

18 December 2012

AGE Platform Europe contribution to the
Draft Report on an Adequate, Safe and Sustainable pensions
(2012/2234(INI))

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AGE Platform Europe, a European network of and for persons aged 50+, represents the interests of 150 million older people in the European Union in many relevant areas, such as social inclusion, employment policies, non-discrimination, accessibility and health.

Voicing the preoccupations of both today's and future pensioner for the safety and adequacy of pensions, AGE shares several proposals from the European Parliament in its report on an Agenda for Adequate, Safe and Sustainable Pensions (2012/2234(INI)). AGE member organisations strongly support the Parliament's objective to ensure adequate pension and make sure that promises are kept and people get what they expect in retirement. We also welcome your recognition of the crisis's impact on the adequacy of pensions and the growing risk of poverty among older people due to the severe cuts introduced in the Member States hardest hit by the current crisis. AGE believes that adequacy of income in old age must remain the fundamental goal of any pension model.

However, because the approach proposed in the Commission's White Paper is too narrow – focusing overwhelmingly on two aspects i.e. striking a balance in public finance and increasing participation by persons of working age – AGE calls on the European Parliament to pledge in favour of a broader approach to pension reforms. It should look across all the components of pension architecture – not only on employment and the role of supplementary pensions to improve adequacy – if EU wants effectively support national governments in developing solutions which are financially and socially sustainable in long-term.

The European Parliament has the legitimacy to ask the EU and Member States rethink the overall pension architecture and take full consideration of their adequacy with regard to the groups most at risk: women, the young employed in poor quality jobs, the less educated or low paid workers. To meet the objective set up by the EU agenda on pensions, it is also crucial to remind that the development of pension funds alone will not respond to the adequacy.

These issues are covered by the proposals for amendments listed below.

Proposals for amendments

Amendment 1

Draft report	AGE proposal
<p>B. whereas the worst financial and economic crisis in decades has turned into an acute sovereign debt crisis that has severely affected the pension incomes of millions of EU citizens;</p>	<p>- B. whereas the worst financial and economic crisis in decades has turned into an acute sovereign debt crisis that has severely affected the pension incomes of millions of EU citizens; <i>whereas this crisis has shown that European economies are all interdependent and no country can any longer guarantee on its own the adequacy, safety and sustainability of their social protection systems</i></p>
<p style="text-align: center;"><i>Justification</i></p> <p><i>It is the common responsibility of EU together with Member States to rethink the overall pension architecture and take full consideration of their adequacy with regard to the groups most at risk, such as women, the young employed in poor quality jobs, the less educated or low paid workers.</i></p>	

Amendment 2

Draft report	AGE proposal
<p>F. whereas retirement systems are a key element of the European social model which ensure a <i>decent</i> standard of living <i>for people</i> in old age;</p>	<p>F. whereas retirement systems are a key element of the European social model which ensure <i>adequate</i> standard of living <i>for a dignified life</i> in old age, i.e. <i>in line with the Article 1 of the European Charter of Fundamental Rights</i>;</p>
<p style="text-align: center;"><i>Justification</i></p> <p><i>Often pictured as “privileged” and not directly affected by the crisis in comparison to other population</i></p>	



groups, older people do experience growing difficulties related to the lack of adequate income or shrinking social services, such as long-term care. With the persistence of the crisis, living conditions are worsening also for a growing number of older people with incomes just above the poverty threshold who are consequently no longer eligible for social transfers.

Amendment 3

Draft report	AGE proposal
	<p>1 (bis). Recalls the gender challenge regarding pensions; emphasises the need to improve gender equality at all ages and address the social impact of the shift from statutory pay-as-you-go to funded schemes and from defined-benefit to defined-contributions pension plans; underlines the urgency to address the poverty risk in particular among women, with no or inadequate access to individual or spousal pension rights, through the provision of a non-contributory income safety net in order to keep these women out of poverty;</p>
<p style="text-align: center;"><i>Justification</i></p> <p><i>The majority of older people in all member states are women and the highest poverty rates are concentrated amongst very old women. Both older women and men suffer from inequalities in terms of social protection. However, today most women are still additionally affected by their maternity history, as well as by informal caring responsibilities which restrict their access to good quality employment. On-going pension reforms introduce a closer link between pension income and contributions.</i></p> <p><i>The increasing trend to rely more on supplementary pensions and other private insurance schemes for an adequate replacement rate will lead to greater risk of poverty in old age if nothing is done to address the discrimination that women suffer in these schemes e.g. persistent pay gap for same job done by men, or contribution gap due to carrying family responsibilities. Further enforcement of EU gender and age equality legislation at national level will be also a key factor to improve adequacy of pension rights.</i></p>	

Amendment 4

Draft report	AGE proposal
2. Emphasises the likelihood of a long-term,	2. Emphasises the likelihood of a long-term,



<p>low-growth economic scenario, which will require Member States to consolidate their budgets and reform their economies under austere conditions; subscribes, therefore, to the view expressed in the Commission's White Paper that people will need to build up complementary occupational and if possible private pension savings;</p>	<p>low-growth economic scenario, which will require Member States to consolidate their budgets and reform their economies under austere conditions; subscribes, therefore, to the view expressed in the Commission's White Paper that people will need to build up complementary occupational and if possible private pension savings; <i>calls on the Member States to ensure adequate old-age income for all through individual rights to pension, and maintain equal access to mandatory state-regulated pensions whether or not supplementary pensions are developed;</i></p>
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Justification

Although complementary occupational pensions and private savings may play a significant and necessary role in completing the overall pension provision, defined contribution funded pension schemes cannot be relied upon to provide an adequate old-age income, due to their dependence on an unpredictable stock market, and because they are – as any other pension system – adversely affected by unpredicted population ageing.

The current economic and financial crisis provides an opportunity to review the efficiency and goals of pension systems at both national and EU level. Pension adequacy, a decent level of minimum income for all pensioners, safeguards for workers' savings and pensioners' provisions and possibilities to extend working lives are all areas where substantial improvement is needed to restore confidence in national social protection systems and the EU social model. AGE considers social protection to be essential for social cohesion and adequate pensions to be necessary for the very large majority of the EU population.

Amendment 5

Draft report	AGE proposal
<p>2. Stresses that first-pillar pensions remain the most important source of income for pensioners; calls on Member States to implement reforms to their first-pillar systems aligning contributory years to the changing ratio between pensioners and people in working age, also to prevent public pension costs crowding out other important government spending; calls on the Member States to ensure first-pillar pensions – if necessary complemented by</p>	<p>2. Stresses that first-pillar pensions remain the most important source of income for pensioners <i>and offer the most adequate protection of old-age income, in particular for the most vulnerable groups, such as low-income workers, those with justified gaps in employment careers etc.</i>; calls on Member States to implement reforms to their first-pillar systems aligning contributory years to the changing ratio between pensioners and people in working age, also to prevent public pension</p>



<p>minimum income provisions – to provide a decent minimum income;</p>	<p>costs crowding out other important government spending; calls on the Member States to ensure first-pillar pensions – if necessary complemented by minimum income provisions – to provide an adequate old-age income for all;</p>
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Justification

If the crisis prompts moves to limit these statutory pensions (first pillar) further and accelerate the shift to private funded pensions, this will be detrimental to those people who do not have equal access to supplementary pension rights. For example, women rely more heavily than men on statutory pensions, which often make some form of allowance for time spent caring for children or frail adults. Private pensions, on the other hand, reinforce the gender gap with regard to adequacy of retirement income.

It is crucial to improve gender equality at all ages and address the social impact of the shift from statutory pay-as-you-go to funded schemes and from defined-benefit to defined-contributions pension plans. The increasing trend to rely more on supplementary pensions and other private insurance schemes for an adequate replacement rate will lead to greater risk of poverty in old age if nothing is done to address the discrimination that women suffer in these schemes e.g. persistent pay gap for same job done by men, or contribution gap due to carrying family responsibilities.

Today also many young workers have to wait 10 – 15 years in short-term contracts before getting a stable job and the investment they have made in IORPs is lost. This problem also affects older workers forced to move into short-term contracts to remain in employment.

Amendment 6

Draft report	AGE proposal
<p>4. Observes that the crisis has revealed the vulnerability of both funded and pay-as-you-go pension schemes; recommends multi-pillar pension systems, consisting of at least:</p> <ul style="list-style-type: none"> i. a public, first-pillar, decent minimum pension; ii. a funded, employment-related, mandatory collective second-pillar pension, preferably governed by (sectoral) social partners; iii. an individual third-pillar pension based on private savings; <p>calls on the Member States to consider introducing such or comparable schemes where</p>	<p>4. Observes that the crisis has revealed the vulnerability of both funded and pay-as-you-go pension schemes; recommends a holistic approach to pension reforms, looking across all components of pension architecture, whenever the system consists of:</p> <ul style="list-style-type: none"> i. a public, first-pillar, adequate minimum pension; ii. a funded, employment-related, mandatory collective second-pillar pension, preferably negotiated by social partners whilst governed by independent bodies which are publically accountable and include scheme members;



<p>they do not yet exist; calls on the Commission to ensure any existing or future regulation in the field of pensions to be conducive to multi-pillar pension schemes;</p>	<p>iii. an optional individual third-pillar pension based on private savings;</p> <p>calls on the Member States to consider introducing such or comparable schemes where they do not yet exist; calls on the Commission to ensure any existing or future regulation in the field of pensions to be both financially and socially sustainable;</p>
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Justification

Cooperation on pensions at EU level must cover the overall national pension architectures and should be linked to the existing economic policy coordination so that financial and social implications of the national pension reforms can be taken into account when developing EU economic and financial policy and vice versa.

The social partners play a key role in the design, implementation and monitoring of pensions systems and this role should be enhanced. An active and effective involvement of representative older people's organisations in the debate on pension systems at national and EU level will help reinforce citizens' confidence in the reforms and their long-term objectives.

There are a number of actors involved in the provision of supplementary pensions e.g. institutions for occupational retirement provision, employer pension funds, insurance companies etc. AGE would like the EU and Member States to clarify the respective responsibilities of all of the above actors. The following issues need to be considered in this respect:

- *Representation of beneficiaries in managing bodies of occupational funded pensions' schemes.*
- *Control and supervision bodies which are accountable and produce official reports.*
- *Regular and transparent information to beneficiaries.*
- *Guarantee mechanisms for securing savings and contributions.*

Amendment 7

Draft report	AGE proposal
<p>5. Recognises the importance of pension funds as substantial and reliable long-term investors in the EU economy; emphasises their significance for achieving the Europe 2020 strategy's headline targets concerning economic growth, more and better jobs and attaining socially inclusive societies; urges the Commission not to jeopardise the investment potential of</p>	<p>Deleted</p>



pension funds when introducing or changing EU regulations, especially when reviewing the directive on the activities and supervision of institutions for occupational retirement provision;

Justification

Although pension funds have an increased role in the provision of pension income and constitute an important vector for growth, however, they are not per se and automatically contributing to the Europe 2020 objectives, in particular attaining socially inclusive societies.

The EU should mainstream the objective of adequacy and sustainability of pension reform (underpinned by for EU supervision and better investment and governance rules for pension funds) into the implementation of the Europe 2020 Strategy to ensure that its growth and employment initiatives support the overall EU social cohesion objectives.

The White Paper explicitly recognises the increased vulnerability of funded pension schemes i.e. “...need to review the regulatory framework and some design to improve the safety of private pensions.” The events in last past years provided all necessary evidence that those supplementary pensions cannot be considered as a unique panacea for pension reforms and substitute the responsibility of the state in ensuring sufficient pension provision for all.

Amendment 8

Draft report	AGE proposal
<p>7. Welcomes the main thrust of the White Paper that suggests focusing on: balancing time spent in work and retirement; developing complementary occupational and private pension savings, and enhancing the EU’s pension monitoring tools;</p>	<p>7. Welcomes the main thrust of the White Paper that suggests focusing on: <i>ensuring financial sustainability of pension systems in order to deliver adequate retirement incomes and to allow older people decent living standards and economic independence</i>; balancing time spent in work and retirement <i>in line with the increase in the number of healthy life years and not of the overall life expectancy</i>; developing complementary occupational and private pension savings, and enhancing the EU’s pension monitoring tools;</p>

Justification

Adequacy of income in old age must remain the fundamental goal of any pension model. The actions put forward by the Commission are too narrow, focusing overwhelmingly on two aspects: striking a balance in



public finance and increasing participation by persons of working age.

When speaking about adjustment mechanisms to link closer retirement age with life expectancy, is it crucial to consider that people may live longer but in poor health. When looking at the Healthy Life Year's expectancy in the EU, current statutory retirement ages no longer seem overly generous as HLYs are often lower. The Commission rightly states that "...life expectancy and health status at age 60 or age 65 tends to be lower for manual workers who started working at a young age." Further proposals will be necessary to address all these employees' individual and professional characteristics and needs.

Amendment 9

Draft report	AGE proposal
<p>10. Reiterates the call for closely linking pension benefits to years worked and premiums paid ('actuarial fairness'), to ensure that working more and longer pays off for workers by having a better pension; recommends that the Member States, in consultation with social partners, allow individual workers, on a voluntary basis, to continue working after the statutory retirement age, as extending the period of premiums paid while at the same time shortening the period of benefit eligibility can help workers reduce any pension gaps at a fast pace;</p>	<p>10. Reiterates the call for closely linking pension benefits to years worked and premiums paid ('actuarial fairness'), to ensure that working more and longer pays off for workers by having a better pension; recommends that the Member States, in consultation with social partners, put a ban on mandatory retirement ages to enable individuals to choose to continue to work, to phase their retirement, to work part-time or to stop working when they have reached pensionable age, providing that the labour market for older people is adjusted accordingly i.e. in order to meet specific needs of ageing workforce;</p>
<p style="text-align: center;"><i>Justification</i></p> <p><i>Although the Commission puts a strong focus on linking pensionable age to life expectancy i.e. better balance between working/retirement years, proposals are missing on how to encourage people to work longer, rather than use compulsion to do so.</i></p> <p><i>Innovative measures need to be adopted to support older workers wishing to remain in or to re-enter the labour market and to promote youth employment. It is neither clear how the EU will effectively help Member States in ensuring that employers offer better working conditions and training to younger and older workers, and to support age and gender diversity in their workforce. To succeed, the EU active ageing policy must take on board the needs of all age groups, as well as men and women. Promoting better occupational health to enable people stay longer on the labour market is another avenue that EU envisages.</i></p>	

Amendment 10



Draft report	AGE proposal
<p>14. Welcomes the call in the White Paper for developing funded, complementary occupational pensions and private savings; stresses, however, that the Commission should rather recommend collective mandatory occupational pension savings, as collective (second pillar) pension systems – usually governed by (sectoral) social partners – allow for solidarity within and between generations, whereas individual schemes do not; stresses the need to start building up complementary occupational pension systems now, despite the crisis;</p>	<p>14. Welcomes the call in the White Paper for developing funded, complementary occupational pensions and private savings; stresses, however, that the Commission should rather recommend collective mandatory occupational pension schemes, as collective (second pillar) pension systems – usually governed by social partners whilst governed by independent bodies which are publically accountable and include scheme members – allow for solidarity within and between generations, whereas individual schemes do not; stresses the need to start building up complementary occupational pension systems now, despite the crisis, whilst recognise and address the difficulty of some people to access these schemes;</p>
<p><i>Justification</i></p> <p><i>The recognition in the White Paper of the place for non-governmental stakeholders in debate on adequacy and sustainability of pensions is strongly welcomed and supports AGE's engagement to promote the direct voice of older people in policymaking including as regards pension reforms. To do so, it will be crucial to agree EU rules to oblige pension funds to include representatives of their beneficiaries and not only trade unions but also pensioners' organisations) in their supervisory boards;</i></p> <p><i>The increasing trend to rely more on supplementary pensions and other private insurance schemes for an adequate replacement rate will lead to greater risk of poverty in old age if nothing is done to address the discrimination that women suffer in these schemes e.g. persistent pay gap for same job done by men, or contribution gap due to carrying family responsibilities. Moreover, although private pensions and insurances products become even more necessary for women because of the above changes in public pension provision, still not enough women are buying them.</i></p> <p><i>Please see also the justification under the amendments 5 and 6.</i></p>	

Amendment 11

Draft report	AGE proposal
	<p>14 (bis). Stresses the need to put in place a common European supervision and regulatory system for financial markets and institutions in view of creating an environment that will enable every Member State to provide adequate protection of supplementary pensions systems and individual savings; stresses the need to develop EU rules for</p>



investment practice and prudent management of DC schemes, including life-styling portfolios, minimum return guarantees, protection of pension outcome when pay-out phase falls during economic and financial downturns and equal treatment through gender neutral life annuities;

Justification

With the increased trend to move from DB to DC schemes and the financial risk that results for scheme members, AGE agrees with the European Commission that EU regulation is needed to reduce these risks to avoid a detrimental impact on adequacy of future pension promise. EU supervision and better investment and governance rules for pension funds are indispensable to protect workers' pension rights and to build their confidence in DC systems.

As long as funded schemes do not offer adequate protection against capital market risks, labour market risks (unemployment and part-time) and biometric risks (longevity, disability and work-life balance), citizens will continue to prefer PAYG systems as these are built on solidarity and have proved more reliable in terms of pension outcome in periods of financial market turbulences. Measures such as minimum return guarantees, life-styling and life annuities are useful but will not be sufficient. The EU needs to adopt common economic and public finance rules and binding guiding principles for investment practice to minimize risks and improve safety and affordability for both schemes members and providers.

To read more:

AGE letter to President Barroso to prepare European Semester 2013 and react to White Paper on Pensions
http://www.age-platform.eu/images/stories/EN/age_letter_to_barroso_3_Oct12.pdf

AGE Publication "Older People also suffer because of the crisis"
<http://www.age-platform.eu/images/stories/EN/olderpeoplealsosufferbcofthecrisis-en.pdf>

AGE Contribution to the Peer Review "Effects of life courses on women's pensions" - 3-4 November 2011, Berlin, Germany
http://www.age-platform.eu/images/stories/AGE_contribution_to_DE_Peer_Review_on_womens_life_courses_14_Nov_FINAL.pdf

AGE contribution to the Peer Review 'Balancing the security and affordability of funded pension schemes'
http://www.age-platform.eu/images/stories/AGE_comments_to_PR_on_pensions_FINAL.pdf



AGE response to the consultation on the Commission's "Green Paper: towards adequate, sustainable and safe European pension systems" http://www.age-platform.eu/images/stories/AGE_Reponse_to_GP_Pensions_FINAL.pdf

AGE Statement on Pensions 2009 - Executive Summary http://www.age-platform.eu/images/stories/EN/pdf_AGE-pensions_FINAL_UK_web.pdf

