POSITION PAPER

BUSINESSEUROPE

23 April 2012

WHITE PAPER ON PENSIONS

KEY MESSAGES

1 Member states need to further reform their statutory pension systems to ensure sustainability and adequacy, and avoid negative impacts on economic growth.

2 Labour market reforms creating the conditions for companies to provide jobs are necessary to make longer working lives a reality.

3 In view of the increasing importance of occupational pensions, employers must continue to be able to provide such schemes to their employees cost-effectively.

WHAT DOES BUSINESSEUROPE AIM FOR?

- Following the Green Paper consultation on pensions in 2010, the Commission on 16 February 2012 published a White Paper on Pensions. The overall aim is to encourage the provision of adequate, safe and sustainable pensions across the EU. The White Paper encourages member states to reform their statutory pension systems, making a link to the Annual Growth Survey. It also puts forward proposals in the area of occupational and private pensions.

- BUSINESSEUROPE agrees that longer working lives are the best way to ensure sustainability and adequacy of pension systems, in the context of increasing life expectancy. Alongside reform of pension systems, this means increasing employment, by ensuring the conditions to allow companies to create jobs, and gearing tax-benefit systems to labour market activation.

- Facilitating longer working lives requires action by companies, including adapting work organisation, as well as efforts by individuals to adapt to potential changes in work and new skills needs on the labour market.

- Proposals on occupational pensions, in particular maintaining a level playing field between Solvency II and the IORP Directive, are unjustified and would considerably raise the cost for employers to provide such schemes to employees. This would undermine long-term economic growth and job creation in the EU and contradicts the Commission's aim of ensuring that occupational pensions can play a role in the overall adequacy and sustainability of pensions systems.

KEY FACTS AND FIGURES

Statutory pensions represent more than 10% of GDP on average in EU member states	The Employment rate of older workers in the EU is still under 50%	Compliance with Solvency II principles would mean European pension funds increasing their capital buffer by 40 – 60%

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WHITE PAPER: AN AGENDA FOR ADEQUATE, SAFE AND SUSTAINABLE PENSIONS

INTRODUCTION

1. The European Commission on 16 February published the White Paper: An Agenda for Adequate, Safe and Sustainable Pensions. This follows the Green Paper consultation in 2010. The Commission will encourage member states to reform their statutory pension systems, in line with the Annual Growth Survey, as well as putting forward proposals in the area of occupational and private pensions.

GENERAL REMARKS

2. The White Paper rightly points out that in view of increased life expectancy, staying longer in employment and saving more for retirement is necessary for both the sustainability and adequacy of pension systems. In addition, as data presented in the White Paper shows, longer working lives are the best way to maintain replacement rates in the future.

3. The White Paper correctly points to the current financial and economic crisis as an aggravating factor and that despite projections often being made for 2050 or beyond, the problem is already upon us.

4. We welcome the acknowledgement of the seriousness of the situation and the massive challenges encountered due to an ageing population, including the economic and budgetary consequences, loss of economic growth potential and pressure on public finances.

5. We welcome the recognition once again that the design of pension systems is a member state competence. We agree that there has been progress in member state reform of statutory pension arrangements, however further reforms are necessary, as indicated in the Commission's Annual Growth Survey (AGS) and the White Paper. This is also necessary in implementing the EU 2020 Strategy on growth and jobs.

6. We agree that 'complementary retirement savings' will play a greater role in the future adequacy and sustainability of pension systems. We are therefore seriously concerned about some of the proposals for occupational pensions, which will make such schemes much more costly for employers to provide. This is contradictory to the Commission's aim for occupational pensions to play a greater role in assuring sustainability and adequacy. It also goes against the Commission's intention, stated in the White Paper, to further support occupational retirement provision within the overall pension system of member states, to contribute to the reduction in the cost of pensions.

7. In addition, the White Paper does not adequately distinguish between 2nd pillar occupational pension schemes provided by employers to their employees and 3rd pillar pension savings by private individuals. These are grouped together under the banner of 'complementary private retirement savings', whereas they are fundamentally different.

SPECIFIC REMARKS

Statutory Pensions

8. We support the EU in encouraging member states through country-specific recommendations to further **reform their pension systems**. Raising the retirement age, linking it to increases in life expectancy and extending contribution periods are valuable measures, to be decided according to the national context. Such an approach is necessary to ensure fairness between generations, in terms of the sustainability of the system and an adequate level of benefits.

9. Measures also need to be taken to reduce, in particular long-term, unemployment and raise **employment** levels as this is necessary for the sustainability of the pension system. This means designing social protection, including benefit systems to encourage people to re-enter and stay on the labour market. This is important to reduce spending on benefits, which should help to improve the sustainability of social protection systems as a whole. Raising employment levels should include targeting specific groups where levels are particularly low, including younger workers, women and older workers. The White Paper rightly states that encouraging older workers to stay on the labour market for longer is not about pitching the interests of the young against those of the old. It does not mean that older workers will keep jobs that would have otherwise been available for younger workers. Such statements should be clearly made by the Commission in the forthcoming debates, particularly concerning intergenerational solidarity.

10. Concerning the employment of older workers, we agree that longer working lives will only be possible if there are **job opportunities** for older people to stay on the labour market, if they have the appropriate skills, and are in good health. Recognising that employers have an important role to play in this, BUSINESSEUROPE, CEEP and UEAPME are already working on the issue, as part of a project funded by DG Employment, Social Affairs and Inclusion, entitled "Age management policies in enterprises in Europe". This will identify positive and negative framework conditions impacting on age management policies in member states and draw recommendations on the best way to address the issue at European level. Further to this, we will discuss ways in which employers can work, potentially jointly with the ETUC, to better address demographic ageing and its impact on employment. In addition, in their autonomous Work Programme for 2012 – 2014, the European Social Partners have included the issue of updating and upgrading of skills of older workers in the context of longer working lives. This means that it is not necessary for the Commission to call on the social partners in the framework of European Social Dialogue, to develop ways of adapting work place and labour market practice to facilitate longer working lives, as they will deal with this issue autonomously.

11. Facilitating longer working lives should not only be focused on strenuous jobs. A much broader approach is necessary, reflecting on and if necessary **rethinking how careers are organized** over the whole life course. This means looking at, and where necessary adapting work organization, including facilitating flexible working arrangements, ensuring continued productivity, encouraging lifelong learning and ensuring health and safety at the workplace. Employers alone cannot provide the solutions – individuals must also make efforts in adapting to new conditions,

potential changes in work, and new skills needs on the labour market. In addition, tax and social protection, including benefit systems should be tailored to providing incentives to stay longer on the labour market.

12. We agree that **early retirement schemes** are a barrier to facilitating longer working lives in most cases. The existence and operation of such schemes is decided at national level. Given the diversity of member state pension systems, different choices will have to be made regarding how to facilitate 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.

13. It is not within the scope of Commission action to consult the social partners on how **unwarranted mandatory retirement ages** could be revised in collective agreements and national legislation. This is clearly a purely national competence. Employers and workers need to be able to continue to find solutions at company level regarding retirement, according to the applicable national and/or sectoral framework. This currently works well in many countries, with employers and workers finding ways to accommodate the needs of both sides. Good solutions include creating the possibility to change the work tasks or working hours.

14. The specific rules on retirement are often laid down in collective agreements or in the employment contract, including the retirement age. This allows employers to make adequate human resources planning. It is important to avoid that one side – the worker or the employer – is given the opportunity to freely choose another retirement age and deviate from the agreed conditions. It is important to be able to combine a workers' desire to stay longer in work, with the employers' needs: effective allocation of human resources, the possibility for restructuring, continued productivity, and competitiveness. A mandatory retirement age helps in providing this balance. Flexibility is even more important given the high level of labour market rigidity in many EU countries.[1] Strict employment protection legislation, with difficulty in hiring, firing and rigid working hours is a major obstacle for employment and retention of workers.

15. In the area of **gender equality**, we agree with the principle of equalising pension ages between men and women, although this is a decision for the national level. We agree that measures are also needed on the labour market to tackle gender gaps in pensions, the priority being increasing female labour market participation, for example through flexible working. The differences in pay between men and women across the EU to a very large extent are not a matter of not ensuring equal pay for equal work, but of men and women making different educational, professional and private choices. It is therefore important to tackle cultural barriers such as gender stereotypes. We agree that the relevant EU level committees may facilitate exchanges of information between member states to identify good practices in this field.

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[1] 14 of the 27 EU member states rank amongst the highest globally in terms of labour market rigidity - 2009-2010 Annual Global Competitiveness Report by the World Economic Forum

Occupational Pensions and Private Pension savings

16. The White Paper does not take the right approach to support the cost-effective provision of **occupational pensions** and therefore their future growth. In particular, we do not support the stated aim of the review of the **IORP Directive**, 'to maintain a level playing field with Solvency II' for the following reasons:

- Such measures are not justified by a need to create a level playing field with insurance provided pension funds, as they operate in different ways. In most cases pension funds do not operate in retail markets and/or are non-profit making organizations. They are generally provided through an employer or a group of employers in a sector, whereas insurance pension products can also be provided to individuals. Pension funds often have a collective character, for example being subject to a collective agreement.

- Introducing Solvency II type capital requirements for pension funds would have a wider economic impact. The extra assets that pension schemes would have to hold is likely to force them to move away from investment in equity, starving companies of capital, preventing them from growing their business and creating jobs. Diverting money away from business investment would be detrimental to growth and economic recovery in Europe. In addition, a requirement to hold extra assets would mean that money is unnecessarily locked into pension funds, rather than being available for growth-enhancing measures at company level or in public budgets.

- The introduction of a solvency capital requirement for IORPs would considerably raise the cost of providing occupational pensions for employers, ultimately leading companies to stop offering such schemes to their employees and closing them to new entrants. This would damage the adequacy of pension provision across the EU and in many cases harm systems which work well. It is difficult to come up with specific figures, when there is not adequate information on what the methodology will be to calculate the additional requirements. However, some calculations have estimated that a direct application of the Solvency II principles to IORPs would mean that European pension funds have to increase their capital buffer by between 40 – 60%.

- In addition, Solvency II capital requirement rules are not necessary to provide safeguards, as these already exist. In some cases, this includes the possibility for employers to cover underfunding, with recourse where necessary to national guarantee funds. In other cases, pension funds have adjustment mechanisms[2] that are not conceivable in insurance contracts. In other cases, they are subject to a bipartite board and board members are obliged to protect members´ benefits and interests.

- This also highlights the very specific national frameworks in which occupational pensions are provided, not to mention sectoral and even company specificities. The Commission must avoid blocking the possibility for schemes to be tailored to these circumstances.

[2] For example, increase of contributions by the sponsoring employer or the workers, temporary or permanent decrease of benefit, renouncing indexation of the benefit

17. Whilst we agree that there could be improvements in the cross-border provision of pension funds, it is difficult to see how this issue can be tackled further. The main cause of the different interpretations of cross-border activity is the natural diversity in the provision of pension funds across member states and the application of different national and social labour laws. In line with the subsidiarity principle, a revision of the IORP Directive in the direction of harmonisation of national social and labour laws would not be acceptable. The lack of cross-border activity of pension funds is also due to lack of demand. Many, generally larger companies are routinely sending employees to work in other member states. However, they are not demanding cross-border pension funds, as they have found other more effective arrangements regarding such workers' company pensions. It is therefore questionable what problem the Commission is trying to solve. The lack of demand also stems from the fact that in practice it is limited to those companies which are able to bear the upfront costs (e.g. management and consultancy time to get the necessary information on the scope and details of social and labour laws, and on taxation).

18. In terms of the diversity of occupational pension schemes and the frameworks in which they operate, we do not believe that a specific **code of good practice** at EU level would provide added value. It would be neither possible nor appropriate for the EU to provide indications of what constitutes 'good practice', as this is dependent on the different national and sectoral frameworks and individual company pension schemes. However, the EU may usefully collect and distribute examples of good practice in this area, to assist member states in developing existing frameworks for occupational pensions or encouraging their use where this is not so developed.

19. We view positively the intention of the Commission to look at best practices to assess the cost-effectiveness and efficiency of tax and other incentives for private pension saving, which should be considered as fully complementary to the statutory pension systems. Notwithstanding the fact that the provision of occupational pension by employers is socially desirable, we also believe that individuals should be encouraged to save for their retirement on an individual basis. This can also help in alleviating pressure on statutory pension systems, thereby enhancing the sustainability of the whole pension system.

Mobility and pensions

20. BUSINESSEUROPE believes that **labour market mobility** is crucial in ensuring dynamic labour markets and for companies to deal with existing skills shortages, which are likely to become more pronounced as a result of demographic change. We therefore agree that obstacles to labour market mobility between EU countries need to be dealt with. Any action should respect the principle of proportionality, by targeting those obstacles which have a major impact on EU cross-border mobility. This requires a thorough assessment by the European Commission. In the area of supplementary pensions, any action must be based on solid evidence of the likely benefits for EU cross-border mobility. This is necessary to ensure that actions to improve mobility are balanced with cost-effective provision of supplementary pension schemes by employers to their employees, as well as with the nature of the supplementary pension scheme. In particular, given the important role that occupational pension schemes already play in some countries and the future growth of such schemes, as advocated by the Commission.

21. We support the reference in the White Paper to the preservation of pension entitlements accrued across borders, rather than previous Commission proposals on transferability of pension entitlements. Being able to have access to accrued entitlements once someone has moved is the main consideration, rather than being able to transfer these entitlements.

22. We view positively the intention of the Commission to investigate **tax obstacles** to cross-border mobility. As already stated in earlier discussions, discriminatory tax treatment of cross-border transfer of pension capital and double taxation are major obstacles for cross-border portability of supplementary pensions.

23. Given that workers moving across borders need to be able to keep track of their pension rights, we agree that the EU could usefully promote the development of **pension tracking services**, including a pilot project on cross-border tracking. Such a service would only be beneficial if it includes both statutory and occupational pension schemes. We note that the EU does not intend to set up a single EU tracking service, which would not be feasible. However, we have some concerns regarding what is meant by minimum harmonisation of key features within an EU system of tracking services.

24. We question the rationale behind the proposal of the White Paper to extend the scope of Regulation 883/2004/EC on the **coordination of social security systems** to certain occupational schemes. Occupational pension schemes are already covered by the IORP Directive or the Solvency II Directive in the case of insurance provided products. Regulation 883 applies to social security systems. Although we understand that some occupational schemes are covered by the regulation, we do not see how opening up this set of rules further for occupational pension schemes would improve the situation in terms of application of EU law. In fact it is only likely to cause more confusion.

Information provision

25. We agree that the EU can encourage member states to ensure better provision of **information to individuals** for retirement planning. We therefore support the EU looking at good practices regarding individual pension statements. Information should not only be provided on occupational pension schemes, but on the whole pension system.

CONCLUSION

BUSINESSEUROPE welcomes the Commission's approach in encouraging member state reform of statutory pension systems, which we see as absolutely necessary in ensuring not only sustainability, but also adequacy of pensions for future generations. Employers and individuals, the design of social protection systems, and the functioning of labour markets all play a significant role in making longer working lives a reality.

In contrast, the approach of the commission regarding occupational pensions will not further support their provision within the overall pension system of member states, quite on the contrary. There is a serious risk that if the Commission moves forward with some of the proposals in the White Paper, particularly regarding the approach to the review of the IORP Directive, this will have a detrimental effect on the provision of pensions across the EU.

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