

CHECK AGAINST DELIVERY

**“PENSIONS IN THE 21ST CENTURY”
20 JUNE 2006, BRUSSELS
ADDRESS BY THERESE DE LIEDEKERKE
DIRECTOR SOCIAL AFFAIRS, UNICE**

Mr Chairman,
Ladies and Gentlemen,

First of all, let me start by thanking you for inviting UNICE. It is with real pleasure and honour to speak at today's High Level Session to celebrate EFRP's 25th anniversary.

The theme of this session is “**Pensions in the 21st century**”. This is not only a very broad theme but also a fundamental one in view of the profound demographic changes taking place in Europe.

On pension reform

Under current trends, the population of the EU will be both substantially smaller and older in 2050. The process of population ageing constitutes a huge challenge for the financial sustainability of public pension systems in Europe. All countries face the question of how to tackle the increased cost of pensions. Each country will have to adopt its own mix of solutions.

Population ageing will have a profound impact on the pension landscape of the 21st century. While public first-pillar pension schemes will remain the principal source of retirement income in most European countries (at least in the near- and medium-term future), the relative importance of second- and third-pillar pension schemes has increased considerably over the past two decades. And it will no doubt continue to do so. Indeed, there can be no doubt that **private pension funds** have and will become ever more important for providing retirement security for Europe's citizens. This is also evident from the increase in private pension fund assets. For example, in 1999, the total second-pillar pension fund assets held by the member associations of the EFRP amounted to 2.7 trillion euros. At the end of 2004, this had increased to 3.3 trillion euros. In 2005, pension funds have become the main source of capital for the European private equity industry and contributed a quarter (25%) of the Euro 71.8 bn raised compared with 17.6% for banks and 11% for insurance companies.

On the EFRP

New regulatory and policy issues have arisen from the growing importance of private pensions. Recent years, for example, have witnessed the EU dealing with an increasing number of issues that are relevant for pension funds. In this respect, I would like to emphasise the important role played by the **European Federation for Retirement Provision**. The Federation's expert advice is greatly appreciated by all. The cooperation between UNICE and the EFRP has always been excellent. Both organisations have delivered similar messages on many occasions, notably in the Pensions Forum.

Over the past 25 years, EFRP has developed to become a key player in the European pension debate and a crucial link between European policy-makers and the pensions industry. I would therefore like to take this opportunity, Mr Chairman, to congratulate your Federation on its 25th anniversary and express the wish that the EFRP remains as active and influential during the next 25 years.

On the Directive

In the remaining part of my intervention, however, I would like to focus on a more immediate issue which is of great importance to both the EFRP and UNICE. I am talking about the European Commission's proposal for a **Directive on Improving the Portability of Supplementary Pension Rights**.

This proposal was published last October. Its stated aim is to reduce the obstacles to mobility within and between EU Member States related to supplementary pension schemes. To do so, the proposal introduces provisions on:

- conditions governing the acquisition of pension rights;
- preservation of dormant supplementary pension rights;
- transferability of acquired supplementary pension rights; and
- information given to workers on how mobility may affect occupational pension rights.

Obviously, UNICE fully supports the aim of facilitating cross-border labour mobility within the EU. This is a fundamental freedom guaranteed by the Treaty. However, UNICE has many questions and concerns on the content of the proposed text.

Firstly, we believe that the directive could fail to meet its **labour mobility objective** since tax obstacles, which are the biggest problem, remain untouched.

Secondly, UNICE is concerned that by **increasing costs** to operate supplementary pension schemes, the directive could discourage employers from offering pensions to their employees. It is extremely important to ensure that the EU directive does not harm the development of second-pillar pension schemes. This is crucial at a time when European countries need to reform their pension systems to make them financially sustainable and try to achieve a better balance between first-, second- and third-pillar pension schemes in covering the risks of old age.

Let me explain this latter aspect in more detail.

As already mentioned, the Commission proposal contains several provisions concerning the acquisition, preservation and transferability of supplementary pension rights. These provisions could significantly increase the **costs** of operating supplementary pension systems and could discourage companies from offering a supplementary pension to their employees because the limits for vesting periods, waiting periods and minimum age are far too low. Such low limits would, for example, lead to companies and pension funds having to administer a relatively high number of small pension entitlements implying costs which are disproportionate compared with the benefits for workers.

Another key concern is the provision requiring Member States to adopt measures deemed necessary in order to ensure a fair adjustment of dormant pension rights so that outgoing workers are not penalised. In UNICE's view, however, this could be misinterpreted as meaning a compulsory indexation of dormant rights. Imposing indexation of rights for a worker for whom contributions are no longer made would be unacceptable. It is true that the text of the Commission carefully avoids referring explicitly to indexation but it relies on the ambiguous notion of fair adjustment.

This leads me to our third main concern with regard to the proposed directive. We think that the text could lead to great legal uncertainty and uncertainty, in the field of pensions, where the choices made have long-term implications and huge financial consequences, is particularly damaging.

The fact is that occupational pension systems take very different forms not only from country to country but also within each country. This diversity reflects different companies' and workers' needs and is appreciated by both sides. Trying to define EU principles applying to defined benefits and defined contribution schemes or funds financed by the employer only and those to which workers also contribute or treating dormant rights and rights of workers for whom contributions are still made in the same way can only lead to huge difficulties.

Setting the limits for vesting periods, waiting periods and minimum age or imposing indexation from the EU level is not appropriate. Furthermore, doing so could also interfere with the autonomy of social partners in Member States. Indeed, the arrangements for and the content of supplementary pension schemes in the Member States are primarily the responsibility of the social partners. The inclusion of EU legal provisions on conditions governing pension schemes in the EU directive will interfere with the national social partners' freedom to negotiate and threaten the organisation of national pension systems.

To sum up and conclude,

UNICE supports the objective of the portability directive, but has serious concerns about its content. Increasing the costs of labour for approximately 120 million workers affiliated to supplementary pensions with no evidence that it will reduce obstacles for the 3.6 million workers who make use of their right to cross-border mobility in the EU cannot be regarded as an appropriate cost-benefit ratio and the proposal should be radically modified.

Striking the right cost-benefit balance is crucial considering the growing importance of private pensions in Europe. In all EU Member States, the process of pension system reform is under way. Governments are introducing reforms in order to ensure the long-term financial sustainability of their pension systems. The relative importance of second-pillar pensions varies considerably among EU countries but it is clear that they become an increasingly important element of social protection.

Second-pillar pensions too must be financially sustainable and policy-makers cannot afford to overlook the cost implications of their decisions. Like UNICE, EFRP in its 2006 annual report urges European policy-makers to carefully balance their initiatives so that policy failures can be avoided.

Let me conclude by saying that the debate on pension portability should not make us forget that several significant steps have been taken at the EU level recently to reduce pension-related obstacles to mobility such as the 1998 directive on safeguarding of supplementary pension rights and the 2003 directive on pan-European pension funds. Obviously, more needs to be done. UNICE will remain closely involved in this process but we also count on EFRP to continue its excellent work informing about the right legal and technical approach to Community action in the pension field and are confident that this will be the case.

Thank you.
