MEMO/12/108

Brussels, 16 February 2011

Q&A – Commission presents White Paper on pensions

In the context of rapid ageing of our societies and increasing pressure of pensions on national budgets, the European Commission today issued a White paper on pensions. It puts forward policy initiatives to support Member States in the reform of their pension systems. The measures proposed by the White Paper aim to help people who are able to work longer and save more for their retirement. They aim to raise the average age at which people retire, reflecting the rising life expectancy, to encourage complementary private retirement savings and protect them, including when people change jobs and have to switch to other occupational pension schemes.

What is the EU's role on pensions?

The design of pension systems is largely the responsibility of Member States but there is a strong EU dimension too:

- **Legislation:** The EU has no powers to legislate on the design of pension systems in the Member States, but it can legislate on matters that affect the functioning of the internal market (free movement of persons, freedom to provide services, protection of consumers), to tackle discrimination (on the grounds of gender and age, in particular), and to protect workers' rights and their health and safety. A number of regulations and directives that affect pension schemes in the Member States are already in force. In addition, the EU can promote 'soft law' measures such as codes of good practice.
- **Funding:** The EU can also mobilise funds to achieve certain policy goals related to pensions. The European Social Fund can be used to promote the employability and labour market opportunities for older workers..
- **Policy coordination:** The EU's Europe 2020 Strategy is the frame for stronger coordination of national policies in the context of the European Semester, using Country Specific Recommendations. This process is underpinned by the work of policy committees which examine in detail specific challenges related to pensions adequacy and sustainability and the promotion of longer working lives.

What has the Commission done so far?

To address the challenges confronting pension systems in the Member States, the European Commission launched a wide consultation in July 2010. The consultation generated over 1600 contributions. The main messages that emerged reflect the Commission's ongoing work, in particular the main lines of the Annual Growth Strategy about the importance of linking working lives to increased life expectancy and providing opportunities for complementary retirement savings.

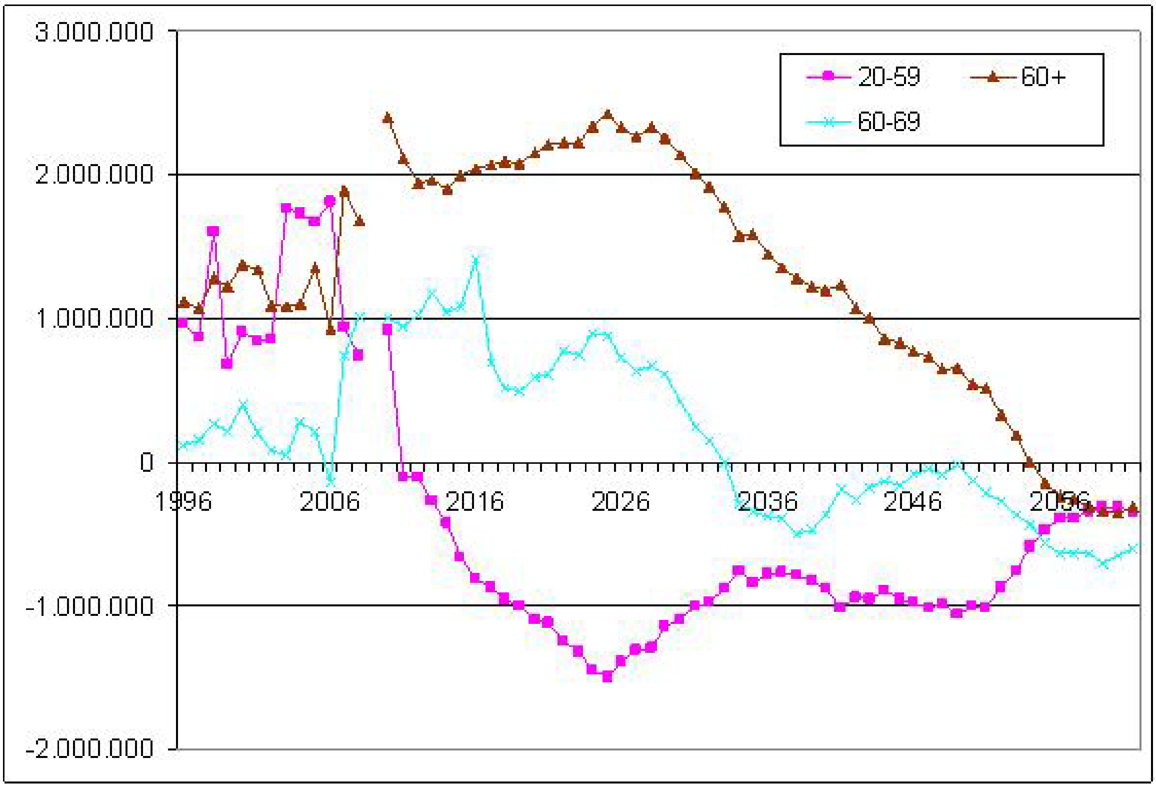
Does the Commission want to launch new legislation?

The key aspects of pension systems are the responsibility of Member States. But the Commission stands ready to take its legislative responsibilities., for instance, the case for the 2003 Directive on Institutions for Occupational Retirement Provision (IORP)[1] and the Directive on portability of supplementary pension rights. Other types of measures, such as recommendations, codes of conduct, exchange of good practices are envisaged in these areas.

What are the main demographic challenges today?

A shrinking working force must support a growing number of pensioners. By 2060, life expectancy could rise by another five to seven years. Prior to this, the baby-boomers will retire and swell the ranks of pensioners. This is reflected in an annual increase of around two million people aged 60+, almost twice as high as in the late 1990s and early 2000s. By contrast, the number of people of prime working age (20-59) will fall every year over the coming decades.

Figure 1: Population change over the previous year calculated for different age groups, EU-27, 1996-2061



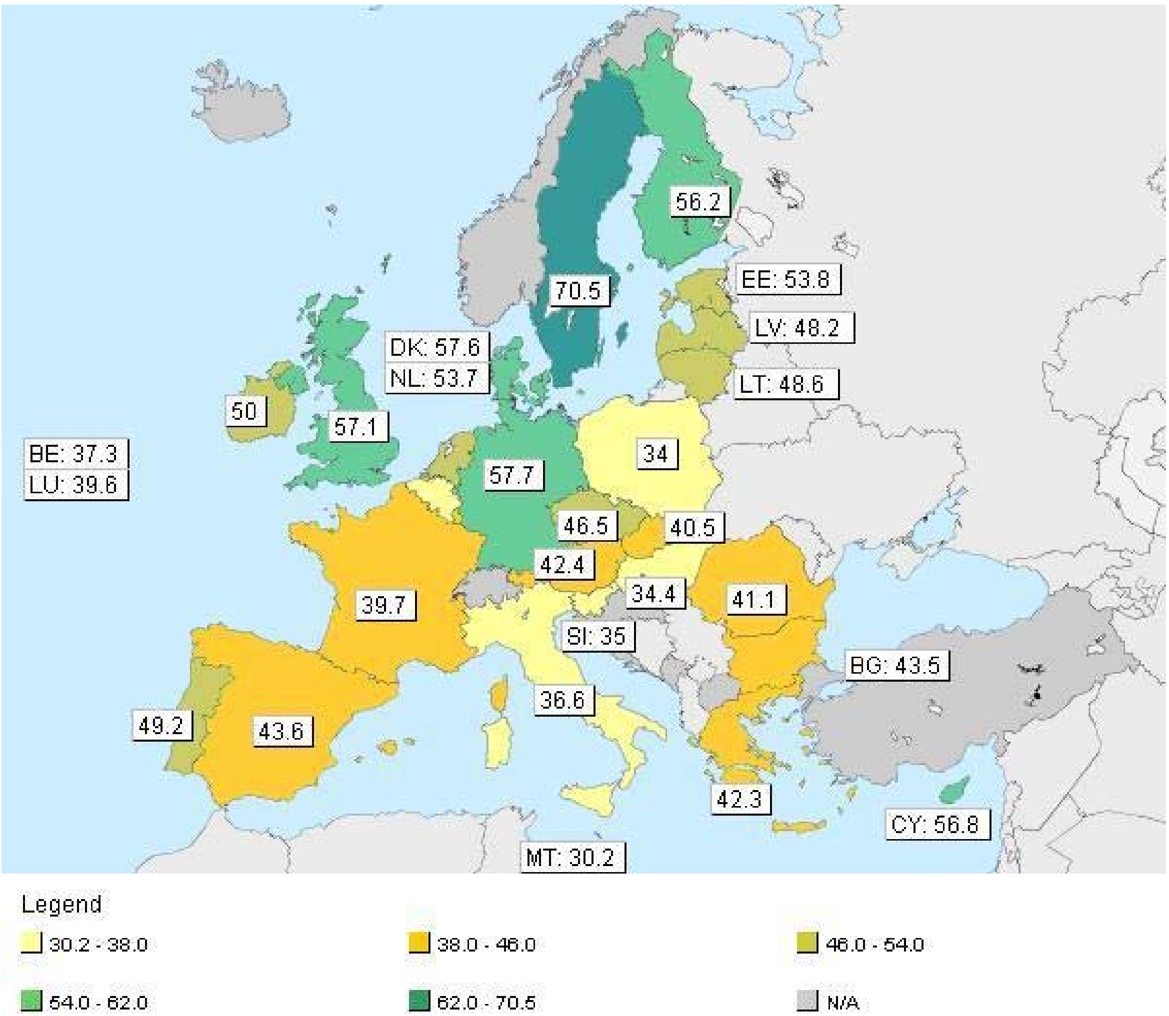
[1] 2003/41/EC of 3 June 2003.

The ageing challenge is often illustrated by the doubling of the demographic dependency ratio (population 65+ to population 15-64) from 26% in 2010 to 50% in 2050. Yet the real issue is the economic dependency ratio, defined as *the unemployed and pensioners as a percentage of the employed*. If Europe achieves the employment goal of the Europe 2020 strategy of 75 % employment rate in the age group 20-64 and further progress is made in the period 2020-2050 the economic dependency ratio will only increase from the current level of 65 % to 79 % in 2050.[2] Falling short of the employment rate target would have negative effect for the future sustainability and adequacy of pensions and other social protection systems. Currently, about one third of adult life is spent in retirement and, with unchanged policies, this share would increase in line with future gains in life expectancy. Moreover, early labour market exit pathways result in employment rates of older workers (aged 55-64) below 50% in 2010 in the EU. But this aggregate figure for the EU masks large differences across Member States, ranging from 33% in Malta to 74% in Sweden. Also, the employment rates of older women (41%) are significantly below those of men (59%).

The trend in recent decades towards earlier retirement has, however, been reversed. The employment rate of the 55-64 age group increased in the EU-27 from 37.5% in 2001 to 46.3% in 2010.

[2] Calculation based on the Dependency Ratio Calculator of the Austrian Federal Chamber of Labour, Vienna. The economic dependency ratio is defined as number of pensioners (incl. early retirement, disability) and unemployed relative to the number of people in employment. Main assumption for 2050: rise of the employment rate in the age group 20-64 to 79.6 % (such an employment level was achieved in 2008 in the three best performing countries - SE, DK, NL). Data: Labour Force Survey, Ageing Report 2009, Europop 08.

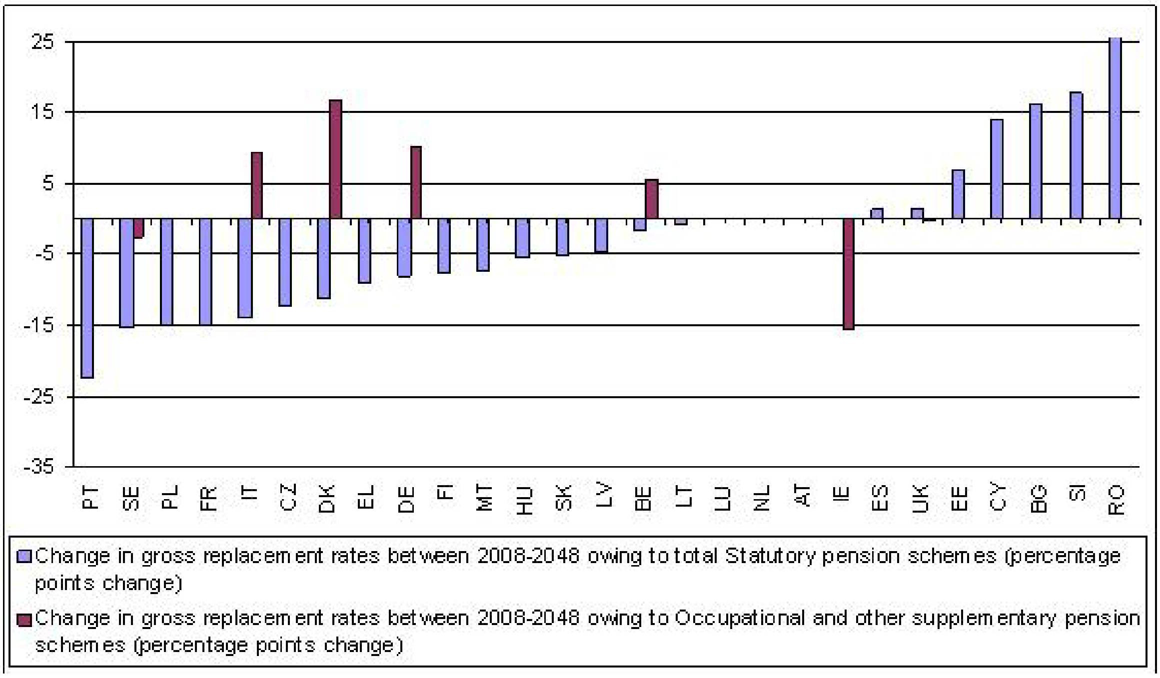
Figure 2: Employment rates of older workers (55-64) in the EU Member States in 2010



Will pensions allow for older people to maintain a decent living in the future?

Pensions – mostly from public schemes – are the main source of income of older Europeans, who are a significant and growing part of the EU population (120 million or 24%). People over 65 have an income of almost 94% of that of the average for the total population, yet about 22% of women over the age of 75 fall below the at-risk-of-poverty threshold (60% of median income). If people will continue to work the same number of years as today, it is expected that the replacement rate (pensions relative to previous earnings) will decrease.

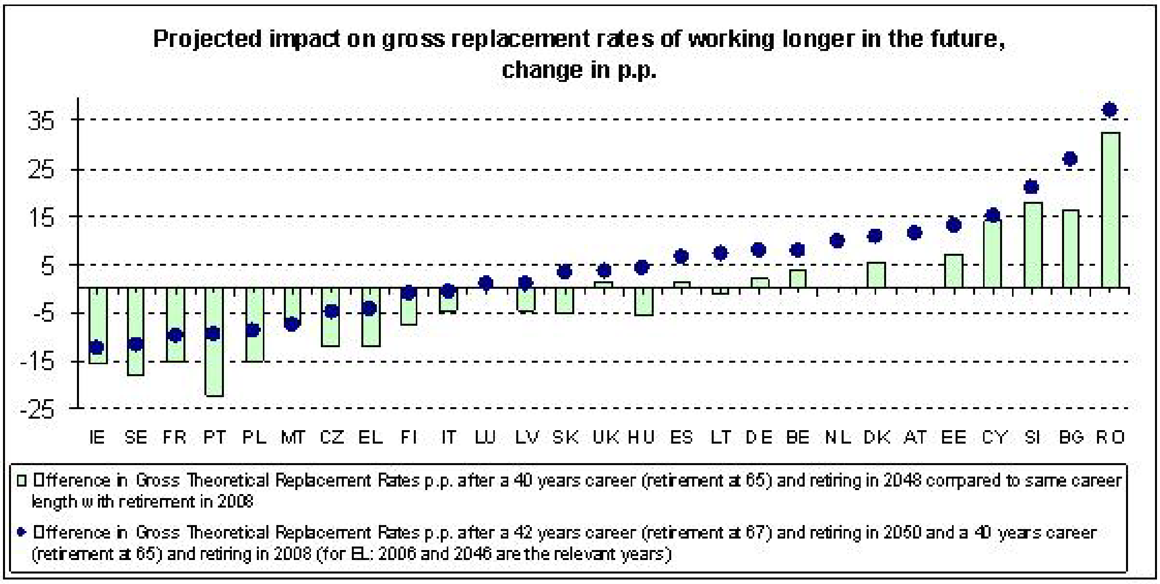
Figure 3: Projected change in replacement rates of statutory and supplementary pension schemes between 2008 and 2048 (in pp.)



Note: replacement rates compare pension income in the first year of retirement with income from work in the last year of employment for a hypothetical individual.

However, working longer may help maintain or even increase the future level of pensions in the future, compared to previous earnings. This effect is illustrated in the figure below which compares the gross replacement rates received by people retiring currently at 65 after a 40-year career with replacement rates of people retiring at a higher age (67, after a 42-year career with all other elements assumed alike) in the future.

Figure 4: Projected impact of longer working on change in replacement rates between 2008 and 2048



Note: replacement rates compare pension income in the first year of retirement with income from work in the last year of employment for a hypothetical individual.

What is the state of play of pension reforms in Europe?

Significant progress in reforming social security in line with the recommendations of the Annual Growth Surveys has been made in several countries.

However, more efforts are needed along the lines recommended by the European Commission in the Annual Growth Survey:

- align the retirement age with increases in life expectancy;
- restrict access to early retirement schemes and other early exit pathways;
- support longer working lives by providing better access to life-long learning, adapting work places to a more diverse workforce, and developing employment opportunities for older workers;
- equalise the pensionable age between men and women; and,
- support the development of complementary retirement savings to enhance retirement incomes.

The current situation in the Member States is summarised in the table below:

Figure 5: Retirement, supplementary pensions and pension reforms in EU Member States

Member State	Life expectancy at 65 M/F (2010)	Labour market exit age M/F (2009 or the latest available)	Pension age M/F (2009)	Pension age M/F (2020)	Increases in pension age after 2020, M/F	Pension Fund assets % of GDP 2009
AT	17.9/ 21.4	62.6/ 59.4	65/60	65/60	65/65	4.9
BE	17.5/ 21.1**	61.2/ 61.9	65/65	65/65	-	3.3 (v)
BG	13.6/ 17	64.1/ 64.1	63/60	63/60	65/63	n/a
CY	18.1/ 20.9**	*62.8*	65/65	65/65	-	n/a
CZ	15.5/ 19	61.5/ 59.6	62/60	63y10m/63y8m	65/65	4.6
DE	17.8/ 20.9	62.6/ 61.9	65/65	65y9m/65y9m	67/67	5.2 (x)
DK	17/ 19.7	63.2/ 61.4	65/65	(66/66)	67+/67+	43.3 (w)
EE	14.2/ 19.4	*62.6*	63/61	64/64	65/65	6.9
EL	18.7/ 20.6	61.3/ 61.6	65/60	65/60	65/65	0.0
ES	18.5/ 22.7	61.2/ 63.4	65/65	65/65 (66y4m/66y4m)	67/67	8.1
FI	17.5/ 21.5	62.3/ 61.1	65/65, 63-68	65/65, 63-68	-	76.8
FR	18.7/ 23.2**	60.3/ 59.8	60-65/60-65	62-67/62-67	-	0.8 (v)
HU	14.1/ 18.2	60.1/ 58.7	62/62	64/64	65/65	13.1
IE	18.1/ 21.1	63.5/ 64.7	65/65	66/66	68/68	44.1
IT	18.2/ 22*	60.8/ 59.4	65/60	66/66	67/67	4.1
LT	13.5/ 18.4	*59.9*	62y6m/60	64/63	65/65	n/a
LU	17.3/ 21.6	58.1/ 57	65/65	65/65	-	2.2
LV	13.3/ 18.2	*62.7*	62/62	(64.5/64.5)	(65/65)	n/a
MT	18.4/ 21.1	*60.3*	61/60	63/63	65/65	n/a
NL	17.7/ 21	63.9/ 63.1	65/65	65/65 (66/66)	65/65 (67/67)	129.8
PL	15.1/ 19.5	61.4/ 57.5	65/60	65/60 (67/??)	(67/67)	13.5
PT	17.1/ 20.5**	62.9/ 62.3	65/65	65/65	-	13.4
RO	14/ 17.2**	65.5/ 63.2	63y4m/58y4 m	65/60	65/63	n/a
SE	18.3/ 21.2	64.7/64	61-67	61-67	-	7.4 (v, y)
SI	16.8/ 21	*59.8*	63/61	63/61	-	2.6
SK	14/ 18	60.4/ 57.5	62/57.5 - 61.5 (depending on the no. of children)	62/62	-	4.7 (v)
UK	18.1/ 20.8**	64.1/ 62	65/60	66/66	68/68	73.0 (z)

* 2008 (for life expectancy at 65)
** 2009 (for life expectancy at 65)
(v) 2008.
(w) Autonomous occupational pension funds only. In addition to these plans, total assets managed by occupational pension insurance contracts amounted to 99.3% of GDP.
(x) Autonomous occupational pension funds only. In addition to these plans, total assets managed by occupational pension insurance contracts amounted to 13.3% of GDP in 2008.
(y) Autonomous occupational pension funds only. In addition to these plans, total assets managed by the premium pension system amounted to 8.9% of GDP and assets managed by occupational pension insurance contracts to 38.9% of GDP in 2008.
(z) OECD estimate.

Is the Commission recommending an increase in pensionable ages?

No. It is not the Commission's role to set pension ages. Setting retirement ages or increasing the pensionable age is for Member States. In view of today's demographic challenges an din the context of the financial crisis, the Commission proposes measures to help Member States to reduce access to early retirement schemes, to equalise pensionable ages for women and men in pension systems, and to consult the social partners on mandatory retirement ages to see how they could be revised.

People in the EU are living longer. This is an enormous achievement. However, unless people, as they live longer, also stay longer in employment, either pension adequacy will suffer or an unsustainable rise in pension expenditure will occur. This is why the Commission encourages, and has also done so in the past (through the Open Method of Coordination), Member States to consider how to achieve a sustainable balance between time spent in work and time spent in retirement.

How to enable people to work longer?

Higher pensionable ages and the elimination of early retirement schemes will not automatically translate into longer working lives. However, there is some good news: for the EU as a whole, the employment rates of older workers (55-64) have not declined during the recession; in fact, they went up very slightly and rose by 10 percentage points during 2000-2010 (up to 46%).

A recent Eurobaromater survey showed that that Europeans are ready to remain active as they grow older with 61% supporting the ideas that people should be allowed to continue working once they have reached the official retirement age.

To enable more people to stay longer on the labour market, Member States will need to enhance people's ability to work longer through a set of workplace and employment measures. Such measures can include eliminating mandatory retirement ages, promoting healthy ageing at work, providing access to life-long learning, adapting work places to the requirements of older workers and developing opportunities for extended working lives. They can also include incentives for the employment of older workers and lifting obstacles to the creation of suitable end-of-career jobs.

Removing disincentives to the employment for women and men in tax-benefit structures and remuneration is also important. Given the significant differences in employment rates for women and men aged 55-64, particular attention should be paid to gender aspects of longer working lives and active ageing, including through measures that facilitate the reconciliation of work and care responsibilities. The European Social Fund (ESF) can play a major role in bolstering the capacity of policy makers, employers and workers to bring about the necessary progress in the employability of older workers.

The European Year 2012 on Active Ageing and Solidarity between Generations offers a good framework for raising awareness about the contribution of older people to society. It is an opportunity to identify and disseminate good practice, by encouraging all policymakers and stakeholders to set themselves specific goals related to active ageing and to take action to meet these goals.

Should women work as long as men?

Thirteen Member States still had lower pensionable ages for women than for men in 2009. However, based on current legislation in place, eighteen of the Member States will have equalised the pensionable ages by 2020. Five Member States have longer term plans to equalise pension ages and four out of the 27 Member States have no legislation in place to do so (see Figure 5 for country-specific details).

Equalising pensionable ages for women and men can make a significant contribution to raising the labour force participation of older workers and contribute to improving income for women and should be implemented without delay.

Addressing pension adequacy and sustainability requires a mix of pension and employment policies aimed at tackling gender differences in pension incomes. More effective solutions that are not based on the presumption of gender-specific roles are required, such as care credits that are available to both women and men and that preserve the sustainability of pension systems by facilitating the return to work.

Isn't there a contradiction between later retirements and measures to tackle youth unemployment?

Labour markets are not a zero-sum game in which the number of jobs is fixed and where a new job becomes available only when somebody else retires. The fact is that those countries with higher employment rates among older people also have higher employment rates among younger workers. Conversely, those countries with relatively low employment among older persons also tend to perform worse in creating employment opportunities for young people.

Youth unemployment tends to be rather a consequence of general economic downturns and/or shortcomings of educational systems and labour market institutions. An adequate response to improving the employment situation of young people requires a more complex set of measures ranging from a better matching between young people's skills and labour market requirements to more effective activation strategies and to removing institutional obstacles to hiring young people.

The European Commission recently proposed the Youth Opportunities Initiative[3], which calls on Member State to work on preventing early school leaving, helping youngsters develop skills relevant to the labour market, ensuring work experience and on-the-job training and helping young people find a first good job. The Commission will continue to work closely with Member States in implementing workable solutions to ensure young people's full participation in employment.

How to encourage complementary private retirement savings?

Complementary retirement savings have to play a greater role in securing the future adequacy of pensions, so Member States will have to find ways of improving the cost-effectiveness, safety and equitable access to supplementary pension schemes. Tax and other financial incentives, as well as collective bargaining play an important role here.

The crisis has highlighted the vulnerability of funded pension schemes to financial crises and economic downturns. It has also emphasised the need to review the regulatory framework and scheme design to improve the safety of private pensions. The EU has legislative competences in this area, and two instruments are already in place: the Directive on the protection of employees in the event of insolvency of their employer and the Directive on the activities and supervision of Institutions for Occupational Retirement Provision (IORP). The EU can strengthen its framework to support occupational retirement provision within the overall pension system of Member States and to contribute to the reduction of the cost of pensions. This is why the Commission is continuing its work on the revision of the IORP-Directive in order to ensure an appropriate regulatory and prudential regime for institutions providing retirement benefits, ensuring the safety of supplementary pensions and making sure that pension funds and other institutions providing retirement benefits can continue to play their role as stabilisers in the economy and provide long-term investments. This does not mean that pensions should be subject to the exact same rules as Solvency II.

For more information:

http://ec.europa.eu/commission_2010-2014/barnier/headlines/speeches/2012/02/20120210_en.htm]

In addition, there is a need to improve the quality of financial products for individual retirement savings not linked to employment, such as third pillar schemes and other financial products used to supplement the incomes of the elderly. Improving consumer information and protection is necessary to enhance workers' and investors' confidence in financial products for retirement savings.

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[3] COM(2011) 933 final of 20 December 2011.

Currently, people who move across borders could lose a significant portion of their pension entitlements. Their statutory social security entitlements are guaranteed by EU legislation (in particular Regulation (EC) No 883/2004), but private schemes are outside the scope of this Regulation. It is therefore important to adopt measures that prevent supplementary pension schemes from being obstacles to professional mobility and labour market flexibility, which can make a direct contribution to increasing economic growth in the EU.

Citizens working in another Member State not only need to preserve pension entitlements accrued across borders. They also need to be able to keep track of their accrued pension rights stemming from statutory and occupational pension schemes. This could be achieved through the establishment of pension tracking services across the EU similar to those that already exist in some Member States. Tracking services can provide citizens with accurate and up-to-date information about pension entitlements, as well as projections of their income after retirement from statutory and occupational pension schemes.

What impact is the financial crisis having on pension schemes in the EU?

The financial and economic crisis has seriously aggravated the underlying ageing challenge. By demonstrating the interdependence of the various schemes and revealing weaknesses in some scheme designs it has acted as a wake-up call for all pensions: higher unemployment, lower growth, higher national debt levels and financial market volatility have made it harder for all systems to deliver on pension promises.

These impacts, on top of the underlying demographic challenge which is now upon us, mean that difficult pension reforms can no longer be put off.

Further information:

White paper on pensions

Green Paper and online consultation:

http://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=839&furtherNews=yes

The economic crisis and pensions in the EU, MEMO/09/99

Animation on pensions

Moving within Europe - Which country will pay my old-age pension?

Eurobarometer on active ageing

IP/12/16 + Mémo/12/10 on active Ageing