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### **EUROPEAN COMMISSION AND WORLD BANK CONFERENCE: REFORMING PENSION SYSTEMS IN EUROPE AND CENTRAL ASIA 25-26 JUNE 2012**

### **PANEL – RAISING THE RETIREMENT AGE – IS THE LABOUR MARKET READY FOR ACTIVE AGEING?**

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#### **The need for pension reforms**

- The White Paper on pensions clearly acknowledges the massive challenges due to an ageing population - budgetary consequences, loss of economic growth potential and pressure on public finances.
- More than 10% of GDP on average today is spent on pensions in the EU. In some countries it is as high as 15% and that is not sustainable.
- Longer working lives are the best way to maintain replacement rates in the future, ensuring adequacy. This is also a necessity for the sustainability of the systems, in view of increased life expectancy.
- This is in fact a plea to increase the formal retirement age.
- We support the EU in encouraging member states to further reform their statutory pension systems and to raise the age at which people actually retire. The introduction or expansion of cost-effective occupational pensions could be part of this operation.
- The diversity of member state pension systems means that different choices will have to be made regarding how to achieve longer working lives. These will take into account not only the national traditions and existing systems, but also the current economic climate and difficult situation on the labour market.

#### **Labour market consequences**

- Another important reason to reform retirement systems and to make people work longer is the demographic development in the EU and its consequences for the labour markets. The working age population will decline by 10% in 2030 and by 20% in 2060. In other continents such as Asia there will be a rise in the working age population.
- In spite of the currently high unemployment rate, we expect that the decline of the working age population will result in unacceptable shortages on the labour market in the years to come. Will companies be able to recruit and retain the workers they need to compete in the global market? If that is not the case, companies will be forced to relocate their business to other continents. This would seriously threaten the level of prosperity in Europe.



- In conclusion, raising the retirement age and reform of pension systems are of utmost importance for our economic future. But, pension reform has to go hand-in-hand with labour market reform.

### **Labour market reform**

- One of the criticisms we hear about raising the retirement age, is that the job opportunities for older workers are not there. Of course if we want to have longer working lives, jobs need to be available.
- Companies need to be able to create these jobs. This requires the right labour market conditions and tax-benefit systems that provide incentives to stay on or return to the labour market.
- However, on the contrary, there is a high level of labour market rigidity in many EU countries. According to the Annual Global Competitiveness Report 2009-2010 by the World Economic Forum, 14 of the 27 EU member states ranked amongst the highest globally in terms of labour market rigidity. In particular strict employment protection legislation, with difficulty in hiring, firing and rigid working hours is a major obstacle for employment and retention of workers.
- That's why BUSINESSEUROPE promotes the increase of labour market flexibility, for example by allowing different forms of employment contracts, including temporary ones. Contrary to what is often feared, this leads to job creation and not to job substitution. Permanent contracts should be made more employment-friendly to stimulate hiring. Ideally this should be embedded in a comprehensive flexicurity approach.
- Another essential element of the flexicurity approach is the need to invest more in education and training. There is a growing demand for highly-skilled workers and we expect this trend to continue. To a lesser extent the same applies for people with medium level qualifications, in particular technical vocational skills. Management and workers should therefore give more priority to investing in lifelong learning. This is also an important condition for the creation of an ageing workforce that is productive. Moreover, employable workers will be able to find another job if necessary.
- I also want to mention wage bargaining and wage setting systems. These should be flexible enough to support job creation and competitiveness. In this context I would in particular point to special provisions that increase costs for employing older workers. These should be removed as a matter of urgency by governments or management and labour.
- Finally, in some countries, such as The Netherlands, a cultural turnaround in thinking and attitude is necessary in order to change the image of older workers. They are sometimes seen as more expensive for companies while being less flexible and mobile. And that is another obstacle for hiring older workers. However, research shows that older employees have, on average, more knowledge and experience in their current position and that they can be more loyal, reliable and committed than their younger colleagues. This should be broadly communicated amongst employers and workers.