cited costs and data protection issues. A more typical response was that an EU level tracking service was a very ambitious objective and it would be best to start with encouraging national level systems and sharing best practice on these, perhaps later considering how these could be linked. Some were still more cautious and though they supported efforts to encourage tracking services, they felt national level systems should be the limit.

Some respondents felt that efforts should be on both transfers and acquisition/preservation, as in the original proposal for a directive of 2005. Some clearly felt that action on all fronts was necessary, whilst others thought that such a broad approach was best from a pragmatic viewpoint in case some elements could not in the end be implemented. One respondent felt that whilst transfers may not be practical or desirable in all cases, they should be used wherever possible, while acquisition and preservation should be used where transfers are not possible.

A handful of responses preferred neither a transfers nor an acquisition/preservation approach even at national level. One or two of these responses questioned how significant pension rules were in terms on inhibiting mobility and therefore whether action here was really proportionate or necessary. One response considered that the existing Directive 98/49/EC is sufficient and that efforts should be directed instead at strengthening pension systems in general. Another response argued that when transfers are not feasible, mutual recognition of employment periods for vesting purposes (along the lines of the social security co-ordination approach under regulation 883) could be a solution. The possibility of using reinforced co-ordination to promote free movement was mentioned by one respondent. A couple of respondents that felt more discussion was needed at national and EU level before taking decisions.

The idea of the 28th regime (ie establishing supra-national pan-European pension funds as an alternate way of tackling mobility problems) was also mentioned. In one case, the ongoing work on the viability of setting up a pan-European pension scheme for researchers was cited as a possible pathfinder for this approach. However, a number of other respondents also mentioned the 28th regime only to dismiss it as inadequate as a solution, stressing that it is complex, costly, and has the potential to undermine existing regimes.

Other points mentioned included the importance of transparency and good information for individuals, and some touched on the need for continued efforts to challenge discriminatory tax treatment.

Thus, overall, the responses strongly support action to remove obstacles to mobility related to supplementary pension schemes. The majority, including the European Parliament as far as cross-border cases are concerned, favour an approach based on minimum standards of acquisition and preservation combined with work on the development of tracking services, perhaps beginning at the national level.

QUESTION 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 European Parliament, around 150 organisations and a few individuals replied to this question. A number of respondents that did not reply stressed that in fact funded pension schemes should not be promoted in the EU. According to those respondents, the recent economic and financial crisis has demonstrated that pay-as-you-go schemes are more resilient to shocks.

Among those that responded, there was a slight majority that suggested that current EU legislation would benefit from a review to ensure a consistent regulation and supervision of funded pension schemes and products. The European Parliament observes that EU law on pensions is very fragmented and calls on the Commission to investigate whether it would be appropriate to rationalise this regulatory framework as part of better regulation. By contrast, employers and pension funds tended to suggest that there is no need to review EU legislation, and the most recurrent reasons cited were the following: (1) pensions are different from other insurance and savings products; (2) retirement provision itself encompasses a very wide spectrum; (3) occupational pension schemes are set up by national social and labour law and not accessible to consumers in a general way; and (4) there are too many national differences so that consistency would be too difficult to achieve. According to those respondents the EU is right to gear its regulation and supervision to the pension providers and define different rules; there is no need to take any further initiative at the EU level.

As regards the slight majority of the respondents suggesting that current EU legislation would benefit from a review to ensure a consistent regulation and supervision of funded pension schemes and products, most of the support came from respondents representing members/beneficiaries (employees, pensioners, women and youth), insurance undertakings and individuals. Although the reasons were not always the same, respondents mentioned that the following main elements could be reviewed (in no order of preference):

Consistency across the overall pension system

– The EU could develop a common terminology and clear definitions of different pension schemes. This would be useful prior to considering an enhancement of the consistency of EU legislation. The pension schemes in all 27 Member States should be adequately reflected, and this might require the development of a new classification. In particular, the boundaries of social security schemes and private schemes should be clearly defined so that every scheme falls within a specific category.

– There might also be a need to make a clearer distinction between savings (accumulation of individual assets) and pensions. As regards pensions, some respondents suggested that it could be useful to agree on a common definition. Some suggested that the label "pension" should be restricted to a scheme or product that offers one or a combination of several features, including: (1) protection against biometric risks (e.g. longevity, invalidity or survivor) by providing an old-age income through a regular stream of payments; (2) high security standards; (3) entail risk-sharing and solidarity elements; (4) accessible to a large part of the population through mandatory participation or auto-enrolment. At the same time, some respondents suggested that the EU should develop a horizontal approach for all the long-term savings products (including pensions) as opposed to insurance and other financial products.

– As regards pension arrangements that are not subject to EU prudential legislation, respondents referred in particular to some of the individual funded pension schemes that, while being part of the statutory system, are managed by private financial institutions. It was pointed out that in many cases these private financial institutions are supervised by the same national authorities that are already members of the European Insurance and Occupational Pensions Authority (EIOPA). The European Parliament *"stresses that in cases where Member States have mandatory pension funds managed by private institutions, such schemes should also be assessed from the point of view of compliance with European conditions and criteria as regards security, investment and asset classification"*.

– Some respondents felt that current EU legislation focuses primarily on occupational pension schemes and not sufficiently on individual pension plans. A number of respondents pointed out that the recommendations, principles and guidelines of the OECD (Organisation for Economic Cooperation and Development) and IOPS (International

Organisation of Pension Supervisors) apply to private pensions, including both occupational and personal schemes.

Consistency across financial institutions

- A number of respondents recalled that currently EU legislation for pensions adopts the approach of "one provider – one directive". There are, however, a series of elements such as governance and risk management, safekeeping of assets, investment rules and disclosures that should apply to all providers of pension schemes and products. Some respondents therefore called for a revision of the IORP Directive.

- A number of respondents suggested that there should be a particular focus on the consistency with the legislation applicable to insurance undertakings. Those suggestions were made by four Member States, representatives from the insurance sector and retail investors. The European Parliament *"believes that, in order to achieve consistency of prudential regimes among different financial services providers, the 'same risks – same rules – same capital' principle must apply, taking into account the characteristics of each pension product or scheme."*

- As regards investment, respondents pointed out that pension funds are major financial institutions which have an important influence on the stability of financial systems. Some respondents also suggested that the Statement of Investment Principles should disclose how sustainable development criteria (economic, social and environmental) are internalised in the investment policies of pension funds. It was pointed out that several Member States have already taken action in this area.

- Scheme members/beneficiaries and consumers should have access to the right information. There must be transparency and comparable information between different pension, insurance and savings arrangements. Disclosure of costs in different pension schemes could have an important effect in increasing the efficiency of the administration and of asset management.

- Some respondents mentioned that equivalent and consistent solvency requirements should apply to all providers of capital guarantees. Guarantees might otherwise have different values depending on the type of provider. It was recalled that life insurance companies are required to reserve own funds depending on risk, while IORPs can continue to reserve regulatory own funds on a flat-rate basis, and asset managers offering investments in accumulation units with a view to forming retirement capital are not subject to any capital requirement. Some respondents also stated that difficulties may also occur if national legislation allows pension schemes to make bold promises.

Consistency across types of pension schemes

- EU prudential rules could be improved to better account for the specificities of DC schemes. An insurance-based mindset should be avoided because the accumulation phase of a pure DC scheme is basically an investment arrangement similar in nature to UCITS and MiFID. Some respondents considered that the IORP Directive needs to be reviewed to better cater for the needs of risk-based supervision of DC schemes. Especially relevant for DC schemes are rules concerning governance, risk management, investment, safekeeping of assets and information disclosures.

– A number of respondents suggested that a new EU framework on the accumulation phase in DC schemes could be considered to address issues such as (1) plan design to mitigate short-term volatility in returns and (2) investment choice and default investment options. The EESC urges consideration of the possibility that EU rules cover the accumulation and payout phases of funded pension schemes in order to regulate investment, solvency and other supervisory aspects, as well as information disclosure, costs, guarantees, gender aspects, and non-discrimination issues. Although it was often pointed out that the regulation of the pay-out phase is heavily dependant on the national social security legislation, some respondents mentioned that countries where assets accumulated in DC pensions are the main source of retirement income should make sure that retirees allocate part of their assets to buy a life annuity that protects them from the longevity risk and provide enough retirement income in old age.

– A number of respondents suggested that the EU should not adjust its rules to the trend towards pure DC schemes (without any guarantees) but rather seek to counter this trend. It was, for example, suggested that the EU adopt legislation requiring minimum guarantees for total contributions or real investment returns in DC schemes.

QUESTION 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 RISKS, SECURITY AND AFFORDABILITY?

Respondents generally agreed that there is a trade-off between risk, security and affordability. Pure DC schemes are clearly affordable, but they shift the entire risk and insecurity relating to investment, inflation and longevity to the members, who frequently do not have the ability to monitor and manage those risks. Many respondents, including individuals, therefore suggested that the main focus of regulation should be on a high degree of security. Although pension schemes and products with a capital or minimum return guarantee are more desirable for pension savers, the cost of the guarantee will have to borne by someone. If pension liabilities are not fully funded (or in case the pension provider becomes insolvent), the cost will be borne either by the employer in the form of additional contributions, or by the members if it is possible to reduce accrued pension rights in a going concern. Where the employer becomes insolvent the cost might be spread across the economy if there is a national pension guarantee scheme. In the absence of such a scheme, the costs of the promise will be socialized and transferred to the tax payers in the event of a bail-out. Then the burden would be imposed on future generations of employees, who will carry the main responsibility of demographic change.

Respondents had different views as to who should seek to strike the right balance between risk, security and affordability. Some respondents mentioned that decisions about the trade-offs are most effectively made at the level of the individual pension scheme. Regulators should leave enough flexibility to employers and other pension providers, or the social partners. Others suggested that market forces would result in a reasonable balance, and that the role for the regulator is to ensure a competitive environment, for example through rules on information disclosure. Most respondents suggested, however, that the right balance should be struck by the Member States at the national level. Member States should share best practice in the context of the Open Method of Coordination. At the same time, many respondents suggested that the best practices could be compiled into a code of good practice i.e. in a non-binding EU document.

As regards the subject of the best practices for achieving a better balance between risks, security and affordability, respondents made the following main suggestions:

Enhance the comparability of information disclosures regarding, for example, the funding level, the nature of the guarantee and costs. This was mentioned by a vast number of respondents.

The EU might seek to promote the diversification of sources of retirement income. This would enhance the shared responsibility for retirement provision and spread the risks across government, employers and individuals.

Actively encourage Member States to review existing legislation that removes flexibility from employers in how they wish to promote pension benefits to their employees and how costs and risks are shared.

A common language might be helpful by making the trade-offs associated with different pension arrangements more transparent.

Promote pension scheme designs that:

- are based on solidarity and risk-sharing and agreed on by the social partners in collective agreements, rather than on the performances of the financial markets.

- Mitigate the risks for individuals during the accumulation phase. This could entail, for example, that the necessary framework conditions are in place that allow for the development of hybrid schemes such as DC schemes with minimum guarantees, mixed DB/DC schemes, or de-risking of pure DC schemes through appropriate life-styling arrangements and good default investment options.

- deliver an annuity rather than a lump sum.

A more coordinated approach for the protection against voluntary discontinuance by a sponsor whilst the scheme is underfunded.

Address issues around governance, in particular the representation of the social partners.

While most respondents mentioned that the EU should avoid binding regulation that lays down strict obligations regarding the design of pension schemes, some, in particular the EESC and many individuals, suggested that it would be useful to develop principles-based regulation with checks and balances to ensure effective compliance. Moreover, several respondents mentioned that a balance between risk, security and affordability requires a transparent and mandatory risk disclosure statement to be provided to pension savers.

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

The European Parliament, around 140 organisations and a few individuals replied to this question. The organisations most concerned with this question were employers, pension funds and service providers. Relatively few responses came from the organisations representing members/beneficiaries (trade unions, pensioners, women and youth). More than half of the replies came from two Member States (DE and UK) and EU-wide organisations, and a fair number of replies came from a further five Member States (DK, FR, IT, NL, SE).

A number of respondents, mostly among the employers, suggested that, at least for the time being, a review of the current rules is not necessary or that a single approach is not possible. At the same time, the European Parliament *"stresses that financial markets can function efficiently only when there is confidence and trust and considers that confidence and trust require solid prudential rules for financial institutions, and that IORPs should be no exception to this"*. The large majority of the respondents provided suggestions as to what equivalent solvency rules for pension funds could look like. The following main elements and principles were described:

1. Many respondents were supportive of risk-based supervision for pension funds. In many cases this support was explicitly stated, notably in the responses from insurance companies and members/beneficiaries. Some respondents mentioned that the current solvency margin system is known to define capital requirements in a fairly rudimentary way, without taking account of the effective risk profiles of the pension fund, as they tend to concentrate solely on aspects of size. Risk-based supervision would also enable pension schemes to take into account diversification.
2. At the same time, there was strong concern that risk-based supervision is taken too closely as a synonym for the Solvency II regime for insurance companies. On the one hand, insurance companies, a number of Member States and members/beneficiaries were in favour of using Solvency II as a starting point to develop an equivalent solvency regime for pension funds. These respondents generally underlined the need to maintain a level playing field across financial sectors. Similar risks should be subject to consistent regulatory and capital requirements. This will be the case in a number of Member States as from January 2013 when Solvency II enters into force. On the other hand, the vast majority of the responses from employers, pension funds and service providers strongly questioned that Solvency II is the adequate starting point. These respondents generally claim that (1) insurance companies and pension funds do not compete in the same market: occupational pensions are accessed via the labour market, not in the financial product market; (2) occupational pensions operate on a not-for-profit basis; and (3) Solvency II has been developed for the requirements of insurance supervision and that pension fund specificities are not taken into account.
3. The strongest concern relates to the quantitative requirements in the first pillar of Solvency II. Many respondents recalled that the issue about own fund requirements only arises for IORPs that are themselves (rather than the sponsoring undertaking) underwriting the liability to cover against biometric risk, or that guarantee a given investment performance or a given level of benefits (as specified in Article 17 of the IORP Directive). For those IORPs, respondents consider that the own fund requirements of Solvency II are inadequate and too strict. This is because pension schemes, as opposed to insurance contracts, have access to additional risk-mitigating security mechanisms. The liabilities side has some "loss absorption" features such the flexibility to reduce or suppress pension indexation, to reduce the pension benefit in a going concern or to call on additional contributions. On the assets side, pension schemes have recourse to a sponsor covenant, to contingent assets outside the IORP, or, in some Member States, to reinsurance from a pension guarantee scheme. The respondents generally argue that pension fund supervision should be based on rules that favour substance over form. It is therefore important to take account of the precise nature and duration of the pension liability. The European Parliament considers that a solvency regime for IORPs must recognise the specificities of pensions, in particular as regards the conditionality of pension rights, the duration of pension portfolios and the fact that IORPs are special-purpose vehicles operating a homogenous product portfolio.

4. In a few cases, respondents explicitly suggested that technical provisions should be harmonised in order to enable comparison and facilitate cross-border activity. A few respondents also mentioned that the IORP Directive should develop common rules to create comparable supervisory balance sheets for pension funds. At the same time, some respondents were concerned about a supervisory regime based on market-consistent valuation of assets and liabilities. The reason stated is that this would foster pro-cyclical investment behaviour and this would be incongruent with the long-term nature of pension liabilities.
5. Many respondents considered that pillars 2 and 3 of Solvency II may offer some useful principles that could be explored at EU level in areas around governance, risk management and information disclosure. While the degree of explicit support varied by type of organisation, there was no response suggesting that the qualitative requirements of Solvency II would be unsuitable for pension funds.
6. Many respondents underlined the large diversity in occupational pension schemes across Europe. Occupational pension schemes are delivered using different vehicles, notably insurance undertakings, remote pension funds and sponsor-backed pension funds. If it was considered to align the solvency rules for all three types of vehicles – rather than only across the first two types – a number of respondents suggested that harmonisation could only be possible on the basis of high-level principles. Several respondents referred to the principles proposed by the European Actuarial Consultative Group: balanced, forward-looking, risk-based, transparent, proportionate, countercyclical and practical. As regards counter-cyclicality, some respondents advised that the rules should encourage deficit reduction contributions and appropriate build-up of surplus when the scheme sponsor's finances are strong. A number of respondents have also suggested that the length of the recovery period needs to be taken into account.
7. While some of the principles of Solvency II are expected to be of benefit for pension fund supervision, some respondents suggested that the principles have to be implemented with greater flexibility than for insurance because of the higher diversity. While the very first single market rules for insurance undertakings were adopted in the 1970s already, those for IORPs were adopted some thirty years later in 2003. Moreover, the solvency regime for pension funds may need to be recalibrated (e.g. at a Value at Risk with a confidence level below 99.5% or over a time period of more than one year), allow for proportionality and adequate transitional periods to avoid market disruptions.
8. The majority of the respondents, including the European Parliament, invited the Commission to prepare a rigorous impact assessment study before making a proposal to change the IORP Directive. While the main aim of supervision is to protect members/beneficiaries, in the case of voluntary pension funds it is also important to take into account the competitiveness of EU businesses and the impact on the supply and cost of occupational retirement provision in the EU. A few respondents underlined that the rigorous impact assessment should not just assess the direct costs, such as higher contributions from the sponsoring employer; it should also assess indirect effects, such as the impact of higher funding requirements on the employer’s willingness to keep the scheme open to future accrual, as well as the impact on financial stability. Scale and risk-sharing mechanisms tend to make occupational pension schemes cost-efficient and this is supportive of pension adequacy.

QUESTION 11. SHOULD THE PROTECTION PROVIDED BY EU LEGISLATION IN THE CASE OF THE INSOLVENCY OF PENSION SPONSORING EMPLOYERS BE ENHANCED AND IF SO HOW?

The European Parliament underlines in its report the need to ensure proper implementation of the existing Directive 2008/94/EC on the protection of employees in the event of insolvency of their employer and called for strengthened legislation when needed. The European Commission should follow the implementation of the current Directive closely and take action against Member States where justified. The report also calls for the Commission to examine whether the use of pension insurance associations which exist in some Member States to protect book reserve schemes could be recommended to other Member States.

The EESC considers that the EU should require Member States to regulate the setting-up of guarantee mechanisms (in the form of special funds) to protect future retirement income.

Member States' governments agreed with the Commission that the risk of insolvency of the employer for the supplementary occupational pensions is a matter of concern. However, while some are open to an enhancement of the protection provided by EU legislation (introduction of guarantee schemes; externalisation of internal funds), most of them consider that no further legislation at EU level is needed. A more detailed analysis is required of the problems and shortcomings, if any, in the current protection as well as good practices. This analysis should take into account the complexity of the matter due to the structural differences between the different systems in the Member States.

Among non-government members of the Pensions Forum[16], there is a broad consensus that no further legislative action is necessary for the time being; the EU should instead better clarify the existing rules and make sure that they are properly applied by the Member States in the light of the ECJ case law. Some respondents have suggested to use the open method of co-ordination to this end and/or to issue a communication clarifying the requirements of EU legislation for the protection against the insolvency of the employer. One respondent, on the contrary, considered that the protection provided by EU legislation should be enhanced within the framework of the discussion on the solvency regime for IORPs. For this respondent, guarantee funds should be established and all forms of supplementary pensions should be covered (book reserves, external pensions funds or insurance schemes). Some respondents see many difficulties as to how a European-level guarantee fund or even a uniform system could be designed and funded in such a way as to take into account the complexity of pension provision across the EU.

The majority of other respondents (businesses, social partners at sectoral or national level, NGOs, individuals) consider that a uniform EU-wide insolvency regime would not be appropriate, taking into account the diversity of occupational pension regimes in the Member States. No further EU legislation is required in this field: the preferred course of action is an exchange of best practices and the use of the open method of co-ordination as well as the clarification of the scope of the EU legislation. Although a few of them suggested that guarantee funds should be created at national or European level, most underlined the impracticability of setting up a European one. Some respondents warned against the increase in costs that further protection would entail and about the risks of moral hazard in setting up guarantee schemes. Some respondents suggested that the funds for pension provision should be kept separate from the employer or at least externally insured. A few respondents suggested that unpaid premiums be given priority ranking in liquidation proceedings. The vast majority of individuals who responded to this question agreed that the protection should be enhanced; however, only a few gave any suggestion as to how.

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[16] The Pension Forum is an advisory committee composed of experts from governments, social partners and representative organisations at EU level and its remit concerns supplementary pensions. It was set up by Commission Decision 2001/548/EC of 9 July 2001.

In summary, respondents acknowledge the need for protection of pension scheme members against insolvency of sponsoring employers and the vast majority tend to consider the EU legislative framework for this as adequate. Directive 2008/94/EC on the protection of employees in the event of insolvency of their employer does not specify how Member States should ensure that occupational pension rights are protected, and Member States have developed different solutions which are adapted to the specificity of their occupational pension schemes. Some respondents show openness to consider strengthening the EU legislative framework, but most are very clear that new measures are not necessary. In any case, it seems appropriate to analyse carefully the results of a review of national measures and their effectiveness before envisaging changes to the EU legislative framework. Another key question is whether any weaknesses in the protection against insolvency are the result of insufficient standards in EU legislation or poor implementation of this legislation.

QUESTION 12. IS THERE A CASE TO MODERNISE THE CURRENT MINIMUM INFORMATION DISCLOSURE REQUIREMENTS FOR PENSION PRODUCTS (E.G. IN TERMS OF COMPARABILITY, STANDARDISATION AND CLARITY)?

Generally, respondents stressed the importance of consumers receiving clear, succinct and well-presented information upon joining a pension scheme, whatever its nature, and thereafter, including at retirement. Life events that may affect accrued pension entitlements such as divorce or marriage should be included. It was stated as well that the different notions of pension products should be explained. The legislation differs depending on the nature of the pension product involved. Some mentioned that EU common rules should be developed to ensure that Member States provide the citizens with regular reliable updates about items such as future individual pension rights, general standardised information on the potential risks of a reduction of accrued rights, fees, payout options, internal and cross-border portability restrictions and default options, among others, of the various schemes and products which are available to them. The European Parliament stated that citizens must be promptly and fully informed of the long-term consequences of any reform of pension provision. Other respondents emphasised that any possible revision of the IORP Directive should not mention explicitly which organisation is authorised to disseminate the information to (prospective) scheme members. Another group of respondents stressed the importance of the involvement of the social partners in the information provision.

A group of respondents mentioned that current arrangements provide the citizens with much information of an often technical nature, which makes them difficult to understand. In their view, modernising information disclosure must have regard both to the amount and the type of information provided and the way it is presented. Many also stressed that common disclosure rules for pension providers could improve member understanding and comparability across products and providers, while others said that flexibility should be allowed at the national level to comply with such common principles.

Respondents frequently mentioned that one area where basic standards would be welcome is the design of the annual pension statement. At the very least, supervisors should provide a common measure of cost that facilitates comparability. Inspiration could be found in the key investor information document as stipulated in Article 78 of Directive 2009/65/EC (UCITS IV) or the EU initiative on Packaged Retail Investment Products (PRIPs). Another respondent stated that performance reporting should also be standardised by using an international standard such as Global Investment Performance Standards (GIPS), and ensure that a sufficiently long historical record is reported whenever short-term performance data is presented. Some respondents also emphasised that any new regulation regarding the information disclosure must be carefully considered through an impact assessment, careful use of evidence and consumer testing to ensure that citizens' understanding is guaranteed and any additional costs for pension providers are minimised.

However, others stressed that due to the great variety of pension schemes and systems, including defined benefit (DB) and defined contribution (DC), within the EU, a standardised and harmonised approach would not be appropriate and might even harm the relatively high communication standards that currently apply in some Member States. They mentioned in this context that much more emphasis should be put on information provision and financial education programmes at the national level instead of further regulating at the EU level. It was also stated that the current disclosure requirements are derived from Member States' social and labour laws. A new approach to regulation aimed at improving comparability by standardisation would, moreover, risk leading to excessively detailed regulation. A good solution might be the exchange of best practices in this regard. Some also stated that the current trend toward DC schemes would render information provision even more difficult because very limited information is available on the impact that various factors can have on the pension outcome by the time of retirement of the citizen.

Finally, some respondents pointed to information disclosure services, for example on the internet, which have started in some Member States with the aim of providing a comprehensive picture nationally, and which should be encouraged in all Member States. The European Parliament also mentioned the importance of the launch of campaigns at the national level to make citizens aware of their pension decisions and ensure the adequacy of their pensions.

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

Many respondents agreed that it is necessary to make it easier for (prospective) scheme members to take a rational decision in the cases of mandatory and voluntary pension schemes, giving the main priority to good outcomes for members. In their view, a set of EU principles or common guidelines for default options could be helpful in this regard.

A group of respondents argued that automatic enrolment with a possibility for opting out by the employees might be beneficial because it reduces the risks associated with postponing the decision to join due to their inertia. In this respect, it was stated that the low levels of pension awareness and the complexity of pension products, including its definition, are problematic and need to be addressed through better information provision and increased financial literacy. Others mentioned that individuals should only have a limited choice of investment strategies involving different risks so that they could choose the risk return profile that best meets their needs. One respondent stated that the overall functioning of an occupational pension system depends on its collective nature in terms of access, acquisition of rights and investment strategies, which could be hampered by a wide individualisation of investment choices.

Some respondents mentioned that the introduction of an investment choice linked to the lifecycle could be a useful tool in this respect. An automatic transfer of the portfolio to low-risk investments when approaching the retirement age may be a basic protection mechanism for the majority of persons who do not have sufficient financial knowledge and cannot evaluate the risk levels they might face. Some respondents stated that the protection of the insured persons from excessive risks is an important target, and therefore the development of default options may be useful.

However, others stated that a uniform solution at the EU level would be difficult to achieve, as it needs to reflect the country's overall pension system design, social security framework and the tax system, among others. Moreover, some mentioned that there is no one-size-fits all approach to default funds and investment choices as the level of risk appetite of members

and/or policyholders differs and as there needs to be flexibility to allow a free choice of members to balance the risks and rewards within pension schemes. Others stated that the EU could play a role in exchanging best practices in this area.
Finally, it was stated that a common EU approach for default options concerning the investment choice could have negative unintended effects, since this would restrict market creativity and innovation, which would ultimately harm the pension scheme members' interests.

QUESTION 14. SHOULD THE POLICY COORDINATION FRAMEWORK AT 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?

Respondents recognize a very important role for the EU level in terms of policy coordination of pension policies by facilitating surveillance, coordination and mutual learning between the Member States.
While all EU Member States face major challenges in the pension field, notably due to population ageing, respondents generally expressed the view that there is no 'one-size-fits-all' solution for pension policies and pension scheme design, given the heterogeneity of the EU economies and diversity in this policy field in the EU. Notwithstanding this, because of the different circumstances Member States find themselves in, the sharing of best practices, peer reviews, collection of statistics and the identification of indicators at the EU level are widely supported.
Some view favourably a deepening of policy coordination and implementation at EU level and the creation of a new platform, a European Pension Platform, which would monitor all aspects of pension policy in an integrated manner, in line with the approach adopted by the Commission in the Green Paper. The European Parliament and other respondents share the opinion that such a platform should consider all the aspects of pensions and convey information from the public authorities, social partners, civil society and the pension sector with the aim of highlighting the best practices and comparing the situations of Member States and the living standards of retired people using a raft of indicators. This should, however, be achieved in compliance with the subsidiary principle and, to avoid overlap, taking into account the existing advisory committee on supplementary pensions (the Pension Forum).
However, a more common view is that the competence on pension policy should remain at the Member State level and that existing coordination frameworks, notably the Open Method of Coordination, but also the Pension Forum and more broadly the Stability and Growth Pact and the Europe 2020 strategy, are satisfactory at the EU level. Nevertheless, a large proportion of respondents felt that there was room for improvement within the existing coordination structures.
Many respondents pointed to the scope for enhanced cooperation to create and enhance synergies within existing frameworks such as the useful joint report on pensions in 2010 by the Economic Policy Committee (EPC) and the Ageing Working Group (AWG), under the ECOFIN Council, and the Social Protection Committee (SPC) and the Indicators Sub-Group (ISG), under the EPSCO Council. A view that emerges is that further coordination could be envisaged so as to improve and further develop statistical information, methodologies and relevant indicators, which would benefit from the multilateral context that the EU level provides.
In terms of responses from individual EU citizens, a wide range of views emerge. Responses range from strong support for further policy coordination under a platform for all aspects of

pension policy to calls for ensuring complete autonomy of pension policies and, more generally, for less binding EU level rules for economic and social policies.

Annex 4: Executive summary from EPC-SPC Joint Report on Pensions

Executive Summary

Ensuring that public policies cater for sustainable, accessible and adequate retirement incomes now and in the future remains a priority for the EU. While Member States share similar fundamental challenges there are considerable differences in the timing of demographic ageing, the design of pension arrangements, the growth potential and in constraints on account of the fiscal situation and external competitiveness. The projected increase in public spending due to population ageing poses an important challenge to EU Member States. Policy action to improve the long term sustainability of public finances while ensuring adequacy of pensions is crucial.

A - CHALLENGES AND ACHIEVEMENTS

(1) People today are healthier and live longer than ever in history. At the same time they have fewer children than they used to.

Over the last decades, life expectancy has steadily been rising, with an increase of up to two and a half years per decade. If reduction of mortality continues at this pace, most people in the EU will live very long lives. This would mean life expectancy at birth for men would increase by 8.5 years and by 6.9 years for women over the next fifty years. Fertility rates have decreased in almost all Member States and in some they have remained very low. The combination of rising longevity and lower fertility will lead to a steep aggravation of the old age dependency ratio. The size of the working-age population is projected to shrink and this will reduce potential labour supply and economic growth. This will have far-reaching consequences for economic, budgetary and social developments.

(2) Faced by a strong increase in the old age dependency ratio, most Member States have over the last decade reformed their pension systems to retain sustainability as well as adequacy and to ensure fairness between and within generations and between men and women. Reforms have brought important progress, notably in sustainability for public pension schemes, and to varying degrees also in some aspects of adequacy and minimum income provisions for older people in particular.

The adopted reforms considerably limit the growth in projected public pension expenditure over the long-term, as appears from the 2009 Ageing Report. Thereby reforms may greatly improve the ability of public schemes to continue to provide adequate pension benefits in a sustainable manner. Nonetheless, public pension expenditure in the EU as a whole is projected to rise by 2 ½ p.p. of GDP by 2060, which equals an increase of 23% on average of public pension expenditure, and in some Member States substantially more.

Improvements in sustainability largely result from closer links between contributions and benefit accruals, actuarial adjustment mechanisms and changes to valorisation and indexation rules, which as shown by the December 2009 ISG-SPC report[17] tend to reduce the earnings-related replacement rates for people retiring at the same age as today.

With many reforms the challenge in public pension delivery increasingly turns to achieving adequate replacement levels while ensuring sustainability. Reforms of public schemes usually

[17] For more detailed information see the report "Updates of current and prospective theoretical pension replacement rates 2006-2046", http://ec.europa.eu/social/main.jsp?langId=en&catId=752&newsId=551&furtherNews=yes

contain measures to raise replacement rates through extension of working life and in several Member States new or expanded supplementary pension schemes have opened additional possibilities for many people to compensate for limitations in public provision through greater savings and the build-up of additional entitlements.

Many reforms have resulted in wider coverage (e.g. inclusion of farmers, self employed, women with low entitlements etc.) and better fit with gender roles (e.g. crediting of caring years) and changing labour markets, though some problems still needs to be addressed (e.g. atypical careers and short term contracts). The shift from best years towards career average as calculation base for earnings-related pension schemes in many Member States has enhanced their intra-generational fairness and sustainability.

Changes adopted have also pertained to pensions currently in payment. Several reforms have led to increases in minimum pensions and supplementary allowances.

Underpinned by restrictions on early retirement and stronger work incentives, periods of high labour demand and changes in the characteristics of the 55-59 year olds have resulted in higher employment rates of older workers thus reversing long standing trends towards earlier retirement.

(3) Recognizing the progress, the challenge of adapting the pension systems in some of the EU Member States to expected demographic changes is still very real. Additional reforms of pension policy will be needed in several countries. Furthermore, there are signs that ongoing reforms might bear considerable risks in terms of both adequacy and sustainability. As changes in pension systems will tend to make benefits more contingent on developments in labour and financial markets, important risks relate to employment rates not increasing enough or capital markets not delivering as expected. Budgetary consolidation, which is more urgent after the economic crisis, is essential in order to reduce public debt and to contribute to financing the future increase in public pension expenditure.

In many Member States reforms are changing pension systems from largely single tier to truly multi-tier systems. In most Member States, the bulk of pension income will continue to be provided by public pay-as-you-go schemes. As the role of funded and defined-contribution pensions grows and public pensions increasingly become based on life-time earnings-related contributions, future pension adequacy will increasingly rest on good economic performance, the ability of labour markets to provide opportunities for longer and less interrupted contributory careers, a strengthened relationship between contributions and benefits in pension systems, and a combination of safe and appropriate returns from financial markets.

Moreover, there are considerable risks remaining. In some Member States additional reforms of pension policy will be needed in view of the scale of demographic changes ahead. For several countries where the pension reform process has not been set sufficiently in motion, there is an urgent need to review the 'pension promise' in view of what the rest of the economy can be expected to support. For some other countries, additional measures might be needed to ensure the lasting success of reforms already implemented.

B - REMAINING RISKS AGGRAVATED BY THE ECONOMIC CRISIS

(4) Sustainability and adequacy concerns for all types of pension schemes have been aggravated by the crisis. Lower growth prospects and increasing deficit and debt affect sustainability. Regarding adequacy, today’s pensioners have generally been well-protected against the crisis, but pensions may be affected by unemployment periods and lower contributions and poorer returns in financial markets. The crisis has an impact on the

currently active population, and thus on the accumulation of pension rights, notably for younger generations.

With secure incomes from public pensions, which have been allowed to perform their role as automatic stabilisers, current pensioners have so far been among the population groups least affected by the crisis. Exceptions apart, benefits from funded schemes still play only a marginal role in the pensions of retired Europeans and just a few Member States with very acute public budget problems have had to adjust public pensions in payment. In several Member States, funded schemes will be much more important for benefit delivery in the future.

The crisis has strongly reduced the market value of pension fund assets and it has led to a sharp deterioration in public finances, which to varying degrees is putting stress on public spending for pension provision. After the steep tumble in financial markets prices in 2008, many pension funds have been able to recoup some of their losses in 2009[18] and early 2010. This should be seen against the background of the scale of fiscal deterioration as a result of the crisis which, expressed in terms of debt, represents nearly 20% of GDP, which will severely constrain public pension provision. This, in combination with pre-existing weaknesses and imbalances implies that there will be an unprecedented need for coordinated fiscal consolidation.

(5) The crisis has highlighted the need to review the degree of financial market exposure and the design of risk sharing in funded pensions.

The trend observed in some Member States towards more private sector funded pension provision can help reduce explicit public finance liabilities, but it also creates new challenges and forms of risks. Variations in the ability of funded schemes to weather the present crisis show that differences in design, regulation and investment strategy matter. Achieving a better balance for pension savers and pension providers between risks, security and returns will be key to enhance public confidence in funded pensions and ensure their contribution to adequacy of retirement incomes.

C - AGGRAVATED CHALLENGES AND PROSPECTS

(6) Adequacy and sustainability are two faces of the same coin. In general, people need to work more and longer to ensure both.[19] There is no one-size-fits-all solution to pension delivery: all systems have pros and cons and all need to adapt to long-term demographic and economic trends. The challenge for policy makers is to aim for a good balance between sustainability and adequacy. The crisis and possible lower economic growth will make this harder and more urgent. It is therefore vital to strengthen awareness of available routes to adequate income in retirement. Transparency and information are essential to gain public trust and guide behaviour. To fully ascertain the balance between adequacy and sustainability in pension systems, better coordinated work at EU level on measurements and data will be needed.

The overall framework agreed by the Stockholm European Council – the tree-pronged strategy of: (i) reducing debt at a fast pace; (ii) raising employment rates and productivity; and, (iii) reforming pension, health care and long-term care systems – for coping with the challenge posed by ageing populations remains valid and progress on each of the three pillars will be indispensible. Nevertheless, in some countries the crisis has increased the urgency to

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[18] See OECD "Pension Markets in Focus". October 2009, Issue 6.
[19] People in bad health may require special consideration.

modernise pension policies using a holistic approach. Budgetary consolidation and attaining the medium-term budgetary objectives is essential in order to reduce public debt and to contribute to financing the future increase in public pension expenditure.

The crisis will affect all pension designs. It has revealed some weaknesses in certain aspects of reformed systems that will need to be addressed, in particular, the role of funded schemes and the interaction between public and private pillars.

The crisis has also highlighted that economic growth, employment, good regulation of financial markets solidarity and fairness between and within generations are interlinked key components of pension policy. Macroeconomic stability and well-functioning labour and financial markets are needed for pension systems to work well. Reducing structural unemployment would bring major benefits.

Without working longer, the adequacy-sustainability balance will be difficult to reach. Many pension reforms on their own would reduce annual replacement rates unless people work more and longer. People need to be made aware of possibilities for raising their level of retirement income through the build up of supplementary pensions and extra entitlements, while having access to appropriate information on the various related risks. The crisis adds to the need for policy-makers to provide stability by being transparent on pension policy, on the routes that are and will be available to retirement incomes in the future and to provide guidance, so as to enable people to change their behaviour.

(7) Employment rate improvements over the last decade may come under threat and there is still considerable need for progress. Growth prospects, appropriate work incentives, open labour markets and increasing effective retirement ages are needed to enable more people working more and longer.

Only around 40% of people are still in employment at the age of 60 and female employment rates are still substantially below those of men. This represents a huge untapped potential and raising the overall employment rates for all, in particular of older workers and women, and thereby increasing effective retirement ages will be a key policy objective for EU Member States. The positive aspects of migration should be fully exploited.

Achieving the necessary extension in working lives in view of continuous gains in life expectancy will prove challenging as adjustments will also be needed in age management in work places and labour markets and in the expectations and behaviour of workers.

Tax/benefit and wage systems could provide financial incentives for people to remain economically active and building their own human capital. Policies to tackle age-discrimination and to promote life-long learning, flexible retirement pathways and healthy job opportunities for older workers would also be needed.

Besides measures concerning the pension systems, governments need to promote opportunities for people to work more and longer and for further developing additional sources of income. Having access to pension schemes which are simple to understand, of low cost and suited to the modern workplace is essential to address the ageing transition. Involving all stakeholders (e.g. the social partners) to achieve this will be important.

D –POLICY IMPLICATIONS

(8) Pension systems and pension policy differ considerably across EU Member States. All systems entail risks and need to adapt to long-term demographic and economic trends. The challenge for policy makers is to pay attention to the different associated risks and aim for

a good balance between sustainability and adequacy concerns. It is of utmost importance that pension systems are designed such that long-term fiscal sustainability is not put at risk, while providing adequate benefits.

Many Member States have taken important steps in this direction, but additional efforts are needed in some cases. Moreover, the crisis has led to deterioration in the fiscal positions in EU Member States, thus significantly aggravating the fiscal challenge posed by population ageing and in particular by financing public pensions and subsidies for supplementary private pensions. Therefore, for several Member States fiscal consolidation is a necessary precondition to the response to the pensions challenge.

Looking forward, policymakers need to ensure pension systems change more proactively to reflect demographic and economic developments. In particular, in order to help address intergenerational equity and financial stability, system parameters, e.g. pensionable ages and/or pension benefits, should take into consideration changes in longevity.

(9) Pension policy needs to ensure that retirement incomes are adequate now and in the future. Measures need to be put in place to ensure that pensions together with other sources of income and taking account of the country-specific situation, replace a reasonable part of pre-retirement income and avoid poverty in old age.

This entails: (i) making pension and employment policies mutually supportive; reflecting earnings and contributory records in benefits; establishing mechanisms that reward working longer and reduce benefits in case of early pension take up; achieving and maintaining an appropriate balance between years spent in work and in retirement.

(ii) making sure that public and private pension provision complement each other in an optimal way, while taking due account of the country-specific situation; recognising the role of appropriately financed public pensions as an economic stabilizer; encouraging the build-up of supplementary entitlements through occupational and personal schemes; improving minimum income provisions for older people where needed; exploring options for improving risk sharing and shock absorption in order to enhance the stability of pension schemes and the safety of retirement incomes.

(10) To facilitate progress towards adequate and fiscally sustainable pensions the European level provides value added. Several procedures contributing to this end have been put into place, including the Europe 2020 strategy, the Open Method of Coordination on Social Protection and Social Inclusion, and the Stability and Growth Pact.

In their methodological work on the basis of their specific mandates and agreed procedures the SPC (ISG) and the EPC (AWG) should aim at enhancing consistency in concepts and methods used when addressing adequacy and sustainability.

UPDATED EUROPEAN AGENDA FOR ADEQUATE AND FISCALLY SUSTAINABLE PENSIONS

- Many Member States have already made good progress in adapting their pension systems to better withstand ongoing demographic changes that will intensify in the next decades. Yet there remains a need for further progress with pension reforms in several Member States, or other measures adapted to country-specific circumstances.

- Many recent pension reforms have made benefits more contingent on the ability of labour markets to provide opportunities for longer and less interrupted contributory careers, and on positive returns from financial markets. In light of significant increases in longevity, measures to extend working lives and increase the effective retirement age will continue to be the key components of such reforms. Accompanying labour market measures may also be needed to ensure the absorption of more people working longer into the labour force.

- Fiscal consolidation remains a key priority in the short and medium-term so as to restore sound public finances as the basis for funding adequate public pension provision.

- Older workers, immigrants and women in particular represent a huge untapped resource that needs to be better activated including through appropriate changes to gender and age management in work places and labour markets. Measures which raise employment also strengthen the fiscal sustainability of pension systems by delaying the onset of expenditure increases and through higher contributions and GDP growth;

- Extending working lives by reducing early retirement and raising the effective retirement age, would improve both sustainability (by improving labour force participation and delaying pension takeup) and adequacy (through the accumulation of greater pension entitlements).

- The role, design and performance of private pension pillars should be further reviewed. Some changes may be required in the way these schemes operate, in order to improve the safety and efficiency of benefit accruals through better risk mitigation, enhanced capacity for shock absorption, clearer information about risks and returns of different investment options and more efficient administration.

- Given present and longer-term potential risks to benefit adequacy for vulnerable groups it is important to continue to monitor their situation and the performance of minimum income provisions, and address poverty challenges as they arise. More broadly, it will be important to ensure that people have access to build pension entitlements in well-designed public, occupational and/ or personal schemes, including by working longer, so as allow them to maintain their living standards after retirement to a reasonable degree.

- There is a need to consider pension policies in a comprehensive manner using existing EU level policy coordination frameworks and taking into account the many interlinkages between labour markets, social protection systems, financial market policies, and other relevant policies.

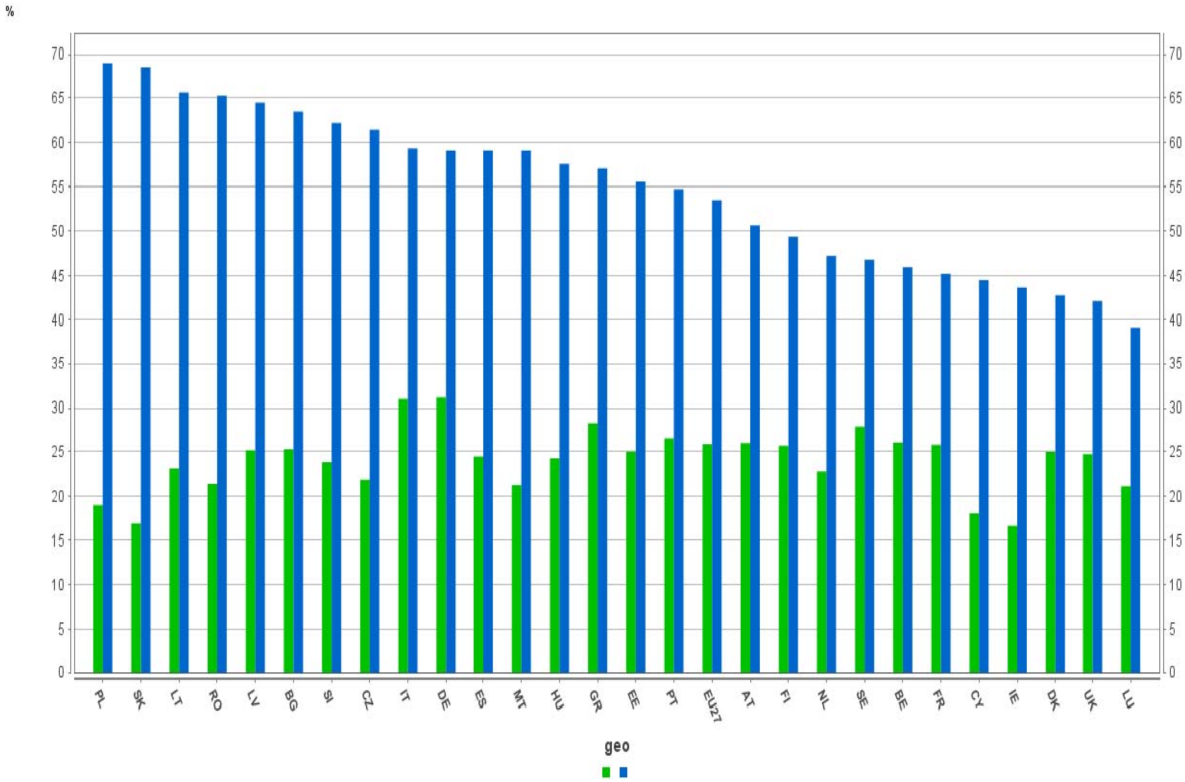
- To ensure the provision of adequate and fiscally sustainable pensions in the future, it is necessary to stress the urgency for further implementation of structural reforms, consistent with the Europe 2020 strategy for jobs and smart, sustainable and inclusive growth, in order to support fiscal consolidation, improve growth prospects, strengthen work incentives, flexible labour markets and extend working lives, and to ask the Commission to closely monitor the progress in cooperation with EPC and SPC, notably for enhancing consistency in concepts and methods used when addressing adequacy and sustainability.

Annex 5: Challenges to pension systems in the Member States

Demographic changes

Population ageing is the main source of pressures for pension systems. Life expectancy in the EU has reached its highest level on record for both men and women, and is expected to continue to increase. The latest Eurostat population projections[20] assume that, for the EU as a whole, life expectancy will increase by 8.5 years for men and by 6.9 years for women by 2060. Combined with low fertility rates this will mean that, according to projections, the EU-27 will face a substantial increase in the demographic dependency ratio (population 65+ to population 15-64) from 26% in 2010 to 50% in 2050 and 53% in 2060.

.**Figure 1** Population Ageing in EU countries, **2008 (green bars)** – **2060 (blue bars)**, as given by the old-age dependency ratio (number of 65+/number of 15-64)



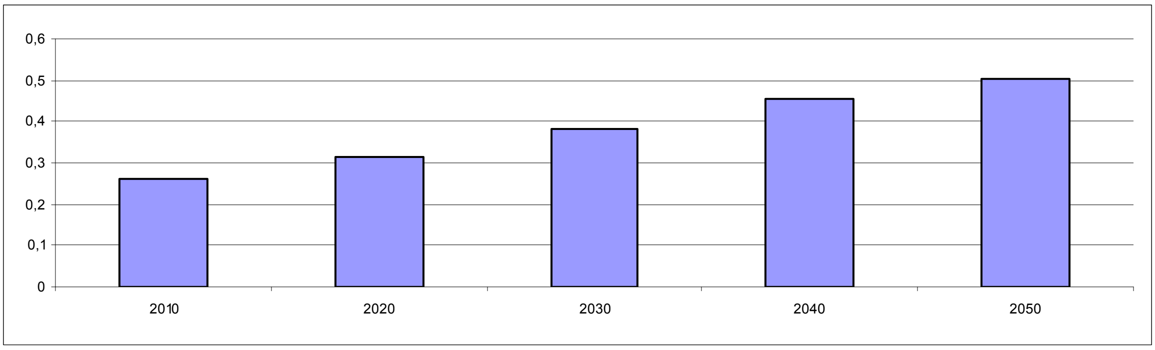
Source: Eurostat

However, pension systems, whether they are funded or pay-as-you-go, transfer resources from the active to the retired population, and age is not the only determinant of who is active and who depends on benefits. A more relevant ratio is therefore the economic dependency ratio which can be broadly defined as the non- and the unemployed population expressed as a percentage of the employed population. Assuming that the employment rate of population 15-64 reaches 70% in 2050, the ratio is projected to grow from 64% in 2010 to 87% in 2050[21]. This increase is far less marked than for the demographic ratio.

[20] Europop 2008 population projections (EUROPOP 2010).
[21] AK-Wien, Dependency Ratio Calculator.

The impact of demographic ageing on pension systems can be mitigated if Member States tap the potential of labour markets and increase the employment rates of the working age population. Different labour market scenarios have thus an impact on the evolution of the economic dependency ratios in the context of demographic change (see Figure 7.

Figure 2 Old–age dependency ratio

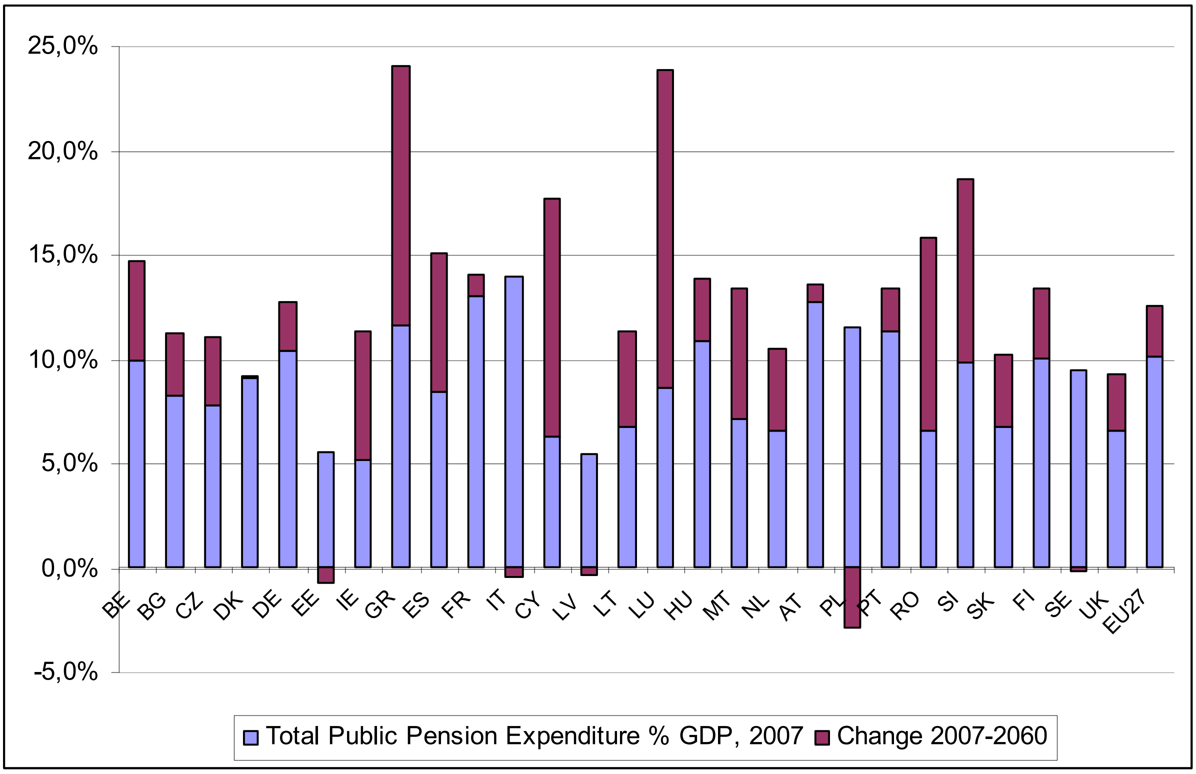


Source: Eurostat (variables proj_10c2150p) Note : ratio of 65+ aged persons to 15-64 years aged persons.

Increased weight of pension expenditures in public finances

Due to the demographic pressures, the latest projections show that public pension expenditures are projected to rise in the EU-27 from 10.1% of GDP in 2007 to 12.5% in 2060. The scale of the increase varies between the Member States – some, including CY, LU, RO and GR, are projected to face much larger increases in pension related expenditure than the average (see the graph below). It is also worth noting that, according to the 2009 Ageing Report projections, Member States will reach the peak in public pension expenditure at different points in time: thus, DK, EE, PL and SE will reach the peak before 2030; FR, IT, LV, AT, FI between 2030 and 2050 and the rest of countries between 2050 and 2060.

Figure 3 Total public pension expenditure in % GDP in 2007 and change 2007-2060



Source: 2009 Ageing Report.

It is important to note that the calculations of the future evolution of public pension expenditures are based on the positive assumption that employment rates of population aged 15-64 will increase from 65.5% in 2007 to 69.9% in 2060. If employment rates remain at the current level this will accelerate future increases in public pension expenditure, making the real effects worse than the ones found in the graph.

The increase in public pension expenditure, together with expenditure on other age-related social protection items, has an important impact on future sustainability of public finances. The sustainability indicators provide a basis to classify the long-term risks to the sustainability of the public finances in EU Member States (see Figure 4). They show the size of permanent budgetary adjustment required to ensure that the public budget constraint is met, taking account of the cost of ageing.[22] The S1 indicator shows the adjustment to the current structural primary balance required to reach a target government gross debt of 60% of GDP in 2060. The S2 indicator shows the adjustment to the current structural primary balance required to fulfil the infinite horizon intertemporal budget constraint.

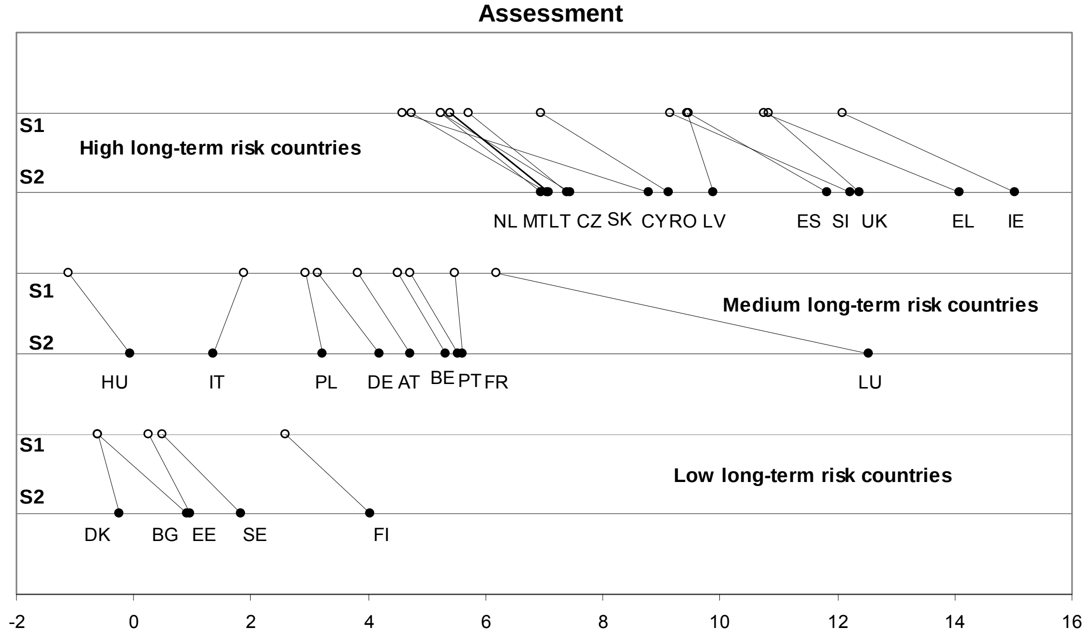
The assessment of public finance sustainability is not restricted to pensions. It looks at the challenge of ageing to the entire general government sector, so for example health care expenditure is included.

To make an overall assessment on the sustainability of public finances, other additional relevant risk factors are taken into account for a qualitative assessment: high initial level of public debt (as indebted countries are more sensitive to economic shocks and interest rate changes), deterioration in primary budget balance (as it results in rising debt burden), high

[22] For detailed definitions of the indicators see the 2009 Sustainability Report.

current tax ratio (as it limits room of manoeuvre for using tax increases), and a projected drop in the pension benefit ratio (as it increases the risk of political pressure for increasing pension benefits).

Figure 4 Overall risk classification and the sustainability gaps (S2 and S1 in the baseline scenario)



Source: Commission services
Hungary reformed its pension system in 2009. According to the revised pension projections, public pension expenditure is projected to decrease from 10.9% of GDP in 2007 to 10.5% of GDP in 2060, i.e. by 0.4 p.p. of GDP. The revised projection is not included in this graph (see note to Figure 8). Greece: see note to Figure 8.

Overview of pension reforms in Member States

Faced with the imminent population ageing and its impact on sustainability of pension provision, Member States have considerably reformed their pension systems. Tightening the link between contributions paid into the system and benefits paid out has been a key feature of reform efforts. This usually took form of moving from final pay or best years to lifetime earnings as the basis for benefit calculation and by insisting on a number of contribution years instead of solely on reaching a pensionable age, increasing the number of years required to receive a full pension, increasing the pensionable age for both genders or equalising it. Yet in most of these countries the higher eligibility ages for a statutory pension are phased in over long periods (see Table 1).

Table 1 – Overview of the status of pension system reforms in the context of demographic ageing and retirement behaviour

Member State	Average exit age from the labour force in 2001	Average exit age from the labour force in 2009	Statutory retirement age for M/W in 2009	Statutory retirement age for M/W in 2020	Further increases in the statutory retirement age for M/W after 2020	Life expectancy at 65 in 2008 (unweighted average for two genders)	Projected increase in life expectancy at 65 between 2008 and 2060 (unweighted average for two genders)
Belgium	56,8	61,6**	65/65	65/65		18,3	5,1
Bulgaria	58,4	64,1***	63/60	63/60	65/63	14,6	6,9
Czech Republic	58,9	60,5	62/60y8m	63y8m/63y4m	65/65	16,4	6,0
Denmark	61,6	62,3	65/65	65/65	67+/67+****	17,5	5,5
Germany	60,6	62,2	65/65	65y9m/65y9m	67/67	18,5	5,1
Estonia	61,1	62,6	63/61	64/64	65/65	15,6	6,5
Ireland	63,2	64,1***	65/65	65/65 (66/66)	(68/68)	18,2	5,6
Greece	61,3°	61,5	65/60	65/60	65/65	18,4	4,9
Spain	60,3	62,3	65/65	65/65		19,0	4,8
France	58,1	60	60-65/60-65	62-67/62-67		19,9	4,5
Italy	59,8	60,1	65/60	66y7m/61y7m*****	****	19,5	4,7
Cyprus	62,3	62,8*	65/65	65/65		18,0	5,2
Latvia	62,4	62,7*	62/62	62/62	(65/65)	14,9	7,1
Lithuania	58,9	59,9***	62y6m/60	64/63	65/65	15,3	6,7
Luxembourg	56,8	:	65/65	65/65		18,3	5,1
Hungary	57,6	59,3	62/62	64/64	65/65	15,5	6,8
Malta	57,6	60,3	61/60	63/63	65/65	17,5	5,6
Netherlands	60,9	63,5	65/65	65/65 (66/66)	(67/67)	18,2	5,1
Austria	59,2	60,9**	65/60	65/60	65/65	18,7	4,9
Poland	56,6	59,3**	65/60	65/60		16,5	6,2
Portugal	61,9	62,6**	65/65	65/65		18,1	5,1
Romania	59,8	55,5	63y8m/58y8m	65/60	65/63	15,0	6,8
Slovenia	56,6°	59,8***	63/61	63/61		17,6	5,5
Slovakia	57,5	58,8	62/59	62/62		15,2	6,8
Finland	61,4	61,7	65/65, 63-68	65/65, 63-68		18,6	4,9
Sweden	62,1	64,3	61-67/61-67	61-67/61-67		18,9	4,8
United Kingdom	62,0	63	65/60	65/65	68/68	18,2	5,4
EU 27 average	59,9	61,4				18,2	5,3

Source: Eurostat, MISSOC, Ageing Report.

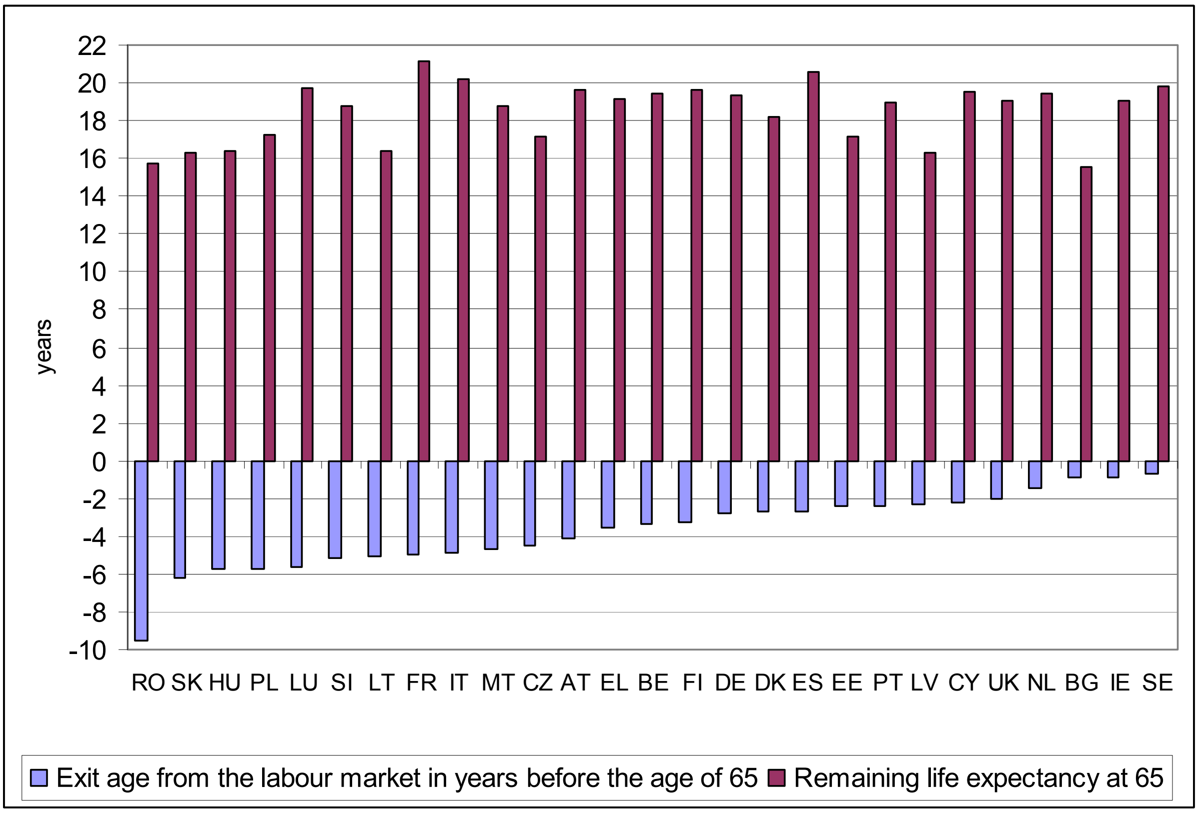
Note: ° - 2002, * - 2008, ** - 2007, *** -2006, in brackets – proposed, not yet legislated, **** retirement age evolves in line with life expectancy gains over time, introducing flexibility in the retirement provision. ***** Italy: i) the age requirement is half a year higher for self-employed; ii) for civil servants, the statutory retirement age of women equalizes that of men, starting from 2012; iii) further increases in the retirement age after 2020 accounts for about 4 months every three years.

Sweden: guarantee pension is available from the age of 65.

Romania: the National House of Pensions and other Social Insurance Rights.

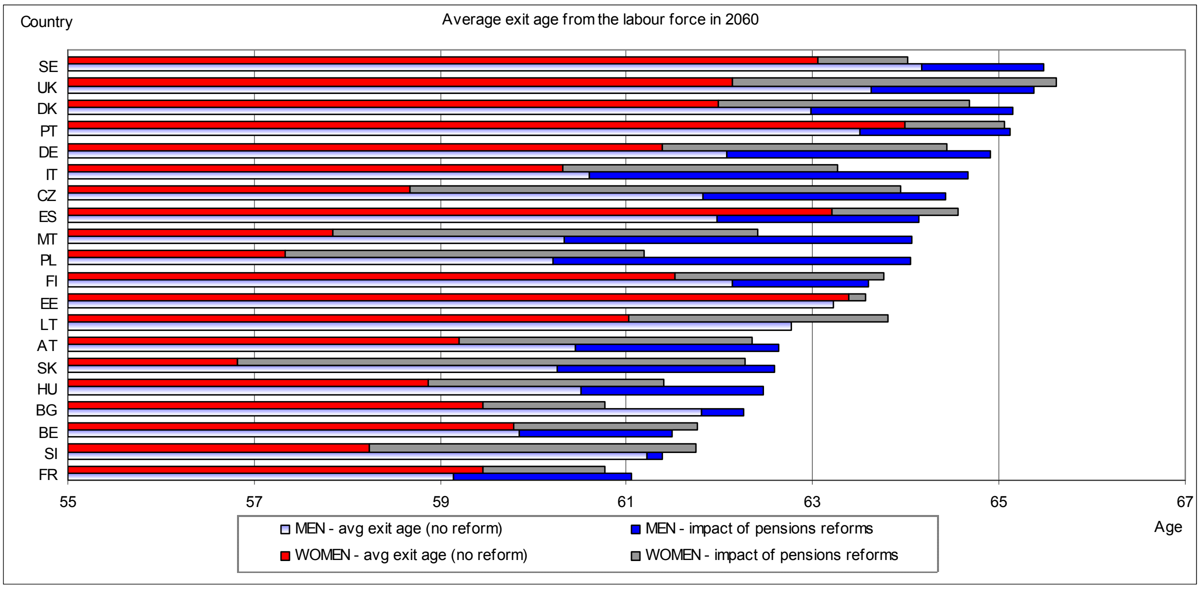
In the majority of Member States the average exit age from the labour market is usually lower than the legally defined pensionable age. In consequence, in a number of countries people on average spend 25 or more years receiving pensions or other benefits. As illustrated in the Figure 5, countries with higher life expectancy people do not necessarily register higher exit age from the labour market. And according to the long-term projections carried out in the context of the Ageing Report 2009, the impact of enacted reforms on longer working falls behind what is needed to face the demographic change (see Figure 6).

Figure 5. Exit age from the labour market compared with the remaining life expectancy at 65, EU Member States, 2009



Source: Eurostat

Figure 6. Impact of pension reforms on the average exit age from the labour force



Source: Commission services, EPC

Economic vs Demographic dependency Ratios

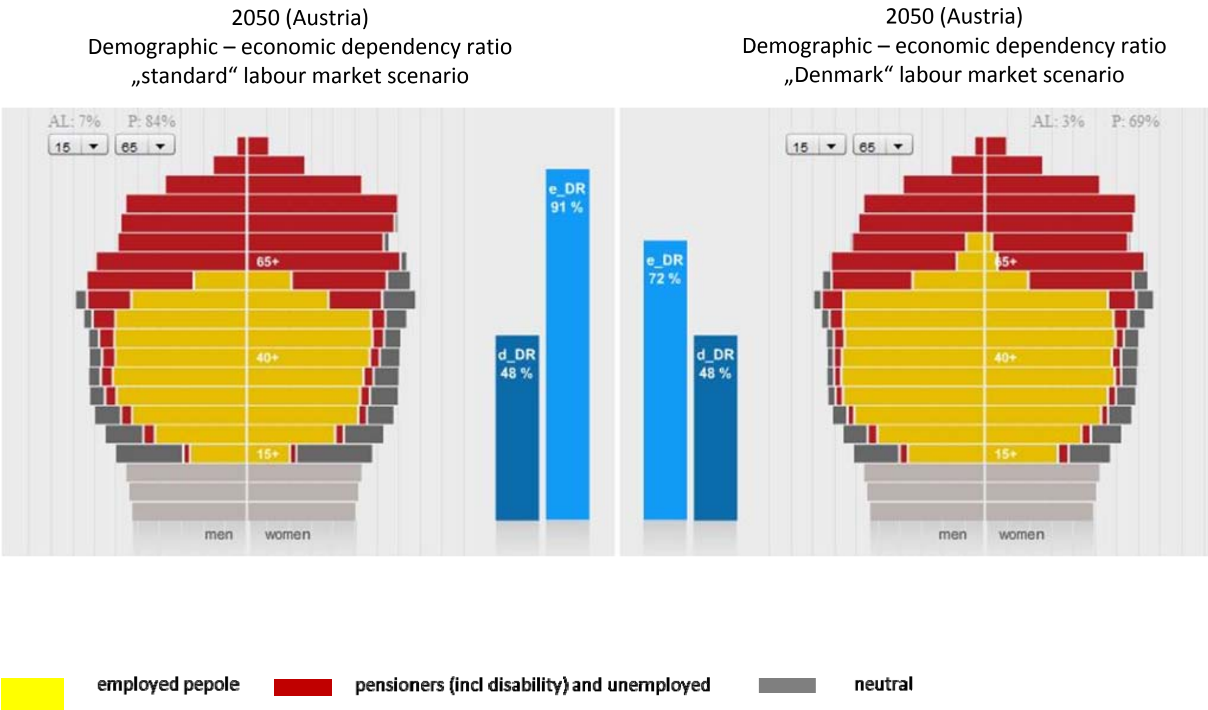
According to projections[23], the EU-27 will face a substantial increase in the demographic dependency ratio (population 65+ to population 15-64) from 26% in 2010 to 50% in 2050 and 53% in 2060.

The ageing challenge is even better illustrated with the economic dependency ratios, which can be defined in various ways. For instance, despite the increase in employment rate of population 15-64 from 65.5% in 2007 to 69.9% in 2060, the economic dependency ratio (expressed as inactive population aged 65 and more as percentage of employed 15-64) still rises from 37% in 2007 to 68% in 2050 and 72% in 2060.[24]

If we define the economic dependency ratio more broadly (the unemployed and pensioners as percentage of the employed) and assume that the employment rate of population 15-64 reaches 70% in 2050, the ratio is projected to grow from 64% in 2010 to 87% in 2050.[25] Even if starting from a higher level, the increase is less marked than for the demographic ratio or the narrowly defined economic ratio.

A less pronounced increase in the economic dependency ratio is possible if Member States tap the potential of labour markets and increase the employment rates of working age population. Different labour market scenarios have thus an impact on the evolution of the economic dependency ratios in the context of the demographic change.

Figure 7. Impact of different labour market scenarios on economic dependency ratios



Source: AK-Wien/ Dependency ratio calculator
d_DR = demographic dependency ratio (65+ relative to 15-64)
e_DR = economic dependency ratio (old-age pensioners, early pensioners and unemployed relative to employed people)

[23] Europop 2008 population projections.
[24] Ageing Report 2009, Table A52, p. 282.
[25] AK-Wien, Dependency Ratio Calculator.

The example of Austria (Figure 7) illustrates the importance of increasing employment rates to face the adverse effects of demographic ageing. The demographic dependency ratio (population 65+/15-65) is projected to increase from 25% to 48% in Austria between 2008 and 2050, as the combined effect of longevity growth and changing cohort size. If Austria could tackle underemployment of women, youth and older workers to improve its employment rates in 2050 to the level of the current best performing Member States (e.g. Denmark) its future economic dependency ratio (population of the unemployed and retired to the employed) would increase only from 61% to 72%.

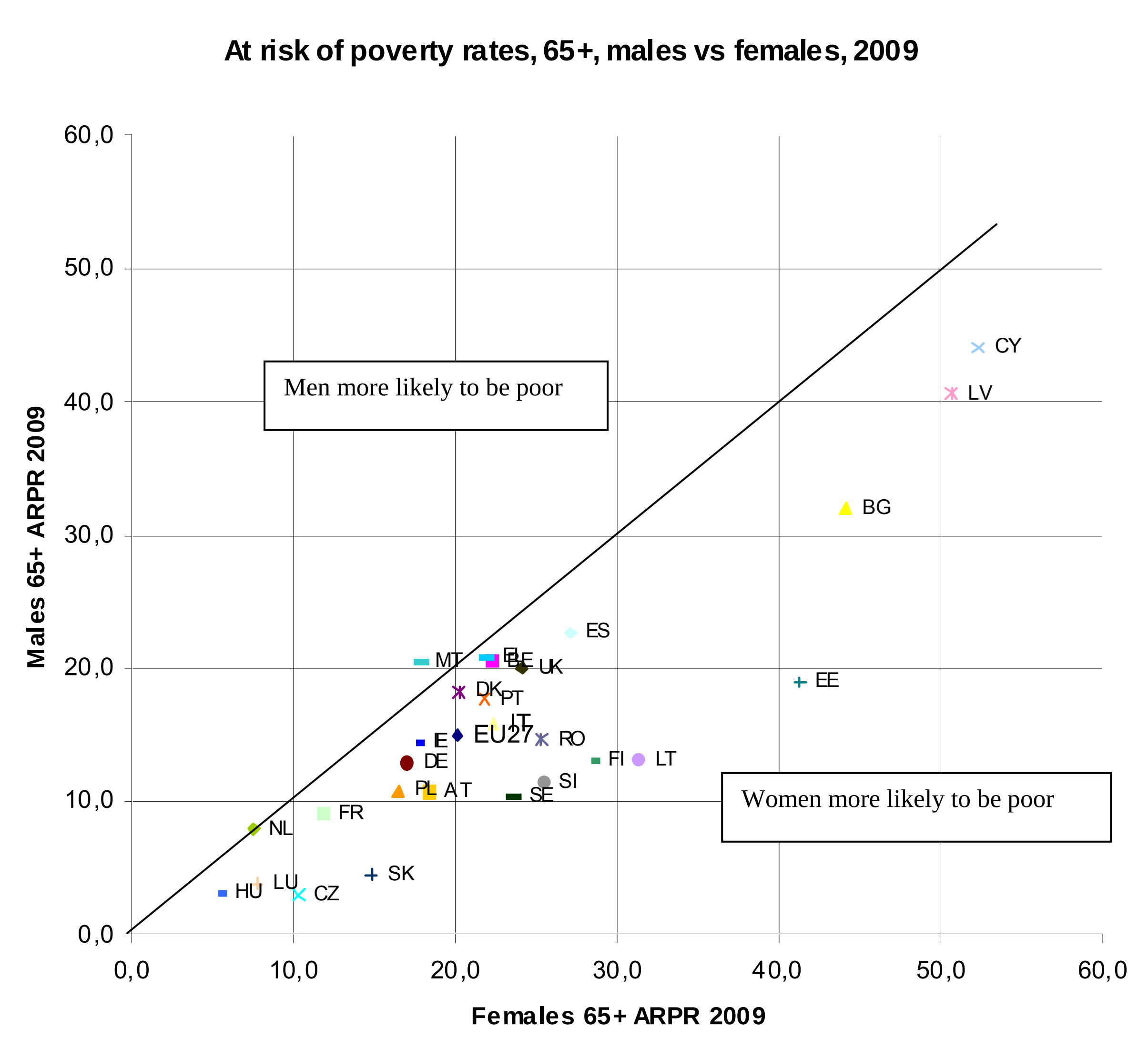
Adequacy challenges

Recent pension reforms have only partly addressed the adequacy issues.

Regarding current adequacy of pension systems, data shows that people aged 65+ are more likely to be at risk of poverty comparing to those aged less than 60 years old (17.8% versus 16.1%)[26]. At-risk-of-poverty rates are especially high for older women (see graph below) and those aged 75+ (20.2%). There are also substantial differences between Member States. Some including LU, HU, SK and CZ have at-risk-of-poverty rates below 5%, while others such as ES, CY, LV and BG experience rates higher than 20%.

[26] Eurostat: Indicators of the pension strand, available at http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_social_policy_equality/omc_social_inclusion_and_social_protection/pension_strand

Figure 8. At risk of poverty rates, 65+ males *versus* females, 2008 – EU-27



Source: Eurostat

A similar picture emerges from the analysis of <u>future adequacy of pension systems</u>. The indicators used to measure future adequacy are theoretical replacement rates (TRR)[27], the benefit ratio and the gross average replacement rate[28]. Sizable decreases in these indicators are projected over coming decades for a significant number of countries[29]. For example, the graph below shows the percentage change in net and gross TRR between 2008 and 2048. Given the assumptions for the calculations of TRR in the basecase, 15 Member States display

[27] Theoretical Replacement Rates, developed by the Indicators Subgroup of the SPC, are defined as a level of pension income in the first year after retirement as a percentage of individual earnings at the moment of pension take-up and are calculated for an assumed hypothetical worker (in the so-called "base-case" scenario, a male with average earnings retiring at 65 after a 40-years career).

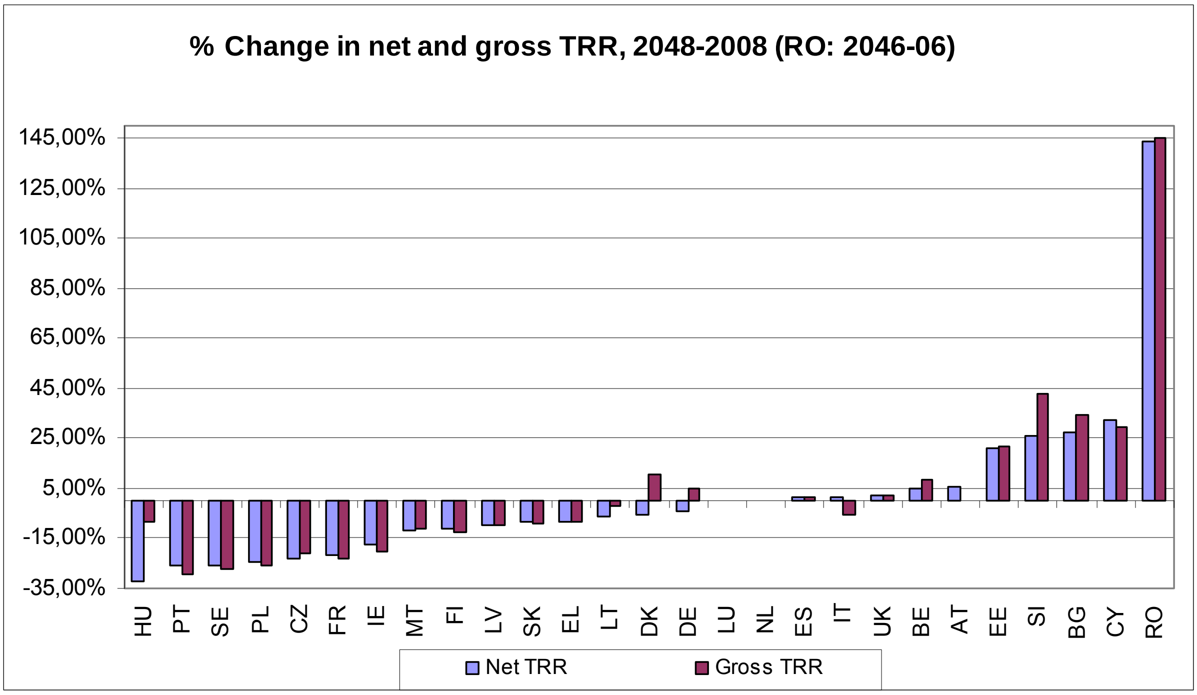
[28] The benefit ratio is the average benefit of public (or public and private) pension, as a share of the economy-wide average wage (gross wages and salaries in relation to employees). The gross average replacement rate is the average first pension as a share of the economy-wide average wage at retirement. These indicators are developed by the Ageing Working Group of the EPC. In contrast to the TRR which project future situation of a hypothetical individual worker, they are calculated on the basis of macro data, so they reflect averages.

[29] More details can be found in the 2010 EPC-SPC Joint Report on Pensions, pages 33-38.

results where <u>reforms of statutory schemes would lead to a decrease of net replacement rates between 2008 and 2048, for a worker with average earnings retiring at 65 after 40 years</u>. This is most probably a reflection of reforms that have lowered future benefit levels at a fixed retirement age in order to cope with increasing longevity and the expenditure it would otherwise entail. These reforms entailed extension of contribution periods and increases in pensionable ages or introduction of automatic adjustment mechanisms. For other group of Member States there seem to be <u>no significant changes in their replacement rates between 2008 and 2048</u>. And a last group of Member States (which are the ones with initially lowest levels of replacement rates) may actually observe their <u>replacement rates rise</u> as a result of recent reforms that would be fully in place by 2048.

In addition to changes in the population pyramids, the household structure is expected to change dramatically. More single person households will mean that an increasing proportion of pensioners, particularly women, will not be able to rely on their partners' income in retirement. This can lead to a higher risk of poverty and widening of the income gap between older men and older women.

Figure 9. Percentage change in TRR between 2048 and 2008, the "base-case" scenario [30]



Source: ISG calculations on Theoretical Replacement Rates

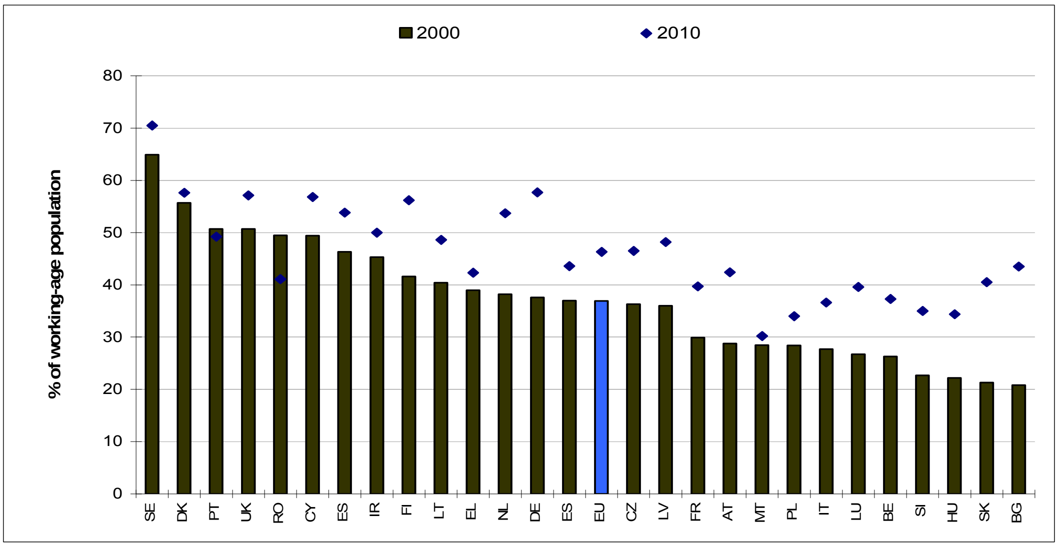
Regarding the evolution of the TRR for low earners and people with incomplete careers, the decline is in many case of comparable magnitude. However, for some Member States where contribution-benefit links have been strengthened, the future projections of TRR appear to be much less favourable for lower than for average earners.

[30] In case of HU, the changes in gross replacement rate are partially caused by a methodological change. As from 2013, benefits will be calculated on the basis of gross earnings and will become taxable, thus the gross replacement rate also includes the effect of a foreseen change in taxation rules.

Employment rates of older workers

One has to note that in most cases changes in pension systems will tend to make benefits more contingent on developments in labour markets. Despite the recent impressive increases in the labour market participation of older workers, the current employment levels for those aged 55-64 (46.3%)[31] remain much lower than for those aged 15-64 (64.2%) (see graph below). There is a high risk that unless changes in statuary pension ages are solidly underpinned by changes in age management in work places and labour markets, as well as a better preservation of the health and skills of older workers, they will result in large inflows into alternative benefits such as disability, sickness and social assistance benefits, with very negative effects on future pension adequacy.

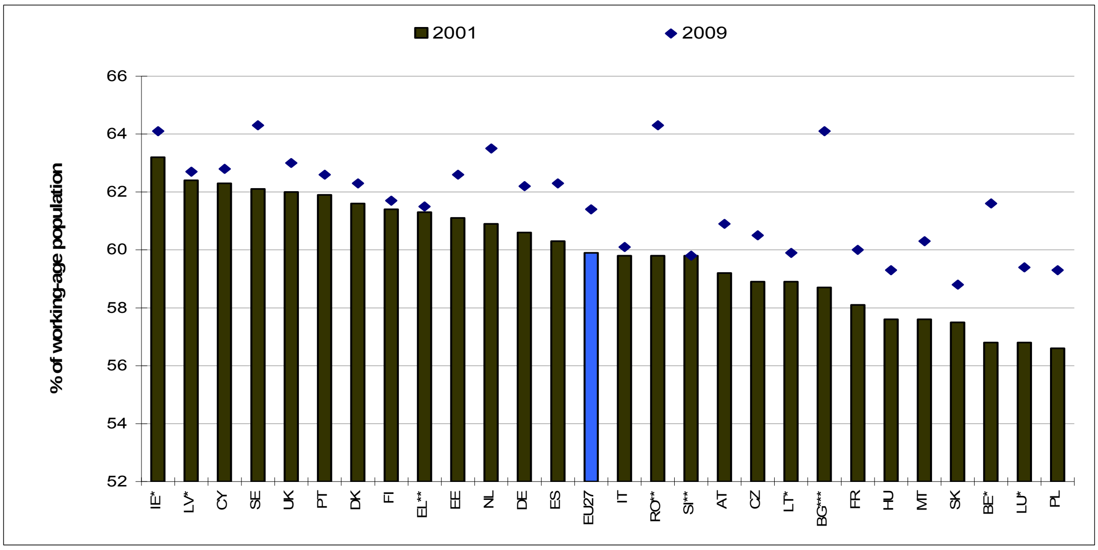
Figure 10. Employment rates for persons aged 55–64, 2000 and 2010



Source: Eurostat available at http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=0&language=en&pcode=tsdde100

[31] Eurostat – Indicators of the pension strand, available at http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_social_policy_equality/omc_social_inclusion_and_social_protection/pension_strand.

Figure 11 Average exit age from the labour force in 2009

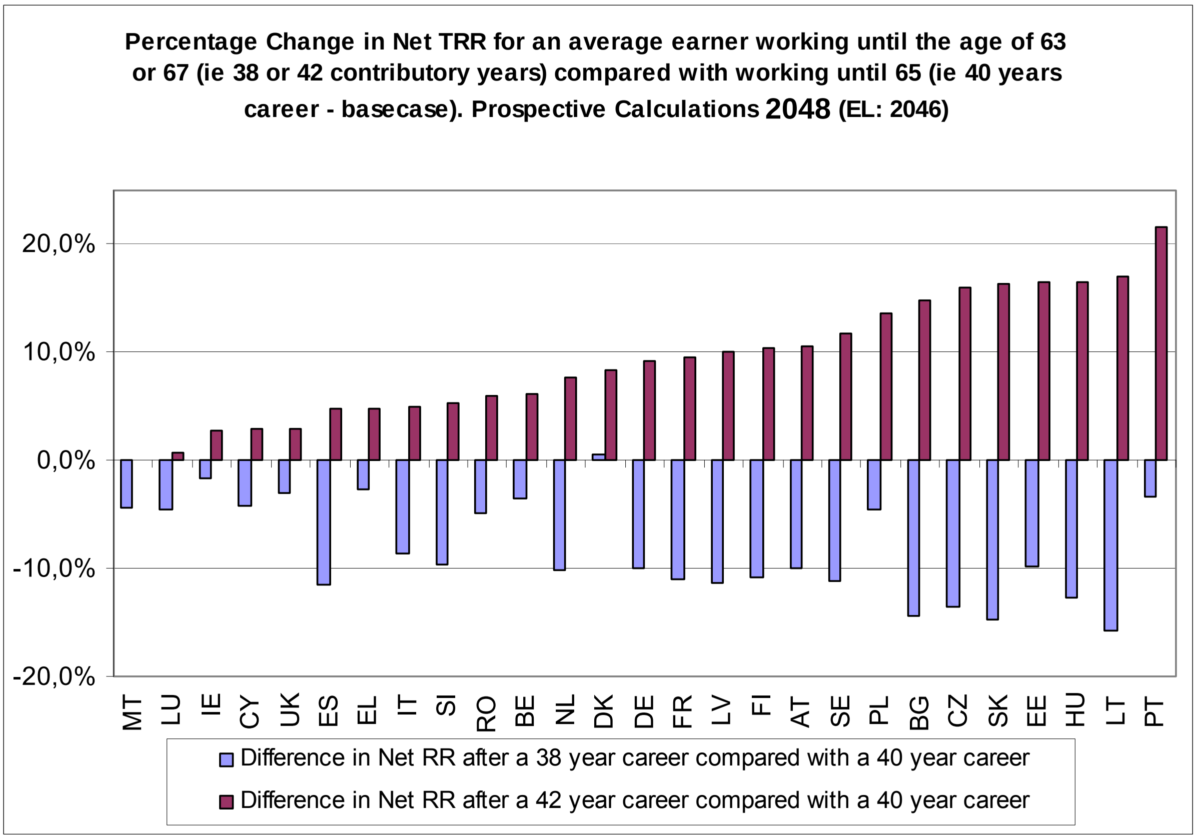


Source: Eurostat
Note: country label with* for 2008 (or earlier) latest year ,country label with ** 2002 for earliest observation

Effects of early retirement & career interruptions on pension adequacy

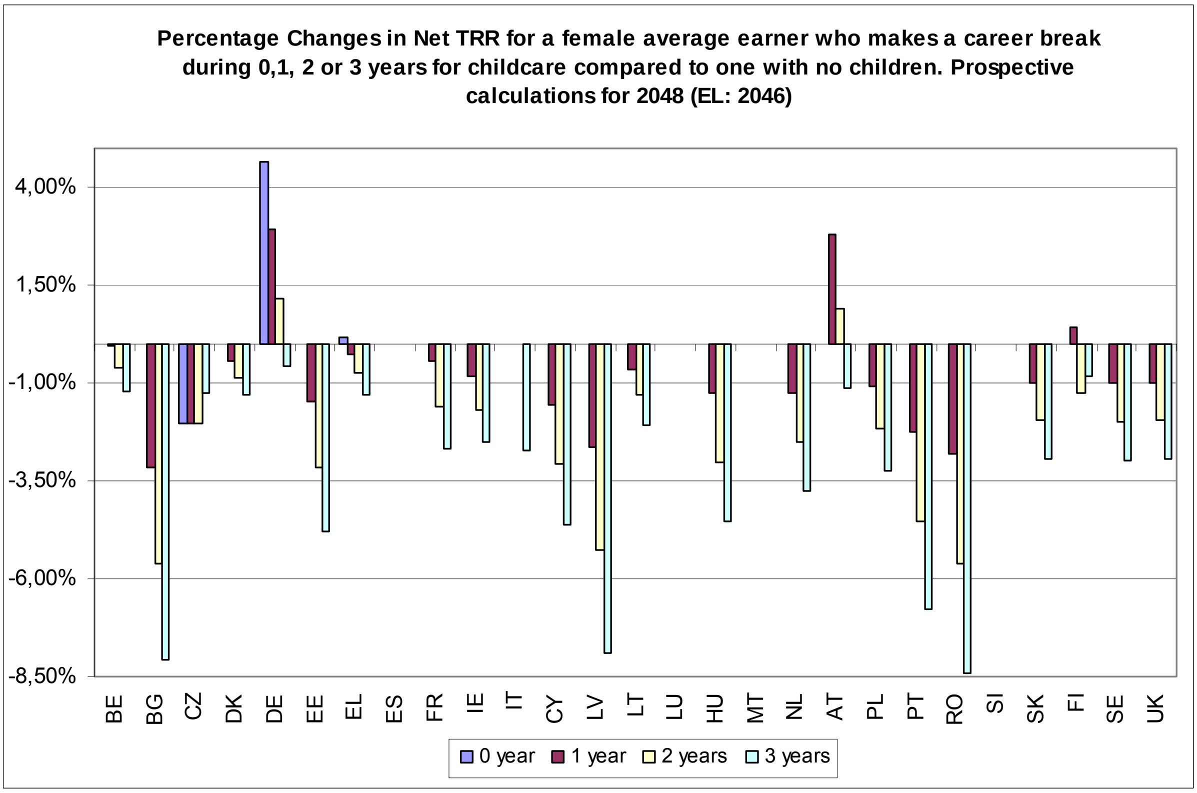
Calculations of the theoretical replacement rates show that early retirement is usually penalised with a malus (calculations compare situation of a hypothetical worker who retired at 63 in 2008 to a worker who retired at 65). Also workers with career breaks due to childcare or, especially, unemployment (and long-term breaks) can expect a lower replacement rate than those with a full career. This is not calculated for workers retiring currently, but the 2048 replacement rates are quite illustrative in this respect. With a notable exception of a few countries where childcare breaks are credited to the extent where the drop in replacement rate is avoided, workers with a one, two or three-year break can expect a lower pension.

Figure12



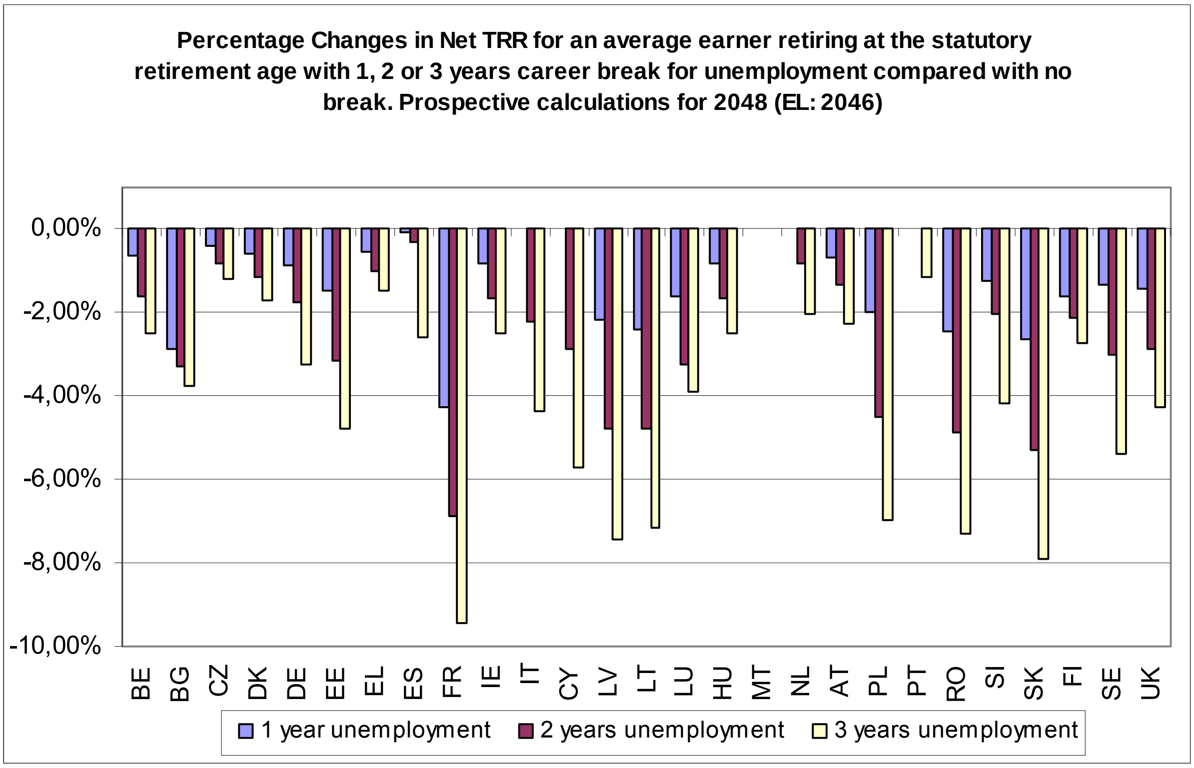
Source: Annexes to the EPC-SPC joint report on Pensions, 2010

Figure 13



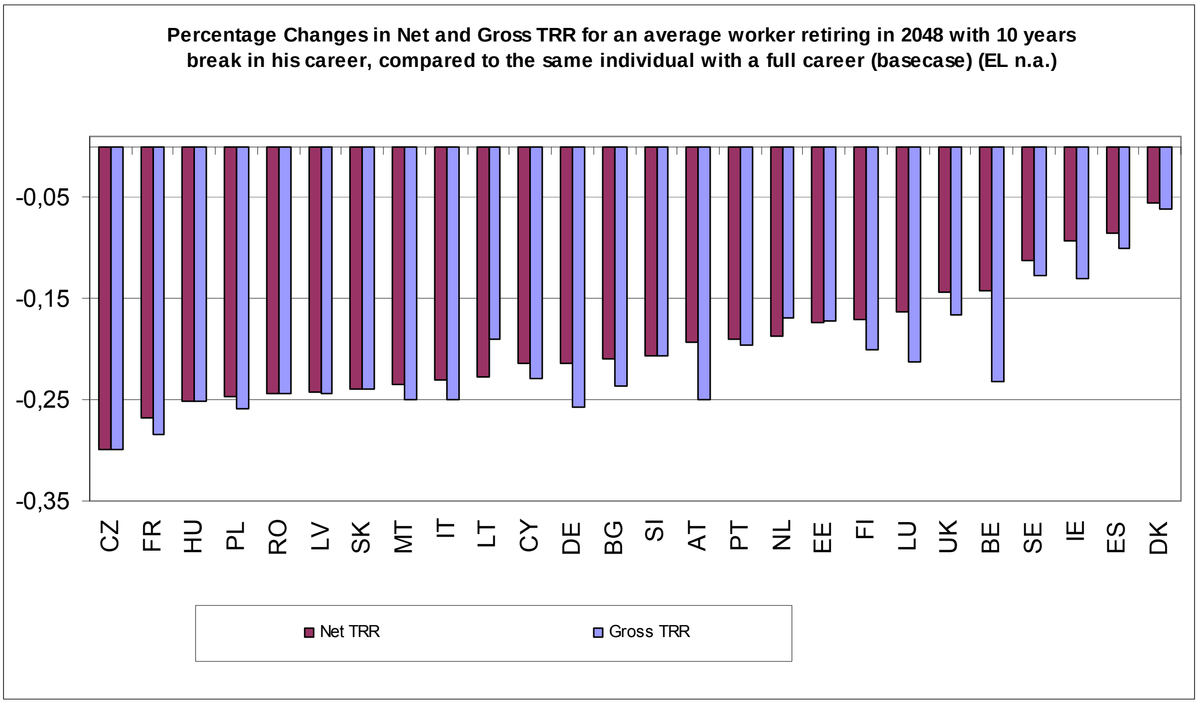
Source: Annexes to the EPC-SPC joint report on Pensions, 2010

Figure 14



Source: Annexes to the EPC-SPC joint report on Pensions, 2010

Figure 15

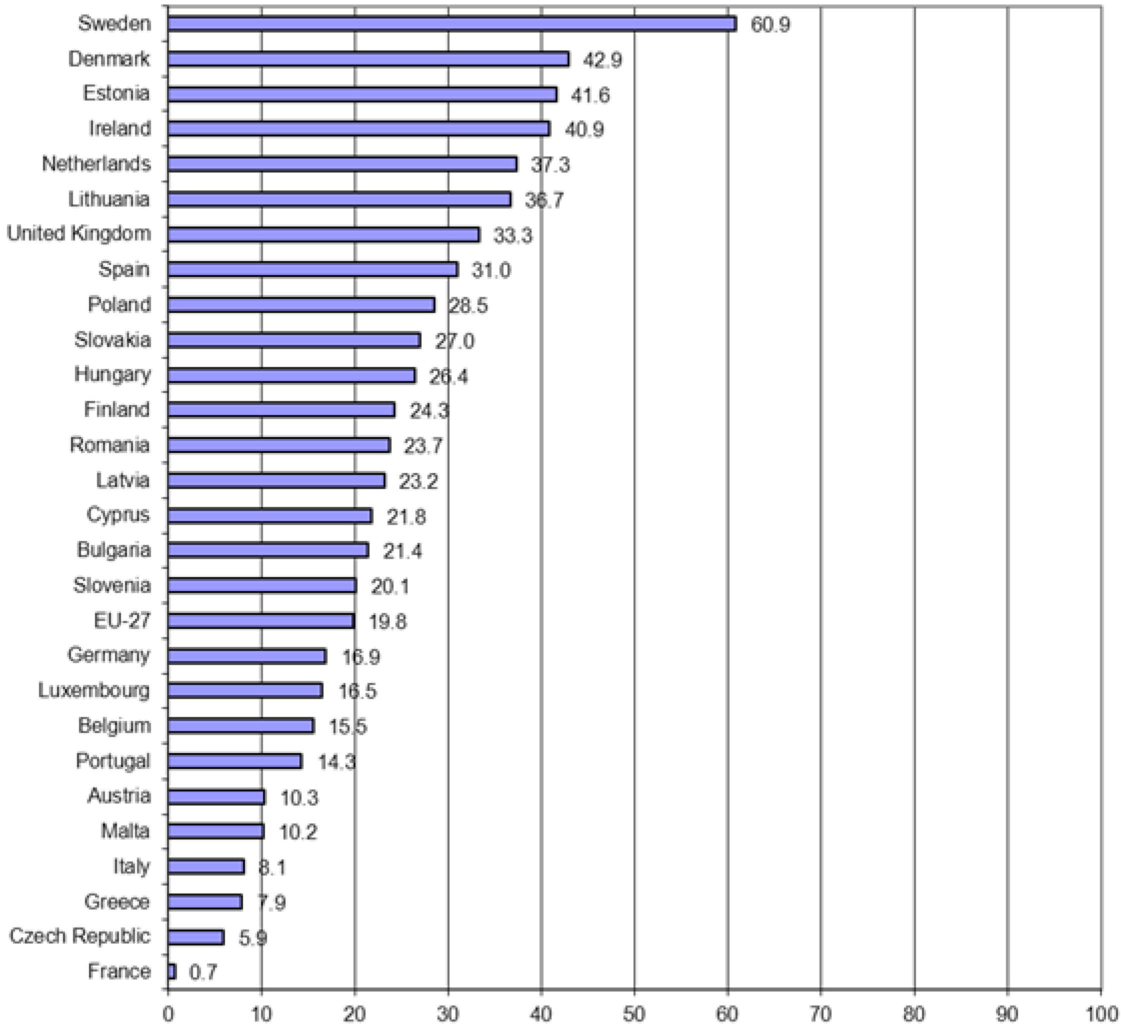


Source: Annexes to the EPC-SPC joint report on Pensions, 2010

Premature retirement related to Health and Safety at Work

In 2010 19.8% of those out of employment who were aged 50-64 in the EU-27 reported that their main reason for not seeking employment was their own illness or disability, the highest shares corresponding to Sweden, followed at some distance by Denmark, Estonia and Ireland. The lowest percentage shares instead were reported in France, the Czech Republic, Greece and Italy.

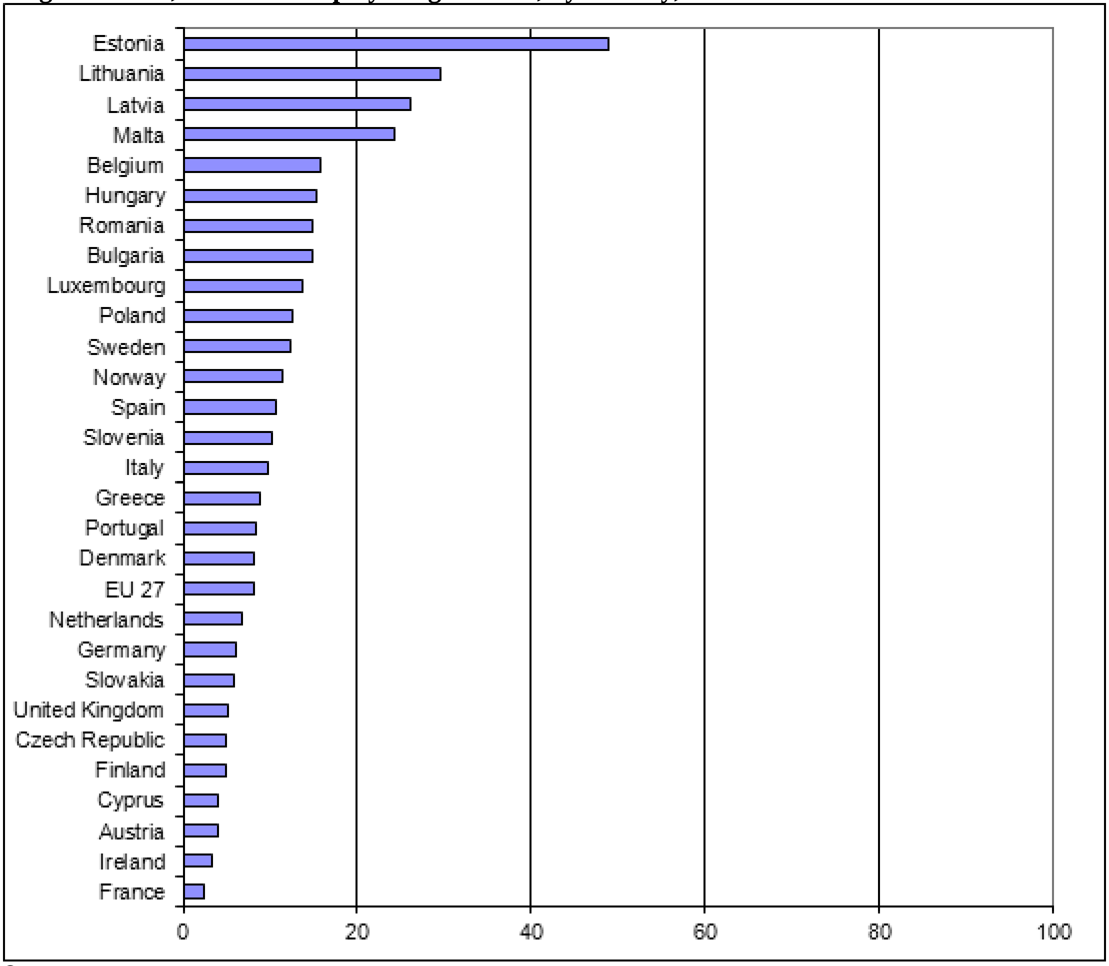
Figure 16 – Main reason for not seeking employment - Own illness or disability, % of inactive population, aged 50-64, by country, 2010



Source: Eurostat

Eurostat's 2006 LFS ad-hoc module 'Transition from work into retirement' included a question addressed at those aged 50-69 who were not in employment, asking whether they would have stayed longer (or not) if their workplaces had been healthier. Data suggest that in Estonia almost half (48.9%) of those aged above 50 and who are not employed would have stayed longer at work if their workplaces had been healthier/safer. Lithuania, Latvia and Malta follow at some distance, while the lowest shares are reported in France, Ireland, Austria and Cyprus. The average for the EU-27 was 8.1%.

Figure 17– Better health and/or safety at work would contribute/have contributed to person staying longer at work, % of non-employed aged 50-69, by country, 2006.



Source: Eurostat, LFS ad-hoc module 'Transition from work into retirement', 2006.

The extent of the issue has been recently documented by the OECD in its report 'Sickness, Disability and Work: Breaking the Barriers- A Synthesis of Findings across OECD Countries, November 2010' (http://www.oecd-ilibrary.org/social-issues-migration-health/sickness-disability-and-work-breaking-the-barriers_9789264088856-en) Too many workers leave the labour market permanently due to health problems or disability, and too few people with reduced work capacity manage to remain in employment. Mental health is a particular challenge due to the fast increase in most OECD countries in the number of disability benefit claims due to mental health problems. Moreover, sickness absence plays a major role as a precursor to exit from the labour market in the form of disability benefits in the Nordic countries, the Benelux countries, the United Kingdom, France and Spain.

The importance of the working environment as cause of premature retirement is further born out and elaborated in various national studies. German data ('Sicherheit und Gesundheit bei der Arbeit 2009', http://osha.europa.eu/fop/germany/de/statistics/statistiken) suggest that early retirement due to work incapacity has increased by 8.1%, with a notable increase in mental and behavioural disorders (from 32.5% in 2006 to 37.7% in 2009). Women are particularly concerned (43.9% of all incapacities among women linked to these causes).

Other national studies[32] typically report that both psychosocial and physical aspects of job quality affect early labour force exits and thus shed some light on the actual diseases that may lead to early retirement. Among male workers, eye problems, back pain, ulcers and migraines can be particularly likely to increase the relative risk of early retirement.

The inclusion of various indicators of work stress have documented the effect of job quality or workplace wellbeing on early retirement from the labour force. Job strain significantly increases the likelihood of early exit for women: women with high-strain jobs were almost twice as likely as their colleagues with low-strain jobs to exit the labour force early. When older workers feel that the psychological demands of their jobs are too high, and/or the job control is too limited, the risk of early retirement tends to increase. These findings are in line with previous research which shows that early retirement is related to environmental factors at the workplace and that women are more affected than men. The effects of job strain were similar but not statistically significant for men's retirement.

For male workers supervisors' support at the workplace may be an important factor in avoiding early retirement. Men who felt that they had low support from their supervisors had almost twice the risk of retiring early compared with those who had support. Research has also clearly linked conditions of physical work strain with the decision to retire. These conditions include repetitive or continuous strain, musculoskeletal strain, and uncomfortable working positions such as crouching, bending, twisting or being fixed. For men having a physically demanding job has been shown to increase the risk of retirement by more than 50%.

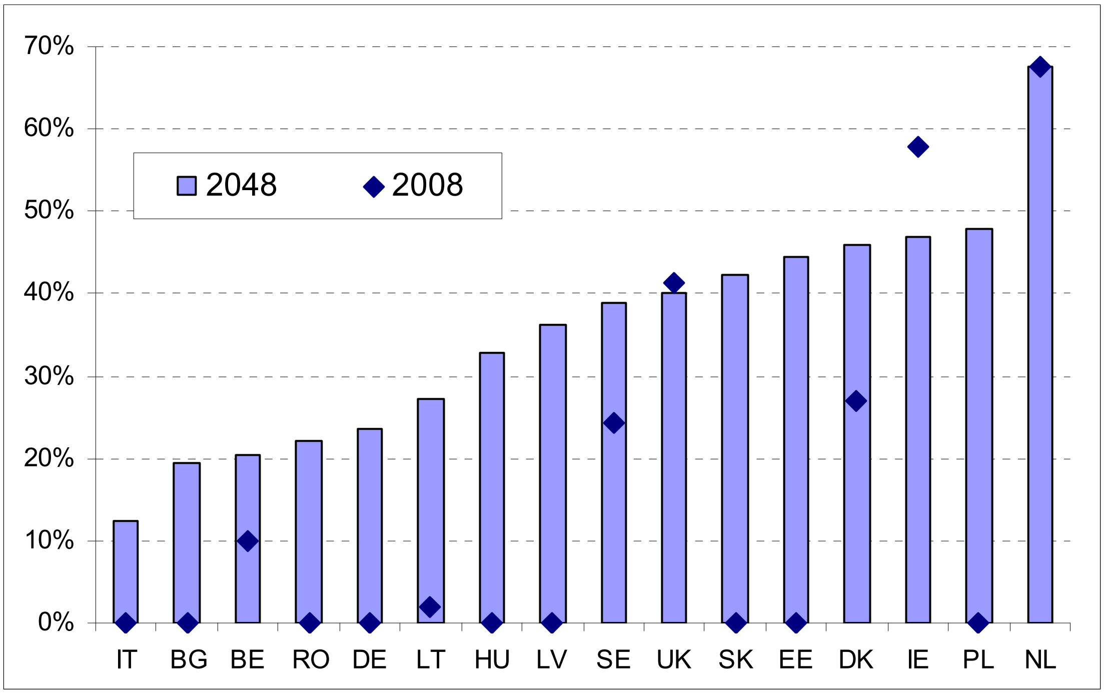
Changes in pension systems: greater role for pre-funding

Many pension systems are moving from a largely single pillar model towards multi-pillar systems where retirement income will be derived from a range of pension entitlements instead of a single benefit. Future pensioners will rely ever more on funded pension provision (see graph below). Partly this growth in importance is relative, given declines in the generosity of Pay-As-You-Go (PAYG) pensions. But new funded pension schemes have also been set up (notably the mandatory funded schemes established in many new Member States in the last 10 – 15 years) and attempts have been made to expand various other types of funded pension schemes. Despite some very recent retrenchment in mandatory funded schemes stemming from the financial and economic crisis, it is clear that future pensioners will rely ever more heavily on funded pension provision.

Almost all the prefunded occupational schemes established over the last decades are of the Defined Contribution type. At the same time Defined Benefit schemes have increasingly been transformed into Defined Contribution schemes or moved to a hybrid between these two designs. Today, nearly 60 million Europeans are enrolled in Defined Contribution schemes where the individuals bear nearly all of the risk[33].

[32] One particularly detailed one is the Canadian: 'Health factors and early retirement among older workers', Jungwee Park, Statistics Canada, 2010, http://www.statcan.gc.ca/pub/75-001-x/2010106/pdf/11275-eng.pdf
[33] EFRP survey on DC pensions 2010

Figure 18. Share of occupational and statutory funded pensions in total gross replacement rates in 2008 and 2048 in selected Member States



Source: Indicators Subgroup calculations on Theoretical Replacement Rates

The AGS recommends that "Member States should support the development of supplementary private savings to enhance retirement incomes". So achieving an optimal balance between risks, security and affordability for funded pension schemes is becoming ever more important. However, the current framework does not ensure consistent regulation and supervision of funded pension schemes.

A number of issues relating to the design of current funded pension schemes and their ability to withstand shocks was noted in the European Commission's Memo of 6th March 2009 "The economic crisis and pensions in the EU"[34]. The Green Paper on pensions already built on this analysis highlighting a number of areas of concern. These included the ability to mitigate short-term volatility in returns, absorb the effects of shocks when they occur and issues like investment choice, default investment options and payout phase design.

Effects of the crisis: all types of pension schemes have been impacted

While prefunded schemes were particularly affected by the financial crisis, payg schemes felt the subsequent effects of the economic and the public budget crisis. The financial, economic and sovereign debt crises have aggravated the challenges involved in adjusting pension systems to the transition from larger to smaller cohorts of working age and the structural growth in longevity.

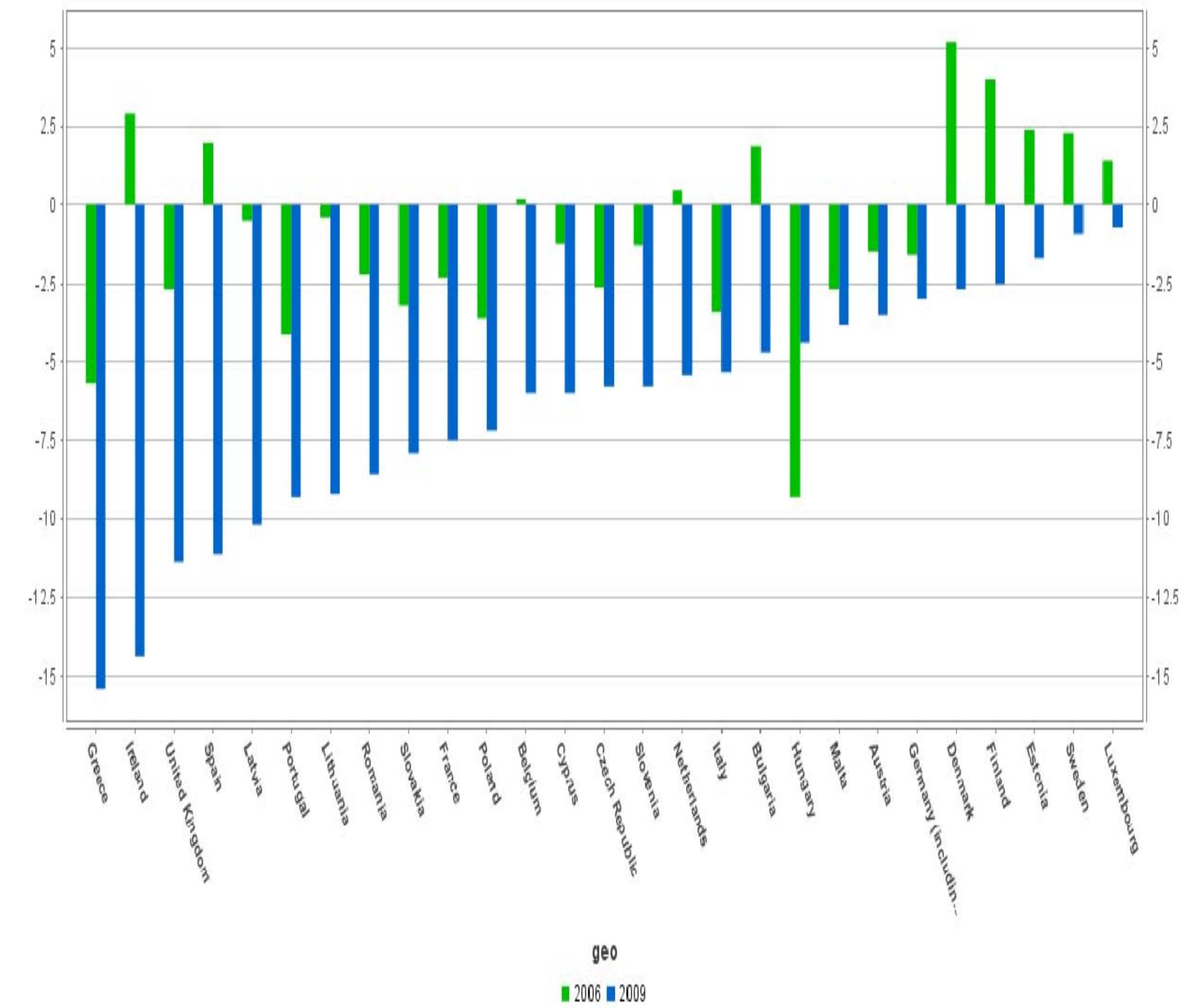
Lower growth rates, higher unemployment, higher national deficit and debt levels and the need for budget consolidation have made it harder for national systems to deliver on pensions

[34] MEMO/09/99 available at: http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/09/99

policies. The scale of fiscal deterioration (see graph below) following the crisis is equivalent to offsetting 20 years of fiscal consolidation, implying that fiscal constraints will be very strong in the next decade. In addition, variations in the ability of funded schemes to weather the crisis have demonstrated the need for a better regulation (e.g. risk mitigation strategies and better shock absorption)[35].

Figure 19. Fiscal position of Member States, 2006 and 2009.

Net borrowing/lending of consolidated general government sector as a percentage of GDP



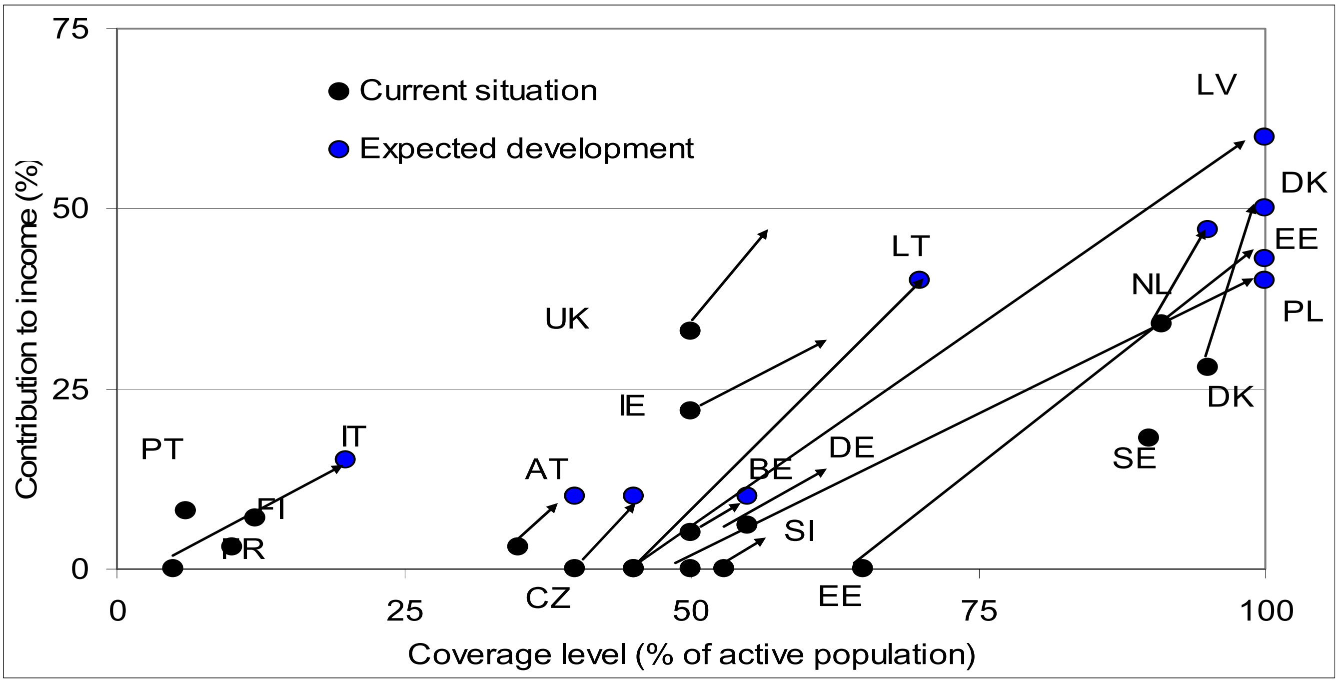
Source: Eurostat

[35] Conclusions from the 2010 EPC-SPC Joint Report on Pensions.

Impact of crisis on prefunded pensions

When the SPC adopted its report on private pensions in April 2008 the increased importance of pre-funded schemes in the overall pension package envisaged by Member States was illustrated in the figure below. It depicts the trajectories in coverage and share of pensioner income which prefunded schemes were expected to take in various Member States until 2050.

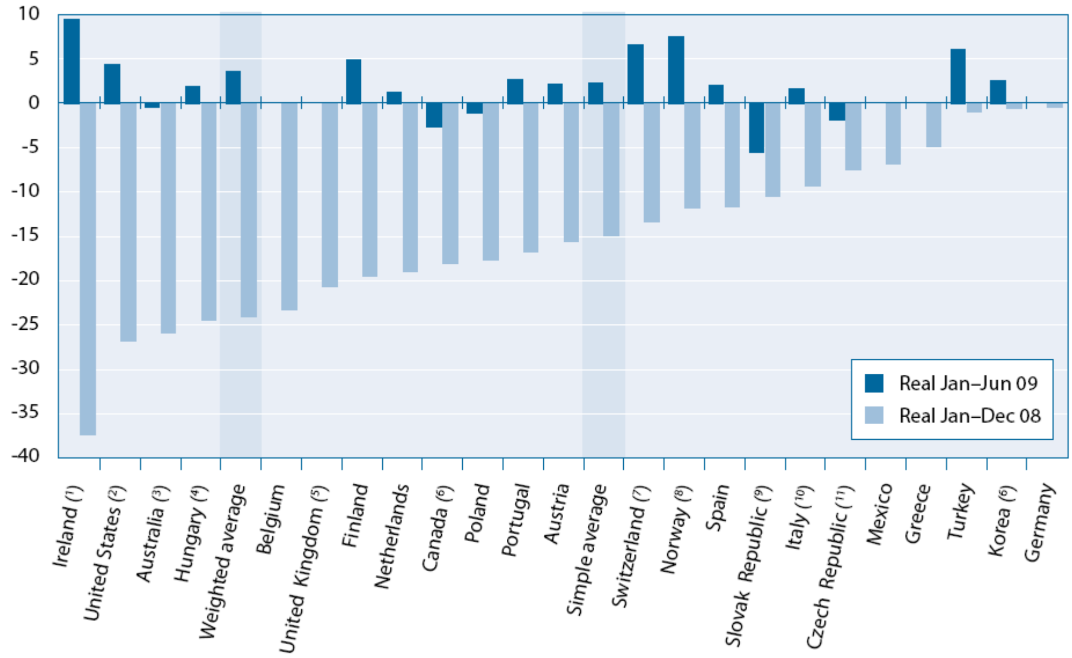
Figure 17



Source: EC, "Private pension schemes. Their role in adequate and sustainable pensions", December 2009

Yet, with the sudden onset in the early autumn of 2008 of a financial crisis of unprecedented scope and the subsequent deep economic downturn funded pension schemes have suffered a major reduction in the book value of their assets from which they still have to recover. As illustrated in the OECD figure below pension funds across Europe had by November 2008 already experienced a negative real return on their investments in the magnitude of 15% to 35%. By 2009 several funds had recovered most of the losses while others were still lingering as not only the exposure to the crisis but also the ability to recover and absorb the shock differed a lot across Member States and among schemes.

Figure 17 Pension funds' real return on investment in selected OECD countries



(1) 'Jan–Jun 2009' investment rate of return is an OECD estimate.
(2) Estimate including IRAs.
(3) Data refer to APRA-regulated entities with more than four members and at least AU$50m in total assets. Return on assets is net earnings after tax divided by the average assets for the period.
(4) Data refer to mandatory pension funds. Nominal return data for voluntary pension funds are 4.63% (-10.67% for 2008).
(5) 'Jan–Dec 2008' investment rate of return is an OECD estimate.
(6) Data refer to the period January–March 2009.
(7) Data refer to January–August 2009.
(8) Data relates to a selection consisting of the largest private and municipal pension funds, accounting for about 80% of aggregate total assets.
(9) Data refer to the second pillar pension funds. Nominal return data for third pillar pension funds are -0.16% (-1.93% for 2008).
(10) Data refer to contractual pension funds. Nominal return data for open pension funds are 3.0% (-14.0% for 2008).
(11) Estimated data. The net return for investors equals 0.34 % for 2008, after extra funding by the fund managers.

Source: OECD Global Pension Statistics and OECD estimates.

The subsequent steep economic downturn and rapidly rising unemployment has in several Member States made it impossible to sustain the hopeful expectations that rapid growth would allow active wage earners to quickly build-up extra funded pensions for themselves at the same time as they financed pensions for their parents and grandparents.

Indeed a number of the more ambitious countries have had to revisit their plans and temporarily shift part of the contribution for the funded scheme back to the financing of the pay-as-you-go scheme and thus extend the timeframe for the build-up of pension funds.This was particularly the case in Member States that had established so-called mandatory private pensions.

In the table and box below we have summarised key traits of the prefunded schemes in the Central – an East-European Member States established since the late 1990's as well as the scaling back of schemes that happened as effect of the crisis.

Table 2 **Mandatory funded pension schemes in selected EU Member States**

Country	% wage to funded scheme	Year funded scheme started	Participation in funded scheme	Year funded participants retire	Effects of the crisis on contribution rates
Bulgaria	5%	2002	Mandatory <42	Full cohorts in **2023**	
Estonia	6%	2002	Voluntary	Partial cohorts by **2012**	Contributions suspended temporarily in 2009-2010
Hungary	(8%)	1998	Mandatory for new entrants; voluntary for all others	Partial cohorts by **2013**; full cohorts by **2045**	Nationalisation of the scheme in 2011
Latvia	2% increasing to 6%	2001	Mandatory <30, voluntary 30-49	Partial cohorts by **2013**; full cohorts by **2033**	Scheduled increase to reach 10% in 2011 was blocked in 2009. The contribution reduced to 2%, will increase to 6% from 2013
Lithuania	2%	2004	Voluntary	Partial cohorts by **2014**	From 2009 the contribution temporarily reduced from 5.5% to 2% of gross wage
Poland	2.3%, increasing to 3.5%	1999	Mandatory <30; voluntary 30-50	Partial cohorts of women by **2009** and men by **2014**; full cohorts of women by **2029** and men by **2034**	Contribution reduced from 7.3% to 2.3% of the wage (will be gradually increased to reach 3.5% in 2017 and thereafter)
Romania	2.5%, increasing to 6%	2008	Mandatory <35; voluntary 36-45	Partial cohorts of women by **2023** and men by **2028**; full cohorts of women by **2033** and men by **2038**	Scheduled increase has been temporarily blocked at 2% and then restarted in 2010
Slovak Republic	9%	2005	Voluntary for all (from 2008/2009)	Partial cohorts by **2020**	

Sources: EPC-SPC report on pensions, World Bank "The Financial Crisis and Mandatory Pension Systems in Developing Countries
http://siteresources.worldbank.org/INTPENSIONS/Resources/395443-1121194657824/PRPNote-Financial_Crisis_12-10-2008.pdf

Box 1: Crisis responses affecting mandatory funded pension schemes

In **Estonia,** all compulsory contributions to the DC scheme have been cancelled from 1 June 2009 until 31 December 2010. Scheme members have been allowed to restart their contributions on a voluntary basis in 2010. The contributions have been partially resumed in 2011 (with a 2% state and 1% member share) and will reach their original level only in 2012 (4% plus 2%).

In **Lithuania**, social insurance contributions to the DC pension schemes have been reduced temporarily from 5.5% to 2%. They are scheduled to be increased again to 6% after 2012 over a minimum of 3 years.

In **Latvia,** parts of the contributions to the mandatory funded DC scheme have been diverted back into the PAYG NDC scheme. Contribution rates to the funded pillar are being reduced: in 2009 from 8% to 2%; in 2010 from 9% to 2%; in 2011 from 10% to 2%; in 2013 and subsequent years from 10% to 6%.

In **Romania,** the government has suspended legal provisions that would have seen contributions to the mandatory DC scheme rise from 2% to 2.5% of employees' gross salary in 2009. The scheduled increase has been restarted in 2010, so that ultimately the contribution rate would reach 6% of wage some time in the future.

Slovakia has allowed workers to opt out of the funded scheme and return to the PAYG scheme in 2008, and the DC scheme has become optional for all new entrants to the labour market.

In **Poland,** the contribution to the DC scheme has been reduced from 7.3% to 2.3% of gross wages in 2011. The difference has been diverted to the PAYG scheme. The contribution will be gradually increased to reach 3.5% in 2017 and thereafter.

Hungary has nationalised the funded scheme in 2011 (and included the assets in the national budget). Contributors who decided to keep their assets in the funded scheme and continue contributions will be penalised with a lower benefit in the mandatory PAYG scheme.

Increased cross-border mobility

The 2010 Demography Report *Older, more numerous and diverse Europeans*, Commission Staff Working Document, March 2011 pointed out that, *[a]s the flows of migration from non-EU countries and mobility between Member States have intensified, a growing proportion of the working-age population (15% in 2008) was either born abroad or has at least one parent who was born abroad.* The number of EU27 citizens migrating to a Member State other than their own country of citizenship increased on average by 12% per year during the period of 2002-2008[36]. In January 2009, 11.9 million (2%) EU nationals were citizens of another Member States than their country of residence. About one million cross-border workers within the EU reside in one EU Member State and work in another. Furthermore, a Eurobarometer survey carried out for the Demography Report revealed that around one in five EU citizens has either worked or studied in another country at some point, lived with a partner from another country or owns a property abroad. These people, who tend to be younger than the general population, show a much greater propensity to move abroad, up to four times greater than those who do not have such connections with another country. Thus, more and more Europeans will have different options when it comes to choosing a place of residence, social protection may well play a part in such choices.

Diversity in situations across Member States

In conclusion, the analysis above has highlighted the **high diversity of current and projected situations across countries and therefore the diversity of their pension challenges**: Member States show different current or projected demographic challenges, sustainability challenges, adequacy outcomes and employment situations.

[36] Demography Report 2010, p.43.

Annex 6: Recent pension reforms in EU Member States

Bulgaria*

Since October 1, 2008 all old-age pensions, assigned before December 31, 2007, were recalculated, using a different base which is now the 2007 average insurance income (EUR 203.6). The recalculation was made to unify pension-determining parameters (individual coefficient and length of service), and to overcome their different size.

As of 1 January 2009 the insurance contribution rate to the State Social Insurance Pensions Fund was reduced from 22% to 18%. The contribution rate of the employers was set at 10% and that of the employees - at 8%. In addition to the employers and employees, the state entered as a third party providing 12% of the overall amount of the annual contributions to the State Social Insurance Pensions Fund.

Following the change in the insurance contribution rate the total social security burden was reduced by 2.4pps for employers, while for employees it remained at the same level. Not taking into account the health insurance contribution, the social security burden dropped by 3.6pps for employers and by 0.8pps for employees.

As of January 1, 2009 the minimum pensions were increased by 10.0%.

The old-age pensions were raised as of April 1, 2009 by increasing the weight of each insurance year in the pension formula from 1 to 1.1. In addition starting from 1 April, the maximum pension amount (excluding bonuses thereto) was increased to EUR 357.9, from EUR 250.5.

As of July 1, 2009 pensions were updated by 9.0% following the so called Swiss rule.

Several legislative amendments were adopted and will be gradually implemented between 2011 and 2016.

* Changes have been incorporated in the Law on the Budget of the State Social Security for 2009 (SG N 109/23.12.2008) and the amendments in the Code of social insurance (SG.N 42/05.06.2009).

Estonia

The main policy measures implemented during 2009-2011 were ad hoc changes in the indexation rule of pensions in 2009, which smoothed the value of nominal pensions; a temporary suspension of the transfers to the funded pension system in the second half of 2009 and in 2010 and its compensation mechanism in 2014-2017; and an increase of the pension age to 65 for the period 2017-2026. In the compulsory funded pension scheme, the crisis has resulted in stricter control and clearer rules over the management of the private pension funds and more flexibility for employees and employers.

Ireland

In March 2010 the Irish government published the National Pensions Framework which sets out the Government's intentions for reform of the pension system in Ireland. The main provisions are:

- Mandatory social welfare pension provision will continue and the government will seek to maintain the level of the state pension at 35% of average weekly earnings, to increase the age when the state pension can be received to 66 in 2014, 67 in 2021, and 68 in 2028, and to allow for the postponement of the receipt of the state pension beyond these years,

- to adopt a more progressive pension tax relief of 33% with lower earners receiving more tax credits than they have to date with higher earners receiving less, although many will have more choice in how they draw down their pension,

- to introduce mandatory pension provision for employees (auto-enrolment with a possibility to opt-out) not already in an occupational pension together with mandatory employer contributions from those employers not already providing an employee pension scheme.

- a new single public service pension scheme will be introduced for new entrants into public service in 2010. The main provisions of this scheme will include a new minimum retirement age of 66 years which will be linked henceforth to the State pension age, a maximum retirement age of 70 and a pension based on career average' earnings.

Greece

The 2010 pension reform manifests change from a highly fragmented, Bismarckian social insurance system (based primarily on the fist pillar), to a unified, multi-tier system that distinguishes between a basic (quasi-universal) non-contributory and a contributory pension. Furthermore, replacement rates are drastically reduced; pensionable income is redefined on the basis of total career earnings; stricter conditions are introduced for early and regular retirement; measures are taken for equalising men and women's retirement conditions (in a phased-in way); and provisions are made for linking longevity to retirement age (from 2021 onwards).

Spain

The pension reform adopted in 2011 foresees an increase in the pensionable age from 65 to 67 between 2013 and 2027, increase in the contribution period required for a full pension benefit from 35 to 37, increase in the contribution period required for retirement at 65 to 38.5 years. Benefits will be calculated over the whole career. The schemes for agricultural and domestic workers will be integrated into the general pension scheme.

France

A reform of statutory pension schemes has been passed in the French Parliament, in November 2010. The most publicised outcome of the reform is the gradual increase of the statutory retirement age from 60 to 62 years by 2018. The reform includes a series of other measures such as a gradual harmonisation of contribution rates between the public- and private-sector schemes or the creation of a right to early retirement (from age 60) for workers with a partial incapacity to work. Some technical changes have also been introduced to promote the development of funded pension schemes.

Italy

Article 12 of the law no. 122/2010, which has converted with amendments and integrations law decree 78/2010, foresees the following three interventions to the public pension system:

a) **Revision of "exit windows" mechanism (Paragraphs 1-6)**. The exit window mechanism, which postpones pension entitlements with respect to the fulfillment of minimum age and/or contribution requirements, has been strengthened, starting from those qualifying for a pension after 1[rs] January 2011. Such postponement is now 1 year for employees and 1 year and half for the self-employed and concerns both early (including the 40-year channel) and old age pensions. Moreover, art. 10 of the law decree 78/2010 establishes a restriction of the delivering criteria for disability pensions, by a percentage increase of disability incidence from presently 70% to 85 %.

b) **Indexation of retirement age to changes in life expectancy (Paragraph 12-bis/12-quinquies)**. On the basis of what already stated by law 102/2009, an indexation mechanism has been foreseen, linking the age retirement prerequisites to changes in life expectancy at 65, as measured by the National Statistical Office over the preceding three-year period. Such a mechanism applies to both early and old age pensions and to old age allowances (assegno sociale) and is foreseen to be first applied in 2015, when the gradual increase of age requirements to retire, stated by the previous legislation, is fully phased-in. As regards the first application, the increase of the retirement age cannot exceed three months. The subsequent updates are foreseen in 2019 and then every three years, so as to align this mechanism to the revision of the transformation coefficients used to calculate the amount of pension according to the contribution-based method .

c) **Increase of the statutory retirement age of women in the public sector (Paragraph 12-sexies).** In the public sector, the statutory retirement age of women (60, in 2009) has been equalized to that of men (currently 65) starting from 2012, instead of 2018 as previously foreseen by law 102/2009. Such intervention has been adopted to comply with the sentence of the European Court of Justice recommending the removal of any gender difference in the retirement age in the public sector.

Cyprus

Within the context of combating the effects of demographic ageing on the Social Insurance Scheme, the Government has adopted measures to safeguard the long-term financial sustainability of the Social Security Scheme at least until 2048. Social Insurance legislation has been amended as of 1 April, 2009 (Amendment Law 22(I)/09), with measures aiming at increase in the revenue and containment of the expenditure of the Social Insurance Fund.

1. Revenue side

- Gradual increase in contribution rate – 1.3p.p. every 5 years: from 1.4.2009 (1st increase) until 1.1.2039 (final increase)

2. Expenditure side

- Increase in the number of years of contribution required for eligibility to old-age pension – 10 years paid contributions, instead of 3
- Increase in the number of years of contribution required for eligibility to the old-age lump sum – 6 years paid contributions, instead of 3
- Maximum limit on the number of education/ training credits granted - 6 years, instead of unlimited number of years
- Abolition of the right, as of January 2010, to receive unemployment benefit for all those insured persons who take early or normal retirement, and are eligible for pension benefits from a non-contributory occupational pension plan.

The amending legislation also provides for on-going monitoring of the long-term financial position of the Social Insurance Fund. Every three years the Ministry of Labour and Social Insurance should present to the Parliament an actuarial valuation of the system. Based on the actuarial valuation additional measures to secure long-term viability of SIF may be submitted if needed.

In addition to the measures above the Government aims at improving the investment returns of the reserve of the Social Insurance Fund by introducing a new investment framework and policy which will be based on internationally accepted governance and investment process standards and best practices.

Latvia

Since July 2008, the Latvian authorities have introduced the following policy changes:

- The amount of early retirement pension is 50% from calculated pension (till 30 June, 2009 it was 80%).
- From 2011 - CPI based indexation (before: indexation was depending on individual pension amount – low-amount pensions were indexed on April 1, considering an actual consumer price index and on October 1, considering an actual consumer price index and 50 per cent of real growth of contribution wage sum; medium-amount pensions were indexed annually on October 1, considering an actual consumer price index; high-amount pensions were not indexed) and indexation is frozen in 2009 and 2010.
- Reduction of contribution rates to 2nd tier: 2009- from 8% to 2%; 2010 -2%; 2011 -4%; 2012 and for all next years -6% (before: 2009 -8%; 2010 -9%; 2011 and for all next years -10%).

Hungary

The 2009 reform had three strands:

1) Increase in the statutory retirement age from 62 to 65 between 2014 and 2022 (increase by 6 months for every cohort, those born in 1952 should retire at the age 62.5, born in 1953 at 63 etc.). The advanced retirement age also increases gradually form 60 to 63.

2) Less generous indexation of pensions dependent on real GDP growth, as of 2010

	share of component in index	
real GDP growth	consumer prices	nominal wages
<3.0	100	0
3.0-3.9	80	20
4.0-4.9	60	40
5.0<	50	50

The earlier used Swiss indexation formula will be applied only if the real GDP growth exceeds 5.0%.

3) Abolition of 13th month pension from second half of 2009 and introduction of pension premium.

13th pension has been phased in between 2004 and 2006, then capped at HUF 80,000 (average pension benefit) in 2008, and cancelled from second half of 2009 (so first of two instalments has been paid)

Pension premium will be provided if the real GDP growth is higher than 3.5%. The amount of pension premium gradually increases according to the size of GDP growth. If the GDP growth is 7.5% or more, this amount is equal to the earlier 13th month pension, but the premium is also capped at HUF 80,000.

In consequence of these reforms future sustainability will be improved and gross social security pension expenditure will reach 10.5% of GDP in 2060 instead of 13.8% projected in the Ageing Report 2009.

Poland

Bridging pensions have been implemented from 2009, which replaces early retirement provision for some categories of workers. This is temporary solution for workers, whose started work in special conditions before 1999.

Portugal

Within the scope of the 2006 Agreement on the Social Security Reform, the new legislation on the financing (contributive) system of the Social Security General Regime was published in September 2009 (Law no.

110/2009 of 16 September) and discussed in National Parliament but postponed in implementation to 2011 due to the current economic crisis. The main elements of the new contributive code, impacting on the financial sustainability of the social security system, through the expected increase in revenue, are the following.

i) In relation to wage earners:

Enlargement of the contributive base to fringe benefits previously not considered (travel expenses, participation in enterprise profits,…) in a progressive way (33% in 2011, 66% in 2012 and 100% from 2013 on);

Differentiation of the employers' contribution rate (23.75%) according to the labour contract type by decreasing 1 percentage points (p.p.) in the case of permanent contracts and increasing it 3 p.p. for temporary contracts;

Incentives to postpone retirement by reducing further the contributory rate for those who are eligible to a full pension (the reduction applies to employer and employee).

ii) Concerning self-employees:

Entities that contract self-employees' services have to contribute to Social Security, with the contribution base being 70% of the service paid. The contribution rate is 2.5% in 2011 and 5% from 2012 on;

Employees contributive base is now determined by the Social Security services taken into account tax declared earnings and it is foreseen a progressive (yearly) adjustment of the contributive base;

Employees contributive rate is now harmonised (29.6% over 20% of the sales amount or 24.6% over 70% of the value of services provided).

iii) For all workers:

Harmonization of the contribution rates according to the risks covered, reducing the number of special regimes.

Romania

A pension reform was adopted in December 2011. The reform integrates special regimes in the social insurance one, introduces a mechanism for recalculating the special pensions, and increases the retirement age to 65 years for men and 63 years for women by 2030. Early retirement is more strictly regulated, while disability pensions are granted under more severe conditions. The reforms are expected to bring important savings to the system and to reduce the number of beneficiaries.

Slovakia

- Opening of the second pillar in 2009:

For the second time, from 15 November 2008 to 30 June 2009, all pension savers were again (as in the year 2008) given the chance to leave the 2nd pillar while, at the same time, those individuals who have not entered yet were allowed to join in. During this period 66 thousand people left the 2nd pillar and 14.6 thousand people joined the 2nd pillar. Because of this measure, the number of savers in the 2nd pillar declined by 3.5%.

Annex 7: The Commission's Country Specific Recommendations (2011) on reforms of pension systems

Country	Recommendation
AT	CSR 3- In consultation with the social partners and according to national practices, take steps to further limit access to the current early retirement scheme for people with long insurance periods and take steps to reduce the transition period for harmonisation of the statutory retirement age between men and women to ensure the sustainability and adequacy of the pension system. Apply strictly the conditions for access to the invalidity pension scheme.
BE	CSR 2- Take steps to improve the long-term sustainability of public finances. In line with the framework of the three-pronged EU strategy, the focus should be put on curbing age-related expenditure, notably by preventing early exit from the labour market in order to markedly increase the effective retirement age. Measures such as linking the statutory retirement age to life expectancy could be considered.
BG	CSR 3- Implement the agreed steps with social partners under the current pension reform, advance some of its key measures that would help to increase the effective retirement age and reduce early exit, such as through the gradual increase of the social insurance length of service, and strengthen policies to help older workers to stay longer in employment.
CY	CSR 3 - Improve the long-term sustainability of public finances by implementing reform measures to control pension and healthcare expenditure in order to curb the projected increase in age-related expenditure. For pensions, extend years of contribution, link retirement age with life expectancy or adopt other measures with an equivalent budgetary effect, while taking care to address the high at-risk-of-poverty rate for the elderly. For healthcare, take further steps to accelerate implementation of the national health insurance system.
CZ	CSR 2- Implement the planned pension reform in order to improve the long-term sustainability of public finances and to ensure the future adequacy of pensions. Additional efforts should focus on further changes to the public pillar to ensure that the system is not a source of fiscal imbalances in the future, and on the development of private savings. With a view to raising the effective retirement age, measures such as a link between the statutory retirement age and life expectancy could be considered. Ensure that the envisaged funded scheme attracts broad participation, and is designed to keep administrative costs transparent and low.
DK	CSR 2- In order to strengthen employment and the sustainability of public finances, take further steps to increase long-term labour supply, by implementing the recently concluded reform on the voluntary early retirement pension (VERP) scheme, reforming the disability pension and better targeting subsidised employment schemes (the "flex-job" system) towards the most vulnerable groups.
ES	CSR 2- Adopt the proposed pension reform to extend the statutory retirement age and increase the number of working years for the calculation of pensions as planned; regularly review pension parameters in line with changes to life expectancy, as planned, and develop further measures to improve lifelong learning for older workers.
FI	CSR 4- Take measures to improve the employability of older workers and their participation in lifelong learning. Take further steps, in consultation with social partners and in accordance with national practices, to encourage older workers to stay in the labour market, by measures to reduce early exit and increase the effective retirement age. In view of the already existing system of linking pension benefits to life expectancy, consider a link between the statutory retirement age and life expectancy.
FR	CSR 1- Ensure the recommended average annual fiscal effort of more than 1 % of GDP over the period 2010-2013 and implement the correction of the excessive deficit by 2013, in line with the Council recommendations under the EDP, thus bringing the high public debt ratio on a downward path, and ensure adequate progress to the medium-term objective thereafter; specify the necessary corresponding measures for 2012 onwards, take additional measures if needed and use any windfall revenues to accelerate the deficit and debt reduction as planned; continue to review the sustainability of the pension system and take additional measures if needed.
LT	CSR 2- Adopt the proposed implementing legislation on Pension System Reform. In order to enhance participation in the labour market, remove fiscal disincentives to work, especially for people at pensionable age.
LU	CSR 2- Propose and implement a broad pension reform to ensure the long-term sustainability of the pension system, starting with measures that will increase the participation rate of older workers, in particular by discouraging early retirement. With a view to raising the effective retirement age,

	measures such as a link between the statutory retirement age and life expectancy, could be considered.
MT	CSR 2- Take action to ensure the sustainability of the pension system such as by accelerating the progressive increase in the retirement age and by linking it to life expectancy. Accompany the higher statutory retirement age with a comprehensive active ageing strategy, discourage the use of early retirement schemes and encourage private pension savings.
NL	CSR 2- Take measures to increase the statutory retirement age by linking it to life expectancy, and underpin these measures with others to raise the effective retirement age and to improve the long-term sustainability of public finances. Prepare a blueprint for reforming long-term care in view of an ageing population.
PL	CSR 3- Raise as planned the statutory retirement age for uniformed services, continue steps to increase the effective retirement age, such as linking it to life expectancy. Establish a timetable to further improve the rules for farmers' contributions to the social security fund (KRUS) to better reflect individual incomes.
SI	CSR 2- Take the required steps to ensure the long-term sustainability of the pension system, while preserving the adequacy of pensions. Increase the employment rate of older workers through later retirement, and by further developing active labour market policies and lifelong learning measures.
SK	CSR 3- Enhance the long-term sustainability of public finances by further adjusting the pay-as-you-go pillar of the pension system also by changing the indexation mechanism and implement further measures with a view to raising the effective retirement age, in particular by linking the pensionable age to life expectancy. Introduce incentives to ensure the viability of the fully-funded pension pillar so as to progress towards fiscal sustainability while assuring adequate pensions.

Sixteen out of 22 Member States[37] received a Country Specific Recommendation related to the reform of their pension system. Out of this 12 countries were requested to increase the effective retirement age, nine to increase the statutory retirement age or link it to life expectancy, eight to reform the system in view of improving long-term sustainability of public finances, three to reform special pension schemes, two to develop supplementary private pension savings, and one to harmonise the pensionable age between men and women.

The challenge of improving current adequacy of pensions has been raised in the case of Cyprus, even if at least three other Member States record similar or worse adequacy problems (measured with the commonly agreed indicators). The Czech Republic, Austria, and Slovenia have been asked to ensure adequacy of pensions in the future. A quick look at projected adequacy developments measured by changes in future benefit ratio and theoretical replacement rates shows that it is at least as urgent to monitor future adequacy of pensions in at least five or six other Member States.

[37] EL, IE, LV, RO & PT were not given specific CSRs by the European Commission as they have "Memorandum of Understandings" as part of their "bail-out" conditions.

ANNNEX 8: Argumentaire for the three Commission Recommendations in option IIa

***GENDER EQUALITY IN PENSIONS*:**

A Commission recommendation on equality for women and men in pension systems addressing gender differences in pensionable ages and in pension adequacy will be presented by early 2013.

The issue and present practices

There are major gender dimensions in the obstacles to achieving a better balance between years in work and in retirement and problems here tend to accentuate the gender adequacy gap in pensions. Employment rates for workers aged 55-64 and average exit ages are substantially lower for women than for men across EU 27. But in some Member States differences in activity and employment rates at higher working ages are much larger than in others. To a great extent these extra differences reflect lower pensionable ages for women in social security pension schemes.

Currently 14 M/S's (BE, DK, DE, IE, ES, FR, CY, LV, LU, HE, NL, PT, FI and SE) have equal statutory social security pension ages for men and women but 13 M/S's (EE, MT, UK, CZ, EL, LT, SK, AT, BG, IT, PL, RO, and SI) still set a lower age for women than for men. By 2020 3 further M/S's are expected to have equalised pension ages (EE, MT and UK), leaving 10 unequal (CZ, EL, LT, SK, AT, BG, IT, PL, RO, and SI). Of these 10, five have plans to equalise (CZ, EL, LT, SK and AT - although often over a very long period eg AT where this will commence only in 2024 and not be finally complete until 2033) and five (BG, IT, PL, RO, and SI) have no current plans to equalise or equalisation is not certain (June 2011).

Growing disparities between historical legacies and modern needs

Lower pension ages for women have their historical rationale in earlier gender roles. In periods when men tended to marry women that were somewhat younger than themselves and where women tended to work more as homemakers than in the formal economy lower pensionable ages for women allowed couples to take up pension at around the same time. Moreover, pension for married women in many countries were generated as rights derived from the entitlements build by their husbands. Importantly the bearing and raising of children and the meno-pause were perceived as taking its toll on women and leading them to be worn down at an earlier age.

In modern societies where women work in the formal sector and entitlements in pension schemes tend to be closely tied to contributory (i.e. de facto work) records lower pension ages are not necessarily to the benefit of or in the interest of most women. Though in some countries where there is a general lack of formal child-minding capacities lower pension ages for women may continue to be somewhat attractive in as much as it allows them to look after their grand-children while the parents are at work and care for dependent relatives.

Different EU gender equality rules for social security and occupational pensions

In occupational pension schemes EU law imply that pension ages have to be the same for men and women. This is because these pensions are considered to be deferred pay and come under the provisions of equal pay for women and men enshrined in Article 157 of the TFEU. The Commission has brought and won cases at the ECJ in November 2008 and March 2009 to enforce this.

However, when it comes to statutory social security pension schemes, Directive 79/7/EEC of 19 December 1978 on the progressive implementation of the principle of equal treatment for men and women in matters of social security explicitly excludes from its scope pension ages in social security schemes.

It is clearly inconsistent to prevent discrimination in pension ages by gender in one type of pension, whilst allowing it in another.

The negative impacts of lower pension ages for women on public budget and economic growth

Since women on average live about 3 years longer than men after age 65, a lower pensionable age for women greatly accentuates the imbalances between years spent in work and in retirement. If the difference amounts to 5 years – as often is the case – and women on average live 15 years after the pensionable age for men, it makes pension expenditure for women 25% more expensive than it would be with equal pension ages. In a situation with an urgent need to find ways to consolidate public budgets equalising pension ages present itself as an attractive option. It would allow significant long-term savings while substantially adding to GDP and bringing in extra tax-revenue from women working 5 years more.

The disadvantages for women of lower pension ages

Where women work in the formal sector and contributory pension schemes predominate lower pensionable ages for women have several negative consequences for themselves.

These earlier pensionable ages in social security schemes are translated into lower mandatory retirement ages in labour law or collective agreements and expectations about earlier exit which cause women to retire earlier irrespective of whether they would prefer to continue to the same ages as men. Moreover, lower pension ages are likely to impact negatively on the relative labour market position and remuneration of women and on their access to training and upgrading as they age thus eroding their employability.

This in turn means women have less time to build up pension rights or other savings and are then reliant on these (often smaller) pensions from a younger age. Add in the greater longevity of women and these pensions (as well as other resources) have to cover a much longer retirement than for men. Over these long retirements, declining pensions (where they are uprated by less than wages) and depletion of other resources can mean women fall into poverty, especially as labour market effects typically mean women have lower pensions than men to begin with. Having 5 years less in which to build pension entitlements and on average

8 years more where they have to rely on pensions[38] can play a role in the higher poverty rates suffered by women pensioners, in particular the oldest segments. Aligning pension eligibility ages of women with those of men would afford more time to women for accruing pension rights while reducing the time they have to draw on these and thus greatly improve the adequacy of their pension benefits.

Obviously there are several other factors contributing to adequacy gaps in pensions for women such as the gender pay gap, the gender activity and employment gaps (women working less and often only part-time), career breaks related to child bearing and child rearing and other caring duties, gender gaps in pension coverage (in particular in 2nd and 3rd pillar schemes), inadequate reconciliation of work and family life, insufficient sharing of pension entitlements between spouses in case of divorce etc. Initiatives seeking to raise gender equality in pensions would therefore have to locate the question of gender equalisation of pension ages in this context.

Commission initiative to help rise gender equality in employment rates, effective retirement ages and pension adequacy

If pensions are to sufficiently underpin European employment objectives of more women working more and longer and thereby affording women the same opportunities for building entitlements in schemes based on earnings-related contributions, pensionable ages for women will need to be equalised with those for men. Therefore the Commission is suggesting an initiative to that end.

It would be open to the Commission to propose a revision of Directive 79/7/EEC to outlaw such gender discrimination in social security pension ages. But most Member States have already equalised pension ages, or have plans to do so and a revision of the Directive could be rather controversial.

More critically, such an approach would do little to address the many other well known issues of gender related inequalities in pensions, largely stemming from the labour market. Thus, women tend to predominate among those with atypical contracts and possibly less than full pension coverage. They are also very likely to earn less than men and to need career breaks for caring responsibilities more often than men. Also for these reasons women's pension entitlements will tend to be lower.

A Commission recommendation on gender equality in pensions would be a suitable functional alternative to legislation and broader in scope. By using the Commission's right of initiative in an area of economic and social importance without seeking to change competences it would be both proportionate and respect subsidiarity. Importantly, the recommendation could also address wider problems of gender inequality in access to and levels of pension benefits as also called for in the Green Paper consultation responses from the EP and other stakeholders.

The recommendation would raise awareness and engage Member States in setting out their position. It would use the persuasive powers of peer pressure to motivate Member States with gender gaps in adequacy, coverage or pensionable ages to take steps to address problems and

[38] A few Member States on top of this also reward women that have many children by lowering their pension age by up to three years, which leave these women with 8 years less to build entitlements and 8 years more over which to stretch them.

inequities. It could help quantify the costs of such differences and thus deliver ammunition to coming rounds of country specific recommendations. Synergies between the various forms of policy coordination would increase and it could help prepare the ground for correcting measures and reforms.

Therefore a more rounded and proportionate approach on gender is to present a recommendation on equality for women and men in pension systems addressing differences in retirement ages as well as the pension adequacy gap between women and men. The latter could include issues such as entitlement via derived rights (pension supplements for spouses & survivors pensions) vs self-earned pension rights; credits for periods spent with caring responsibilities [including possible ways to address this in funded schemes]; and improved childcare provision and re-insertion mechanisms to enable women to return to work after having children. Issues such as the sharing of pension entitlements among spouses and splitting them in case of divorce could conceivably also be included. Naturally, equalisation of gender ages would have to be backed by targeted labour market measures to improve the employability of women aged 50+ and widen their job opportunities[39]. Often it will also require changes in gender specific age management in work places.

Full details would be developed during 2012 with the aim of presenting the recommendation in early 2013. The work would draw on a range of evidence, information and experience across the EU including stakeholder views given in the Green Paper and key reports relating to these issues.

REDUCING EARLY RETIREMENT:

The Commission will at the end of 2012 present a recommendation on restricting access to early retirement schemes and other early exit pathways and increasing measures to maintain workability and employability over the entire working career.

In the Annual Growth Survey 2011 the Commission called for measures to reduce early retirement. This echoed a long standing concern in policy coordination on employment, social protection and public budgets to which several Member States over the last decade have responded by restricting access to early exit pathways in various benefit schemes through tougher eligibility criteria, by creating incentives to continue working in the form of bonus/malus rules in benefit calculation or by phasing out early retirement options altogether. Yet, further restrictions may be needed and some Member States still need to take the first serious steps in this direction.

To a large extent early exit has its root causes in work place practices and labour market conditions. Therefore early retirement options have often been portrayed as the necessary policy response to the need for lower pension ages for those, who perform arduous, and those low skilled groups, who have worked in manual occupations since their late teens and in their fifties tend to meet the limits of their workability and employability.

Yet, in the medium to longer term such options are unlikely to be in the best interest of these groups and other workers. This is because early retirement options tend to remove key necessary pressures on the social partners to organise work life so that it is possible to

[39] For this see initiatives in chapter 2.2 .

maintain people’s workability and employability over a standard work career and because such options tend to concentrate labour shedding in connection with downsizing and restructuration on older workers.

Though policy makers in most cases have combined the introduction of early exit opportunities with greater efforts in health and safety at work, early retirement options have to a considerable degree amounted to allowing workers and employers to offload to social protection systems problems that should be solved in work places and labour markets. This runs against the principles which usually apply to work accident insurance and to pollution, namely that the perpetrator/ polluter have to bear or substantially share the cost in order to create sufficient incentives to invest in preventive precautions.

Arduous and stressful working conditions that lead to premature erosion of workability imply a false productivity that is very costly to individuals and society as it generates a need for early retirement or disability benefits. The same goes for the insufficient preservation of employability through continuous maintenance and upgrading of skills. Public policy has also contributed to this, because older workers, who have reached the age where early retirement was available, often have been denied access to active labour market measures on the same terms as prime-age workers. Such harmful practices must therefore be eliminated and the social partners are well-placed to take the lead in this with the help of public policies.

Obviously, for both blue and white collar workers early exit options have also been attractive for personal and family related reasons. In several Member States early retirement options have therefore also led to major deadweight problems in the sense of substantial extra costs because people who could have continued to work opted for early retirement.

In sum: early retirement options tend to undermine not just work incentives but basic incentives for the social partners and policy makers to organise work and labour market practices in a full working age perspective. If pension systems are to offer sufficient support for an organisation of work which allows for longer working lives early retirement must be aborted or at least restricted and made unattractive on an actuarial basis. Obviously, pension reforms to that effect must be combined with gender sensitive measures that encourage and enable women and men to continue working, including active labour market policies, stepped up health and safety, changes in age management practices and widened job opportunities. Moreover, the initiative would have to function in close synergy with the proposal for a new European strategy for Health and Safety at Work that would give more attention to barriers to and opportunities for healthy ageing at work.

The proposal for a Commission recommendation on restricting access to early retirement and measures to prevent premature labour market exit (including good mechanisms for re-insertion of older workers) would imply that the Commission develops its proposal in dialogue with the Employment and the Social Protection Committees. Such an initiative would raise awareness and knowledge about the necessity to avoid premature exits from the labour market including through faults in policy design which leave open too many early exit pathways or imply insufficient attention to life time preservation of workability and employability.

In as much as a Commission recommendation would make it necessary for Member States to set out and argue their policy lines in Council this could initially help Member States take the first steps in the right reform direction. Subsequently it could inspire and inform the reform efforts of Member States it this area. Obviously, it would be backed up through attention to its principles and messages in the European Semester instruments of the AGS and the CSRs and progressively it would be better reflected in the NRPs.

The particulars will be elaborated during 2012 with the goal of presenting the recommendation towards the end of 2012 or the beginning of 2013. The work will draw on a range of evidence, information and experience across the EU including key reports relating to these issues and stakeholder views given in the Green Paper.

ENDING MANDATORY RETIREMENT AGES:

The Commission will present a recommendation on abolishing mandatory retirement ages and addressing other barriers to working longer in early 2013.

Article 6(1) of the anti-discrimination Directive (2000/78/EC) allows differences in treatment on grounds of age, where "they are objectively and reasonably justified by a legitimate aim, including legitimate employment policy, labour market and vocational training objectives, and if the means of achieving that aim are appropriate and necessary."

This article is used to allow the setting of mandatory retirement[40] ages. It permits the compulsory retirement of workers simply because they have reached a set (and inevitably somewhat arbitrary) age, regardless of any consideration of their actual abilities and performance in their job.

It appears[41] that nearly all Member States currently allow the use of mandatory retirement ages, although at least one is moving to outlaw the practice. Outside of Europe a number of countries have abolished the use of mandatory retirement ages (including Australia, Canada, New Zealand and the United States) but it remains in use in others (e.g. Japan).

Allowing mandatory retirement ages is at odds with active ageing and longer working. There is a contradiction between continuing to allow fixed age related dismissal and efforts to raise pensionable ages, link them to longevity increases and increase effective retirement ages. Compulsory retirement is a blunt instrument that has behavioural impacts by setting retirement expectations for both employers and employees. It also has direct effects on individuals in terms of limiting the actual choices and opportunities for them to work longer. But it is not just a problem for individuals. Demographic ageing means Europe's working-age population is set to start shrinking from 2012. Given this, it also makes less and less sense for companies to automatically discard older and often highly experienced workers simply for the arbitrary reason of them reaching a fixed age, rather than directly considering productivity and efficiency.

[40] Indicates the age at which people are legally obligated to retire from work because their employment contract automatically ends as an effect of rules in labour law or collective agreements. To be distinguished from the *pensionable* age, which is the age where pensions normally become payable (though often the two ages are closely linked they are not identical), and from the *effective retirement* age, which is the average age at which people actually stop working and move away from earned income.

[41] Part of the work towards the recommendation would involve establishing precisely to what extent and how Member States allow the use of mandatory retirement ages under this article (and whether minimum ages are set in legislation or in collective agreements).

Ending the use of mandatory retirement ages would send a very strong signal to all stakeholders in work places and labour markets that age management practices need to change in order to enable and encourage people to continue working for some more years including beyond the pensionable age. The purpose of retirement in the functioning of work organisations could still be served through time limited end-of-career employment contracts, while possibilities for further employment would be decided on individual merits in terms of workability and employability.

It would be open to the Commission to propose an amendment to Directive (2000/78/EC) to prevent the use of mandatory retirement ages. However, such an approach may be narrow and disproportionate and therefore rather controversial and time consuming.

Hence a better option is to develop a thorough evidence based recommendation during 2012 for presentation in early 2013. This approach will enable a wider look at issues associated with longer working and the role of general retirement rules in the functioning of labour markets – including in dialogue with the social partners. It will also facilitate links to the other initiatives in this section and ideas coming from the European Year for Active Ageing 2012.

Full details would be developed during 2012 in collaboration with the relevant committees such the EMCO and the SPC with the aim of presenting the recommendation in the 1st quarter of 2013. The work will draw on a range of evidence, information and experience across the EU including stakeholder views given in the Green Paper and key reports relating to these issues.

ANNEX 9: BACKGROUND, SUBSTANCE AND MUTUAL SYNERGIES OF MEASURES

2 SUPPORTING MEMBER STATES IN ACHIEVING A BETTER BALANCE BETWEEN TIME SPENT IN WORK AND IN RETIREMENT

Achieving a better balance between working years and retirement years will require Member States to combine pension reform focussed on raising the age at which people take up a pension with work place and labour market measures to encourage and enable women and men to continue working to higher ages. This is about making pension systems supportive of longer working lives and getting employment practices to cater to later pensioning.

The first entails making sure that there are strong work incentives in access to pension entitlements and that they are effective over the entire work career. This can be secured by linking pension coverage to employment/formal work so that all declared work leads to coverage and by making pension right accruals identical with earning-related contributory record over the whole career (e.g. benefit calculation based on career-average earnings). It also involves raising the pensionable age to make up for earlier longevity growth and establishing mechanisms for raising pensionable ages in line with future increases in life expectancy[42].

Employment practices which facilitate longer working lives are largely identical to work place conditions and labour market measures which will enable people to maintain their work ability and employability over their entire working careers and support them in their efforts to live productive lives. Health & safety at work, career long access to training and updating, flexicurity arrangements, reconciliation of work and family life as well as sensible management and suitable remuneration of people of all working ages are crucial elements in such measures.

European support for pension reform contributing to more people working more and longer will be continued through policy coordination on social protection and public budgets. Work life policies that encourage and enable people to have longer and less broken working career will primarily be assisted through the employment process. Importantly these three strands of policy coordination have already has been brought together in the governance framework of Europe 2020.

2.1 Pension system reform

In the policy area of *pension system reform* the White Paper suggests a mutually reinforcing set of new and intensified initiatives that address issues of gender equality in pensions, reduce early retirement, assess the specific reform needs of Member States and promote pension reform in line with the 2011 Europe 2020 pension recommendations.

Gender equality in pensions:

[42] A number of Member States have instead linked the calculation of benefits to the growth in life expectancy after pension age. While this can add the same measure of stability to scheme finances it will over time have the unfortunate effect of lowering the value of pension benefits. Adjusting to growth in longevity by raising the pensionable age will avoid this.

A Commission recommendation on equality for women and men in pension systems addressing gender differences in pensionable ages and in pension adequacy will be presented by early 2013.

For details see Annex 8.

Reducing early retirement:

The Commission will at the end of 2012 present a recommendation on restricting access to early retirement schemes and other early exit pathways and increasing measures to maintain workability and employability over the entire working career.

For details see Annex 8.

Backing pension reform by recommendations and dissemination of best practise

Europe presents a very rich experience of efforts to create pension provisions that are both adequate and sustainable while also being safe. Nowhere else in the world is pension provision so well-established and quite so well-developed.

This has often been portrayed as part of the soft underbelly of the European social model which will have to be cut back under the pressures from population ageing and Globalisation. However, in a world where most countries are ageing - and emerging economies usually much faster than Europe - pension systems in EU Member States represent role models for the old age income provisions, which many of these countries hope to get in place before their populations become old.

Moreover, after the last decade of reforms Europe leads the world (not just in 'pension generosity threatened by population ageing', but very much also) in innovative ways to improve the present and future sustainability and safety of pensions while maintaining attention to adequacy. In fact some of the best pension systems in the world and some of the few that reasonably can meet the three key objectives of adequacy, sustainability and safety are found in EU countries. Both when it comes to pension systems with a significant element of private funded schemes and systems that are dominated by public pay-as-you-go, there are EU Member States that clearly can be counted among the best in the world.

Evidently, even as pensions in some Member States are state of the art in the world, Europe also holds several pension systems with considerable room for improvement. This is why there can be very significant added value from using the EU to facilitate the spread and application of best practices in European pensions. In this sense the methods of dissemination of good policy practice developed in the Open Method of Coordination are very important. Now they need to be stepped up while also backed by the Country Specific Recommendations and the methods of persuasion in the Europe 2020 governance framework.

Promoting pension reforms:

In the framework of Europe2020, the Commission will from 2011 intensify its support for pension reforms that improve the adequacy, sustainability and safety of pensions in Member States.

In particular the Commission will step up its promotion of pension reforms that improve both adequacy and sustainability through better support for longer working lives. Such reforms would typically aim at reducing access to early retirement, encouraging later pension take up (e.g. by help of bonus/malus rules in benefit calculation), connecting entitlements to contributions and linking benefit levels and/or pensionable ages to longevity growth. Reforms to be promoted would also focus on adequacy aspects including the need for pension schemes to cover all formal work including all types of employment and self-employment (and thus prevent contribution evasion including through false self-employment and short term atypical contracts); equal conditions for women and men; crediting of parental leave and other career breaks due to caring duties; as well as the quality of guarantee pensions and minimum income provision for older people In addition reforms would seek to bolster future adequacy through greater contributions from complementary retirement savings by raising their safety and cost-efficiency.

Assessing reform needs in pension and retirement policies:

Financial support from the PROGRESS programme will from 2012 be provided to Member States who want to review the need for reform of their pension and retirement policies particularly in the light of their country-specific recommendations.

The interaction between pensions and labour markets are complex and where funded pensions are a significant part of provision the overall matrix of pension delivery can be particularly intricate. Analysis can help identify what is wrong and where limited resources for reform can be of most value in a sequence of necessary changes. Getting an independent expert assessment can be helpful including by easing controversies over reform. The Commission therefore suggests redirecting PROGRESS funds to allow Member States to access expertise from other countries or international organisations (e.g. OECD led country reviews). Such support may be used to cover all aspects of pensions and retirement including for example how to design, scale and scope the build up of complementary private pensions so as to improve their sustainability and safety and raise their contribution to adequacy. Using PROGRESS to help interested Member States to employ well-merited international consultants to pinpoint the weaker aspects of their retirement practices and suggest ways to improve them can galvanize their own reform efforts. The idea is to tie the use of PROGRESS funds much closer to actual reform processes.

2.2 Work place and Labour market measures promoting people’s ability to stay longer on the labour market

In the policy area of initiatives aimed at *raising people's ability to stay longer in the labour market,* which is needed to underpin pension reforms, the White Paper suggests to secure and reinforce synergies between social protection and labour market reforms through a set of measures to end mandatory retirement ages, promote healthy ageing at work, use EU funds to enable older workers to work longer, adapt work places and labour market to longer working careers and develop opportunities for extended working lives including through end-of-career jobs. In view of the significant differences in employment rates for women and men aged 55-64 all initiatives will give particular attention to gender aspects of longer working lives.

Ending mandatory retirement ages:

The Commission will present a recommendation on abolishing mandatory retirement ages and addressing other barriers to working longer in early 2013.

See Annex 8

Promoting healthy ageing at work:

The Commission will in 2012 propose a new strategy for *health and safety at work* 2013-2020 in which special attention will be paid to healthy ageing at work and invite the European Agency for Safety and Health at Work to focus on working condition issues that prevent older workers from remaining longer on the labour market.

As pension reforms including the restriction of early retirement options provide better incentives to organise work with concern for career long preservation of work ability it will be crucial to reinforce this spur by stepping up efforts in health and safety at work measures to identify and mitigate aspects of working conditions and work practices that erode the physiological and psychological aspects of work ability.

In its proposal for a new strategy for health and safety at work covering the period from 2013 to 2020 the Commission will naturally seek to strengthen its ability contribute to achieving the employment targets in Europe 2020. Moreover, the strategy will give attention not just to risks and potential barriers to longer and less interrupted working lives but also seek to pinpoint the type of conditions that function as active facilitators and enablers of longer working lives. Importantly, the strategy will seek to present not just the societal macro case but also the SME business case for investing in good working conditions and better reconciliation between work and family life.

Enabling older workers to stay longer on the labour market:

The Commission will promote greater support from the *European Social Fund* for work place and labour market measures that enable older workers to work longer in the current and future programming period.

In the re-orientation of work place and labour market practices and of employment policies towards promotion of longer working lives economic support from EU funds can play an important role as catalyst. Given the underemployment of women 50+ and the particular problems related to training and re-insertion of women in this group the Commission working with Member States would give priority to activities that address these difficulties.

To open for greater support from the European Social Fund for work place and labour market measures that enable older workers to work longer Commission will facilitate the review of ESF Ops in the current programming period. For the next programming period 2013-2020, the Commission will encourage Member States to use their ESF programmes in line with reform needs identified in Europe2020.

This will include capacity building for public policy makers and the social partners as well as labour market measures directed at older workers.

Adapting work places and labour markets to longer working careers:

In the framework of *European Social Dialogue* the Commission will from 2012 call on the social partners to develop ways of adapting work place and labour market practices so as to facilitate longer working lives for women and men and ensure their work- and employability.

Work place and labour market practices which influence whether people are able and motivated to work longer are to a large extent determined by collective agreements between the social partners in the labour market. If the changes, which can lead to the longer work lives, are to come about, it will therefore be crucial for Member States to involve the social partners in policy efforts. While social dialogue at the national level provides the key arena social dialogue at EU level can contribute.

In the framework of European Social Dialogue the Commission will therefore in 2012 call on the social partners - and request Eurofound to provide advice and expertise - to develop ways of adapting work place and labour market systems for training, remuneration, work organisation and working time, as well as career management, notably for workers in strenuous jobs, so as to facilitate longer working lives for women and men and maintain the workability and employability of older workers.

Opportunities for extended working lives and end-of-career jobs:

In the framework of *Europe 2020* the Commission will from 2012 intensify its support for policy coordination and joint work on enabling and encouraging older workers to stay longer on the labour market including through the development of end-of-career jobs.

Population forecasts expect a rise in remaining life expectancy at 65 of up to 6 years (check) over the next 5 decades. As pension reforms link pensionable ages to the growth in longevity providing for longer working lives will become a permanent challenge for labour markets and employment policies.

A key question is which forms longer working lives will take. Most likely continuing in ones late sixties or even early seventies in the same job or type of employment which one had when one was 40 may only be possible for a minority of us. For many working time will have to be reduced. So part-time is likely to be one of the forms working longer will take. But to encourage and enable people to continue working they may also have to move to a new kind of jobs.

Looking to experience from the USA and Japan, what is likely to be needed is the development on a mass basis of various end-of-career job opportunities. The new labour market practises to emerge could be some where people end their primary career at some point in their sixties in order to begin secondary or tertiary work careers in some form of end-of-career jobs. To a limited extent jobs of this type will emerge through market forces. But if the rising demand for jobs at higher ages is to be satisfied policy makers will probably have to work very intentionally with public and private employers to get them to create such jobs as part of their personnel planning for the future.

The Commission will from 2012 intensify its support for policy coordination and joint work on enabling and encouraging older workers to stay longer on the labour market in the framework of Europe 2020, the European Employment Strategy and the Social OMC.

This will include promoting joint work by the SPC/EMCO/EPC on obstacles to, and opportunities for, extended working lives and the development of end-of-career labour markets across the Member States. This work will be further informed by research on the development of labour markets in our ageing societies generated under the research framework programmes.

3. Supporting Member States in enhancing the contribution to adequacy from complementary retirement savings

Rebalancing the time spent in work and retirement by more people working more and longer can secure the bulk of conditions we need to make adequate pension delivery sustainable. Yet, it will not be enough to secure benefit levels fully similar to those which citizens in many Member States have become accustomed to. While generating more resources by working longer, most people will also have to put away for the future a larger share of the means they otherwise would consume. If Europeans in the future are to secure pension benefit packages at recent replacement levels many of them will therefore need to supplement income from public pension entitlements with income based on complementary retirement savings.

Indeed, maintaining adequacy without overburdening public finances will for most Member States mean that they will need to complement public pay-as-you-go pension schemes with private pre-funded schemes. However, in many countries the crisis has demonstrated that the ability of pre-funded pension schemes to mitigate risks and absorb shocks are far from optimal. If the envisaged contribution to pension adequacy is to be delivered it will be important to enhance the safety and cost effectiveness of private pensions[43].

The recession and the subsequent deterioration of public budgets also revealed some fundamental weaknesses in the way several Member States had sought to build mandatory private pension schemes[44]. Most of these Member States have therefore had to scale back their ambitions and will now have to reconstruct private pensions and adjust the timeframe for and the scale of their contribution to future pension adequacy.

Given the great variance in how well pension funds in different Member States weathered the financial crisis it will be crucial to disseminate knowledge about best practise in the design, running, regulation and supervision of pre-funded private pension schemes. To remove

[43] For more information on the impacts of the financial and economic crisis on funded pension schemes see Memo/09/99 "The economic crisis and pensions in the EU" available at: http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/09/99

[44] Financing mandatory private pensions by simply shifting part of the social security taxes needed for current pensions into individualised accounts in private pension funds eroded the deficit and debt position of these countries and when economic growth slowed this practise became unsustainable. As social taxes forgone were not explicitly replaced by other taxes or gradually increased private pension contributions the double payment problem associated with the move from payg to funded was primarily tackled by taking on more public debt.

barriers to labour mobility it will also be necessary to improve the portability of occupational entitlements based on complementary retirement savings. Europe can add substantial value to national efforts in these areas both through improved regulation at European level and via better facilitation of access to state of the art knowledge in Member State with good practises.

In the policy area of *coverage and cost-effectiveness of complementary private pensions* the White Paper proposes initiatives to promote cost-effective supplementary pension schemes and optimise the effect of tax expenditure in support of private pension savings.

Suggested initiatives in the policy area of *safety of complementary pension savings* seek to increase the safety of occupational pension schemes, improve protection in case of insolvency of pension sponsoring employer, raise the quality of third pillar pensions and upgrade consumer protection, and improve the design and performance of funded occupational pension schemes.

Proposed measures in the policy area of *mobility of supplementary pensions* aim to reduce the barriers to cross-border movement from supplementary pension rights in the private and the public sector, enhance people's ability to keep track of their various pension rights, remove tax obstacles to the cross-border mobility and investment of pension funds and life insurance providers, and raise the cross-border security of occupational pension rights for migrating researchers.

3.1 Promoting coverage and cost-effectiveness of complementary private pensions

Promoting cost-effective supplementary pension schemes:

From 2012 financial support for advice to Member States and social partners wishing to develop cost-effective supplementary pension schemes will be provided from the PROGRESS programme.

Occupational pension schemes based on collective agreement between the social partners (or employer sponsorship) have demonstrated themselves to hold important potentials as stable providers of supplementary pension benefits. As established by evidence from some Member States there can be important advantages to anchoring supplementary provision with the social partners.

But across the Union such schemes vary widely in design, regulation and investment management. Subsequently these differences result in significant variations in the cost-effectiveness of occupational pensions between Member States. For Member States and social partners that are interested in developing occupational schemes or improving the ones that already are established it would be very important to be able to consult the experience and lessons from some of the better practices across the Union.

Beginning in 2012 financial support for advice to Member States and social partners wishing to set up cost-effective supplementary pension schemes will be provided from the PROGRESS programme, so that they can benefit from the good practices and experiences of other countries, notably for collective schemes on an sectoral, intersectoral and/or territorial basis which would also increase the coverage of women and workers in SMEs by such pension schemes. The Commission would further support the value of access to expert advice through conferences and seminars focussed on aspects of occupational pensions.

Optimising the effect of tax expenditure in support of private pension savings:

The Commission will from 2012 further develop and intensify work with Member States to optimise the efficiency and effectiveness of tax expenditure in support of private pension provision.

In many Member States retirement savings in both the second and third pillar benefit from tax advantages, in the sense that contributions may be wholly or partly deductible from taxable income, investment returns may be wholly or partly exempt and outpayments may be exempt or taxed at lower rates than the normal income tax rate. Such tax advantages encourage individuals to save for their old age.

Pension tax regimes vary considerably across the EU. However, taxes forgone through such advantages influence public budgets just as much as direct expenditures. Therefore the tax foregone as a result of such tax advantages has increasingly been perceived as *tax expenditures* for pensions and is listed among expenditure items in public budgets.

To the extent that tax expenditures encourage more savings than would otherwise occur they may justify the expenses involved. However, where they subsidise savings that would have occurred anyway they represent deadweight cost which should be avoided.

Tax expenditures for pensions are usually meant to result in complementary pension income in old age which can add to pension adequacy and relieve public pension of some of the cost of social protection in old age. However, some retirement savings may be paid out as a lump sum and never really be used for retirement income or at least not be converted to an annuity leading to pension income. For these reasons, policy makers need to monitor and regulate tax conditions for second and third pillar retirement savings to ensure that tax expenditures are justified by their cost-effective contribution to the adequacy and sustainability of pensions.

At the time when there is a dire need for budget consolidation, Member States will need to review the purpose and value of all expenditures and all aspects of revenue collection, including tax expenditures in connection with retirement savings. Member States about to embark on an expansion of incentives for second and third pillar retirement savings will have a keen interest in avoiding the pitfalls leading to excessive costs and securing that tax advantages to stimulate the growth and maintenance of private pensions are as well designed and cost-effective as possible. Some Member States have designed their tax systems in a way to ensure that many of the tax expenditures incurred will be recouped when pension benefits are paid out. In the Commission's view there can be important European added value in sharing experience and best practices in this respect.

The Commission will therefore intensify work with Member States to optimise the efficiency and effectiveness of tax expenditure in support of private pension provision (via EPC and SPC, etc.) including by providing extra tax relief for pension contributions for those who otherwise would not build up an adequate pension.

3.2 Enhancing the safety of complementary private pension provision

Increasing the safety of occupational pension schemes:

The Commission will review the IORP directive and present proposals for its amendment with a particular view to the solvency requirements in 2012.

The Commission has foreseen a review of the IORP Directive for three main reasons. *First*, there are currently less than 80 IORPs operating across different Member States, which represents a very small proportion of the around 140,000 IORPs existing in the EU. The Commission intends to propose measures that simplify the legal, regulatory and administrative requirements for setting-up cross-border pension schemes. Employers, IORPs and employees should be able to reap the full benefits of the Single Market. *Second*, the recent economic and financial crisis has forcefully demonstrated the need for risk-based supervision. This is the case already for IORPs in some Member States, but not at the EU level. Building on the know-how and technology existing in Member States, the Commission intends to propose measures that would allow IORPs to benefit from the risk-mitigating security mechanisms at their disposal. *Third*, while not very prevalent at the time of adopting the IORP Directive in 2003, today nearly 60 million Europeans rely on a defined contribution (DC) scheme for an adequate retirement income. DC schemes shift the risks – in particular market risk, longevity risk or inflation risk – to individual households. International discussions have shown that this raises important new policy issues. The Commission therefore seeks to modernise prudential regulation for IORPs that operate DC schemes.

As part of the review the Commission has asked the European Insurance and Occupational Pensions Authority (EIOPA) for advice on how to improve the IORP Directive. The EIOPA advice should cover all the types of schemes operated by IORPs, ranging from pure defined benefit (DB) schemes to pure defined contribution (DC) schemes. A description of this spectrum of pension schemes is contained in the EIOPA report on risk management.[45] Pension schemes with a minimum guarantee for the contributions paid and/or of the investment returns are, depending on the Member States, considered to be DC, hybrid or DB schemes.

The Commission's proposal to review the IORP Directive will take into account that supplementary occupational pension schemes are generally proposed by employers to their employees on a voluntary basis. The new supervisory system for IORPs should not undermine the supply or the cost-efficiency of occupational retirement provision in the EU.

The Green Paper consultation confirmed that completing the Single Market for occupational retirement provision can make a significant contribution towards these objectives. The Single Market can reduce the cost of financing pensions by allowing for further efficiency gains through scale economies, innovation and diversification. It can also enhance the safety of pension schemes through effective and intelligent regulation. The best way for the Single Market to support fiscal sustainability and pension adequacy is through the facilitation of cross-border activity and the further development of risk-based supervision.

An important part of the review concerns the scope of the IORP Directive as not all occupational pension schemes are covered by it. Occupational retirement provision, operating on a funded basis, is delivered through different financing vehicles and under different legal regimes in Member States. Some DC schemes either do not fall under any EU prudential regulation or Member States have chosen to subject them to national legislation that is

[45] Report on risk management rules applicable to IORPs (CEIOPS-OP-22-09), 6.11.2009.

inspired from the provisions of EU prudential regulation for similar financial products (e.g. the IORP Directive itself or the UCITS Directive). The Commission is therefore investigating how part of the provisions in the IORP Directive could be extended to occupational DC schemes currently not covered.

Another major aim is to introduce risk-based supervision for IORPs. The supervisory system should provide supervisors with the appropriate tools and powers to assess the overall financial position of an IORP based on an **economic risk-based approach**. The aim is to reflect the true risk position of the IORP and therefore supervision should not only focus on quantitative elements, but also cover qualitative aspects that influence the risk-standing of the institution (managerial capacity, internal risk control and risk monitoring processes, etc.). The supervisory system should also be designed to gives an **incentive** to the IORPs to measure and properly **manage their risks**. In this regard, common EU principles on risk management and supervisory review should be developed.

Specific attention should be paid to defined contribution (DC) schemes that do not offer a principal and/or investment guarantee. These schemes have become much more prevalent in the EU since the adoption of the IORP Directive in 2003. It is important to consider whether the IORP Directive needs to be adjusted to better address the specific needs for the regulation and supervision of DC schemes.

Improved protection in case of insolvency of pension sponsoring employer:

The Commission will in 2012 take initiatives to ensure a more effective enforcement of article 8 of the Insolvency directive.

The Commission will in 2012 take initiatives to ensure a more effective enforcement of article 8 of the Insolvency directive on the basis of a horizontal assessment of its state of implementation across the EU and in the light of the ECJ jurisprudence.

Raising the quality of third pillar pensions and improving consumer protection:

The Commission will by 2013 present an initiative aimed at raising the *quality of third-pillar retirement products* and improving the protection and information of consumers via voluntary codes of good practise.

Third pillar pensions or individual pension saving contracts represent an important supplement to occupational schemes in Member State efforts to raise and improve the contribution to pension adequacy from complementary retirement savings.

Third pillar pensions are developed to very different degrees in Member States. In some they have a significant role in retirement income provision and may be designed to be attractive and accessible to all income groups and supplement benefits from collective schemes which only cover income up to a ceiling and therefore may not offer adequate replacement levels. In a number of Member States third pillar pensions also represent the main pension instrument available to the self-employed. In other Member States, however, the coverage of third pillar products may be skewed towards mid-to-high income earners and be frequented for the tax advantages they provide.

The regulation and quality of third pillar products also vary enormously between Member States. Given that they will have a growing role in pension provision it is important to secure a better standardisation and cost transparency of third pillar products. It is important through the Internal Market to allow pension savers in all Member States access to state of the art schemes which are cost-effective and safe.

Apart from its regulatory efforts the Commission would like to engage the third pillar pension industry in work to develop voluntary codes which can establish standards for good practise including in terms of cost transparency, information and consumer protection.

After working with relevant stakeholders the Commission will by 2013 therefore present an initiative aimed at raising the quality of third-pillar retirement products and improving the protection and information of consumers (including payout phase products and ways to access housing wealth) via voluntary codes and possibly an EU certification scheme for such products.

Improving the design and performance of funded occupational pension schemes:

In collaboration with key stakeholders the Commission will in 2012 begin work towards a *code of good practice for occupational pension schemes* (2nd pillar).

While the key measures to improve the safety of occupational pension schemes will come about through the review of the IORP Directive (see above) such regulation at EU level can usefully be supplemented by voluntary codes of good practice for the occupational pension industry in its various forms.

Working with stakeholders such as the social partners, the pension industry and advisory bodies such as EIOPA and the Pension Forum the Commission will develop a code of good practise for occupational pension schemes (2nd pillar) , thus addressing issues such the payout phase, risk-sharing and risk mitigation, cost-effectiveness, shock absorption and ways of avoiding pro-cyclicality in investments.

3.3 Raising the Mobility of supplementary pensions

Improving cross-border portability of supplementary pension rights:

The Commission will table a modified proposal for a portability directive based on setting minimum standards for the acquisition and preservation of supplementary pension rights by early 2013 at the latest.

In order to facilitate mobility, statutory social security pensions (often referred to as 'pillar I' pensions) earned in different Member States are aggregated under the Regulation (EEC) No 883/2004. This ensures that if a person works in more than one Member State they do not lose out when it comes to their statutory social security pension entitlements.

However, occupational pensions (so-called 'pillar II' pensions) have no such arrangement which means that people who move to jobs in other Member States (or often even within

Member States if this involves them changing occupational pension schemes) may lose out. As occupational entitlements are acquiring a solidly growing importance in overall pension provision in Europe this obviously hampers the increasing cross-border mobility of workers which is essential to the functioning of the Internal Market.

The Commission first dealt with this issue as far back as a 1991 Communication. A first basic step was Council Directive 98/49/EC which ensured people moving cross border were treated no worse than those moving within a Member State. Recognising the limited nature of this Directive, the Commission proposed a new Directive in October 2005 on improving the portability of supplementary pension rights. This had three elements – transfers of pension rights, timely acquisition of pension rights and preservation of pension rights once granted. Being subject to unanimity in Council and co-decision this proposal proved difficult to agree. In 2007 the Commission taking account of the European Parliament opinion therefore issued a revised proposal which dropped the pension transfers element. This left the emphasis of the Directive on timely acquisition of pension rights (i.e. avoiding long vesting periods) and then ensuring such rights were preserved (i.e. indexed so that inflation did not erode them). Yet, this proposal also failed to get enough support to be adopted Council.

The main sticking point was on vesting periods which determine how long an employee must be in the pension scheme before their pension rights are irrevocably granted. The vast majority of Member States were content to accept maximum vesting periods of 2 years. However, this remained problematic for a small number of Member States, who had traditionally had longer vesting periods. These countries argued that long vesting periods reflected that pensions were there to encourage employee loyalty to employers. Other countries were more in line with modern labour market economics that view free labour mobility as a necessary element in the flexibility needed to ensure the well-functioning of labour markets.

Clearly, the issue at the heart of this – removing obstacles caused by supplementary pensions to the free movement of workers – has only grown more important. In today's labour market, particularly with the added challenges from the financial and economic crisis, people need to be able to change jobs easily and without hardship and employers need to be able to recruit the right person with the right skills. With ageing demographics, people need to have opportunities to work and build up and retain pension rights, not lose them just because of a change of job.

In order to address this situation the Commission will therefore re-launch the proposal for a Directive in an updated version taking into account responses to the Green Paper consultation and changes in legal possibilities with the Lisbon Treaty. The proposal will stimulate labour mobility and improve the pension adequacy of flexible workers. Respondents to the Green Paper on Pensions expressed their positive appreciation of taking this file forward along these objectives.

Improving cross-border portability of statutory supplementary pension rights:

The Commission will explore the possibility for extending the material scope of application of Regulation (EC) No 883/2004 on the coordination of social security schemes, in particular as regards certain occupational schemes, and thus remove barriers to cross border mobility.

Legislation on the coordination of social security systems has been in force since the very beginning of the European Economic Community. A modernised version of these social security coordination rules is contained in Regulation (EC) No 883/2004 on the coordination of social security systems and in its Implementing Regulation (EC) No 987/2009 which both entered into force on 1 May 2010. Throughout their existence, the social security coordination rules have been limited in scope to the different branches of social security, such as old-age benefits, which are based on "legislation".

In light of the seminal changes which have intervened since the late 1950's in the way how pensions are provided, most notably with the growing importance of occupational schemes, the Commission recently ordered a study on the "Scope of the co-ordination system in the pension field" which was delivered in September 2011. The study contains an overview of pension schemes in the Member States, an analysis of the existing legal instruments in the pensions field at EU level having an impact on the free movement of persons, a proposal for a typology of pension schemes with regard to the problematic of exportation of pension rights, a description of the main problems in the application of EU legislation to the different pension schemes and a critical assessment of the delimitation of the scope of application of the social security coordination rules to "legislation".

The results of this study will be presented to the Administrative Commission on the Coordination of Social Security Systems. This body, in which representatives of the Member States meet since the entry into force of the first rules on social security coordination at EU level in the late 1950's in order to discuss issues of interpretation and implementation as well as possible revisions of these rules, is very well placed to examine the recommendations made in the study. This committee will also discuss whether the current delimitation of the scope of application of the social security coordination rules in the pension field by the formal criterion of being based on "legislation" still reflects the needs of a changing social and economic environment or whether it should be adapted. Given their growing importance and some legal difficulties in respect of the classification of some of them, occupational schemes are the most notable case in point[46]. The Commission will actively support these discussions in the Administrative Commission for the Coordination of Social Security Systems.

Improving people's ability to keep track of their various pension rights:

To help people to keep better track of their various pension entitlements the Commission will in 2012 tender for a feasibility study on how a European pension tracking service could be developed.

Pension reforms have tended to change the character and public-private mix of pension provision in Member States. Pension systems are becoming more complex and can no longer be grasped simply by looking at the formerly all dominant 1st pillar public pension schemes.

[46] It is crucial to emphasise that "legislation" on old-age benefit already now does include most occupational schemes for public officials. Most of them are based on some kind of law, regulation, ... and therefore are "legislation". It is therefore incorrect to assimilation the scope of application of Regulation (EC) No 883/2004 to what is often referred to as first pillar schemes. In reality (or rather theory as far as the actual practice is concerned), some second and even third pillar schemes do fall within the scope of application of the coordination rules. Given the very different ways in which schemes are organised, there is of course considerable room for mismatch. The study therefore aims at giving a comprehensive overview of the picture. Therefore, even if the discussion will focus on the situation of some occupational schemes in particular, the discussion will be a rather open one.

In the future the majority people will build entitlements not just in 1st but also in 2nd and 3rd pillar schemes. Moreover, quite a significant group of people will over their work and savings careers be likely to accrue rights in a number of 2nd and 3rd pillar schemes. To be able to plan for their retirement – including determining to what extent they will need to work longer to earn the pension income they aim for - people will therefore need instruments which over long periods can help them keep track of the pension entitlements they accrue.

Some Member States that already have developed pension systems where people will rely on a package of pension income from a combination of 1st, 2nd and 3rd pillar schemes have sought to respond to this need. They have opened national web-portals on pension, which allow people to track the development of the total sum of their pension rights. Often portals also enable people to consult scenarios of what their total pension income will amount to at different retirement ages, if they continue working and saving as hitherto and certain economic conditions prevail.

As more Member States are moving from largely single to multi-pillar systems there will be important added value in disseminating knowledge about how such tracking instruments have been developed, to what extent the people are consulting them and how it affects their planning for retirement. With increasing cross-border mobility of workers it furthermore becomes important at EU level to move beyond the present tracking of the social security entitlements which workers earn in different Member States to include also rights acquired in 2nd and 3rd pillar schemes. This would underpin a portability directive.

Keeping track of pension entitlements over people's careers would be important both for individuals who need to know where they stand in terms of accumulating adequate pension entitlements and for pension providers who need to keep track of their members as they move jobsand change address over very long periods. Responses to the 2010 Green Paper on Pensions supported the idea of building a European tracking service for pension rights.

The Commission will give attention to experiences so far in the context of the Social OMC and promote the development of national pension tracking services as basis for building a European pension tracking service allowing people to monitor and trace their pension entitlements. First step will be the commissioning of a feasibility study for a European level tracking service in 2012.

Removing tax obstacles to cross-border mobility and investments of pension funds and life insurance providers:

The Commission will from 2012 step up its efforts to tackle the issues of tax obstacles to cross-border mobility and cross-border investments of occupational pension funds and life insurance providers.

The Commission will tackle the issues of tax obstacles to cross-border mobility and cross-border investments linked to discriminatory taxation of transfers of occupational pension and life insurance capital and of life insurance contributions paid to providers established elsewhere in the EU, as well as discriminatory taxation of cross-border investments by occupational pension funds and life insurance providers.

Improving cross-border security of occupational pension rights for migrating researchers:

The Commission will pursue the on-going work on a pan-European Pension Fund for Researchers.

(if included to be elaborated with contributions from DG RTD)

4. ENHANCING THE EU'S MONITORING AND COORDINATION TOOLS ON PENSIONS

While reforms some times can be decided relatively fast actual delivery on the ground is the real test. Impacts of reforms in terms of adequacy and financial sustainability may take decades to materialise. Therefore it is crucial to closely *monitor* both reform measures and policy outcomes. This can be done with the instruments developed for the Open Method of Coordination and the surveillance instruments developed under the EU 2020 strategy and the Stability and Growth Pact. These include not only reporting on reforms, but also outcome indicators and projections (of future spending and future replacement rates, in particular) as well as effective surveillance mechanisms to prevent and correct macro economic imbalances with potential spill over risks.

To sufficiently assist Member States in pension delivery the policy framework must be comprehensive in the sense of including the combined contributions all types of pensions and fully reflecting and the interactions between pensions and labour markets as well as those between funded pensions and financial markets. Holistic consideration of all components can only be assured if coordination mechanisms at EU level are substantially strengthened. Europe 2020 governance structures present a good base for building better pension policy coordination. Yet even with Europe 2020 this will entail considerable challenges as this has not really been achieved before. If a truly comprehensive policy approach is to materialise establishing strong coordination mechanisms at the level of Commissioners and their services will be key.

In the policy area of *coordinated monitoring of the adequacy, sustainability and safety of pensions* the White Paper proposes to bring together the monitoring of the adequacy, sustainability and safety aspects while also launching a special initiative for raising the depth and scope of adequacy monitoring.

Measures put forward in the policy area of *coherent policy making at EU level aim* to strengthen the coherence and integration of EU policies impacting on pensions, ensure the full coordination and integration of Commission pension policies, and establish holistic monitoring of progress in pension delivery in the EU.

4.1 Coordinated monitoring of the adequacy, sustainability and safety of pensions

Coordinating the monitoring of adequacy, sustainability and safety:

Working with Member States the Commission will in 2012 raise the attention to private pensions in the Ageing report and complement this with a Pension Adequacy Report which also will highlight gender differences.

The Commission will promote cooperation between EPC and SPC with the aim of presenting future adequacy trends/challenges alongside ageing-related public spending trends while covering all pension types and finding ways to connect this also to the monitoring of the safety of private pensions. Working with Member States the Commission will in 2012 raise the attention to private pensions in the Ageing report and complement this with a Pension Adequacy Report which also will highlight gender differences.

Building on the latter the Commission will be promoting common methodologies for assessing the present and future adequacy of pension provision, including its gender dimension, via work in the context of the Poverty Platform and the social OMC and developing guidance that makes it possible for Member States to establish criteria for a minimum level of pensions taking into account the specific national circumstances.

Raising the quality of adequacy monitoring:

The Commission will promote the use of agreed indicators for benchmarking, review of national policies and outcomes, exchange of best practice focusing on cost-efficient provision of adequate incomes and living conditions of older people, with a special emphasis on the gender dimension and on vulnerable groups, whilst bearing in mind the role of services (housing, health and long-term care) in ensuring decent living conditions in old age.

4.2 Coherent policy making at EU level

Measures put forward in the policy area of *coherent policy making at EU level aim* to strengthen the coherence and integration of EU policies impacting on pensions, ensure the full coordination and integration of Commission pension policies, and establish holistic monitoring of progress in pension delivery in the EU.

Strengthening the coherence and integration of EU policies impacting on pensions:

The Commission will review the mandate and functioning of the Pensions Forum with the aim of strengthening its contribution to the European pension debate and broadening its material scope.

Presently the consideration of the contribution to the adequacy, sustainability and safety of future pension income from the different types of pension schemes takes place in separate fora. The EPC looks at public pension expenditure and thus primarily at public pension schemes from a sustainability angle. For the SPC primarily concerned with the adequacy outcome of pension systems occupational and third pillar pensions have remained a concern at the margin while the main attention have gone to the public components of pension provision. The mandate of the Pension Forum is limited to the consideration of supplementary (i.e. occupational) pensions. Since none of the components of pension system really can be considered in isolation from the others this situation is far from helpful. As part of its deliberations over whether to suggest a new single Forum for EU policy reflections with Member States the Commission will investigate possibilities in the Pension Forum (which already brings the pension industry and the social partners together with Member State representatives) to locate discussions of occupational schemes much more in the context of overall pension provisions.

Securing full coordination and integration of Commission pension policies:

To oversee consolidate a comprehensive and coordinated approach to pension challenges the Commission will continue the Commissioners Group on pensions beyond 2012 and support it by establishing a standing inter-services group on pensions.

Strong coordination mechanisms will determine the ultimate ability to realise a comprehensive approach to pensions. While the Commission will seek to develop these in Committee work and with Council formations it will in the first instance take determined steps to reinforce coordination between Commissioners and their services.

Thus the Commission will continue the Commissioners Group on pensions beyond 2012 and support it by establishing a standing inter-services group on pensions to oversee the implementation of the White Paper measures and consolidate a comprehensive and coordinated approach to pension challenges across Commission services. These two bodies would focus on achieving a better consistency of EU actions and stronger synergies between the different instruments. The Commissioners Group would meet at least twice a year and the Inter-Services Group could have quarterly meetings. (possibly to be elaborated by D3)

Securing holistic monitoring of progress in pension delivery in the EU:

The Commission will publish a report on progress towards 'adequate, sustainable and safe pensions in Europe' in 2014.

A major report on progress towards 'adequate, sustainable and safe pensions in Europe' from the Commission to the Parliament and the Council can help focus the attention of all stakeholders on the challenges in pensions and the best ways to tackle these. This Commission therefore intends to produce such a report towards the end of its mandate to take stock of its major initiatives in pensions. If it proves to be a worthwhile instrument for taking the objectives forward future Commissions can decide whether they want to repeat the exercise.

Annex 10: EU Treaty articles of relevance for pensions

Treaty articles relating specifically to social protection and pensions

Treaty on the Functioning of the European Union

Article 5
1. The Member States shall coordinate their economic policies within the Union. To this end, the Council shall adopt measures, in particular broad guidelines for these policies. Specific provisions shall apply to those Member States whose currency is the euro.
2. The Union shall take measures to ensure coordination of the employment policies of the Member States, in particular by defining guidelines for these policies.
3. The Union may take initiatives to ensure coordination of Member States' social policies.

Article 9
In defining and implementing its policies and activities, the Union shall take into account requirements linked to the promotion of a high level of employment, the guarantee of adequate social protection, the fight against social exclusion, and a high level of education, training and protection of human health.

Article 48
The European Parliament and the Council shall, acting in accordance with the ordinary legislative procedure, adopt such measures in the field of social security as are necessary to provide freedom of movement for workers; to this end, they shall make arrangements to secure for employed and self-employed migrant workers and their dependants:
(a) aggregation, for the purpose of acquiring and retaining the right to benefit and of calculating the amount of benefit, of all periods taken into account under the laws of the several countries;
(b) payment of benefits to persons resident in the territories of Member States.

Article 151
The Union and the Member States (...) shall have as their objective the promotion of (…) proper social protection (…) and the combating of exclusion.

Article 153
1. With a view to achieving the objectives of Article 151, the Union shall support and complement the activities of the Member States in the following fields:
(...) (c) social security and social protection of workers;
(...) (k) the modernisation of social protection systems without prejudice to point (c).
(...)
2. To this end, the European Parliament and the Council:
(a) may adopt measures designed to encourage cooperation between Member States through initiatives aimed at improving knowledge, developing exchanges of information and best practices, promoting innovative approaches and evaluating experiences, excluding any harmonisation of the laws and regulations of the Member States;
(b) may adopt, in the fields referred to in paragraph 1(a) to (i), by means of directives, minimum requirements for gradual implementation, having regard to the conditions and technical rules obtaining in each of the Member States. Such directives shall avoid imposing administrative, financial and legal constraints in a way which would hold back the creation and development of small and medium-sized undertakings.
(...)
4. The provisions adopted pursuant to this Article:
- shall not affect the right of Member States to define the fundamental principles of their social security systems and must not significantly affect the financial equilibrium thereof,
- shall not prevent any Member State from maintaining or introducing more stringent protective measures compatible with the Treaties.

Surveillance of public budgets is carried out in accordance with **Article 126**.

Provisions to ensure the functioning of private pension institutions in the Internal Market are adopted in accordance with **Articles 26 and following**.

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