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Pensions

Green/EFA position paper

On a lifecourse/lifecycle approach to pension policy: Workers in the 21st century in Europe are unlikely to work from age 18 to 65 with the same employer, contributing 47 years to the statutory pension system. This is no longer the reference, the framework, the status quo. However, the debate on pensions, on sustainability of public finance and on pension adequacy is still often based on the male breadwinner worker who works fulltime, stays at one place and does not take career breaks. This is no longer the reference for many. The typical workers biography of the 21st century includes changes - all over. Workers change employers, places of work, working times, status; they take career breaks for family, training, sabbaticals; they change from self-employed to worker to unemployed to student and back. The classic pension system of the 20th century where you need X years of contribution to get the minimum pension is no longer the answer

Lifecourse-Approach and transition security

This is why we as Greens/EFA argue for a life-course approach to pension policy. A life-course approach takes into account the whole career along a life-course, it takes into account career interruptions and changes, it does not punish workers with "non-standard" working lives, such as women, who are at an overly high risk of old age poverty. A life-course approach - or lifecycle approach as a similar term - is flexible enough to adapt to individuals and if it is well-managed it can provide for financial sustainability of public pension systems. It directs the debate from a fixed retirement age to the core issues of adequacy and solidarity. We believe that a life-cycle approach could be tuned in a way to ensure that specific risks or at-risk-groups can be treated in a fair and socially just way. There should be for example respect for hard manual labour, carer responsibilities or times where an individual is not part of the labour market. We argue for an individual-based assessment aiming at social justice and sustainable poverty proof systems and believe that this is best answered with a life-cycle model. ***On adequacy of first pillar pensions*** The solidarity-based first pillar pension schemes have to be universal and adequate and protect from old age poverty. They are of utmost importance to ensure protection in old age for everybody, especially for the most vulnerable persons, such as those outside the labour market. The poorest and most vulnerable do not have the means to acquire private pensions under the 3rd pillar, and often they do not have access to 2nd pillar occupational pensions, as these are only available to those active in the regular labour market. First pillar schemes have to remain at the centre of our pension systems; they have proven to be the most inclusive, the most fair in re-distribution and even the most cost-efficient way in combating old-age poverty. The gender gap for pensions is the smallest in the first pillar. **While we argue for pension systems in Europe to have the possibility of all three**

pillars, it is essential that the first pillar pensions are above the poverty line, universally accessible and solidarity-based. Regardless of whether the systems are tax-financed or contribution-financed, financing should respect the principle of fiscal justice. It has to be a fundamental principle that a minimum poverty-proof pension is guaranteed to all, whether they have been active or not in the labour market. Additional schemes can be additions, not substitutes. ***On the sustainability of public finance and pensions*** In the current European debate on sustainability of public finances, pension schemes are too often considered as a mere burden on public finance, as possible area for cuts instead of essential instrument to combat old-age poverty and allow for redistribution over a lifetime of the individual and across society. Pensions are an investment in social security and poverty prevention and the public pension systems in the EU mostly consist of contributions of citizens to a solidarity scheme. However, pensions systems can only remain or become adequate if their financing is put on a sustainable footing. Greens are open to reforms of pension systems in order to cope with population developments or a changing labour market, as long as these reforms are socially just and strengthen solidarity mechanisms instead of weakening them. Such pension reforms should be well-assessed and checked for counter-effects, not short-term and without consultation. They should be debated with all social partners and stakeholders, and better communicated to the citizens. Whole-cost-accounting has proven that first pillar (and to a more limited extent second pillar) pension schemes have a high "return on investment" by reducing cost related to age poverty and by guaranteeing a basic income for older people. Cutting these basic pension provisions usually leads to higher costs in other areas of social security. In macroeconomic terms, the shift away from solidarity-based schemes has generated two effects: the individualisation of risk and linked to this the reduced protection of the most vulnerable groups – a trend of **de-solidarisation** and linked to this an **undermining of the solidarity base of systems** as solidarity schemes need a minimum size to have proper risk sharing and stability. A simplistic request to limit pension expenditure just by reducing the amount of pensions or the eligibility cannot be seen as an adequate answer. **Greens demand that when assessing public finances of EU Member States, a "whole-cost accounting" procedure is respected in relation to pensions. Pension obligations should not only be regarded as a burden on public finance, they are a mechanism of direct financial solidarity between generations, as well as an investment in the future. If pension scheme reforms are suggested as measure to improve the Member States financial situation, the social impact needs to be spelled out clearly and there needs to be an open debate and democratic procedures. Pension policy should not be ruled solely by Financial Policy, it is a key element of Social Policy.**

Greens are convinced that there are positive ways of socially just and fiscally sound reforms without lowering rights and with redirecting the focus on improving first pillar pension schemes, broadening the contribution basis away from salaries, e.g. via progressive taxation, and increasing jobs creation. ***On capital-based schemes vs pay-as-you-go-schemes*** The key difference between a pay-as-you-go scheme and a capital based scheme can be described as follows: Pay-as-you-go schemes are affected by labour market and demographic developments. Capital-based schemes can contribute to alleviate large demographic changes, but are dependent on developments of the financial markets. In the late 20th century there was a large political trend towards on capital-based schemes; the downsides have been proven extensively over the last five years during the financial crisis. Capital-based schemes have proven to be expensive to build up and depend on the development of financial markets, which is a risk. Although capital based pension systems can help to provide an additional income for pensioners, they are to a lesser extent, also affected by demographic change because pension funds also suffer from diminishing contributions and value losses when the population ages. ***On the effects of subsidising 2nd pillar occupational pensions and 3rd pillar private pensions*** Most Member States give tax advantages or other forms of support to citizens who invest in 2nd and 3rd pillar pensions. Research has shown that subsidising 2nd and 3rd pillar pensions can have an undesired effect: on the whole, subsidising 2nd and 3rd pillar schemes may lead to upside-down-distribution effects. Or to say it more clearly: Subsidising private and occupational pensions must not lead to transfers from the poorer to the richer. Therefore, subsidising 2nd and 3rd pillar pensions must, where it is maintained, be targeted, conditional and monitored for its effects - for example to improve access for under-represented groups such as women or self-employed. An upward limit should be set in order to exclude subsidies for exuberant second pillar pensions. Some schemes, often collectively managed or having a "defined benefit" approach have managed to overcome negative side effects and could serve as best practice to improve others. We definitively see interesting perspectives in those 2nd pillar schemes that are collectively managed, democratically led and regulated with principles of solidarity and redistribution between different groups of workers: In those schemes the workers collectively own their capital, the employers must contribute to the funds, and it's a possibility to fund long-term green investments. Finally, second pillar schemes should be made available in more firms and sectors, as well as to the weakest in the labour market and those having unconventional career path. ***On the European regulatory framework for private and occupational pensions*** Greens want to maintain a pension system based on several pillars, and are committed to setting the regulatory framework for occupational and private pension schemes, which is mainly set in the field of consumer protection. For occupational pensions, it is essential that the schemes are properly protected in case of bankruptcy, that occupational pension schemes are open to all workers regardless of status or age and that mobility of workers is not punished by reducing pension entitlements. EU rules should ensure that pension funds invest assets in a socially and environmentally responsible way and protect workers and pensioners against risky speculation. More ethical investments by pension funds should be encouraged, at the EU and national levels, in order to move towards a more sustainable, low-carbon and socially inclusive society. Private pension schemes are in their core financial market products. We support European initiatives to promote and strengthen the current regulatory framework regarding the provision of private pension funds by cross-border companies as long as pension security is the aim rather than equal rules for collectively managed pension funds and private insurance companies to enhance competition. Greens demand the necessary consumer protection – this includes adequate crisis prevention and recovery, data protection, detailed consumer information. Transparency is essential, in all dimensions, for the conditions of the individual product, the risk assessment of the product and for the investment portfolio. Stability of pension funds is a very important asset, as has been unfortunately shown in the financial crisis. There are different ways to achieve stability and reduce excessive risk-taking. It makes sense to impose stricter quantitative (buffers such as higher capital requirements which take into account not only legal forms but also economic substance) or qualitative requirements (such as investment strategy, governance, sound risk management) to pension funds for more stability. Moreover, we recall the importance for a fine-tuned supervision on pension funds. ***On portability of supplementary pension rights in the EU*** The 2nd pillar occupational pensions have become an integral part of the pension entitlements of many workers. At the same time, workers find that they lose parts of their 2nd pillar pensions when they go across borders in the EU, or even change jobs in a Member State. Workers lose tax benefits, or have to leave pension entitlements behind when changing employers across borders. The Commission presented in the last legislature a Directive on Portability of Supplementary Pension rights which we supported but which did not secure support in the EP and in the Council. We as Greens/EFA argue that the EU should take a role in supporting workers so that they can take their occupational pension rights to the next employer. The EU is promoting workers mobility as a fundamental freedom, it is promoting the use of the 2nd pillar, then it must also protect workers making use of the free movement. We should facilitate taking along your occupational pension so that it remains manageable for the individual worker and he or she does not end up with coordinating several small occupational pensions at the end of the career. For the shorter term we support initiatives by the Commission to set up a tracking services for pension entitlements in the EU. **We as Greens/EFA call on the Commission to present a new proposal for a Directive on Portability of Supplementary Pension Rights. Such a directive should make sure that workers going across borders are not punished when it comes to 2nd pillar pensions. We call for the right to enter occupational pension schemes regardless of the age of the worker, we call for short vesting periods and for the right of the worker to take the supplementary pension entitlements along when changing employers (portability) as well as for accessible and transparent administrative procedures that regulates this portability.** ***On the EU's role when it comes to adequacy of pensions and age poverty*** Member States are responsible for social security and their national Labour Markets. However, the EU should take its responsibility in battling poverty across the EU by setting minimum standards. Greens/EFA have called for a European Framework Directive for a Minimum Income, this must include combating old age poverty. **We therefore call on the EU to establish the principles of**

what constitutes adequate and universal pensions, so as to establish joint standards, a level playing field for social protection and to support a life in dignity for pensioners. ***On retirement age and pensionable age as well as integration of older workers*** The debate on retirement age and pensionable age is highly conflictual in different member states across the EU. We don't think that a fixed number for retirement age should be set European-wide, or that the Green/EFA group should give a number. However, we consider that a sole focus on the retirement age, without considering the actual retirement age, nor the healthy life expectancy, constitutes a misled policy. In a life-cycle perspective, we suggest however that this debate takes into account the number of years worked, allowing for distinction between career paths. We however agree on some matters of principle: The quota of older workers active on the European Labour Market is low, it is too low. Many older workers who want to work are excluded from the labour market, due to age discrimination. There is a huge labour market reserve of competent older workers who are kept from the labour markets in the EU - this is a waste of experience and excellent workers. The low participation rate of older workers is due to a number of reasons including age discrimination and negative incentives stemming from outdated social security policies. Early retirement policies have proven in recent research to be extremely costly, while "untraining" the labour market from using qualified and healthy older workers, as well as damaging the economic ratio (number of workers contributing / numbers of retired people) whereupon rely the national PAYG systems. Where early retirement schemes are in place, they should be monitored to ensure that they are targeted towards those workers in need – mainly those with hard and physically demanding work who often can not carry out their profession until legal retirement age without major health restraints. The schemes should also be monitored for negative side effects and cost efficiency. Workers who need to make use of early retirement due to health reasons, for example because of hard manual labour, should receive a decent poverty-proof income because of their bad health or their invalidity, it might be called a pension, but rather not a clear-cut old age pension. Employment contracts could also be adapted to their specific needs. If the reserve of older workers who are currently outside the labour market and who want to work is "used", this has a major positive impact on pension financing. These people are contributing to pension systems, they can be a major component in stabilizing the pension systems which are at risk of becoming under-financed. Increasing the labour force participation of older persons is not in any way a threat for job opportunities of young persons. Indeed, the research suggests that greater labour force participation of older persons is rather associated with greater youth employment and with reduced youth unemployment. **We as Greens/EFA therefore argue for:**

- **creating working conditions that enable older workers who choose so, to participate and remain in the labour market;**
- **combating direct and indirect age discrimination;**
- **replacing incentives which remove older workers from the labour market with incentives for an inclusive labour market (such as intergenerational solidarity schemes and employment contracts);**
- **adapting workplaces to the needs of older workers, such as the right to flexible working time for older workers, the right to training and the right to a flexible exit into retirement without loss of entitlements.**
- **Respectful and poverty-preventing rules for workers whose health does not allow to work until the legal retirement age**
- **Raising the retirement age without taking all available measures to include older workers in the labour market is not acceptable.**

We should evaluate whether a statutory retirement age is necessary if a true lifecycle approach to employment is introduced. Pension income of women is considerably lower than that of men, across the EU and all age- and society groups. Elderly women are at a high risk of poverty. The professional career pattern of women is still discriminated again in the existing pension schemes across the EU. All pension schemes need to be restructured so as to combat both direct and indirect discrimination of women in relation to old-age pensions. This includes mechanisms to account for career breaks, transitionary periods and changes in family situation. A core element to protect women from old-age poverty is again a decent poverty-proof first pillar pension, which does not punish individuals with “model pension careers". As mentioned in the introduction, this would also be enhanced by the individualisation of social rights. ***A transparent and democratic system*** Pensions systems being quite complicated, it is essential that individuals have better information and transparency throughout their career about their pension rights. This is even more needed in a world where "atypical" careers are the new norm.

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Contact person

Berta Halmos

Advisor on Employment and Social Affairs

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