BUSINESSEUROPE

POSITION PAPER

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RESPONSE TO GREEN PAPER: TOWARDS ADEQUATE, SUSTAINABLE AND SAFE EUROPEAN PENSION SYSTEMS

Executive summary

The Green Paper addresses legitimate concerns regarding the impact of demographic change on pension systems. Although some measures have been taken, further steps are needed from member states to ensure the sustainability of pension systems. The EU should encourage them in this respect. Appropriate reform measures will depend on the national context. Some will have to prioritise increasing the retirement age, others will seek to abolish early retirement schemes and others will take action to introduce automatic adjustment mechanisms. Some member states will have to take a combination of or all of these measures. Such measures should be part of member states wider attempts to reduce public debt to ensure the future sustainability of public finances. Pension system reforms should be complemented by programmes of labour market reform, aimed at raising the number of people in work. To ensure that job opportunities exist, increased economic growth in the EU is essential.

An important part of retirement income is provided by private and occupational pensions in several countries and as state spending comes under increasing pressure, the 2nd and 3rd pillars will become more important in alleviating some of the burden of demographic change. Provision of pensions by employers is socially desirable and is part of an employee´s compensation and benefits package. Such pensions must therefore remain cost-effective for employers, which is also beneficial for employees. Substantial changes to the rules governing funded pension schemes should be avoided, including additional solvency rules, as this would raise the costs of operating such schemes.

There is a legitimate diversity in member state pension systems, largely driven by the differing designs of 1st pillar pension schemes, which influences national approaches towards the 2nd and 3rd pillars. This diversity not only applies to the combinations between state, occupational and private pensions but also within these categories. Given the different character of schemes, they should not be treated in the same way, however setting more burdensome requirements for some schemes than for others should be avoided. This does not allow different schemes to operate on an equal footing.

Given the diversity in pension systems and the balance of different pillars being the responsibility of individual member states and social partners, it is difficult to regulate pension schemes at EU level. The EU's role should be to make the principles and objectives of the Open Method of Coordination more visible and better use them to challenge member states to further reform their pension systems. In addition, the EU should encourage member states to ensure that citizens have access to information about their pensions, by ensuring that an effective national framework exists for disclosure of information regarding all pillars of the pension system.

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Responses to specific questions

(1) How can the EU support Member States' efforts to strengthen the adequacy of pension systems? Should the EU seek to define better what an adequate retirement income might entail?

(2) Is the existing pension framework at the EU level sufficient to ensure sustainable public finances?

1. The key priority for the EU should be to encourage member states to take measures to ensure sustainability of pension systems. Provision of adequate pensions, particularly in the long-term is only possible if the system is sustainable both for governments and for employers as contributors to mandatory systems and as providers of occupational pensions.

2. If policies remain unchanged, maintaining future income replacement rates at current levels is unrealistic in the context of increased life expectancy. This will place burdens on public finances and increase costs for companies, as well as endangering the sustainability of the pension system. To reduce this burden there needs to be an increase in contributions from people in employment and/or employers. However, this should not be done by raising taxes and social security contributions paid by employers and those in employment. This places a large burden on companies and the working population and particularly on younger generations. It is more beneficial for public finances and companies to ensure that more people are working and people work longer.

3. The EU should not seek to define what is considered an adequate retirement income. In most member states after a full career pensions are currently ensuring adequate net income replacement levels. OECD figures show that mandatory pensions in recent years have provided on average over 70% of previous earnings for people on average pay and over 80% for people on low pay.[1] To provide real added value, the EU should focus on helping member states and employers offering pensions to ensure the sustainability of their systems, as a precondition for adequacy.

4. Support for member states should continue through the existing EU level framework of the Open Method of Coordination (OMC). This remains an effective way for member states to benchmark progress in meeting common objectives in the area of pensions. The effectiveness of the OMC can be improved, but the existing objectives of ensuring fairness between generations, guaranteeing adequate retirement income and ensuring financial sustainability of public and private schemes remain relevant. The EU should continue to support member states' reform efforts to increase the length of working lives, promote active ageing and ensure an appropriate balance between contributions and benefits. The Social Protection Committee (SPC), Economic Policy Committee (EPC) and Pensions Forum also remain effective in facilitating exchanges of experience and development of indicators for measuring progress. We support the joint work of the SPC and EPC on their report on pensions, in particular the dual focus on sustainability and adequacy which should be encouraged.

[1] OECD Pensions at a glance 2009

5. Gathering the most appropriate statistics is an important part of reviewing sustainability of pension systems. It is not always obvious which are the most relevant statistics, for example to measure the effective retirement age. A commonly used statistic is the average exit age from the labour force. However, this can in some cases give a more optimistic view of the pension system than other statistics, specifically the expected effective retirement age at 25 years of age. In Finland, for example, the average age of exit from the labour force is 61.6 years, whereas the expected effective retirement age of a person at 25 years old is 59.8 years. By facilitating the comparisons of the most relevant statistics, the EU could improve the assessment of member states' pension systems.

6. The EU should support and facilitate member states' reforms of labour markets, which aim at promoting the uptake of flexicurity principles, modernising social protection systems and creating the environment in which companies can create jobs. Employment and labour market policies must not hamper this. Improvements on the labour market are necessary to ensure that demographic change does not have a negative impact on economic growth in the EU.

7. The EU should continue to support member states in an urgent return to sound public finances. This includes supporting member state austerity measures as a reaction to the crisis, which are necessary to avoid unsustainable increases in public debt levels and ensure the continuity of pension systems. Measures should also be taken to ensure that public finances are not unnecessarily burdened by public sector pensions. Reducing public debt is also necessary for the long-term, as age-related public expenditure is projected to increase on average in the EU by 4.75% of GDP between 2007 and 2060. In some member states the increase is even projected to be around 7% (for example Greece, Netherlands, Spain and Ireland). The EU can make more effective use of the Stability and Growth Pact, by ensuring that the rules are transposed into national law. Stress testing to assess the resilience of public finances is another useful tool. Finally, the EU should reinforce its governance structures to ensure that member states undertake further structural reforms, pushing for greater national commitments towards fiscal sustainability and competitiveness. A more disciplined fiscal stance and robust anti-inflationary policies are also more likely to protect the real value of pensions over time.

8. With respect to current discussions on the Stability and Growth Pact, the assessment of government debt and deficits in countries with pay-as-you-go systems and those with funded pension schemes are not fully comparable. Under the rules of the Stability and Growth Pact, the EU can apply sanctions to those countries which do not comply with the limits set regarding the size of public debt compared to GDP. The current methodology means that some EU member states which have reformed their pension systems are penalized under the Stability and Growth Pact rules, as additional payments from state budgets into funded parts of pension systems statistically increase current budgetary deficit and public debt. In practice, however, they simply transfer a part of the future hidden pension liability into the disclosed public debt. This should be duly considered when assessing debt sustainability under the Stability and Growth Pact rules, taking due consideration of future implicit liabilities and the impact of pension reforms. Such assessment should be based on a reliable measurement system to be further developed by the Commission and the Council. These considerations are important in ensuring that EU level rules promote member state reform of pension systems.

9. The EU should encourage member states to inform and educate citizens about the pension system, as well as increasing awareness and understanding of their choices, pension rights and expectations for income in retirement. This applies to all pillars of the pension system. Information should be provided in a simple way so that it is accessible for all citizens. In particular the EU should provide support to member states to explain the need for reform measures, to foster public acceptance. This should include explaining the importance of sound public finances, economic growth and the compatibility between longer lives and longer working lives. Individuals, particularly young people, also have a personal responsibility in terms of planning and saving for their retirement.

(3) How can higher effective retirement ages best be achieved and how could increases in pensionable ages contribute? Should automatic adjustment mechanisms related to demographic changes be introduced in pension systems in order to balance the time spent in work and in retirement? What role could the EU level play in this regard?

(4) How can the implementation of the Europe 2020 strategy be used to promote longer employment, its benefits to business and to address age discrimination in the labour market?

10. The OECD has found that men can now expect to spend between 14 and 24 years in retirement and women, between 21 and 28 years. In some countries this is twice as long as in 1970.[2] Therefore, longer working lives are necessary. This avoids the unfavourable situation of lower benefits in retirement and higher contributions by companies and those people working. Increasing the statutory retirement age in member states is an indispensable step towards longer working lives. Further measures are however required by member states and at EU level to raise effective retirement ages.

11. Appropriate reform measures will depend on the national context. Some member states will have to prioritise increasing the retirement age, others will seek to abolish early retirement schemes and others will take action to introduce automatic adjustment mechanisms. Some member states will have to take a combination of or all of these measures. Another possibility is to develop frameworks which define a corridor within which workers can decide to take retirement, with deductions if they leave early and supplements if they stay longer. The choice of appropriate measures to raise the effective retirement age is for individual member states to decide on, according to the specific national context. Measures should only be taken on the basis of an analysis of their effectiveness.

12. Longer working lives cannot only be achieved through pension system reforms; labour market measures are also crucial. Reducing unemployment should be a priority for the sustainability of pension systems. The crisis has added a sense of urgency to reform measures. Unemployment rates in the EU are still around 10% and BUSINESSEUROPE expects that in 2011 conditions will be broadly unchanged with job creation only likely later in 2011. Such conditions on the labour market are endangering the financial sustainability of PAYG systems in particular, causing a large decline in contribution revenues. Implementation of the Europe 2020 strategy should be used to promote longer working lives by encouraging member states to raise employment levels of older workers. To achieve the 75%

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[2] OECD Pensions at a glance 2009

EU employment target, raising the employment rate of older workers has a great potential, since current levels are low in many countries: although 11 countries exceed the 50% mark, including the UK, Denmark and Sweden, others only reach around 35%, such as Belgium, Italy and Poland.

13. BUSINESSEUROPE strongly disagrees with the argument that there is no need to undertake pension reforms (e.g. by raising retirement ages) at times of high youth unemployment. Encouraging longer working lives and tackling youth unemployment should be pursued simultaneously. If not, policy-makers would fall in the trap of the lump-of-labour fallacy, i.e. the fallacy that there is a fixed amount of work to be done to be shared out between workers and which has proven to be wrong empirically. If anything, recent research suggests a positive correlation between higher labour force participation of older workers and lower unemployment rate of the young. A much better way to reduce unemployment is to invest in the incentives, regulatory approach and infrastructure that will support growth.

14. Policies that improve overall labour market functioning and flexibility are also important to ensure that job opportunities exist. Member states and the EU should ensure that the policy framework allows for flexible working arrangements. Flexible retirement schemes have proved beneficial in some member states in encouraging workers to remain on the labour market. In other member states, part-time work has been useful in allowing a gradual transition from work to retirement. At present, only 22% of employed persons aged 55-64 work part time. This can also be beneficial in encouraging even those over the statutory retirement age to continue working.[3]

15. The existence of job opportunities relies on growth in the economy. Ageing will in fact be a source of demand and creation of new products and services, leading to growth and new job opportunities. However, when labour supply starts to shrink in the future, productivity will become the only driver for growth in the EU. This means that sustained growth will only be possible if those who are working are also more productive.

16. Job opportunities can only be created if an appropriate framework exists for companies to hire workers. The EU and member states should ensure that the legislative framework and labour costs do not hinder companies in recruiting and employing workers. As highlighted by the OECD, finding a match between the costs of employing older workers and their productivity is important. We believe that sufficient protection is already afforded to workers, including older workers, through the EU Directive on equal treatment in employment.

17. To raise employment levels, individuals also have a responsibility to ensure that they remain on the labour market or take steps to return to the labour market. Reforms to welfare systems and reduction of benefit dependency are necessary to motivate people in this respect. Ensuring continued employability through skills development throughout the working life is also crucial. Workers, including older workers should be able to adapt to new conditions and potential changes in their career and for businesses it is important that workers' skills are in line with current labour market needs.

18. The development towards more dynamic labour markets, where transitions become more frequent, has implications for pension systems, in particular with respect to

[3] DG Employment Demography Report, 2008

coverage during periods of unemployment or caring duties. Measures to avoid coverage gaps must, however, be financially sound and not add to the existing burden on public finances and pensions. Given that the rules governing coverage of the national pension system are a member state responsibility, measures are only appropriate at national level.

19. The challenge of an ageing population and the resulting pressure on pension systems is also due to lower birth rates in the EU. Therefore at national level, measures to deal with demographic change should also consider the need, where appropriate for higher birth rates.

20. Public health programmes and voluntary company policies on well-being can also be beneficial in ensuring active ageing so that older workers are able to remain on the labour market longer. In this respect, BUSINESSEUROPE supports the 2012 European Year of Active Ageing. This is a good example of where the EU can add value, raising awareness on the benefits of active ageing for the economy, the labour market, companies and older workers. Many companies have already voluntarily introduced specific working arrangements to deal with demographic change. Some have, for example, launched programmes which adapt a number of production lines in terms of staffing, to reflect the demographic conditions they expect in the future.

21. Measures aimed at longer working lives must be tailored to the specific national, sectoral or company context. In particular it is highly important that measures are designed in such a way that they do not introduce burdens on employers to hire older workers.

22. The OMC objectives in the area of pensions – ensuring adequate retirement income and financial sustainability of pension systems, and fairness between generations - cover the essential elements of pension systems. Common EU principles for adequate and sustainable pensions would therefore only be useful if they raise the profile of these objectives and provide an additional motivation for member states to reform their pension systems.

(5) In which way should the IORP Directive be amended to improve the conditions for cross-border activity?

23. BUSINESSEUROPE believes that amendment of the IORP Directive is not necessary. Although the level of cross-border cases still remains relatively low, there has been an increase since the directive came into force. Between 2007 and 2010 the number has risen from 48 to 78.[4] This shows that it has had an impact on the development of the internal market for occupational retirement provision. The Commission acknowledged this in its report on implementation of the directive in April 2009. It also agreed with the conclusions of CEIOPS Occupational Pensions Committee (OPC) that there was no need for a change in the legislation.

24. In the Green Paper, barriers to cross-border activity are stated as being the result of regulatory differences and legal uncertainties in many cases, due to the different implementation and interpretation of the directive by member states. The Commission's 2009 report, however concludes that the diversity in implementation has not caused major problems and that the directive does not need revising on this basis. Member states also agreed with this. The level of flexibility in

[4] CEIOPS 2010 Report on Market Developments

implementation and interpretation at national level foreseen in the directive allows member states to apply the directive in the most appropriate way according to national circumstances. A revision of the directive leading to more convergent national implementation would therefore not be appropriate. One option could be for the Commission to provide clearer guidance to member states in implementing the directive.

25. It would be counterproductive to amend the IORP Directive at this stage, as this would lead to legal uncertainty, which would not further encourage the development of cross-border pension provision.

(6) What should be the scope of schemes covered by EU level action on removing obstacles for mobility?

(7) Should the EU look again at the issue of transfers or would minimum standards on acquisition and preservation plus a tracking service for all types of pension rights be a better solution?

26. BUSINESSEUROPE agrees on the importance of improving mobility in the labour market. 84% of Europeans have no experience of living or working in another country and nearly three quarters of Europeans do not envisage working in a country other than their own (Eurobarometer July 2010). However, to respond to globalisation and ensure economic growth in the EU, labour markets need to be dynamic and the internal market needs to function effectively. This means that workers need to be adaptable to changes on the labour market so that they are able to move from one job to another over the course of their working life.

27. With respect to mobility, experience suggests that it is the issue of future pension accrual, not the transfer of already accrued benefits that is important for those people who are considering moving or already mobile across the EU. In addition, the costs, partly due to the complexity regarding the valuation and taxation of pension rights are likely to outweigh the benefits. Replicating pension schemes of the previous employer when an employee moves jobs, can place an administrative and cost burden on the new employer.

28. Workers moving across borders need to be able to keep track of their pension rights and to understand what pensions and savings they will have in retirement, in which countries, how to access them and how secure they are. Provision of accurate information is therefore very important. The EU should encourage better disclosure of information at member state level. While an EU tracking service is extremely ambitious given the complexity of member state systems, the EU could usefully ensure that there is EU guidance on how to access national tracking services. This would increase awareness and understanding of mobile workers and enable them to reclaim pension rights as they approach retirement. More work would be necessary to assess how this would work in practice, including learning from those member states that already have such systems.

29. EU level action to remove obstacles to mobility has been facilitated through a number of regulatory measures. Regulation 883/2004 and implementing regulation 987/2009 already apply common rules and principles in the field of social security. These regulations rightly focus on providing coordination of statutory pension schemes across the EU, rather than harmonisation of social security schemes. In addition, the IORP Directive provides a basis for the development of cross-border provision of pension funds.

30. BUSINESSEUROPE agrees with the observation that tax rules can be an obstacle to the mobility of pensions, highlighted by a number of rulings of the European Court of Justice in this area (for example case C-150/04 Commission v. Denmark and case C-522/04 Commission v. Belgium). Efforts must continue in this area, in particular to address problems caused by double taxation.

31. BUSINESSEUROPE takes note of the proposal in the Monti report to introduce an optional 28th regime for supplementary pensions. Many questions remain on how this would work in practice. It is important to avoid a situation where the 27 existing national regimes would be undermined. BUSINESSEUROPE recommends further study of the demand for, costs and benefits of this regime, including regarding fiscal aspects, before deciding whether a formal proposal should be developed.

(8) Does current EU legislation need reviewing to ensure a consistent regulation and supervision of funded (i.e. backed by a fund of assets) pension schemes and products? If so, which elements?

(9) How could European regulation or a code of good practice help Member States achieve a better balance for pension savers and pension providers between risks, security and affordability?

32. The development towards a multi-pillar pension system, with retirement income being provided through PAYG schemes but also a part of it by funded schemes, should be seen positively. The balance of different pillars within the pension system is a decision for individual member states and social partners, however the EU should promote the diversification of sources of retirement income as an important element in ensuring sustainability of the pension system. This can help alleviate some of the burden on the state pension and enhance shared responsibility for retirement provision and the risks involved between government, employers and individual citizens/employees. We believe that the different approaches taken in the Green Paper regarding the risks apparent in PAYG and funded systems, provides a false dichotomy. Risks are inherent in all pillars of the pension system. The effect of high unemployment on the sustainability of PAYG pensions should not be neglected. We do not therefore agree that the risks in funded schemes need to be dealt with more urgently, for example through further regulation at EU level.

33. Employers are committed to providing adequate occupational pensions for previous, current and future employees. This engagement of employers is highly socially desirable and should be considered as part of an employee's compensation and benefits package. However, this is only possible if occupational pension schemes remain cost-effective. This is already increasingly challenging for defined benefit schemes – of funded or PAYG nature - in view of demographic change. Companies therefore do not agree that there should be substantial changes to the rules governing funded pension schemes and products, as this could further increase the costs for operating schemes and lead to closures. The regulatory framework provided by the IORP Directive is sufficient. The directive provides an effective prudential framework, highlighted by the fact that pension funds continue to invest and pay-out benefits in retirement, without governments having to bail them out. Even during the crisis pension funds have remained rather robust.

34. We recognise that there has been a recent trend away from Defined Benefit (DB) towards Defined Contribution (DC) occupational pension schemes and schemes

provided to employers on a group basis by insurers, especially for new employees. In the UK, for example, the proportion of accruing plan members in a DC scheme is now 75% and in Ireland and Sweden, 50% and 70% respectively[5]. This has been due to increased pressure on DB schemes as a result of demographic change as well as some regulatory burdens at national level. International accounting standards have also been an obstacle for companies. These require listed companies to disclose the risks which are part of their pension scheme, by showing pension debt on their balance sheet. While companies support the disclosure of their pension provision, the approach of many current standards to measure pension liabilities according to market rates in a very restricted timeframe, does not give an overall picture of the pension scheme. In particular this approach does not take into account the long-term nature of a pension scheme. This can have a negative effect on the company's financial statement and how their pension fund is valued on the stock market. This is another reason that companies change from DB to DC schemes.

35. Given this shift, it is highly important that DC, as well as DB pension schemes are not overregulated, as this will lead to higher costs for running such schemes and potentially scheme closures. This would negatively affect companies, but also current and prospective scheme members. Any measures taken in relation to such schemes must be sensitive to the diversity of DB and DC schemes and should not lead to a situation where some types of schemes are overregulated in comparison to others. This would not be in line with the need to respect the diversity of the schemes operating in the EU. Exchange of experiences between member states on the shift to DC schemes could be usefully facilitated by the EU.

36. The EU should avoid regulation that lays down strict obligations regarding the design of pension schemes and the investment choices, as this would limit investment returns. This is particularly important, since the ability of occupational pension schemes to provide an adequate pension is dependent on the extent to which they are able to make a return on their investment. The design of pension schemes is specific to each individual company or sector and should therefore be managed at company or sector level on a voluntary basis. Measures to ensure supervision of company pension schemes have already been taken by companies to deal with the risks associated with both DB and DC schemes. These include good governance strategies, guidance and good practice.

37. Rather than regulating the design of pension schemes, the EU can add most value by providing for coordination between the different schemes and encouraging member states to ensure that a framework is in place which adequately protects pension plan members and ensures access to good quality information. In particular regarding DC, helping employees to understand the scheme and their investment choices, as well as general financial awareness are important. Through the Open Method of Coordination, the EU could provide support to member states to balance the needs of pension plan members and providers in ensuring secure, but also affordable occupational pensions. This could be done through guidelines, good practice exchange or common objectives.

[5] EFRP DC Pensions survey March 2010

(10) What should an equivalent solvency regime for pension funds look like?

(11) Should the protection provided by EU legislation in the case of the insolvency of pension sponsoring employers be enhanced and if so how?

38. BUSINESSEUROPE is not in favour of additional solvency rules for pension funds, as this is likely to raise the cost for companies operating such schemes in a way which, in balance, will not improve the position of scheme members. In particular, the application of a new standard would render these schemes too expensive for many firms. It is estimated that compliance with the solvency capital requirements of the Solvency II directive would require an increased funding ratio of around 40% in the Netherlands, Belgium and Spain, over 50% in the UK and over 60% in Ireland.[6] Current solvency standards also reflect decisions taken at national level, highlighting the legitimate diversity of member state approaches. Given this diversity, a single approach to solvency is not appropriate.

39. In addition, investment of funded pension assets from IORPs would move away from investment in equity financing, such as company shares, to government bonds. The increased demand for government bonds would reduce the return these assets pay, leading to a need for more capital from pension scheme sponsors. It would also reduce the availability of capital for the private sector as schemes move away from equity to more stable investments. This would starve firms of equity capital for future growth, which would have a negative impact on financial markets and economic development at a time when the focus should be on recovery. Although employers are committed to funding their schemes to the appropriate level, applying additional solvency rules would mean that fewer companies would be able to afford to offer such schemes and schemes could be closed to new entrants or to further accrual by existing members. Given the growing importance of occupational pensions in the provision of income in retirement, this must be avoided.

40. BUSINESSEUROPE does not agree that there is a need to establish a level playing field regarding competition between IORPs and insurance schemes offering retirement benefits, as life insurance undertakings and pension funds offer pension plans in very different ways. Pension funds are schemes specifically associated with a sponsoring employer or a group of sponsoring employers in a sector or collectivity of specific professionals, making up part of their benefit plan to employees. Their primary purpose is therefore not to earn a return for their sponsor, but to provide their sponsor’s employees with a valuable benefit. This means that pension funds do not generally seek further “business”, in contrast to most insurance-provided funds. Since pension funds do not have the same possibilities as life insurance companies in general to gain clients on the market, it is not necessary to create a level playing-field regarding competition between them. The issue of a level playing field is in fact much more substantial in the case of competition between two firms providing pensions, where EU or member state rules might require a higher level of funding from one than the other to deliver the same benefit. This would be the likely consequence of applying additional solvency rules.

41. Additional solvency rules for pension funds are not needed to guarantee the security of pension funds in providing adequate benefits. Firstly, the legal employer covenant in the case of pension funds provides security in many member states without own funds regulations. Pension funds also have additional security

[6] EFRP Paper on Funding and Solvency Principles for IORPs, 2008

mechanisms and longer periods for recovering deficits than insurance-provided funds. Applying the Solvency II directive to pension funds would lead to higher funding requirements, which would be unnecessary given the possibility pension funds have to spread their risks between different generations.

42. BUSINESSEUROPE believes that the current EU Insolvency Directive provides effective protection of employees in the event of the insolvency of their employer. Further legislation at EU level is not necessary in this area. Also, in some member states social legislation, legislation covering occupational pensions or company law already includes provisions to protect employees in this respect, which was in place before the EU directive came into force.

43. Some member states have found pension benefit guarantee schemes a useful tool for protecting employee benefits under defined benefit schemes, for example in the case of insolvency of the employer. These are sometimes funded by employers (for example in Denmark, Germany and the UK). By March 2010, the UK Pension Protection Fund had provided funding for 120 pension funds, where the employer had become insolvent. In some member states other routes are chosen such as insurance policies or higher funding standards, which are equally valid. In line with subsidiarity, measures are best developed at member state level, in tune with the specificities of the member state pension system. It is difficult to see how a European level guarantee fund could be designed and funded in such a way to take into account the complexity of pension provision across the EU.

44. Specifically regarding DC schemes, many firms choose to voluntarily offer such schemes because they cannot carry the risk of providing DB. A guarantee fund which covers DC schemes would, to a certain degree, make such schemes DB in design. This would increase the risk for scheme providers and make offering high quality DC schemes less attractive for employers.

(12) Is there a case for modernising the current minimum information disclosure requirements for pension products (e.g. in terms of comparability, standardisation and clarity)?

(13) Should the EU develop a common approach for default options about participation and investment choice?

45. Financial education is key to ensuring adequate and sustainable occupational pension schemes. Rather than further EU regulation on pension products, a strengthening of information provision and financial education programmes would be more appropriate. Although many schemes allow for different investments, 80% of scheme members choose the default option[7]. This should not be seen in a negative way, as individuals choosing the default option can expect that the risk is controlled effectively on their behalf. However, access to basic information is necessary to understand options and make educated decisions regarding these. Scheme providers have a role in providing information, whereby encouragement by member state governments can be helpful. One option would be to develop common principles at EU level, allowing flexibility to comply with such principles.

[7] EFRP DC Pensions survey March 2010

(14) Should the policy coordination framework at EU level be strengthened? If so, which elements need strengthening in order to improve the design and implementation of pension policy through an integrated approach? Would the creation of a platform for monitoring all aspects of pension policy in an integrated manner be part of the way forward?

46. From BUSINESSEUROPE's point of view, the EU's role should be to put pressure on member states to reform pension systems. The Open Method of Coordination is still the most appropriate framework for this, by facilitating surveillance, coordination and mutual learning between the member states. Although the OMC is an effective framework, some improvements could be made such as increasing its visibility, increasing the visibility of actions taken by member states and better involvement of social partners.

47. A common platform at EU level could be useful in principle to monitor aspects of pension policy and regulation. This type of coordination is already provided to a certain extent through existing structures such as the OMC, the Pensions Forum and the Social Protection Committee. In order to avoid duplication, an assessment should be made of how the existing structures could be streamlined, before developing a new platform.

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