



The EU Pension Reform Agenda

PENSION AMBITIONS IN AN UNCERTAIN WORLD

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From Member State responsibility to matter of common concern

- ❑ *Public spending on pensions in the EU represented **11.3% of GDP** in 2010*
 - **Ranging from 6.8 % in the Netherlands**
 - **to 15.3 % in Italy**
- ❑ *Mean income of people over 65 amounts to around 94% of that of the total population*
- ❑ *The bulk of pension benefits is paid by public schemes*

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Pensions critical for EU goals

- ❑ *Sustainable public finances and a stable common currency – focus of the reinforced economic governance*
- ❑ *Europe2020 strategy for smart, sustainable and inclusive growth – two targets to be supported by pension policies*
 - ❑ **75% employment rate (20-64 years)**
 - ❑ **reducing the number of people at risk of poverty or social exclusion by 20 million**

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Pensions in the first Annual Growth Survey (January 2011)

- ❑ *Key document that starts the annual EU policy coordination round ('European semester')*
- ❑ *Called for fiscal consolidation to be supported by pension reforms with a focus on ...*
 - ❑ **increasing the retirement age and linking it to life expectancy**
 - ❑ **reducing early retirement schemes, offering incentives to employ older workers and promoting life-long learning**
 - ❑ **supporting the development of complementary private savings**

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Messages reiterated a year later

- ❑ *In the 2nd Annual Growth Survey (Nov. 2011):*
 - ❑ **emphasises twin goals of financial sustainability and adequacy**
 - ❑ **adds a new recommendation, i.e. to equalise pension ages for women and men**
- ❑ *In the Commission White Paper **An Agenda for Adequate, Safe and Sustainable Pensions** (Feb. 2012)*
 - ❑ **How to achieve a better balance between time spent in work and in retirement ...**
 - ❑ **... and how to develop complementary retirement savings**

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White Paper: An agenda for adequate, safe and sustainable pensions

- ❑ *Presenting EU policy measures as part of a comprehensive strategy on pensions (following up on the Green Paper on pensions of 2010)*
- ❑ *Linking the pensions strategy to the general EU policy coordination process*
- ❑ *Overcoming the conflict between sustainable public finances and adequate pensions*
 - ❑ **More employment relative to retirement**
 - ❑ **More private savings**

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White Paper: 8 Initiatives on Balancing work & retirement

- No legislative initiatives.*
- Focus on enabling and encouraging older workers to stay on the labour market...*
- ... and on reducing the gender gap in pensions.*
- Policy coordination and mutual learning, notably through the EU Social Protection, Employment and Economic Policy Committees (SPC, EMCO, EPC).*
- Financial support for preparing reforms.*
- Possibility to use European Social Fund.*
- Cooperation with the Social Partners, notably on review of mandatory retirement ages.*

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11 Initiatives on complementary retirement savings

Three goals:

- Better opportunities for complementary savings*
- Enhancing the safety and performance of schemes*
- Ensuring compatibility with mobility and flexible labour markets*

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Legislative initiatives on supplementary pensions

- Review of the directive on Institutions for Occupational Retirement Provision*
- Directive on standards for the acquisition and preservation of occupational pension rights of mobile workers*
- Application of existing legislation*
 - insolvency protection**
 - tackling tax discrimination**

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Non-legislative measures to promote complementary retirement savings

- Reviewing the cost-effectiveness of tax and other incentives*
- Support for national policy makers and social partners for designing supplementary schemes*
- Reviewing good practice on pension statements*
- Codes of good practice for second and third pillar schemes*
- Pension tracking service for mobile workers*

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Pressing for change: Country-specific recommendations on pensions in Europe 2020

- ❑ *Raise the statutory pension age and link it to life expectancy – 10 countries: **Belgium, Spain, Cyprus, Lithuania, Luxembourg, Malta, Austria, Slovenia, Slovakia, Finland***
- ❑ *Restrict early labour market exit – 7 countries: **Belgium, Bulgaria, Czech Republic, Denmark** (disability), **Poland** (special schemes), **Slovenia, Finland***
- ❑ *Equalise pension ages for women and men – 3 countries: **Bulgaria, Austria, Slovenia***
- ❑ *Review indexation of benefits – 2 countries: **Slovakia, Slovenia***
- ❑ *Enhance private savings – 4 countries: **Czech Republic, Latvia, Lithuania, Malta***

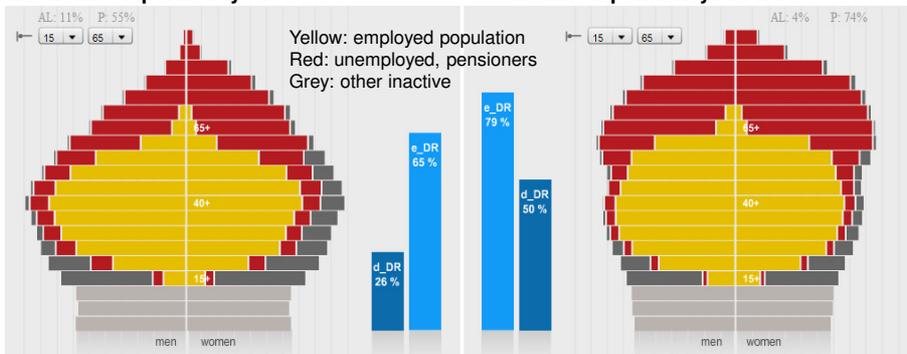
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Demographic vs economic dependency ratios

EU-27 / 2010
demographic dependency ratio: 26%
Economic dependency ratio: 65%

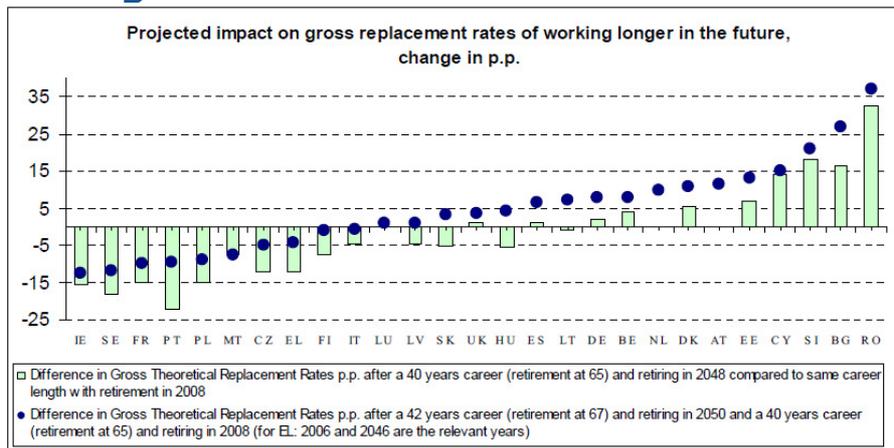
EU-27 / 2050 ("EU 2020plus scenario")
demographic dependency ratio: 50%
economic dependency ratio: 79%



Source: Josef Wöss / Erik Türk - Austrian Federal Chamber of Labour

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Adequate pensions through working longer



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Risks and uncertainties

Employment outlook – persistent unemployment and low-quality job would mean

- insufficient revenue for pension schemes
- numerous people with insufficient entitlements from public and private pensions

Scope for private savings depends on

- disposable incomes
- employers' willingness to contribute

Pension outcomes from funded schemes depend on

- future rates of return
- good financial services for transforming savings into secure retirement incomes

Longevity...

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The future of pensions

- ❑ *Pay-as-you-go to remain dominant but with more automatic sustainability adjustments (pensionable age and contribution periods, replacement rates)*
- ❑ *Greater reliance on means-tested minimum pensions?*
 - ❑ **Need depends first on job opportunities...**
 - ❑ **...and much less on availability and performance of complementary retirement savings schemes**
- ❑ *Increasing role for 4th pillar of work income? (combining job with pension)*
- ❑ *Well-developed 2nd & 3rd pillars only through mandatory affiliation or costly public subsidies?*

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Staying informed on EU pensions initiatives:

- ❑ **Europe 2020 Strategy:**
http://ec.europa.eu/europe2020/index_en.htm
- ❑ **Pensions White Paper and follow-up**
<http://ec.europa.eu/social/main.jsp?catId=752&langId=en>

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