

Brussels, 7 July 2010

Green Paper on pensions

Why is the Commission launching this Green Paper now?

European pension systems are under pressure from demographic ageing as a result of increases in longevity and declining birth rates. From 2012, the working age population in Europe will begin to shrink, so the challenge is very much upon us. Many Member States have been reforming their pension systems to varying degrees to meet this challenge, but the financial and economic crisis has made the situation more difficult and more urgent.

Against this background, it is timely to launch an open debate on whether and how the EU level pensions framework should be developed to best support Member States in their difficult task of ensuring they provide their citizens with adequate, sustainable and safe pensions – both now and in the future.

What is the EU's role on pensions?

The design of pension systems is largely the responsibility of Member States and the Green Paper does not question this. The regulatory framework at the EU level covers four main points:

1. Cross border coordination of social security pensions to facilitate the free movement of workers and equal treatment for workers who change country.
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 apply, although with some differentiation, to both statutory and private pension schemes.

Beyond this, there is a coordination process (the Open Method of Coordination) used to facilitate and promote national reform, share best practice and set high level objectives and indicators. At EU level the agreed objectives for pension systems are that they are adequate and sustainable, as well as being modern and transparent.

The Commission Staff Working Document "EU legislation, coverage and related initiatives" accompanying the Green Paper gives more detail on this.

There is finally the area of fiscal sustainability where the Treaty requires Member States to run government budgets that do not jeopardise the functioning of the Economic and Monetary Union. The Council can recommend remedial action (particularly in the framework of the Stability and Growth Pact), also in the area of social security if that is causing the problem.

What does the Green Paper aim to do?

Against the backdrop of demographic ageing and the additional challenges brought by the financial and economic crisis, the Green Paper seeks the views of all stakeholders in the EU on whether, and how, the EU level pension framework should be adjusted to best support Member States in ensuring they achieve their agreed goal of adequate and sustainable pensions for EU citizens.

What are the main issues up for discussion?

There are three main themes beneath the overarching aims of adequate, sustainable and safe European pension systems:

1. Firstly, how the EU level can best support Member States as they seek to balance periods spent in work with periods spent in retirement, taking account of structural changes in our societies and labour markets and of rising life expectancy. This links closely to the Europe 2020 strategy for smart, sustainable and inclusive growth.
2. Secondly, our concern is about removing obstacles to mobility of workers as well as capital, resulting from pension arrangements, including supplementary pension schemes.
3. And thirdly, ensuring the safety of pensions now and in the future. We look at mitigating risk and volatility for workers and pensioners. We wish to ensure that funded pension systems are secure and that they strike the right balance between efficiency and safety.

Does the Commission want to launch new legislation?

This is a Green Paper, so does not make firm specific proposals at this stage. In any case, as the paper makes clear, many aspects of pension systems are the responsibility of Member States. But in areas where the EU has competence to legislate, we stand ready to do so (and in particular to revise existing legislation), if, having considered the consultation responses, this is considered appropriate.

Is the Commission recommending increases in pensionable ages?

No. Setting retirement ages or increasing the pensionable age is for Member States. The Green Paper does not make firm recommendations, nor does it comment on any particular Member State's pension system. The design of pension systems is a matter for national governments and there is a broad range of different systems in place across Europe.

The Commission recognises that people in the EU are living longer which is an enormous achievement. However, unless people, as they live longer, also stay longer in employment, or start contributing to their pension earlier on in their working life, either pension adequacy is likely to 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, which can involve both working more and longer.

Is the Commission trying to force people to take out a private pension?

No. This is a matter for Member States to decide. The Commission does not advocate one particular type of pension system. The Commission recognises that private and funded pensions are playing an increasing role in the retirement income of EU citizens in many Member States. The Commission therefore aims to help and encourage Member States to design such schemes carefully to ensure they are safe and appropriately mitigate risk and volatility so the overall aims of adequate and sustainable pension systems are met.

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. If it were so, countries with high retirement ages and many older people still working should also have problems getting younger people into employment.

This is clearly not the case. 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 is not a problem caused by older workers staying "too long" in jobs which might otherwise go to a young person. Youth unemployment tends to be rather a consequence of general economic downturns and/or shortcomings of educational systems and labour market institutions.

The solution to youth unemployment is not about sending more older workers into early retirement, which would also further increase the burden of financing retirement benefits on the young and active population. Improving the employment situation of young people requires rather 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 to removing institutional obstacles to hiring young people.

The European Commission's objective is to work closely with Member States in implementing workable solutions to ensure young people's full participation in employment.

Is the Commission going to propose the establishment of a pension benefit guarantee system?

This is also subject of the consultation. Such systems need to be closely considered with the review of the solvency rules for pension funds and the EU rules aiming to protect workers' rights when employers become insolvent. Moreover, coherence should be maintained with protection systems that are being reviewed or proposed in other financial markets, in particular for bank deposits, investment products and insurance policies.

What has been the impact of the crisis on pension systems 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 difficult pension reforms can no longer be put off.

How do pensions affect worker mobility in the EU?

In today's labour market people need to be able to change jobs easily and without financial setbacks. Employers need to be able to recruit the right person with the right skills. And with ageing demographics, people need to have opportunities to work and build up and retain pension rights, not lose them due of a change of job. This is why we need to tackle obstacles to free movement caused by pension rules.

How does the consultation work?

This is an open consultation which invites comments from everyone with an interest in the topic of what the EU can do to help ensure that pensions are adequate, sustainable and safe now and in the future. This may include citizens, social partners, national governments, market supervisors, NGOs, organisations representing older people and industries, in particular pension funds and insurance.

With this Green Paper, the Commission is seeking views on whether and how to update the EU level pension's framework, whilst respecting the fact that Member States are primarily responsible for the organisation of their pension systems.

The consultation period will last from 7 July 2010 until 15 November 2010, which gives people over four months to consider the issues raised and respond. Everybody can contribute via an online questionnaire available at the following link: <http://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=839&furtherNews=yes>

Alternatively, for those without web access, responses can be sent by post to:

European Commission

Green Paper on Pensions consultation

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What are the next steps?

After the consultation period closes the Commission will collate all responses and publish a summary document. All responses will also be placed online as part of our commitment to openness, though respondents may request anonymity.

It is too early to be specific on the next steps, as these will naturally be dependent on the outcome of the consultation which we have launched. Possible approaches could involve a White Paper and/or separate initiatives on issues where there has already been some work undertaken prior to the Green Paper.

Further information :

[IP/10/905](#)

Green Paper and online consultation:

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