



The EU Pension Reform Agenda

"The Times of our Lives: Active Ageing and the redistribution of work in Europe"

Population Europe Event
Bruxells, 20 November 2012

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EC DG EMPL D3: 'Active ageing, pensions, healthcare, social services'

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WP on pensions and work over the life course

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Linking Pensionable Age to Longevity

Scenario for a Greying LM:



Pensions matter ... hugely!

- ❑ *Main source of income of 120 million older Europeans – almost one quarter of the population*
- ❑ **Structure our lives**
- ❑ *Mean income of people over 65 amounts to around 94% of that of the total population*
- ❑ *The bulk of pension benefits is paid by public schemes*
- ❑ *Public spending on pensions in the EU represented **11.3% of GDP** in 2010*
 - **Ranging from 6.8 % in the Netherlands**
 - **to 15.3 % in Italy**



White Paper – list of content

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Background

Follow-up to the Green Paper

Consultation on pensions July-Nov 2010

Reflects the fact that pensions are becoming a
common concern - *larger role for EU in life structuring?*
Due to the economic & sovereign debt crisis (impact on short & long-term stability of public finances)

Strong emphasis on pensions in Europe 2020

Annual Growth Surveys (AGS) 2011 & 2012 and Country Specific Recommendations (CSRs) 2011



White Paper - Key objectives

EU to **add value** by supporting reforms in Member States while **respecting national competences**

European Semester with CSRs, Euro Plus Pact, soft policy coordination with SPC and EMPC, financial market & pension industry regulation

Annual Growth Survey states **what** needs to be done, White Paper **how** to do it given ageing, fiscal and socio-economical challenges - **Underpin CSRs**

White Paper presents a **comprehensive vision** for the future of adequate pensions

Stresses that adequate and sustainable pensions are possible even in a less favourable demographic context



White Paper - Main messages

*To **ensure adequate and sustainable** pensions when people live longer and the proportion between those of active age to those of retirement age is quickly falling,*

*Europeans will generally need to **work more & longer and save more** for their retirement while enhancing the safety and cost-effectiveness of such savings.*



Two key routes to adequate pensions

Balancing better time spent in work and in retirement *by raising effective retirement ages and linking pensionable ages to longevity gains*

Build extra entitlements through larger, safer & more cost-effective complementary retirement savings



How we arrived here: –The imbalancing of years in work and retirement 1960-2000

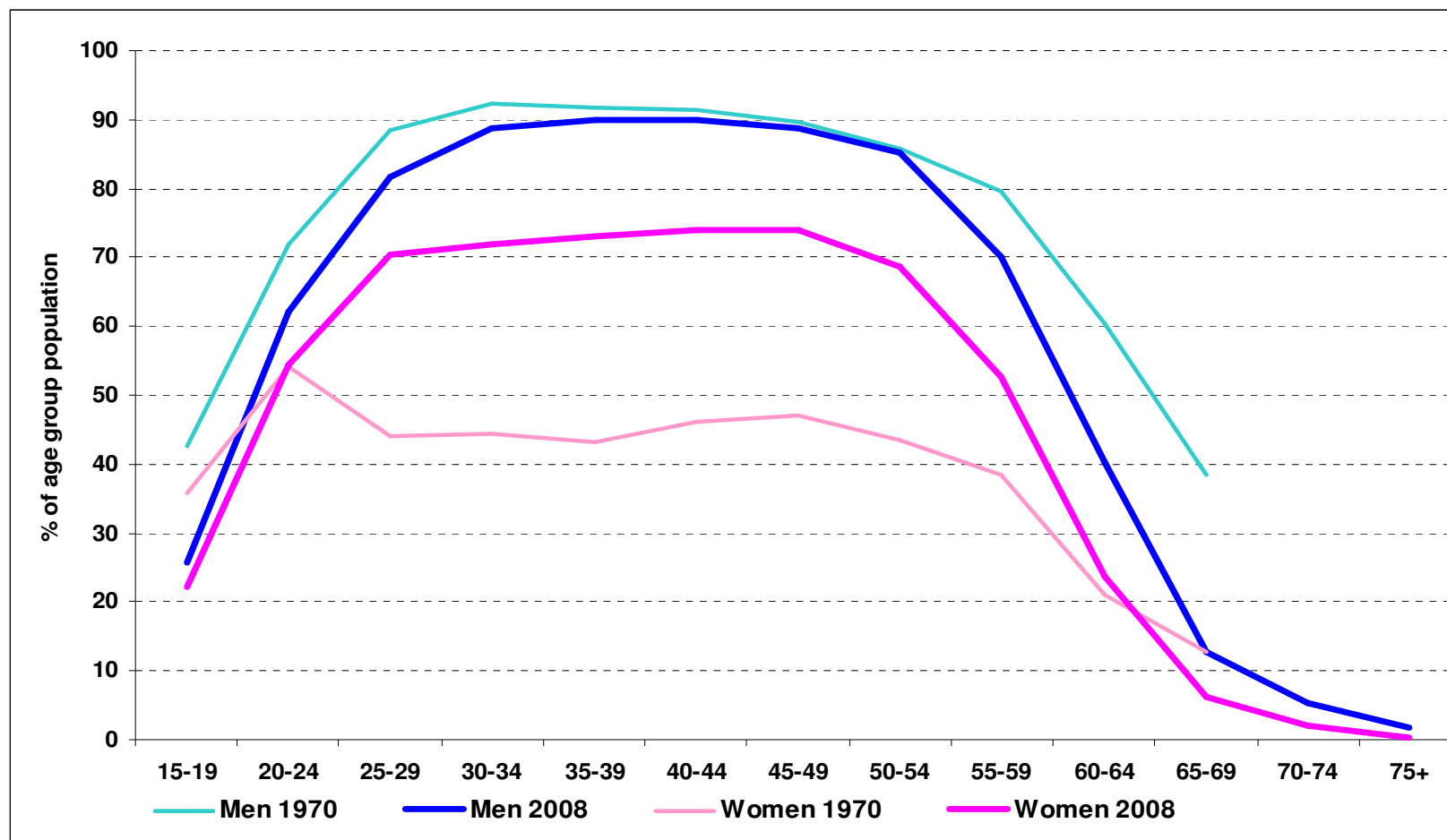
*Relative share of work in life / duration of
working life reduced through combination of:*

- 4-5 years Later **Entry** (longer education & training)
- 4-5 years Earlier **Exit** (longer retirement)
- 5-6 years **Longevity** Growth (longer retirement)

*Was it individual preferences or policy
conditioning that drove changes?*



Employment rates by gender, EU15, 1970 & 2005





Pensions & Retirement Transformed

*Retirement: from waiting for death in dignity
to a new lease on life (well-deserved otium)*

*Pensions: from longevity protection to welfare
right*

Fixing labour markets through early exit

*Early exit: from disability to employability
motivated, from failure to leisure*

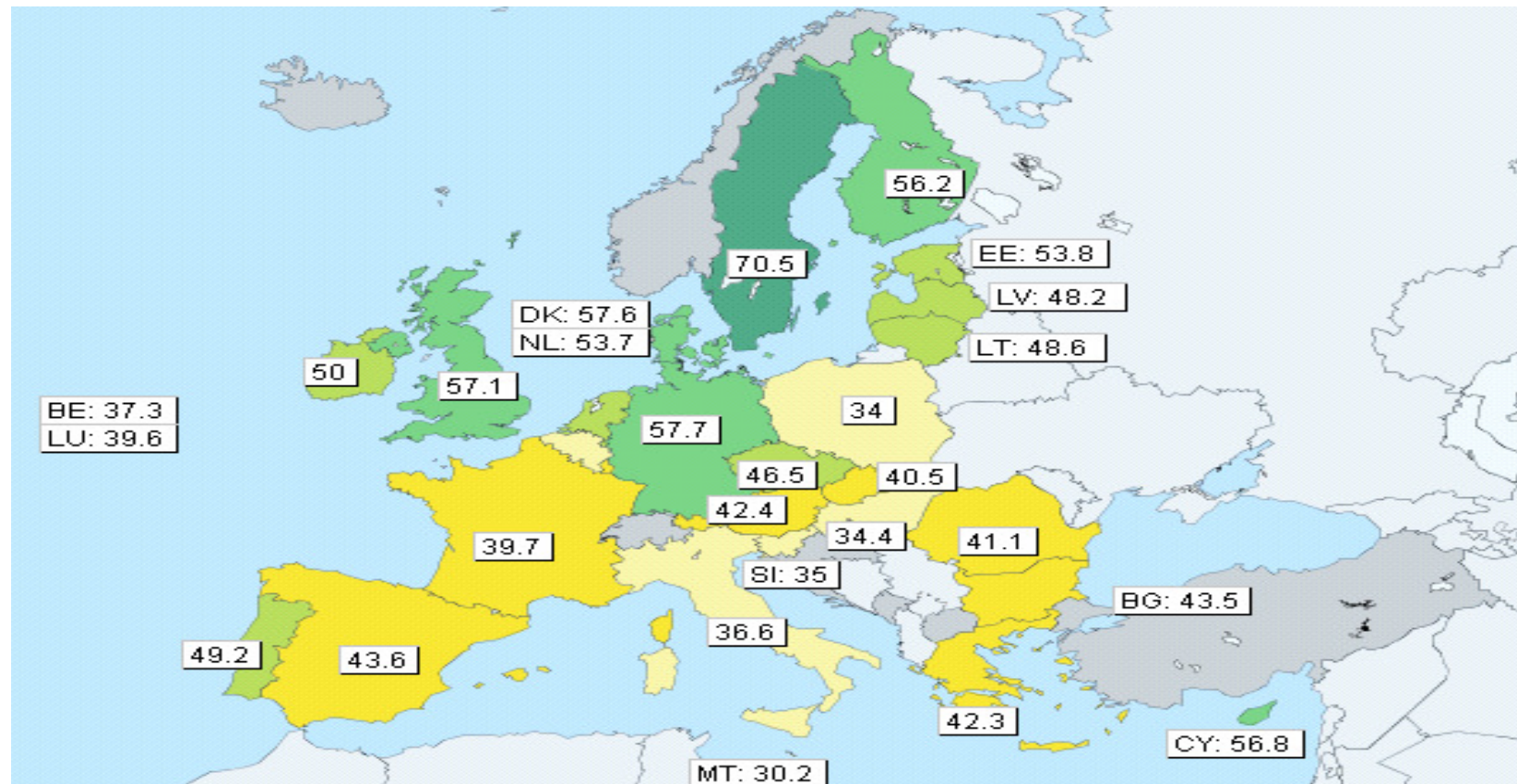
*LM problem off-loaded to Social Protection &
Pensionable / Retirement age Norm diluted*

*Dialectics of pension and employment rights
reinforced: gain one lose the other*

Where we are:



Improvements amid continued imbalances 2000-2010



Legend

30.2 - 38.0

38.0 - 46.0

46.0 - 54.0

54.0 - 62.0

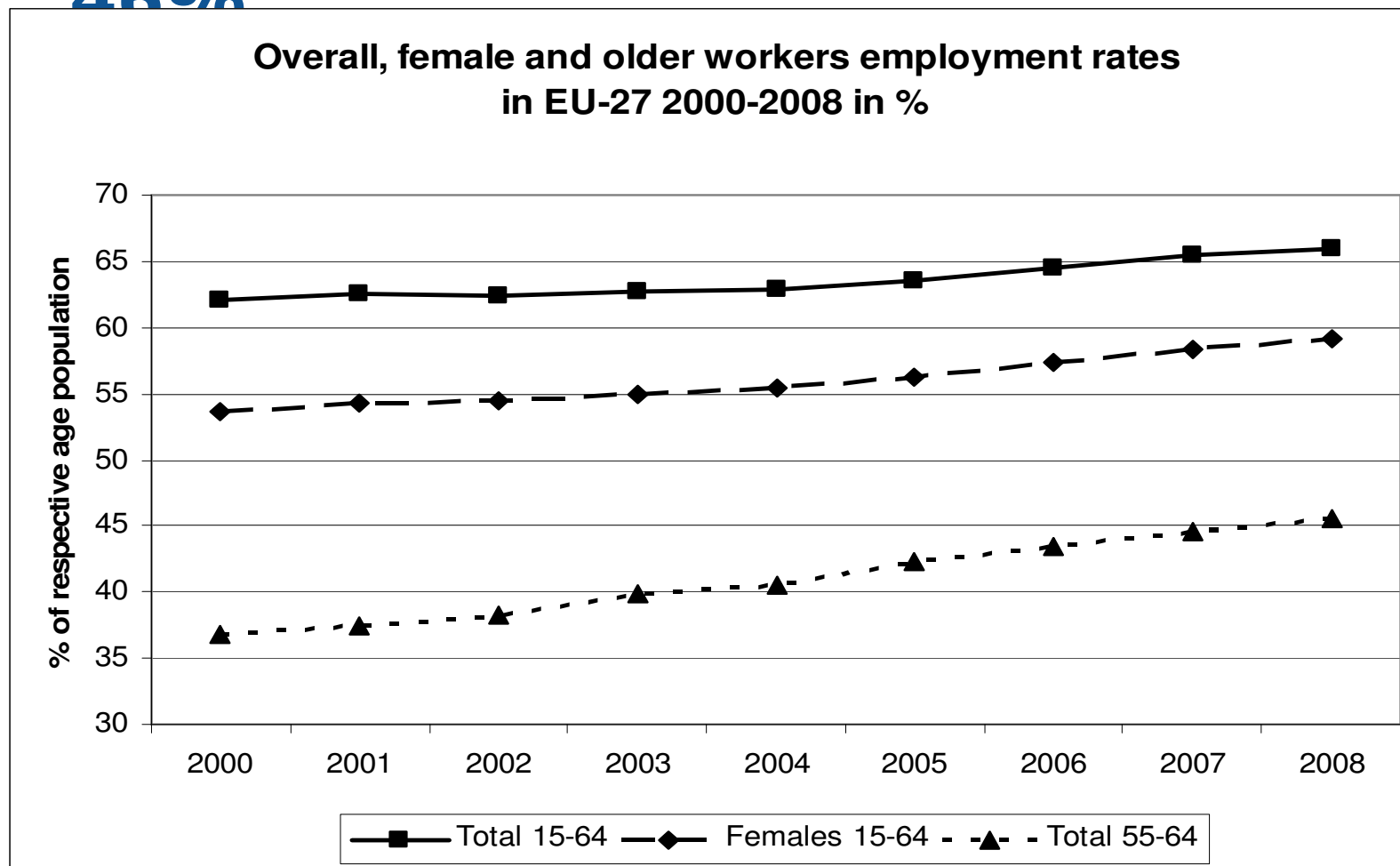
62.0 - 70.5

N/A

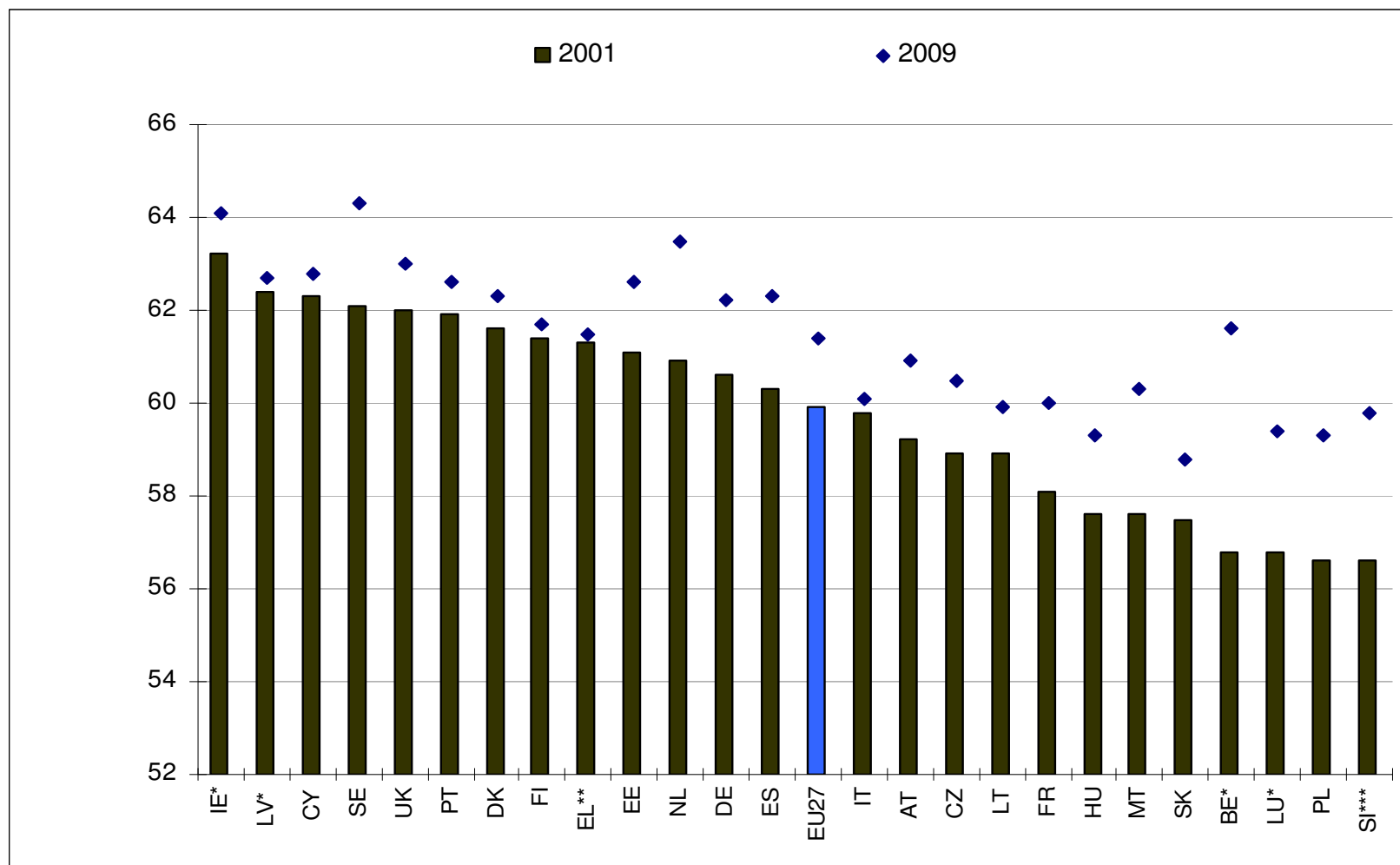
Social Europe



Earlier exit trend reversed: OW empl rates raised from 36% to 46%



Exit ages 2001-2009





Gender bias in underemployment of 55-64

*In 2011 **total** employment rates for workers aged 55-64 ranged from 31.2 in SK to 72.3 in SE, i.e. varying by more than a **factor 2**.*

The rate for the EU-27 was 47.4.

Eight countries had rates below 40 (BE, EL, IT, LU, HU, MT, PL, SI).

*For **females** the rate ranged from just 13.8 in MT to 68.9 in SE, i.e. varying by a **factor 5**.*

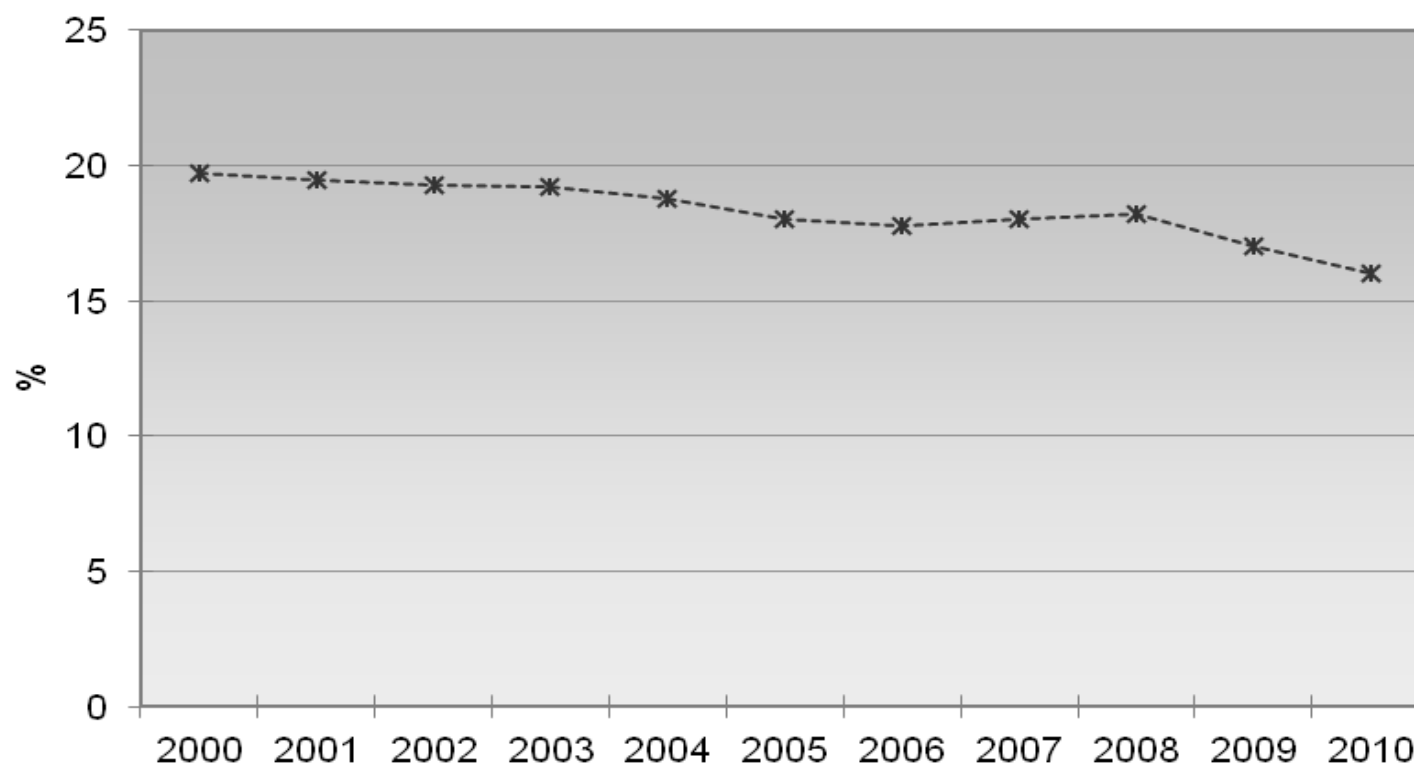
The rate for the EU-27 was 40.2.

Five countries had rates below 30 (EL, IT, MT, PL, SI).

Barriers to female older workers' employment are found in

- **pension systems (e.g. lower pensionable age for women),**
- **work-life balances (e.g. insufficient access to child & eldercare)**
- **workplaces & labour markets (e.g. poor age & gender management).**

Gender employment gap of 55-64 reducina 2000 to 2010

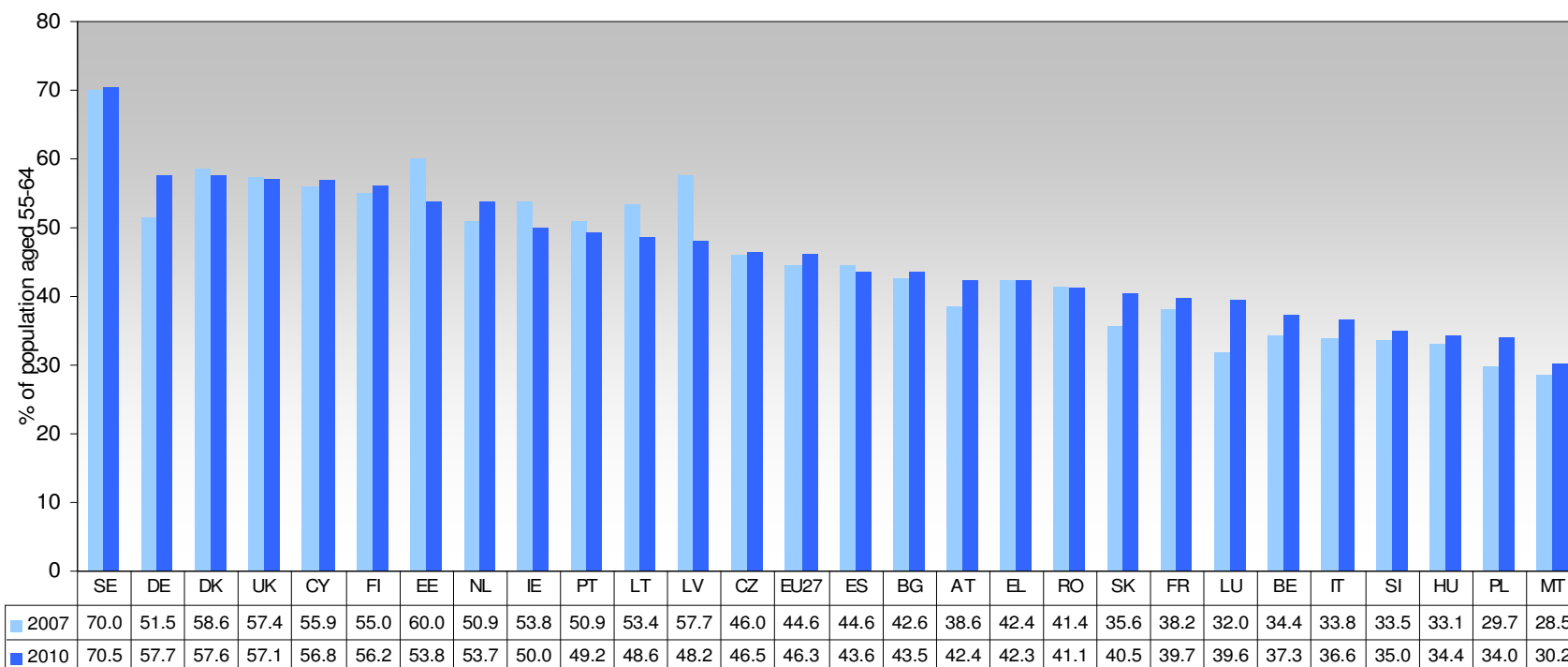


Source: Eurostat, EU Labour Force Survey



Employment rates 55-64 holding up in crisis

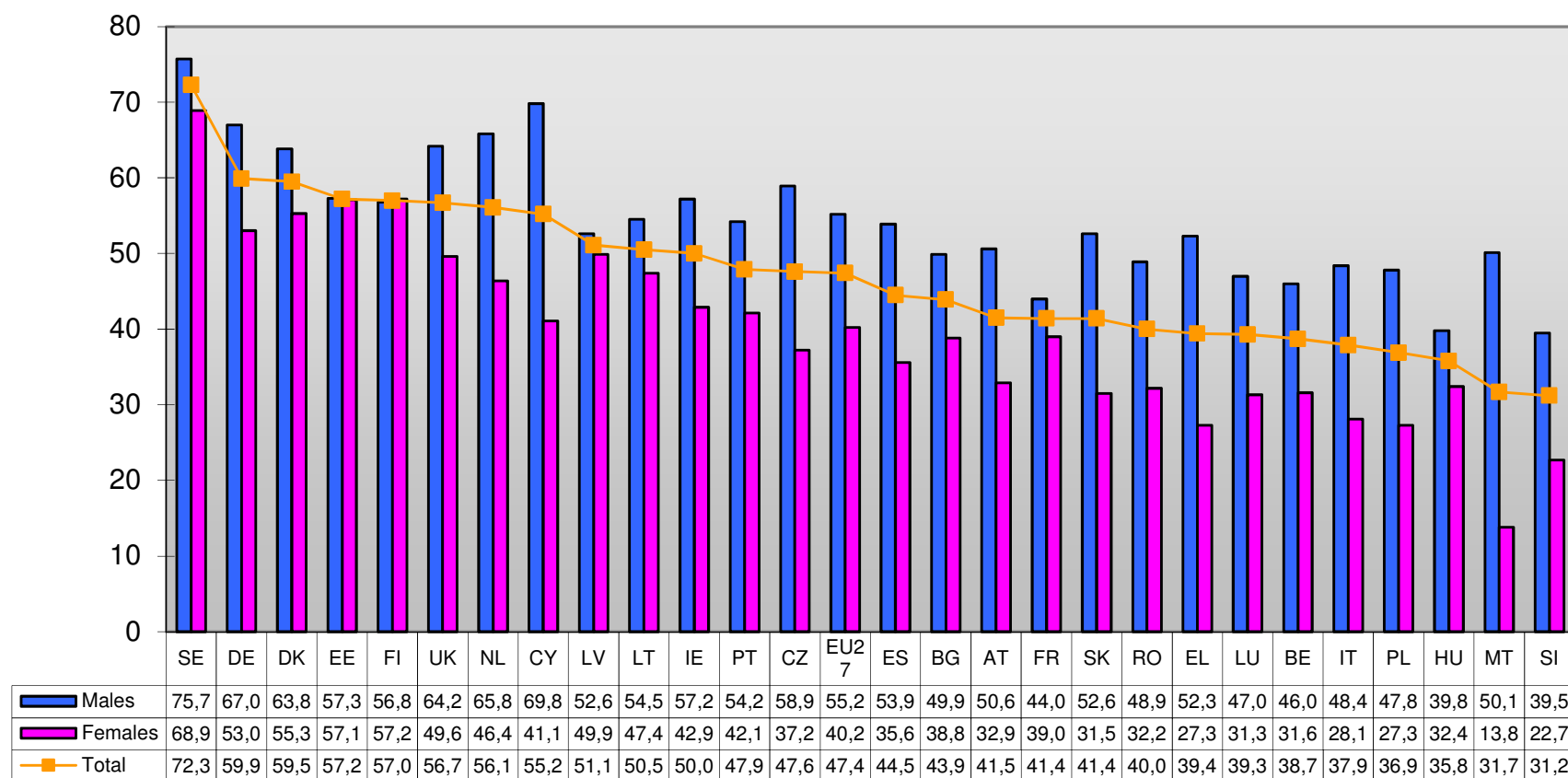
Employment rate of older population (55-64), 2007 and 2010



Source: Eurostat, EU Labour Force Survey, main indicators



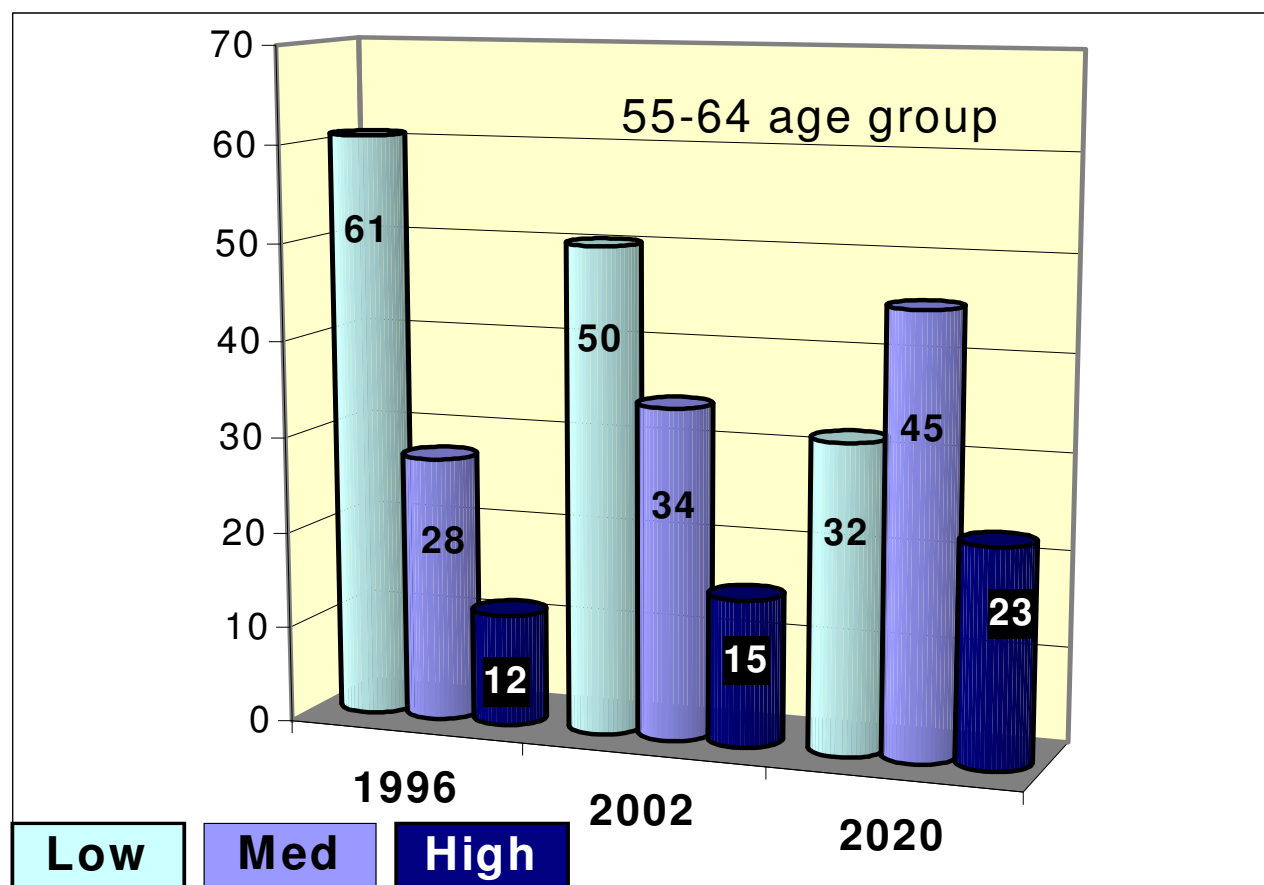
Employment rates of Older Workers 2011



EU15 - 55-64 age group

Distribution of the Labour Force per educational level

1996-2002 and Geo Labour Projection for 2020



**Helping
hand of
shift in
educati
on
levels**

Low = ISCED 0-2 = Less than Upper Secondary;

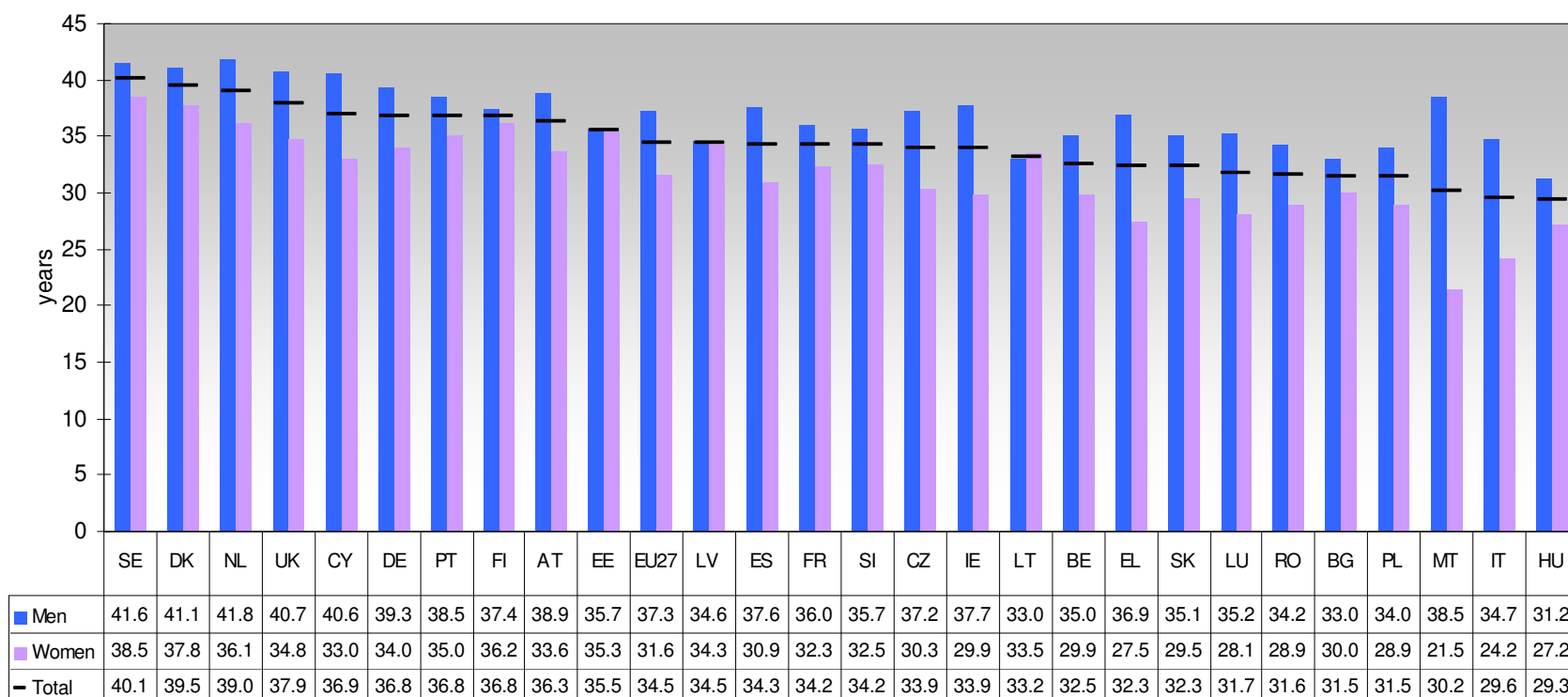
Medium = ISCED 3 = Upper Sec.; High = ISCED 5-7 = Tertiary

Source: Eurostat LFS 1996-2002. Geo Labour Projection for 2020.



Duration of Working Life: Huge variation across Europe

Average duration of working life, 2010



Source: Eurostat, EU Labour Force Survey; annual data



Average duration of working life - total

Years

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
EU27	32.9	32.9	32.9	33.2	33.3	33.6	33.9	34.1	34.4	34.5	34.5
BE	30.2	29.5	29.7	29.9	30.5	31.4	31.5	31.9	32.1	32.1	32.5
BG	29.0	30.1	29.9	29.3	29.9	29.6	30.7	31.7	32.5	32.1	31.5
CZ	33.6	33.4	33.4	33.3	33.3	33.7	33.9	33.8	33.7	33.9	33.9
DK	38.3	38.0	38.5	38.4	38.9	39.0	39.5	39.6	40.0	40.0	39.5
DE	34.3	34.6	34.7	34.9	34.9	35.9	36.2	36.6	36.8	37.0	36.8
EE	33.2	33.0	32.6	34.2	34.0	34.1	35.2	35.1	35.9	35.8	35.5
IE	33.2	33.3	33.5	33.5	33.8	34.7	35.2	35.5	35.5	34.3	33.9
EL	31.6	31.0	31.2	31.4	31.8	31.7	31.9	31.8	31.9	32.2	32.3
ES	30.8	30.3	30.9	31.5	31.9	32.7	33.2	33.6	34.1	34.2	34.3
FR	31.9	31.8	32.1	32.7	32.8	33.1	33.2	33.5	33.7	34.1	34.2
IT	28.5	28.6	29.0	29.2	29.8	29.6	29.7	29.6	30.0	29.7	29.6
CY	34.1	35.1	35.2	35.9	36.1	35.7	36.0	36.5	36.4	36.8	36.9
LV	31.8	32.2	33.5	33.0	33.5	33.3	34.0	34.8	35.8	35.2	34.5
LT	33.6	32.9	32.7	34.2	32.7	32.0	31.6	31.7	32.3	33.1	33.2
LU	29.2	28.9	29.7	29.3	29.7	30.4	30.8	30.7	30.8	32.1	31.7
HU	27.5	27.5	27.5	28.1	28.0	28.4	28.7	28.8	28.8	28.9	29.3
MT	28.8	28.8	29.1	28.6	28.0	28.4	28.5	29.0	29.3	29.8	30.2
NL	35.5	36.1	36.7	36.9	37.2	37.5	38.0	38.7	39.4	39.8	39.0
AT	33.5	33.5	34.1	34.2	33.6	34.6	35.3	36.0	36.2	36.4	36.3
PL	31.1	31.4	30.7	30.5	30.3	30.6	30.2	30.2	30.6	31.0	31.5
PT	35.7	36.1	36.4	36.4	36.3	36.5	36.8	37.0	37.1	36.8	36.8
RO	36.0	35.3	32.2	32.0	31.9	31.2	31.8	31.8	31.6	31.5	31.6
SI	31.8	32.0	32.3	31.4	33.2	33.5	33.6	33.9	34.0	34.1	34.2
SK	32.1	32.6	32.2	32.5	32.6	32.3	32.1	32.0	32.3	32.3	32.3
FI	36.4	36.7	36.8	36.8	36.5	35.9	36.4	36.8	37.3	36.9	36.8
SE	36.8	38.3	38.4	38.5	38.4	38.9	39.4	39.8	40.0	39.8	40.1
UK	36.9	36.7	36.9	37.0	37.1	37.4	37.8	37.8	37.9	37.9	37.9

Source: Eurostat, EU Labour Force Survey



Where we are heading: Scenarios 2010-2060

*The **double** challenge:*

structural longevity growth of +6-7 years

transition from baby-boomers to baby-busters

The end of the unique demographic dividend

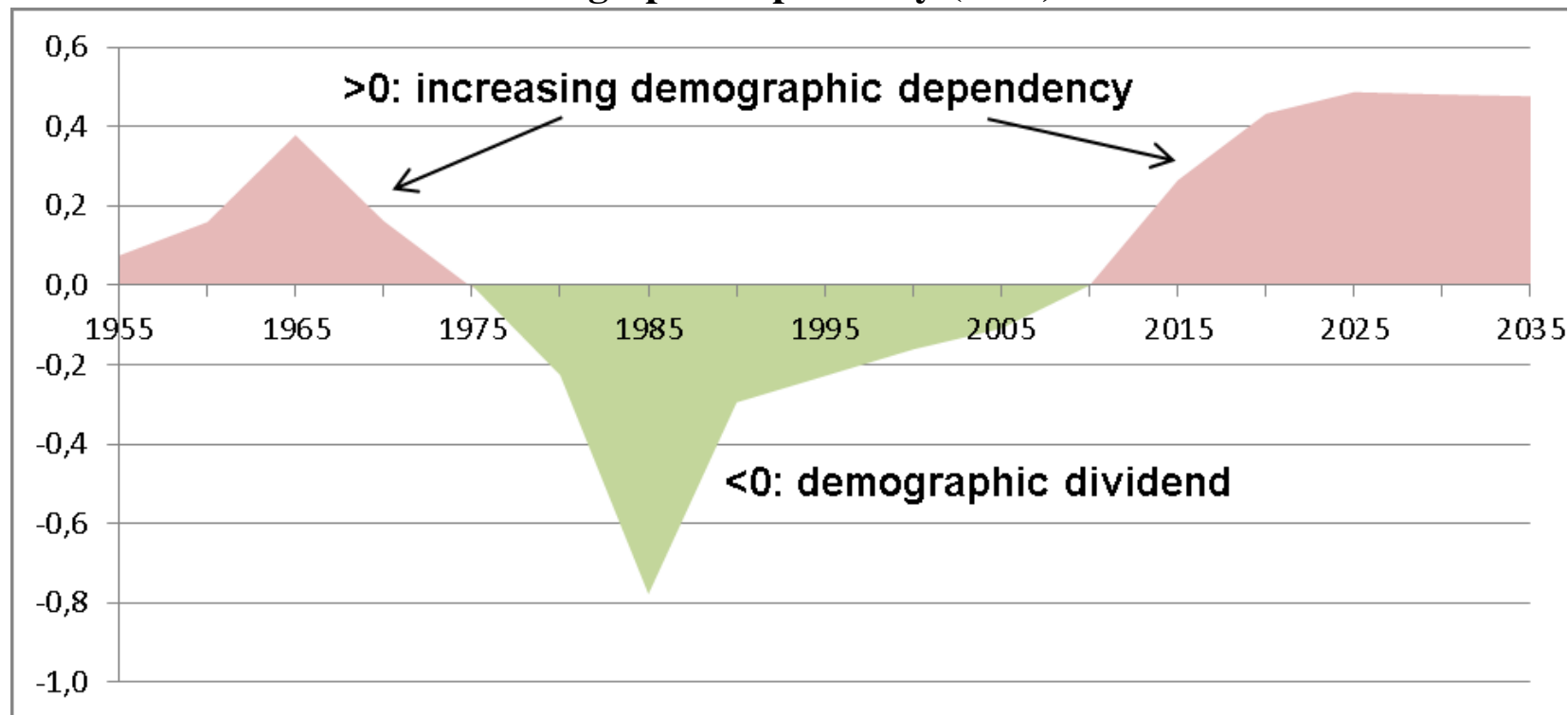
Greying of the labour Market: only will 50+ grow

*Demography not fate - But coping will depend
on our ability to employ much larger share of
50-69 year olds*



From *Dividend* to *Deficit* in Demographics

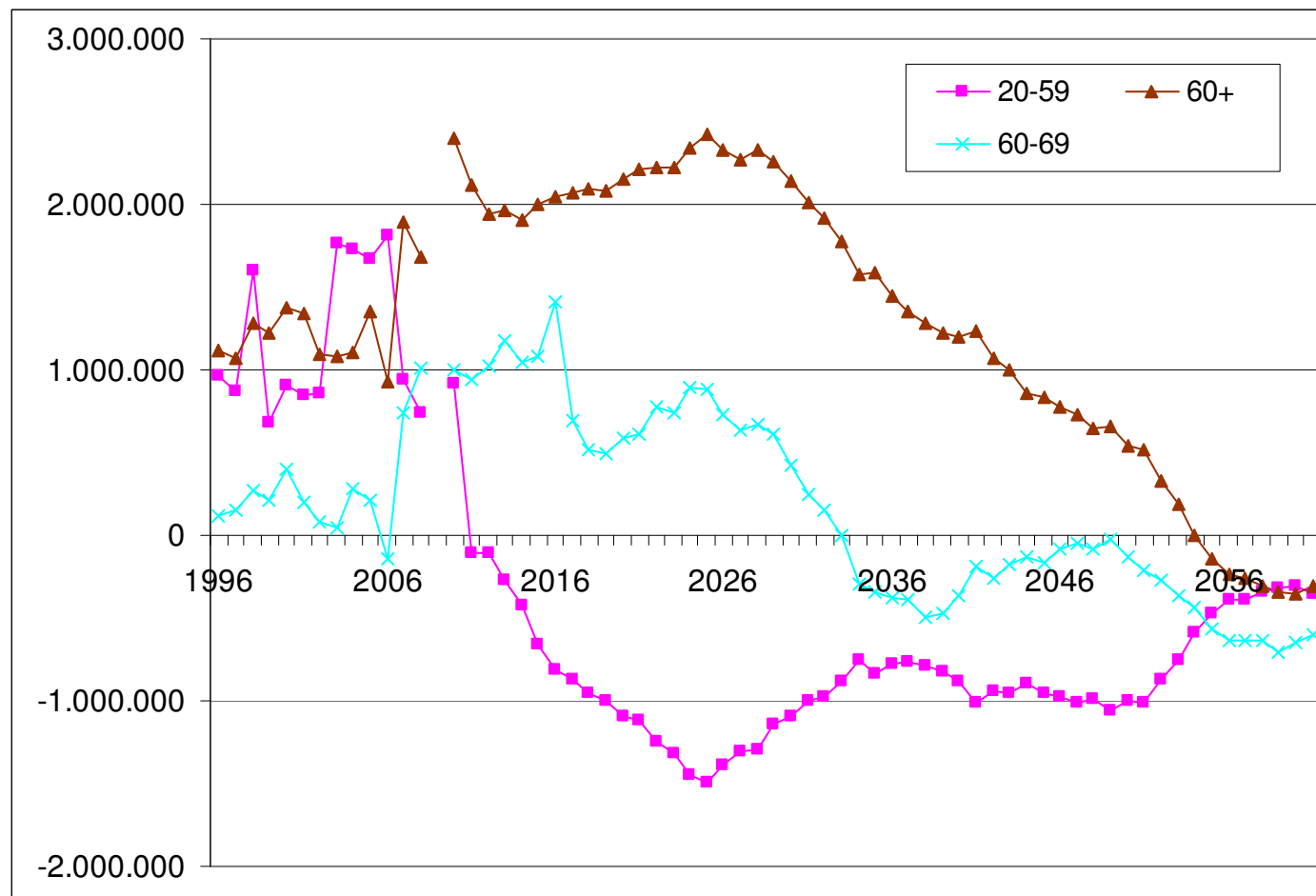
Annual shift of total EU-27 demographic dependency (ratio)



Source: Eurostat, population statistics

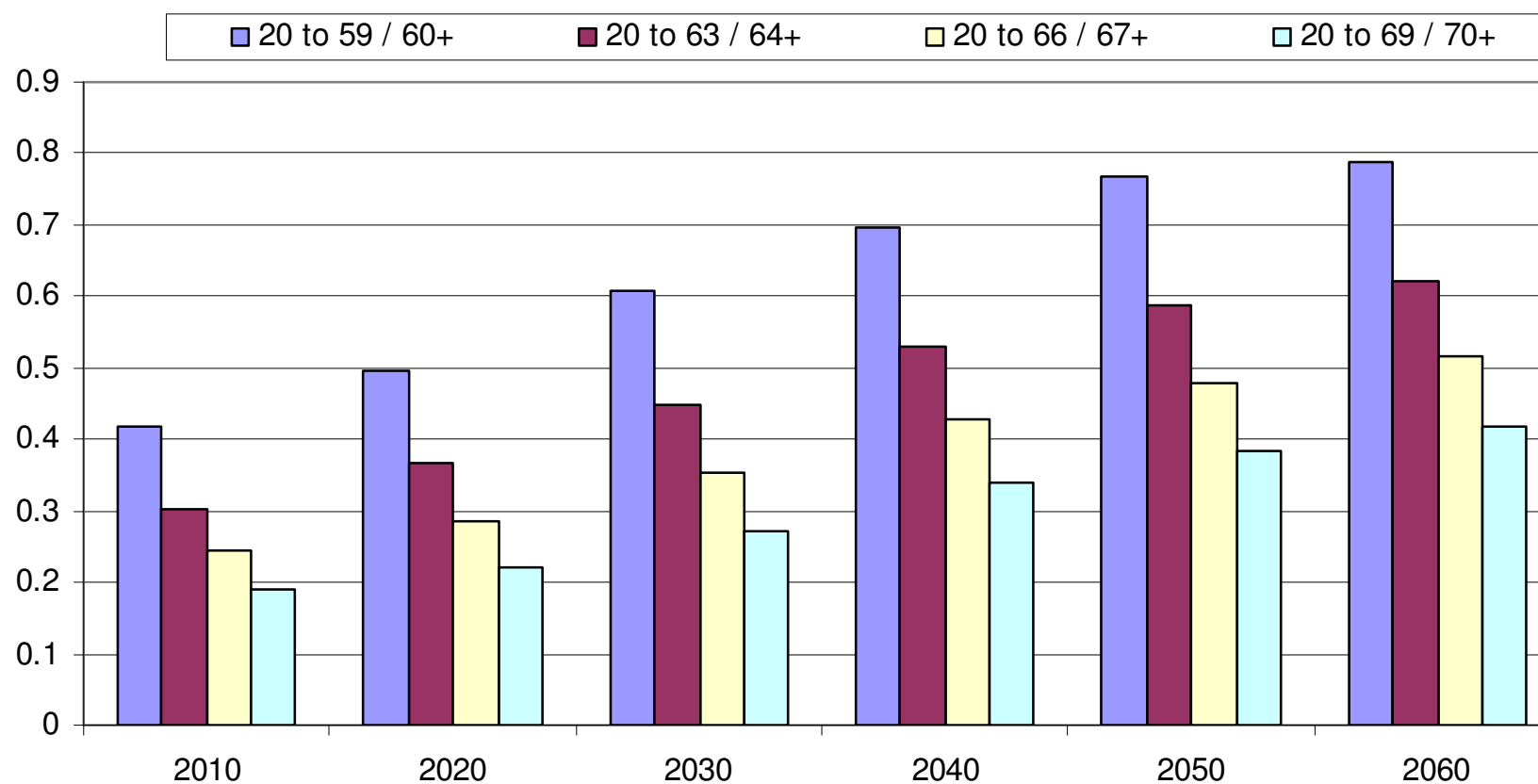
Impact of cohort transition already felt

**Year-on-
year
change in
the adult
populatio
n, EU27**



The power of longer working lives

EU-27 old-age dependency ratios, 2010-2060, under four exit assumptions (working ages from 20 to 59 through 69)

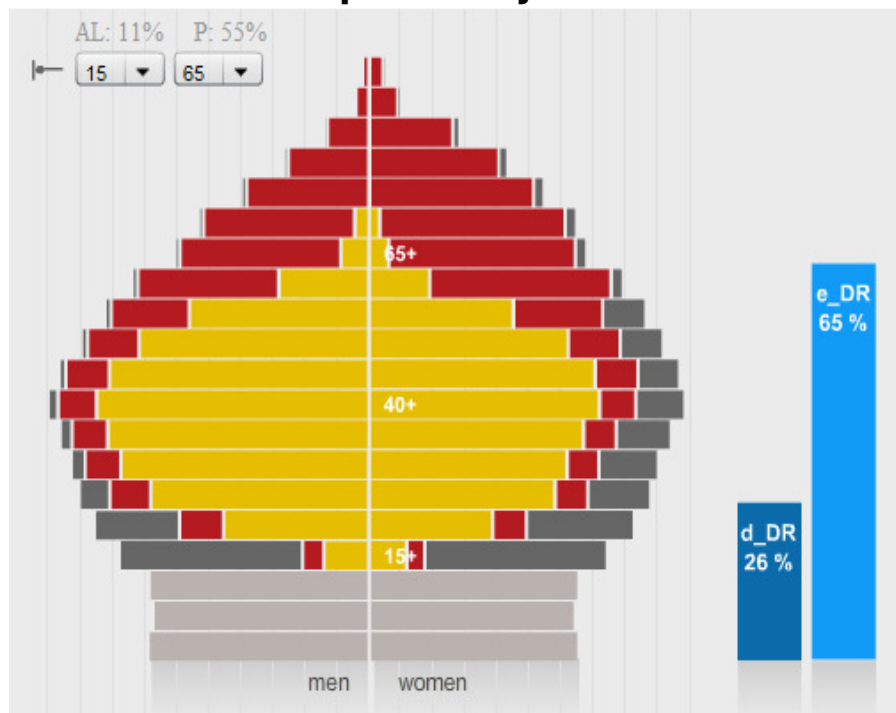


Economic vs. Demographic dependency ratios

EU-27 / 2010

demographic dependency ratio: 26%

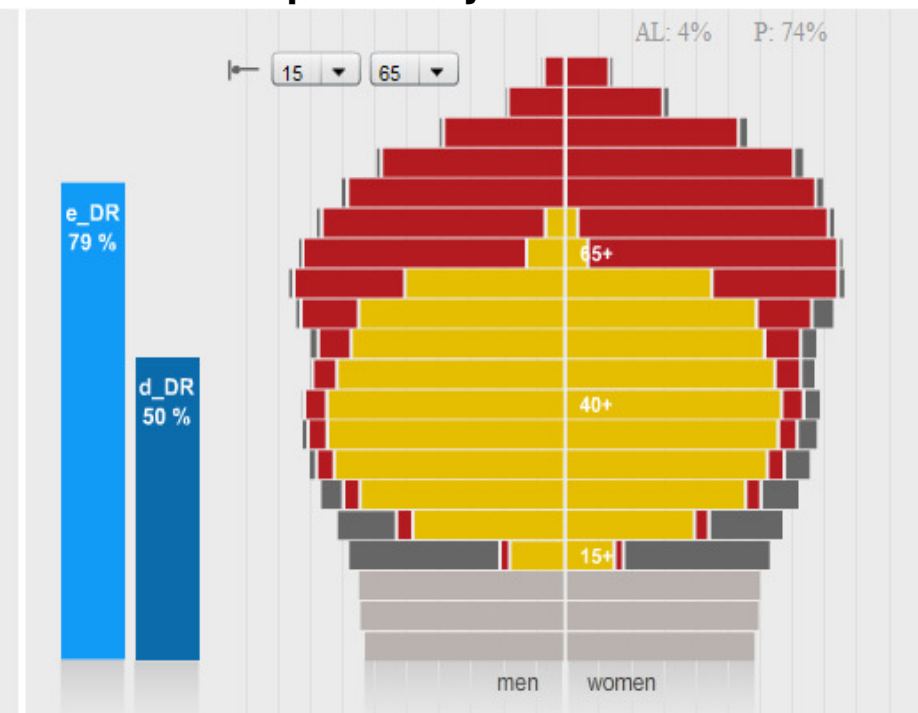
Economic dependency ratio: 65%



EU-27 / 2050 (“EU 2020plus scenario”)

demographic dependency ratio: 50%

economic dependency ratio: 79%



Ageing Report scenario: Working life expansion

		Men		Women	
		2010	2060	2010	2060
Employment rate of older workers (55-64)		54.5	66.7	38.6	60.3
Average entry age		21.6	21.6	23.6	23.6
Average exit age		62.5	64.3	61.7	63.8
Life expectancy at the time of withdrawal		18.9	22.7	22.7	26.0
% of adult life spent in retirement		31.7	34.7	37.4	39.3
Requested exit postponement in years (to keep % life spent in retirement constant)			2.0		1.3



What the EU is doing: recent policy developments

Reform wave & crisis breeds new initiatives:

Green Paper on Pensions July 2010

Joint EPC-SPC Report on Pensions Nov 2010

*Annual Growth Survey & Country Specific
Recommendations on Pensions Jan-June 2011*

EY2012 on Active Ageing

White Paper on Pensions Feb 2012

AGS & CSRs on Pensions 2012

Guidelines on Active Ageing

Ageing Report & Pension Adequacy Report



EPC & SPC Reflecting on Reforms

Move from defined benefit to defined contribution implies pension outcomes contingent on ability of labour markets to deliver long unbroken careers

Exclusive emphasis on fixing labour markets through work-incentives in pensions as key part of tax-benefit context



Pension Adequacy report: Key messages

*Sustainability advances through pension reforms achieved in **trade off** with adequacy*

***Adequacy advances contingent on people changing retirement and savings behaviour** – pension & retirement policies should promote such changes*

*Current systems and reform trends put **women at disadvantage** - Major gender pension gap can only be closed by equal conditions for women in employment*

*Ability of pensions to prevent **poverty** will impact on ability to achieve 20 mio poverty reduction*

*Assessing pension adequacy require **taking access to free or subsidized services & resources into account***



National competence, but common concern at EU level

EU has no powers to prescribe pension system design...

...or to establish a common EU-wide pension system to replace national schemes

But pension reforms are recognised as crucial for the success of the Europe 2020 Strategy for smart, sustainable and inclusive growth...

... and for sustainable public finances in the context of reinforced economic governance.



Pensions in first AGS (Jan 2011)

Key document starting annual EU policy coordination round ('European semester')

Called for fiscal consolidation to be supported by pension reforms with a focus on ...

- ☐ **increasing the retirement age and *linking it to life expectancy***
- ☐ **reducing early retirement schemes, offering incentives to employ older workers and promoting life-long learning**
- ☐ **supporting the development of complementary private savings**



Messages reiterated a year later

In the 2nd Annual Growth Survey (Nov. 2011):

- ❑ emphasises twin goals of sustainability and adequacy
- ❑ adds a new recommendation, i.e. to equalise pension ages for women and men

*In the Commission **White Paper** **An Agenda for Adequate, Safe and Sustainable Pensions** (Feb. 2012)*

- ❑ How to achieve a better balance between time spent in work and in retirement ...
- ❑ ... and how to develop complementary retirement savings



Country Specific Recommendations on Pensions

Pensions-related recommendation addressed to 16 countries (no MoUs: Greece, Portugal, Ireland, Romania)

*Focus mostly on **raising & linking** the retirement age*

Council treats Pen CSR under Macro-economic imbalances procedure – i.e. for ECOFIN

Divergent pension ages seen as "asymmetry"



What CSRs recommend to MS

*Raise the statutory pension age and **link** it to life expectancy – 10 countries: **Belgium, Spain, Cyprus, Lithuania, Luxembourg, Malta, Austria, Slovenia, Slovakia, Finland***

*Restrict early labour market exit – 7 countries: **Belgium, Bulgaria, Czech Republic, Denmark** (disability), **Poland** (special schemes), **Slovenia, Finland***

*Equalise pension ages for women and men – 3 countries: **Bulgaria, Austria, Slovenia***

*Review indexation of benefits – 2 countries: **Slovakia, Slovenia***

*Enhance private savings – 4 countries: **Czech Republic, Latvia, Lithuania, Malta***



Guidelines on Active Ageing

1st Pillar of Active Ageing: **Employment**

Life-long learning.

Healthy working conditions

Age management strategies

Employment services for older workers

No age discrimination

Employment-friendly tax / benefit systems

Reconciliation of work and care



Linking the pensionable age to longevity

Behavioural economics: individual motivation from economic incentives not sufficient

Adjusting pension norm with narrative: "as we live longer we work longer" and reach "a better balance between years spent in work and retirement"

Implicit: Working to higher ages becomes permanent agenda for the labour market



Implicit agenda of linking

Collective pension norm: it moves w. longevity

Tabels turned: off-loading onto labour markets

Fixing pensions through longer working lives

Taking all adjustments in duration of working life

Challenge moved to social partners

*Required: **Changes in age management** in work places and labour markets to encourage and enable women and men to work to higher ages*



Scenario for a Greying Labour Market

Pensionable age as Collective Norm or Individual preference?

Pensions from social protection to income smoothing (from collective to individual responsibility) ?

Working to a certain Income more than a certain Age?

Auto-piloting as pension design ideal - not everyone learning to navigate his own retirement plane!

Collective norm of a common retirement and pensionable age with collective social coverage!



Scenario for a Greying Labour Market

*A two tier structure of facilitation: **Working Until** and **Working After** the Pensionable Age: The emergence of a secondary labour market for End-of-Career-Jobs*

The labour law that could serve a labour market for end-of-career-jobs:

- **Retiring from 1st into 2nd career Japanese style: from permanent to fixed term contracts, from seniority to productivity based pay**
- **Transition year of Rights-opportunities-duties to be defined by pension norm as indicated by the pensionable age and rise with that**
- **Overcoming paradoxes of protection / seniority pay – more retention but no hiring of OW – more pay but no job**



Thank you

Monitor EU activities on these web pages:

- ❑ Europe 2020 Strategy:
http://ec.europa.eu/europe2020/index_en.htm
- ❑ Pensions White Paper and follow-up
<http://ec.europa.eu/social/main.jsp?catId=752&langId=en>
- ❑ Pension Adequacy in the EU 2010-2050
<http://ec.europa.eu/social/BlobServlet?docId=7805&langId=en>