



The EU Pension Reform Agenda

**Workshop on the reform of Public Pension Systems
EU-CHINA Social Protection Reform Project
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Fritz von Nordheim Nielsen
European Commission
Deputy Head of Unit
DG EMPL D3: Social Protection Systems

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EU role in pensions up to 2010

Pensions largely responsibility of MS

- **Subsidiarity recognised - NO change intended**

Limited EU [supporting] Role in:

- **Cross Border REGULATION**
- **Policy COORDINATION**

Sum of EU support activities – short hand referred to as: EU framework for pensions

EU role in pensions (1) : Regulation

Regulatory framework at EU level covers 4 main points:

1. Cross border **coordination of social security** pensions and some basic rules on supplementary pensions to facilitate the **free movement** of workers and **equal treatment** for migrant workers
2. Establishing an **internal market** for funded occupational schemes and the necessary minimum standards on prudential rules to protect scheme members and beneficiaries;
3. Minimum guarantees concerning occupational pensions and accrued rights in case of the **insolvency** of enterprises as sponsors;
4. **Anti-discrimination** rules which apply, although with some differentiation, to both statutory and private pension schemes.

EU role in pensions (2): *Policy Coordination*

Social OMC – (Open Method of Coordination) facilitates and promotes national reform, set objectives and indicators, share best practice and mutual learning.

Coordination on fiscal sustainability (SGP) where Treaty requires MS to run budgets that do not jeopardise the functioning of the EMU. Council can recommend remedial action (particularly in the framework of the SGP), also in area of social security if causing problem.

More information on EU role on pensions in Commission Staff Working Document "EU legislation, coverage and related initiatives" accompanying the Green Paper.

EU Common Pension Objectives

(Pen 2001 / SPSI 2006 / 2011)

- **Adequacy** (*solidarity and fairness between and within generations, adequate retirement incomes for all, access to pensions which allow people to maintain, to a reasonable degree, their living standard after retirement*)
- **Sustainability** (*sound public finances, supporting longer working lives and active ageing, fair balance of contributions and benefits, promoting the affordability and ensuring the security of funded and private schemes*)
- **Modernisation** (*systems are transparent, well adapted to demographic ageing and structural change, people receive the information they need to plan their retirement*)

2012 Pensions National competence, *but* common concern at EU level

- ❑ *EU has no powers to prescribe pension system design...*
- ❑ *...or to establish a common EU-wide pension system to replace national schemes*
- ❑ *But pension reforms are recognised as crucial for the success of the Europe 2020 Strategy for smart, sustainable and inclusive growth...*
- ❑ *... and for sustainable public finances in the context of reinforced economic governance.*

EU GP-WP Pension initiative Background – *Pensions under pressure in Member States*

Imbalances from past

- between rising longevity and declining effective retirement age
- Reversal since 2000 – but in many MS people still leave labour market & take up pension earlier than in 1970.

Demographic ageing accelerates:

- Increasing longevity amid persistently low birth rates:
- From 2012 EU working age population will begin to shrink.

Pension Reforms

- Systems changed from single to multi-pillar, increasing role for private funded and thus potentially for Europe

The crisis

- Financial, economic and public budget crises aggravate situation for both public and private schemes
- fund losses, budget deterioration and employment impacts.

Trends in MS pension reforms 1995-2008

From single to multi-pillar; DB to DC; towards hybrid forms

Strengthening of contributory principles

- **Career average pay, longer contribution periods, entitlement more « DC » → pension outcomes more dependent on performance of labour markets**

Greater role for prefunding

- **Auto-enrolment in occupational, Enhanced voluntary, Mandatory private → pension outcomes more dependent on performance of capital markets**

Automatic adjustment mechanisms

- **Life expectancy, GDP and labour market growth → balancing the system at the expense of higher uncertainty for individuals**

Innovative hybrid designs: Mixing funded/payg, public/private:

- **NDC, Mandatory Private, Riester etc.**

2010-2011 **Events** in EU pension context

- ***Events More than Initiatives the expected drivers:***
Not Lisbon Treaty, Europe2020, GP & EPC-SPC, Monti as...
- ***The Crisis metamorphosed and spread:***
Financial – Economic – Public Budget/ Sovereign Debt...
- ***Sudden shift in crisis handling: from Stimulus to Austerity*** - *at European and National level*

National Events of European Significance

Brave ideas – High Stakes

- Finland, Netherlands, Denmarkovercoming pension reform tabus

Seminal Pension Reforms (raising pension ages & moving towards DC)

- Greece – only at the insistence of guarantors
- France & Spain – breaking the political impasse
- Poland – using narrow political window of opportunity
- Czech – from laggard to vanguard?

Roll back of Mandatory Private:

- On hold: Latvia, Lithuania & Estonia - Romania
- Major Reduction: Poland ... and still further dismantling
- Abolition: Hungary
- Accounting rules in the SGP & the double payment problem: Is Europe or poor designs to blame - How much saving did actually take place?

Europe Never before so present in national Pension Debates

- What the others do – what the EU suggests / wants / demands



Crisis affecting mandatory funded schemes

Crisis reveals problems of Mandatory funded schemes financed from re-allocated social security taxes

Estonia: *contributions cancelled 1 June 2009 till 2012 and reduced from 4% to 2% thereafter.*

Lithuania: *2009 contributions reduced from 5.5% to 2% and reallocated to present pensions*

Latvia: *2009 contributions reduced from 8% to 2% and diverted to PAYG NDC scheme*

Romania: *2010 planned rise in contribution rates cancelled (kept at 2%).*

Slovakia: *workers to allowed opt out of the funded scheme and return to the PAYG scheme*

Poland: *2011 contributions reduced from 7.3% to 2.3 % and diverted to PAYG scheme.*

Hungary: *2011 contributions cancelled - followed by nationalisation of pension funds*

Bulgaria: *contributions reduced*



Reinforced Economic Policy Coordination

Stronger economic governance:

- Reinforcing Stability and Growth Pact (reverse majority/burden of proof)
- Addressing imbalances in macro-economic & competitiveness
- Towards permanent & robust framework for crisis management

Aligned ex ante coordination

- Budgets & structural reform programmes assessed together
- Implementing Europe 2020 / European semester recommendations in national budgets for the autumn

Main budget elements for ex ante BXL assessment

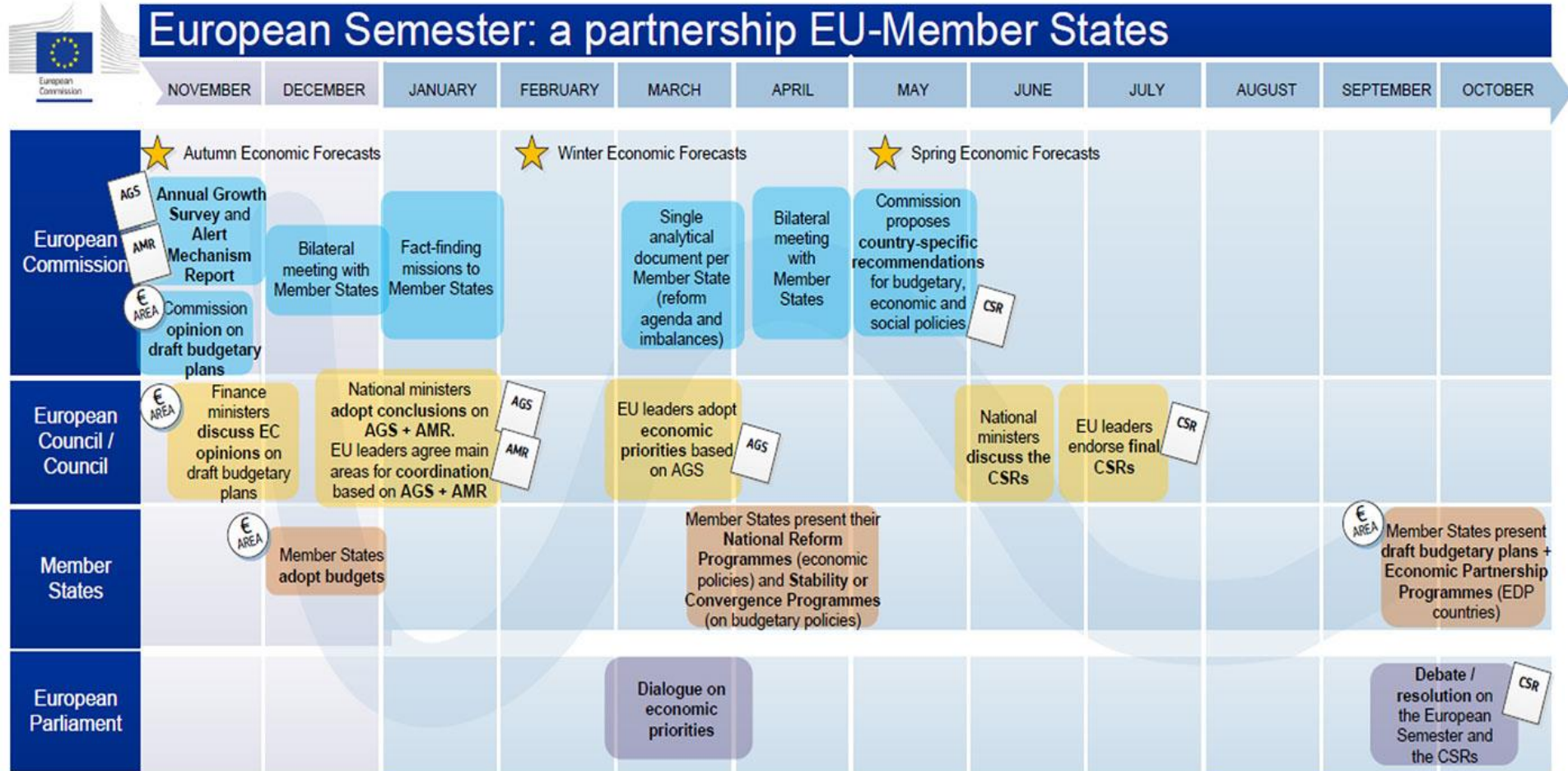
- BXL surveillance for transparency and mutual trust
- Obligatory reduction of excessive Debt incl ageing liabilities

"Rule based" enforcement for all– less discretion more teeth

- Early direct sanctions if recommendations not followed
- Reverse voting mechanism: Commission proposal adopted unless met by qualified council majority against

CSRs: ***Comply or explain*** (before your peers)

European Semester: a partnership EU-Member States



GLOSSARY: AGS: Annual Growth Survey – AMR: Alert Mechanism Report – CSR: Country-Specific Recommendations – EDP: Excessive Deficit Procedure

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 retirement savings**

Country Specific Recommendations (CSRs 2011) on PENSIONS

16 MS with CSRs on Pensions (June 2011, 2012)

Only 6 without (DE, EE, HU, IT, SE, UK)

In 5 Programme MS (EL, IE, LV, PT, RO) excluded
pension reforms are part of the MoUs in **4**

Character of CSRs

Affirmative/supportive: BG, DK, ES, FR, LT [FI, NL, PL]

Intrusive & detailed: CY, CZ, LU, MT (NO prior reforms) AT

Sustainability-Adequacy balance: CY, CZ, SK, SL,

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**

White Paper - Main messages

*To **ensure adequate and sustainable** pensions when people live longer and the proportion between those of active age to those of retirement age is quickly falling,*

*Europeans will generally need to **work more & longer** and **save more** for their retirement while enhancing the safety and cost-effectiveness of such savings.*

Two key routes to adequate pensions

Balancing better time spent in work and in retirement *by raising effective retirement ages and linking pensionable ages to longevity gains*

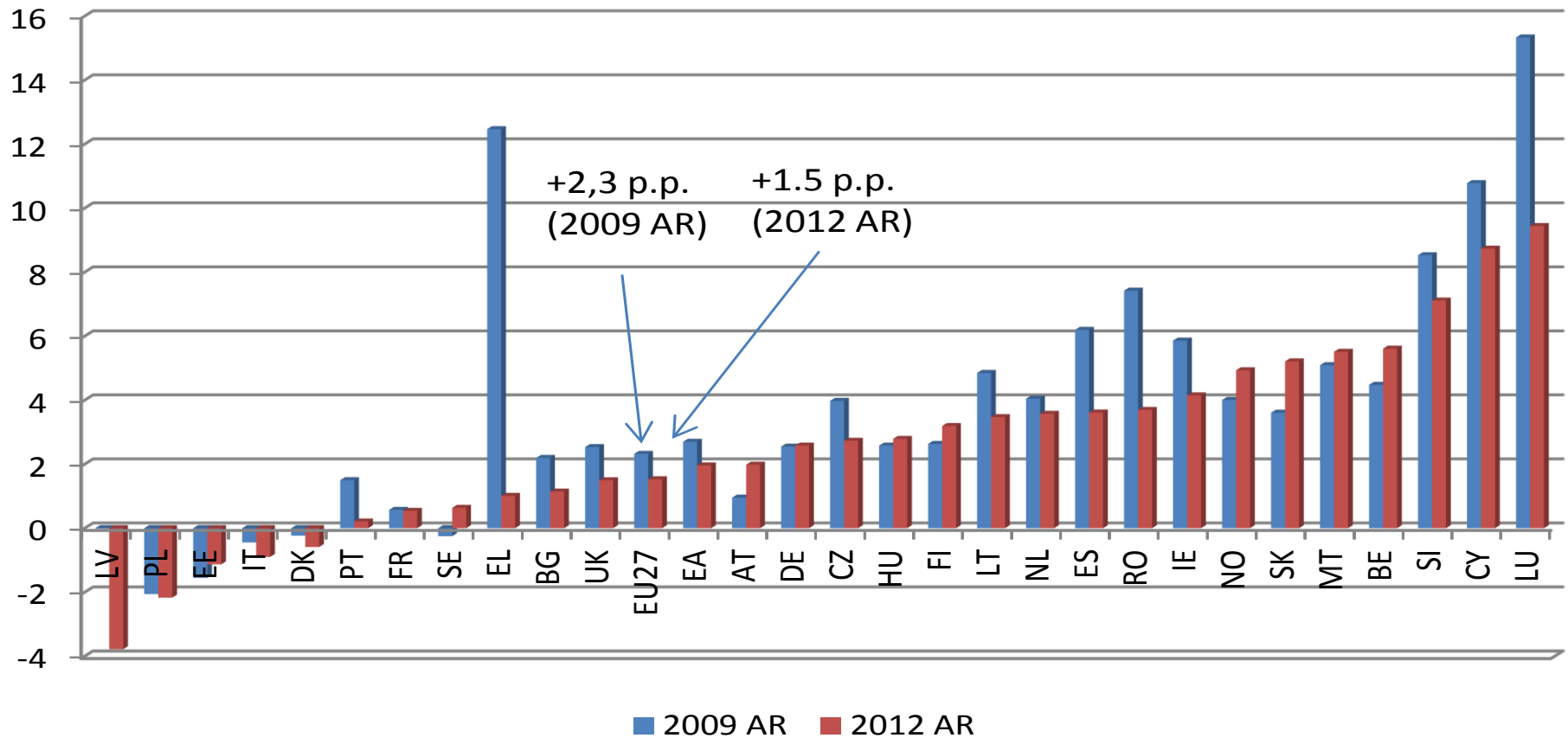
Build extra entitlements through larger, safer & more cost-effective complementary retirement savings



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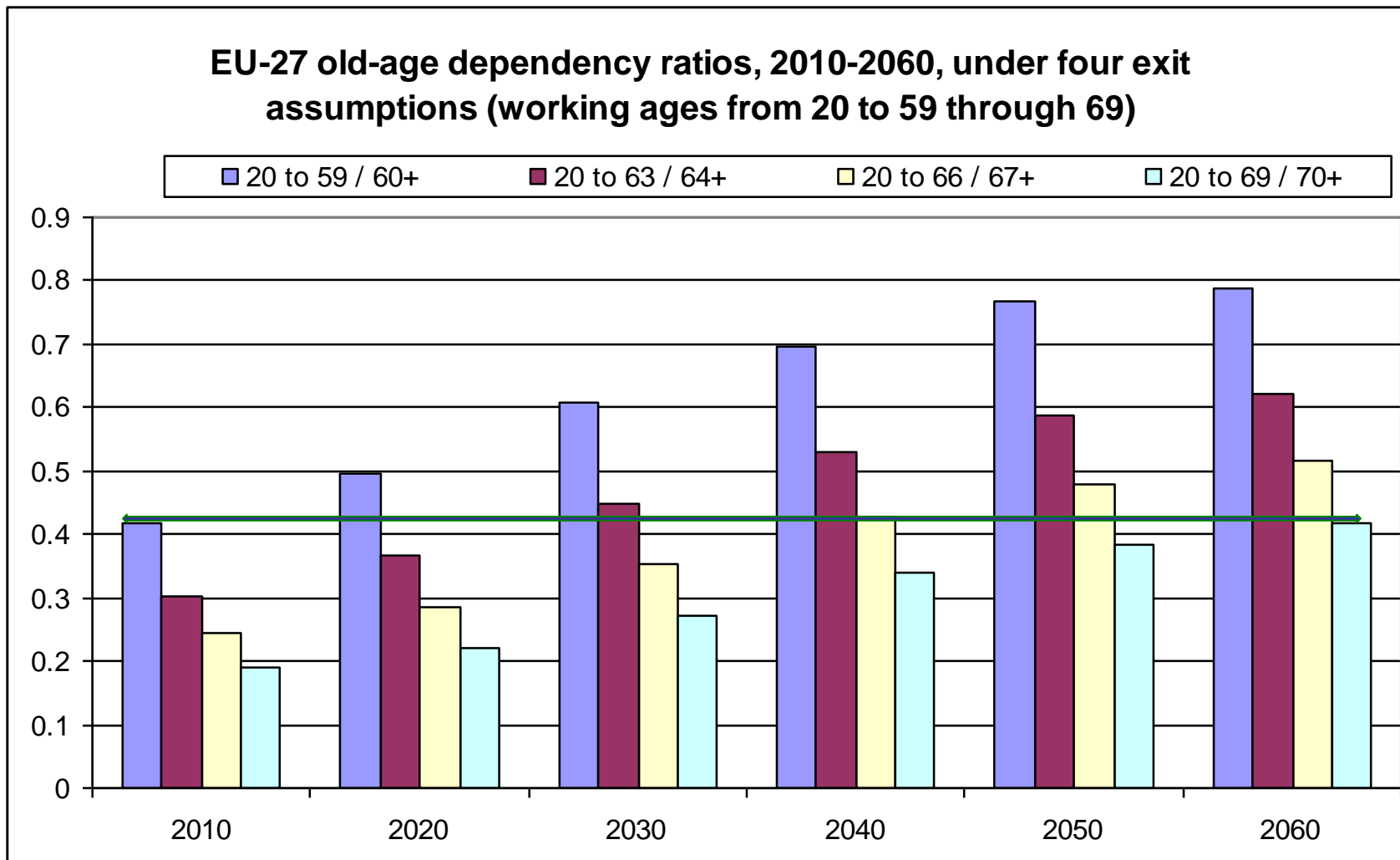
Reforms have improved pension sustainability

(change 2010-2060 in percentage points) - 2009 and 2012 AR



The power of longer working lives

EU-27 old-age dependency ratios, 2010-2060, under four exit assumptions (working ages from 20 to 59 through 69)



Adequacy vs Sustainability

- ❑ *Old-age dependency ratio (65+/working-age population) expected to increase from 26% to 58% by 2060...*
- ❑ *...but public spending on pensions only projected to rise from 11.3 to 12.9% of GDP.*
- ❑ ***Is this possible without widespread poverty among older people?***
- ❑ *Depends on two factors:*
 - ❑ **Balance between time spent working and duration of retirement**
 - ❑ **How much people contribute to pension schemes**

Country-specific recommendations on pensions in 2014

- ❑ *Raise the retirement age, link it (or benefits) to life expectancy: **AT, BE, BG, CZ, FI, FR, HR, LT, LU, MT, SI***
- ❑ *Restrict access to early retirement, provide incentives for later retirement: **AT, BE, BG, CZ, DE, FI, HR, LT, LU***
- ❑ *Strengthen supplementary retirement provision: **DE, LT, NL, SI***
- ❑ *Align women's and men's retirement ages: **AT, BG, HR, RO***
- ❑ *Review indexation mechanisms: **CZ, FR, LT***
- ❑ *Review special schemes: **FR, HR, PL***
- ❑ *Review invalidity/disability pensions: **BG, HR***
- ❑ *General recommendation on financial sustainability: **FR, PT, SI***
- ❑ *Employability of older workers: **AT, CZ, FI, FR, LT, LU, NL, PL, RO, SI***

Linking Mechanisms in MS

100% or 66,3% rise in line with life expectancy?

CY: 2018 (65), every 5, 100%

DK: 2022 (67), every 5, 100%

EL: 2021 (67), every 3

ES: 2027 (67), every 5

NL: 2021 (67)

IT: 2013 (65+), every 3(2), 100%

SK: 2027 (62), 100%

UK: 2020 (66), 1/3 of adult life in retirement

Implicit agenda of 'linking'

- *Collective pension norm: it moves w. longevity*
- *Tables turned: SP off-loading onto labour markets*
- *Fixing pensions through longer working lives instead of clearing LM's with early retirement*
- *Taking all adjustments in duration of working life*
- *Challenge moved to the social partners*
- *Required: **Changes in age management** in work places and labour markets to encourage and enable women and men to work to higher ages*

Major **Post-2008** pension reforms

Key elements:

Roll back of mandatory private; Gender age equalisation; **Rise in pensionable age**; automatic adjustment

2009: CY, EE, (FI), HU, (LT), (LV-8),

2010: (AT), EL, FR, RO,

**2011: (AT) BE, 2BG, CZ, 2DK, ES, FR, 3HU, IE, IT,
LT, NL, PL, (SE), (UK)**



Major **Post-2008** pension reforms

2012: (AT), BG, CY, FR, LU, LV, PL, SI, SK, UK

2013: ES, FR, [PL], UK

2014: DE, FI, (RO), [BG]

EU-climate / CSR motivated: BE, BG, CY, CZ, DK, FI, IE, **IT, LT, LU, NL, **PL**, RO, SI, SK, (UK)**

23 MS are raising the pensionable age & 7 have decided to link it to life expectancy: CY, DK, EL, IT, NL, SK, UK

Future of pensions in EU: Convergence amid continued diversity

- ❑ *EU convergence of Retirement & Pensionable ages*
- ❑ *EU convergence of working life duration*
- ❑ *Multi-pillar systems – primarily DC-designs*
- ❑ *Public earnings-related PAYG stays dominant but less so and more de facto emphasis on guarantee pensions*

Future of pensions in EU: Convergence amid continued diversity

- ❑ *Larger role for 2nd & 3rd pillar – quasi /fully mandatory*
- ❑ *Increasing role for 4th pillar of work income*
- ❑ *End-of-career labour markets after retirement from 1st*
- ❑ *Depends more crucially on recovery & improvement of our economies*