

2009 AGE Statement on Pensions Ensuring adequate pensions for all in the EU - a shared responsibility for society

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The European Older People's Platform
La Plate-forme européenne des Personnes âgées

Preface

AGE member organisations – who represent both current pensioners and older workers – are worried about the potential consequences of the current financial and economic crisis on the long-term sustainability of their national pension systems. To voice their concerns and contribute to the debate on the post-Lisbon Strategy and the future Social Agenda, AGE is publishing this new statement on pensions reform: “Ensuring adequate pensions in the EU - a shared responsibility for society”. The new document builds on the expertise and feedback from AGE expert group on social protection and is a follow-up to the first AGE position,¹ published in 2005.

Against the background of today’s economic context, AGE proposes six key objectives which should be an integral part of any pension model and should be taken into account in any further pension reform, and makes recommendations on how to consolidate pension provision for today’s retirees as well as guarantee an adequate old-age income to future cohorts.

At a time when all European governments are looking for solutions to accommodate the impact of the crisis, AGE members would like to reiterate with new urgency their call for:

- A balanced and diversified pension architecture with adequate and reliable statutory schemes (the so-called first pillar);
- Strengthened security for individual entitlements in funded pension schemes;
- Measures to facilitate the retention of older workers in their jobs and access to quality employment for those seeking work;
- Specific attention to be paid to address the existing gender inequalities

in old-age income and avoid creating new sources of inequalities for future cohorts; and

- Support to individuals with shorter or atypical employment careers to help them build sufficient pension rights.

AGE would also like to call for more solidarity between and within generations to cope with the long-term sustainability and adequacy of pension systems. Solidarity is about mutual responsibility involving people of all ages, both active and retired and aims to strengthen links within family, communities and the whole society. Ultimately, solidarity brings an added value to society in terms of fairer wealth distribution, reinforced social cohesion, broader transfer of knowledge, etc. Whilst the interest in intergenerational solidarity re-emerges today in the context of growing pressure on state-funded social protection systems, AGE believes that this concept should not be an objective per se but rather a way to organise European societies in a more effective way, bringing benefits for all.

This document is published with the support of the European Union PROGRESS² Programme. It reflects the position of AGE members defined by the General Assembly 2009 and has been approved by AGE Council on their behalf. All comments or suggestions are welcome and should be sent to Maciej Kucharczyk, AGE Policy Officer responsible for Social Protection and Social Inclusion issues at maciej.kucharczyk@age-platform.org.

AGE members take this opportunity to thank their Social Protection Expert Group for their useful contribution to the content of this brochure (for the full list of AGE Social Protection experts, please see at the end of the document).

¹ http://www.age-platform.org/EN/IMG/pdf_AGE_social_protection_pension_statement_FINAL.pdf
² <http://ec.europa.eu/social/main.jsp?catId=327&langId=en>

**2009 AGE
Statement on
Pensions**

Ensuring adequate
pensions for all in
the EU - a shared
responsibility for
society

Table of content

| | |
|-------|--|
| 1 | Preface |
| 4 | Pension reform and the crisis |
| <hr/> | |
| 4 | I. <u>WHAT</u> should be the key objectives of pension reforms - AGE goals |
| 4 | Adequacy of old-age income |
| 5 | Replacement rate |
| 5 | Indexation |
| 5 | Equal access and gender equality |
| 6 | Portability of supplementary pension rights and solvency mechanism |
| 6 | Information and financial literacy |
| <hr/> | |
| 7 | II. <u>WHY</u> further reforms are needed - Remaining challenges |
| 7 | Need to anticipate demographic ageing |
| 7 | Guarantee a minimum pension to prevent poverty among the most vulnerable older people |
| 8 | Restore equity and solidarity across the pension architecture |
| 9 | Promote intergenerational solidarity to strengthen social cohesion |
| 10 | Facilitate employment of older workers |
| 11 | Enhance gender equality |
| 12 | Ensure portability of supplementary pensions and improve solvency mechanism |
| 13 | Improve information and encourage financial literacy |
| <hr/> | |
| 14 | III. <u>WHO</u> should implement and monitor pension reforms - Role of stakeholders |
| 14 | Member States |
| 14 | European Commission |
| 15 | European Parliament |
| 15 | Bodies managing private funded supplementary pension schemes |
| 16 | Social Partners and civil society organisations |
| <hr/> | |
| 16 | IV. <u>HOW</u> to build support for pension reforms – Role of the Open Method of Coordination |
| 16 | Social Protection Committee |
| 17 | National and European older people’s organisations |
| 18 | European Pension Forum |
| <hr/> | |
| 18 | Conclusions |
| 19 | References |
| 20 | Glossary |
| 24 | Members of AGE Social Protection Expert Group |

Pension reform and the crisis

Looking back at the past decade, most European Union countries undertook to reform their pension systems in order to respond to the demographic challenge. Introduced at different moments, to a different extent and within very diverse social and economic contexts, all those reforms had some common trends: a decreasing reliance on the pay-as-you-go systems (PAYG), and a gradual transfer of risk to individuals through the promotion of defined contribution funded pension schemes. Consequently, the overall paradigm of pension systems has changed and now *"...private pension systems are being considered an intrinsic part of the national retirement income system, rather than just a source of complementary benefits for higher income employees."*³ In the long term, it is expected that the role of private funded pensions across the EU will grow even further, both in absolute terms and in relation to PAYG pensions.

However, the current financial and economic crisis has provided evidence of the weaknesses and limits of these new trends. In its Report "Pensions at a Glance 2009: Retirement Income Systems in the OECD Countries", the Organisation for Economic Cooperation and Development stressed that *"...private pension funds lost 23% of their investment's value during 2008"*.⁴ For AGE members, this shows how crucial the role of public authorities should be in guaranteeing adequate pension provision for all. Although all pension schemes have been affected by the crisis, state-regulated statutory pensions schemes (in some countries called the first pillar pensions) are still offering the most adequate protection of old-age income in particular for the most vulnerable groups, such as older women, single older persons, low income workers etc. If the crisis prompts moves to limit statutory pensions further and accelerate the shift to private funded pensions, this will be detrimental to these

population groups. Women rely more heavily than men on statutory pensions, which often make some form of allowance for time spent caring for children or frail adults. Private pensions, on the other hand, reinforce the gender gap with regard to adequacy of retirement income.

Although they may play a significant and necessary role in completing the overall pension provision, defined contribution funded pension schemes cannot be relied upon to provide an adequate old-age income, due to their dependence on an unpredictable stock market, and because they are – as any other pension system – adversely affected by population ageing.

Additionally, the closer link between contributions and pensions, introduced through pension reforms, has to be accompanied by a comprehensive social policy promoting gender equality in employment and retirement income and strengthening access to social services. In time of the crisis, governments need to secure the future pensions for those most at the risk of poverty.

In the present document, after a brief presentation of AGE key objectives of pension systems (I), we examine some of the most important challenges remaining to complete pension reforms across the EU (II), present recommendations on how best implement these reforms by involving all respective stakeholders (III), and maximising the role of the Open Method of Coordination (IV).

I. WHAT should be the key objectives of pension reforms - AGE goals

Adequacy of old-age income

The debate on the financial sustainability of pension systems is often disconnected from

³ OECD Fact Book 2009: Public and Private Pension Expenditures, March 2009

⁴ <http://browse.oecdbookshop.org/oecd/pdfs/browseit/8109081E5.PDF>

the debate on their current and future adequacy. Although both are supposed to be key objectives of the reforms, many Member States try to address the budgetary implications of demographic ageing on the public pension schemes and often promote a higher reliance on private funded schemes. When introducing pension reforms, national governments often fail to look at the impact these reforms will have on the most vulnerable groups or less well off people, such as people employed in low quality jobs and long-term unemployed or those with shorter and atypical employment careers, mainly women.

All the above raise serious concerns among AGE members as to whether a closer link between contributions and benefits, which many Member States are aiming at, will be achieved in an appropriate and socially fair manner. AGE believes that adequacy of income in old age must remain the fundamental goal of any pension model. Individual contributions must be supplemented by an efficient solidarity component. Additionally, in order to guarantee an adequate old-age income, statutory public pensions – providing the main source of income for the vast majority of older people – should *“incorporate some mistrust of the individual’s planning capacity, far-sightedness, intertemporal consistency and consequently rules and/or incentives so as to substitute for/encourage individual’s planning capacity.”*⁵

Replacement rate

The gap between income earned through employment and income gained through pensions has been constantly growing, reducing the replacement rate, and this is projected to continue. Pension schemes, both public and private funded schemes should enable individuals to maintain their standards of living after retirement i.e. smoothing consumption across life stages.

Today, as many governments face huge public deficits and reduce state pensions, employers and employees are encouraged

to contribute to private funded pensions. These can improve the replacement rate, when people cannot rely only on the statutory schemes to maintain their standard of living. However, provisions should be made to guarantee minimum returns on investment of workers contributions e.g. buffer fund to bail out pension funds that fail. Above all, Member States should set targets ensuring that both state and mandatory private funded schemes provide a high replacement rate.

Indexation

The mode of indexation of pensions - in line with inflation, average earnings or a mix of both - must guarantee that pensioners, as they age, keep up with economic progress in society and that the value of their pensions is not eroded for the older cohorts. As both price and wage indexation are affected by economic cycles, such as the current crisis, there is a need for a broader public debate on how best protect purchasing power in old age. This includes not only state pensions but also income from private funded pensions and savings. It is particularly important to support incomes of seniors who are at a high poverty risk and to reduce the income gap between these vulnerable groups and the working population. Any pension system must include a reliable indexation mechanism capable of guaranteeing a fair and adequate annual pension increase.

Equal access and gender equality

Both older women and men suffer from inequalities in respect of social protection. For example, the opportunity to build adequate pension rights can be related to the type of employment or career. However, women are in addition affected by their fertility history, as well as by informal caring responsibilities which restrict their access to good quality employment. The poverty rate among older women is higher than for older men,⁶ especially in Member States where the predominant pension schemes relate benefits closely to lifetime earnings and contributions. Such pension schemes place those who care for children or

⁵ M. Borella and E. Fornero, Adequacy of Pension Systems in Europe: An Analysis based on comprehensive replacement rates, April 2009

⁶ The average at-risk-of-poverty rate for older women is of 22 percent against 16 percent for older men. Source: EU Inclusion Indicators; Update from July 2008 partially revised in October 2008: http://ec.europa.eu/employment_social/spsi/common_indicators_en.htm

for dependent relatives at a disadvantage because their career breaks and part time work reduce their lifetime earnings.

Except in the public sector, women also suffer general disadvantage in accessing private funded schemes due to the career gap and segmentation of the labour market. The best occupational pension schemes tend to be in large companies with a predominantly male workforce. They may exclude those who need teleworking or to work short hours or locally, because of caring commitments. When applied, actuarial sex-based life tables have a negative impact on women pension annuity calculations and provide a lower replacement rate for women. In addition, their higher life expectancy compared with men means that inflation erodes their pension to a greater extent, if indexation is inadequate. Another factor affecting all women is the pay gap particularly for women working part time.

Every pension reform needs to overcome the above gender inequalities and ensure that all workers will have the same access to adequate pension provision, through both PAYG, occupational and other supplementary pension schemes.

Portability of supplementary pension rights and solvency mechanism

Allowing workers to transfer their occupational pension rights across sectors and countries remains an aspiration for pension reforms in EU. Further progress is necessary in that respect to secure workers financial future and ease worker mobility. As many large companies have been expanding their business across the EU, this is also an opportunity to promote EU pension funds. However, for the moment it remains to be proved that cross-border pension funds are in the interests of workers and pensioners.

AGE considers the following objectives to be essential to ensure the portability of supplementary pension rights both within and between Member States:

- improve the accessibility to occupational pension schemes for all workers;

- guarantee the right to transfer, or at least maintain pension entitlements;
- protect "dormant" pension rights more effectively;
- provide workers with adequate and regular information on their pension rights.

AGE members recognise the difficulty in reaching a constructive agreement on some sensitive issues, such as cross-border portability of pension funds or the use of different actuarial factors across the EU. AGE also recognises that improved acquisition rights and protection of "dormant" pension rights against reduction through inflation may have strong financial implications in some countries, but work must continue to improve the portability and protection of supplementary pension rights.

Additionally, EU supervision must be part of any future regulation on funded schemes. Shifting towards funded schemes has resulted in an increased uncertainty for workers as to the amount of pension they will receive. Pension funds have only a "ways and means" obligation i.e. workers' savings for pensions are not guaranteed and they have to accept all the risks while lacking any control over how and where their savings are invested. A better protection seems now essential to correct such weaknesses.

Information and financial literacy

AGE members believe that people should have enough information to plan their retirement income. When further national reforms are to be introduced, this must be based on the broadest possible consensus. People need to receive regular, accessible and reliable accounts of the building-up of their pension rights. Regular information about future entitlements is a necessity for everyone. Any new reform on pension systems should take into consideration the need for more information and transparency about the impact of the reform.

Although it is generally understood that if one works longer she/he will get a better pension (state, occupational or private), those who could be subject to means testing have to consider whether they will gain

financially from a higher pension or will merely lose means-tested benefits. Encouragement to work longer must not be detrimental to building up old-age income to achieve a better standard of living.

II. WHY further reforms are needed - Remaining challenges

Need to anticipate demographic ageing

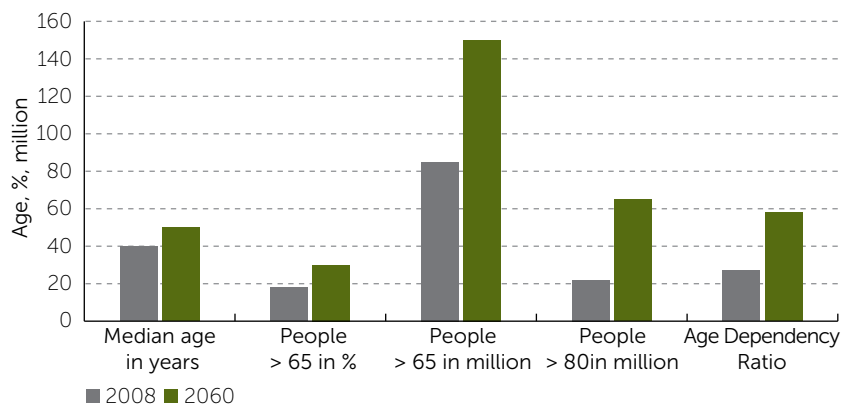
Demographic ageing is among the main driving forces shaping the development of today's European societies. Demographic trends result in longer and healthier lives and raise issues such as the incremental costs of an ageing society, intergenerational equity, the increasing importance of care and work/life balance in sustaining family life, the need to promote stronger relationships between generations and to avoid new risks of poverty. Looking at the current demography developments across the EU, the ageing trend is projected to increase in the next 50 years:⁷

- The EU27 population is projected to become older with the median age projected to rise from 40 years in 2008 to 48 years in 2060.
- The share of people aged 65 years or over in the total population is projected to increase from 17% to 30% and the number is projected to rise from 85 million in 2008 to 151 million in 2060.
- Similarly, the number of people aged 80 years or over is projected to almost triple from 22 million in 2008 to 61 million in 2060.
- The young age dependency ratio for the EU27 population is projected to rise moderately to 25% in 2060, while the old-age dependency ratio is expected to increase substantially from

its current level of 25.4% to 53.5%.

- Whereas in 2008 in the EU27 there were 4 persons of working age (15-64 years old) for every person aged 65 years or over; in 2060 the ratio is expected to be 2 to 1.

The following graph illustrates the above data (see source in the footnote 5).



With the projected modest recovery in total EU fertility rates, the life expectancy continuing to increase, and a decelerated trend of inward net migration to the EU, it becomes necessary that Member States and the EU as a whole propose a comprehensive response in the fields of social protection and social inclusion, ensuring that all citizens will benefit from socio-economic progress with adequate security net.

Guarantee a minimum pension to prevent poverty among the most vulnerable older people

The vulnerability of older people is often related to their lack of financial resources. Older women are in a particularly precarious position as their right to a pension income is often derived from their marital status (spousal or survivor benefits) and they rarely have adequate pension rights of their own for diverse reasons (career breaks, low paid jobs). Other groups of older people, such as older single person, older migrants or disabled older people also face multiple disadvantages in building adequate old-age income. For all such vulnerable older people, suitable social protection provided through the state is necessary as a safety net.

⁷ Konstantinos GIANNAKOURIS, *Population and social conditions, The 2008-based national population projections EUROPOP 2008*, Eurostat Statistics in focus 72/2008

AGE would also like to warn against a belief that minimum income in old age is a disincentive for employment. AGE questions this logic and stresses that the decisions most people take about employment are influenced by a range of other factors (job unavailability, family duties, mobility problems, age discrimination, lack of training or inadequate skills, etc.) which prevent them from getting a job or remaining active in the labour market. Minimum pension income provision is a necessary safety net to protect the most vulnerable older people and as such does not distort employment activation policy. AGE considers an adequate minimum pension that is not means tested as the best way to prevent poverty in old age.

Recommendations:

- Member States should guarantee a minimum income for older people equivalent to at least the poverty threshold of 60 percent of national median equivalised household income, as a way to promote their social inclusion and autonomy.
- Refer to the Article 1 of the European Charter of Fundamental Rights on human dignity when developing pension schemes i.e. the right to adequate minimum income should be recognised as fundamental and necessary for everyone's dignity and independence.
- Contribute on behalf of those who are unemployed, sick or caring for children and older dependants when private funded schemes are encouraged or imposed.
- Develop comprehensive safety net mechanisms allowing older people to live in dignity.
- Ensure adequate indexation to allow pensioners to keep up with society's progress and not fall gradually into a poverty trap. Modality of indexation is to be decided by the relevant national stakeholders according to the ongoing economic context.

Restore equity and solidarity across the pension architecture

When reforming, the governments must keep in mind the main objectives in their pension system, i.e. to ensure an adequate old-age income and protect older people from poverty. When they consider shifting from state-regulated PAYG schemes to private occupational and other supplementary funded pensions, mechanisms are needed to ensure equity, equality and solidarity in the reformed pension systems.

According to the OECD Report "Pensions at a Glance 2009"⁸ *"Private pension schemes face the most immediate and visible problems from the fall in equity and property prices. The impact is obviously greatest where private pensions already play an important role in providing old-age incomes, such as Australia, the Netherlands and the United States."*

Other countries, such as the UK and Ireland, could be added to this list. The financial and economic crisis have indeed shown that statutory pension schemes are the best way to provide retired people with sufficient income, helping them keep up with general economic growth and preserving their well being. State provided and controlled pension schemes are not only more secure than incomes from occupational or private pension plans, but are also fairer towards family carers as they provide some protection during periods of caring. Moreover, funded pension schemes are as much affected by population ageing as PAYG schemes, although through different mechanisms. Even before the current financial crisis, rising longevity (insufficiently recognised by actuaries) combined with the adverse effect of maturation of schemes, had created financial difficulties for funded pensions.

AGE members therefore agree with the European Commission that *"a careful monitoring and an in-depth and open discussion about pension systems in Europe, and in particular a critical review of the relative role, design and performance of the private pillar will be necessary"*.⁹ Countries relying heavily on private funded schemes should

⁸ <http://browse.oecdbookshop.org/oecd/pdfs/browseit/8109081E5.PDF>

⁹ COM(2009) 18/04 Commission's communication "Dealing with the impact of an ageing population in the EU (2009 Ageing Report)"

explore alternative sources of funding to ensure their long-term financial sustainability in today's challenging financial and demographic context. To enhance social cohesion, greater stability and security are required to enable sensible retirement planning, and a fairer distribution of wealth between young and older people and between rich and poor of all ages.

The financial crisis has also illustrated that financial institutions need better regulation and measures to protect citizens' savings and pensions. They hold a significant part of the responsibility regarding the adequacy and sustainability of pensions and, therefore, should also contribute to their social aim. Member States cannot achieve that alone. They should agree to set up a European supervisory and regulatory system to restore sound governance in the financial markets and regain citizens' confidence.

Recommendations:

- Ensure adequate old-age income by promoting individual rights to pension and facilitating equal access to mandatory state-regulated pensions whether or not supplementary pensions are developed.
- Re-balance the overall pension portfolio between public (often called first pillar) and private funded schemes by promoting state-regulated pensions in particular for the most vulnerable, i.e. secure adequacy of old-age income by reducing its dependence on risks linked to financial market fluctuations.
- Impose prudent management rules for retirement savings in supplementary schemes, in particular in defined contribution schemes, perhaps through life-cycle investment plans, with guarantee of a protected return rate.
- Analyse jointly at national and EU level the impact of the current crisis on retirement savings in order to ensure better adequacy and sustainability of national pension schemes for future pensioners.
- Set up an efficient European supervi-

sion and regulatory system for financial markets and institutions to provide adequate protection of individual entitlements in funded pension schemes i.e. prevent pensioners from falling into poverty in future.

- Extend the mandate of the Pension Forum to cover both public and private pension schemes on order to facilitate debate on the best coordination between the different systems.

Promote intergenerational solidarity to strengthen social cohesion

All types of pension scheme will soon meet a bulge of pensioners when the baby-boomer generation retires. This is why AGE recommends possible solutions that aim to spread the impact of ageing in the fairest way for all generations. It is legitimate for those who are already retired or are just approaching retirement to expect a decent old-age income after a full working life. At the same time, it is equally important to secure the pension rights of those who are still of working age, particularly now that their own jobs are threatened and their future is uncertain.

Warnings of intergenerational inequity have often been used to justify the shift from state PAYG to private funded pension schemes, ignoring that funded pensions can be just as vulnerable to the effects of ageing as state pensions and just as likely to impose burdens on succeeding generations, although through different mechanisms. AGE believes that both intra- and intergenerational solidarity is better promoted by statutory PAYG pensions, where the 'contract' between generations is transparent and everyone participates in the same pension scheme. Private pensions divide the population into haves and have-nots, as well as into groups with different kinds of private pension, and where lack of clear information makes the choice for individuals even more difficult.

Today is the right time to think how best to establish greater solidarity within and between generations to avoid ageing becoming a source of social tension. According to a Eurobarometer survey on European citi-

zens' perceptions of solidarity between generations, "49 percent of Europeans think that their government should devote more money to pensions and care for older people".¹⁰ At the same time, Europeans are less confident about the future: "58 percent think that their government will not be in a position to fund pensions and care for the elderly in the coming decades". Consequently, governments should anticipate the demographic trends, building a broad support and promoting cross-generational responsibility with regard to financing retirement pensions.

Recommendations:

- Recognise solidarity within and between generations as a cornerstone of national social protection systems and the European social model in aiming to strengthen overall social cohesion.
- Restore state responsibility in the design and operation of national pension systems, based on the solidarity principle, ensuring that everyone is protected in old age and can maintain a decent living standard.
- Consider introducing some form of equity into occupational funded pension schemes such as a guaranteed minimum return rate on contributions.
- Recognise and support initiatives, including informal ones that encourage solidarity within and between generations i.e. the value to society of inter-generational transfers and cooperation.
- Use the opportunity of the European Day of Intergenerational Solidarity (29 April) to organise debates and exchange of good practices to promote adequate pensions as a shared responsibility for society.
- Support the European Commission initiative for 2012 as European Year of Active Ageing and Intergenerational Solidarity

Facilitate employment of older workers

From the perspective of society as a whole, early retirement is not only a waste of valuable human resources, it also reduces funding for pension systems and other areas of social protection. However, many workers have

been encouraged to take early retirement packages providing them with a reasonable income. They cannot be blamed for that as they were victims of discriminatory practices which forced them out of the labour market. In addition, it should be kept in mind that many workers over 45 with neither a job nor access to such pre-retirement schemes are also facing difficult situations. They become long-term unemployed with a decreasing possibility of finding employment. The measures to increase the employment rate of older workers that were beginning to deliver results before the crisis are no longer effective. People aged 45+ are more vulnerable than ever on the labour market.

Whilst understanding the need to put an end to early retirement schemes, AGE members feel that this can only be done when suitable quality jobs are made available to older workers and when the necessary measures are in place to help them take up these opportunities and re-integrate into the labour market. In-depth reflection at EU level is needed to understand how to resolve these problems and prevent older workers from becoming trapped in long-term unemployment. Older workers need to be re-integrated into or retained in the labour market in ways that effectively address both Europe's objectives for growth and jobs and the demographic challenge.

Civil society organisations representing both older and younger age groups should develop constructive contacts with their national policy makers and social partners. Too often, labour market policies targeting one of these two age groups are still perceived as being detrimental to the other one, i.e. measures in favour of older workers are falsely considered to result in greater unemployment among the young. AGE seeks to redress this misperception and calls for labour policies that seek to create an age-friendly labour market, i.e. measures that support everyone who needs or wishes to work. Reinforced social links between generations can generate further equality and justice for all.

Recommendations:

- Put a ban on mandatory retirement ages (not the age at which one becomes eligible for a pension) and eradicate other genuinely unjustified obstacles to enable individuals to choose freely to continue to work, to phase their retirement, to work part-time or to stop working when they wish.
- Adopt innovative labour market measures to meet older workers' needs in time of crisis e.g. access to continuing education and training which helps older workers remain active or employable, and able to re-enter the labour market quickly when this recession ends.
- Extend parental leave provisions to enable all informal carers responsible for dependent relatives to enjoy an adequate protection of their social rights including pension rights.
- Introduce legislation to provide for carers' leave. New approaches to elder care, to support informal carers faced with caring duties, are needed to improve gender equality.
- Increase public investment in care services for dependent elderly and consider its positive role as support to employment (as are childcare provisions) and not merely as a cost to the public budget.

Enhance gender equality

AGE members regret that most pension schemes still fail to address the gender dimension properly, although there is a common understanding that older women face a greater risk of poverty due to their shorter participation in the labour market and longer life expectancy. The failure to address gender inequalities in pensions is even more disappointing given the adoption of the Directive on Gender Equality in access to goods and services. Indeed, governments have failed so far to revisit the exceptions allowed under Article 5 for actuarial calculations in the insurance field, including in private pension schemes. This is an additional area where women experience disadvantage compared to men in a work related benefit and AGE feel that the EU has

a duty to act to respect the aims of Directive 2004/113/EC and Directive 2002/73/EC and the EU fundamental principle of equality between women and men.

The projected impact of reforms is usually based on a male, full time, full career, average earner profile. If most Member States propose to rely increasingly on private funded pension schemes to ensure an adequate replacement rate, then the wide range of disadvantages faced by women in these schemes must be tackled - the gender career gap, unpaid carer's breaks, sex-based annuity rates, or occupational segregation which result in women having less access to good quality occupational pension schemes. Men who are informal carers would also benefit from recognition of the impact of caring on their earnings and pension rights.

The challenge remains valid for both statutory and private schemes. But whereas most state pensions make some allowance for caring, private funded pensions do not. Therefore, the ongoing shift from state-regulated pensions to private funded schemes reinforces the inequality between informal carers (i.e. mainly women) and non-carers. In many countries, evidence shows that the income inequality in later life is mainly due to unequal amounts of pension income received through private pension schemes.

Survivor benefits will remain necessary for as long as the pension losses due to family care duties, or other personal constraints on employment, are not adequately compensated. If suitable compensation mechanisms were to be set up to address these losses, the role of survivor pensions as a safety net would decrease and phasing out could be considered. It is important to recognise that many older women do not receive survivor pensions, despite having suffered reduced pension income due to previous caring responsibilities. Therefore, public support for reforms that compensate for restricted employment and earnings should be sought. Citizens also need to understand the importance of adequate individual pension rights (given the decline of lifelong marriage and the increasing number of single parent families).

Recommendations:

In the new Roadmap for Equality between women and men 2011-2015, Member States should commit to:

- Guarantee individual and adequate pension rights for all, including those with justified career breaks, to ensure a dignified life for all in old age.
- Promote gender equality in retirement income through strengthening state-regulated pensions rather than relying on private funded schemes.
- Introduce unisex mortality tables to end gender discrimination in private funded pensions.
- Reinforce adequacy of pensions by combating gender discrimination in the labour market i.e. especially by reducing the career and pay gap and by ensuring compensation in pension schemes for time spent on family caring.
- Support further research on the economic and social cost/benefit of carers' credits, and a deep analysis of the existing policy measures which support or impede the recognition of atypical work careers across the EU.
- Support research on the impact of different pension indexation formulae on the poverty risk in older age.

Ensure portability of supplementary pensions and improve solvency mechanism

AGE members regret that during the consecutive stages of the debate on improving the portability of supplementary pension rights some of the most crucial elements were lost. The compromise reached by Member States in 2007 and approved by the European Parliament is an obstacle to labour mobility and improved acquisition of retirement benefits.

AGE considers the following elements as essential when designing portability of supplementary pension rights:

- **Acquisition rights** - AGE recommends the "vesting period" to be eliminated or reduced to a maximum of one year's membership, while recognizing the need for a transition period for some Member States.

- **Transferability of pension rights** - the right of an employee to maintain acquired pension rights is crucial to the achievement of the objectives of getting a consistent retirement pension. Transfers between employer schemes must be possible without financial penalties on changing jobs or after a career break. This applies to transferability both within and between Member States. Cross-border transferability will, however, be more difficult due to the different tax treatment and actuarial principles prevailing among Member States. AGE asks, therefore, that cross-border taxation obstacles are addressed as they jeopardize the objectives of worker mobility and ultimately affect their income at retirement age.

- **Preservation of "dormant" pension rights** - "dormant" pension rights, which include the value of the employer's contribution, should remain the workers' entitlement and be adequately protected until the beneficiary is entitled to claim them. AGE sees this as a basic right and as an essential condition for enhanced labour mobility as well. Member States are requested to take adequate measures protecting "dormant" pension rights within their national context. This would fully respect the subsidiarity principle.

- **Information requirement and non-regression** - Adequate information on quality and financial viability of funded pension schemes is essential to enable workers to make an informed decision whether or not to move to another job. Workers should be entitled to have full information about the solvency of the pension fund and of the company itself in order to assess the risk in proceeding with the transfer. Non-regression is also an essential element for safeguarding the rights of workers and future pensioners. It is crucial in building workers' confidence and increasing the take-up rate of occupational pension schemes.

Pension funds have suffered the consequences of the financial crisis and the subsequent economic slowdown. However, Member States decided that the review of 2003 Directive on Institutions for Occupational Retirement Provision (IORPs) will not eventually be included in the recommendations of Solvency II, but will be treated later on in a

separate process. AGE would like to see this forthcoming revision as an opportunity to design adequate rules for the various types of pension funds, either externally managed or internal to companies, in the area of risk management, governance and capital requirements to better secure workers' savings. A minimum yearly return on savings, capital guarantees on deposits, new mechanisms of protecting savings and future allowances must be seen as part of basic pension funds' rules, placing responsibility clearly on fund managements and not on workers. Technical provisions, "surplus funds" dedicated exclusively to smooth workers' assets return in low cycles to balance high and low cycles or equity market dysfunctions and to preserve allowance of people retiring in low cycle must be considered.

Recommendations:

- Make portability of pensions rights between different employers, occupational sectors and across EU countries a reality.
- Link the improvements in portability to the objective of extending coverage by private pensions.
- Address the issue of differences in taxation regimes across the EU applied on savings and pay outs, as both are crucial to facilitate worker mobility.
- Launch the process of revisiting the IORP 2003 Directive to strengthen worker's rights protection; and to review at short notice the issue of portability and the setting up of EU pension funds.
- Put in place a common European supervision and regulatory system for financial markets and institutions to ensure that every Member State provides adequate protection of supplementary pensions systems and individual savings.

Improve information and encourage financial literacy

Citizens are too often insufficiently aware of how their pension rights are built and the various options they may have. Very few understand the consequences that their

decision or lack of decision will have on their income in old age. In some countries, forecasts on state pensions are available from the respective department of pensions; information is sometimes sent to individuals; sometimes people have to request it. When ministry websites allow projections, the calculation is based on assumptions concerning earnings and staying in the same job. Moreover, although defined contribution pensions are inherently unpredictable, that does not stop private providers from projecting optimistic returns, with the reservations in small print.

Recommendations:

- Provide citizens with individualised and accessible information at national level about the building-up of their pension rights, i.e. a set of minimum background information provided regularly and explaining the overall country's pension architecture and the functioning of respective schemes.
- Organise and support at national level an active civil dialogue on pension reform involving not only trade unions and employers' organisations but also young and older people's organisations, in cooperation with educational bodies, to ensure first a good understanding and later the effective introduction, implementation, management and monitoring of the pension systems' reforms.
- Develop EU and national guidelines and common rules that will be provided and checked by an independent body i.e. compulsory requirement for employers and pension funds' providers.
- Diversify information tools to ensure an informed choice for workers and strengthen their independence i.e. media, public websites, ombudsmen, financial institutions, professional advisers, financial institutions, employers, trade unions and senior people's organisations etc.

III. WHO should implement and monitor pension reforms - Role of stakeholders

Further pension reforms require not only an open and vivid civil dialogue at all levels, but also a clear division of responsibilities and tasks among stakeholders. This will facilitate the consensus on how best to ensure the adequacy of old-age income and sustainability of pension systems. A balance is needed between the involvement of Member States and the EU, while observing the subsidiarity principle. Citizens themselves must be offered space to express individual concerns and be empowered to participate at every stage of the policy making process and implementation stage.

Member States

Member States have the exclusive responsibility to design, implement and monitor their pension systems. However, the European framework provides some legal rules in the field of pensions that Member States have to comply with e.g. the transferability of statutory pension rights for cross-border workers, equal opportunities and anti-discrimination legislation.

Moreover, as Member States face similar challenges regarding adequacy and sustainability of their pension schemes, they can and should use the Open Method of Coordination on social protection and social inclusion (social OMC) framework to look for common benchmarking opportunities, and benefit from mutual learning. The social OMC also provides governments with an excellent opportunity to involve older people and their organisations in policy debates at national level. AGE members' experience finds that whilst the principle of civil society participation is supported by many Member States, the reality is often disappointing. Taking the example of the last round of the

2008 National Strategy Reports on social protection and social inclusion, many older people's organisations were neither consulted by governments nor involved in the implementation and monitoring phases. There is a need for a change in the way that Member States plan, implement and monitor pension reforms. This will eventually reinforce confidence in pension systems for the future.

Recommendations:

- Ensure the effective consultation of relevant civil society representatives within the OMC process. According to the principle of transparency underpinning the method, open consultation is an obligation and not just an option that governments may choose to take up.
- Set up, where this is absent, independent national bodies to supervise their respective country's pension schemes, ensuring that funds are not at risk and that the schemes' finances are soundly and fairly managed in the interests of future retirees.
- Make national consultation on social protection and social inclusion a genuine exchange of views between different actors (including civil society), where governments hear older people's concerns and take into account their critical arguments and modify policy accordingly.

European Commission

The European Commission has a key role to play in reinforcing a global social cohesion in the interests of all citizens, in particular the most vulnerable population groups. This mission, in line with the Rome Treaty and the renewed Lisbon Strategy, not only provides the Commission with the necessary legitimacy, but also brings the obligation to stimulate an exchange on how best to ensure a decent standard of living, including through pension systems. AGE believes the above role of the Commission is more than ever legitimate in the current time of economic crisis, where citizens need to be reassured about their future regardless of the pension architecture model in their respective countries.

Recommendations:

- Further develop and effectively implement the social OMC to achieve the objectives jointly agreed by Member States, especially with regard to the provision of *"...adequate and sustainable pensions: (g) In the spirit of solidarity and fairness between and within generations, guarantee adequate retirement incomes for all and access to pensions which allow people to maintain, to a reasonable degree, their living standard after retirement."*¹¹
- Facilitate a permanent European framework for exchange and in-depth analysis among Member States and other stakeholders on pension reforms, their scope, objectives and instruments.

European Parliament

Over the last decade, the European Parliament has further strengthened its role as part of the EU constitutional triangle. Although social protection of workers is not subject to the co-decision procedure, Members of the European Parliament (MEPs) should be more closely associated in the implementation, monitoring and assessment of the social OMC

Recommendations:

- Strengthen the links between the European Parliament, Member States and the Commission in debating pension reforms, with a particular focus on the objective of strengthening social cohesion.
- Make use of the expertise of the MEPs participating in the work of the Employment and Social Affairs Committee and those forming the Intergroup on Ageing e.g. facilitate their regular involvement in debates on the annual Joint Report on Social Inclusion and Social Protection and other debates on pension reforms in the EU.
- Connect discussions on pensions and their adequacy that are held independently within the European Parliament and in national parliaments.

Bodies managing private funded supplementary pension schemes

There are a number of actors involved in the provision of supplementary pensions e.g. institutions for occupational retirement provision, employer pension funds, insurance companies etc. From the perspective of the beneficiaries, AGE would like the EU and Member States to clarify the respective responsibilities of all of the above actors. The following issues need to be considered in this respect:

- Representation of beneficiaries in managing bodies of occupational funded pensions' schemes.
- Control and supervision bodies which are accountable and produce official reports.
- Regular and transparent information to beneficiaries.
- Guarantee mechanisms for securing savings and contributions.

Regarding voluntary private pension schemes, i.e. life insurance contracts or individual savings, the state should also provide the necessary legal framework and security tools. Safety nets are necessary to avoid against eventual 'mishmashes' from future financial or economic crisis. AGE stresses the need for an active involvement of state authorities in securing private supplementary pensions as their respective part in the overall old-age income has been gradually increasing, and because Member States themselves promote this form of pensions.

Recommendations:

- Ensure safety mechanisms in each Member State which, for instance, guarantee against risks of fund insolvency or require a diversification of portfolio assets.
- Propose an EU legal framework to protect pay outs from occupational pension schemes.
- Guarantee equal representation of all relevant stakeholders, including employees and beneficiaries, in supervision bodies for occupational pension schemes.

¹¹ Commission's Communication - Working together, working better - A new framework for the open coordination of social protection and inclusion policies in the European Union 22.12.2005; COM(2005) 706 final

Social Partners and civil society organisations

In all Member States, the social partners play a key role in the design, implementation and monitoring of pensions systems and this role should be enhanced. AGE members feel that an active and effective involvement of representative older people's organisations in the debate on pension systems at national and EU level will not only help reinforce citizens' confidence in the reforms and their long-term objectives, but will also bring about a better understanding of the needs of older people and the particular challenges faced by those with weaker links to the labour market (the so-called outsiders).

Considering that pensions are an issue of great relevance for all generations, older people themselves have to take part of the responsibility for informing and educating the younger generation with regard to pensions e.g. education packs for schools which inform children and youth in an appropriate manner about pension systems, their principles and, in particular, encouraging them to start to imagine a plan for their own future.

Recommendations:

- Form alliances across all different population groups in order to achieve a broad public support for pension reforms based on intergenerational solidarity.
- Empower and support citizens themselves, in particular the most vulnerable, to take an active part in the debate on the future of pensions e.g. grass-roots initiatives explaining the complexity of pension issues and gathering people's expectations with regard to social protection.
- Disseminate and promote information on pensions to a large public with a particular focus on younger generations in order to familiarise them with pension issues.

IV. HOW to build support for pension reforms – Role of the Open Method of Coordination

The streamlined Open Method of Coordination in the field of social protection and social inclusion (social OMC) provides an ideal framework to help build public support for pension reforms and to consolidate pension systems, taking into account the specific socio-economic contexts and stakeholders' interests. The European Commission's President, José Manuel Barroso, when presenting his political guidelines to the European Parliament for the mandate of the next Commission, underlined that *"The crisis has shown the importance of the European approach to pension systems. It has demonstrated the interdependence of the various pension pillars within each Member State and the importance of common EU approaches on solvency and social adequacy."*¹² AGE welcomes this statement and hopes that the new Commission will maintain this engagement and come forward with concrete proposals which will take into account this AGE position statement and our recommendations.

Social Protection Committee

AGE is convinced that an open dialogue on pensions can be reinforced through cooperation with the Social Protection Committee (SPC). Gathering representatives of Member States, the SPC is par excellence an inter-governmental forum for debate, but it might and should also be open for exchange with representative organisations of civil society at EU level. The issues related to securing workers' savings and payments for pensioners, ensuring the sustainability of pension systems and promoting social inclusion must be subject to a transparent discussion among

¹² http://ec.europa.eu/commission_barroso/president/pdf/press_20090903_EN.pdf

all relevant actors and the SPC can facilitate such debate.

In 2006 Member States decided to 'streamline' the work they were already doing in the fields of social inclusion and pensions and they agreed to extend the social OMC to the area of health and long-term care. The aim was two-fold: to create a stronger process based on interactions in-between the three policy areas, and to integrate it better with the EU "growth and jobs" objectives (the so-called renewed Lisbon Strategy).

However, three years later, the outcomes of the proposed change seems mixed. Synergies between the policy strands have still to be reinforced. Indeed, looking at the 2008 National Strategy Reports (NSRs), drafted in the framework of the streamlined social OMC, the links across pensions, social inclusion and health and long-term care (HLTC) were missing. This is because different sections of the strategies are drafted independently within each policy area with little or no compliance or mutual reinforcing. Consequently, national ministries fail to take full advantage of interactions across social protection and social inclusion policies (ageing is a typical cross-cutting issue), and individual strategies on pensions, social inclusion and HLTC do not contribute to an overall social cohesion objective.

Strengthening the overall coherence across the method and measuring the progress in reforms requires more attention at national level. The OMC provides a very useful framework to promote exchange of views and mutual learning on national policy agendas. Consequently, AGE would like the social OMC to be used to develop a better coordinated debate between all relevant stakeholders at local, regional, national and European levels. Equally important, the peer review exercises and social impact assessment can also help in identifying "best practices" and must be continued.

Recommendations:

- Prepare within the SPC a dedicated report on pension reforms during 2010 (European Year against Poverty and Social Exclusion), to assess their impact on the prevention of poverty in old age.
- Refocus the OMC debate on pension reforms on securing retirees' income, protecting active people's savings, restoring public confidence in pension systems, and promoting solidarity between and within generations.
- Ensure a structured, transparent and accountable social OMC process requiring equal commitment from all Member States.
- Take full advantage of the streamlining the OMC across social inclusion, pensions and health and long-term care to reinforce its overall efficiency and stimulate a coherent policy-mix development i.e., particularly in response to the challenge of the adequacy and sustainability of social protection.
- Strengthen the link between the social OMC and all other existing initiatives and structures dealing with social policies at all levels i.e. maximise their mutual potential and added value across the EU.

National and European older people's organisations

One of the main tasks of AGE at EU level is to raise awareness among decision makers of the problems faced by older people and to recommend measures to improve their social protection. At national level, older people's organisations use AGE positions and tools to reinforce their actions and to interact more effectively with their national and local policy makers, based on older people's specific needs and concerns with regard to the design and functioning of their national social protection systems.

In times of crisis, social protection funding is under threat and becomes a key area of preoccupation for all generations. In some countries, decisions on reforms are postponed. In others, the improvements already

in place are suspended or cancelled. AGE members expect to voice older people's concerns about this to the relevant national stakeholders including political parties, government, dedicated ministries etc.

Recommendations:

- Involve national older people's organisations more efficiently in the drafting, implementing and monitoring of any government strategy or plan with regard to social protection and social inclusion i.e. their involvement at all stages of the process should be facilitated as it is done for social partners.
- Empower and support the representative platforms at EU level which act on behalf of older people and their organisations i.e. they must contribute to the OMC as facilitators and be empowered to bring pressing problems from the national level up to the attention of European policy makers.

European Pension Forum

The European Pension Forum¹³ is another platform that could be used to facilitate such debate between all relevant EU stakeholders. For the moment, its mandate is limited to enabling an exchange on how to improve supplementary pension provision. AGE is convinced that the positive impact this advisory body plays in exchanging views and proposing alternative solutions could be enhanced if its mandate was extended to cover statutory public pensions as well as supplementary pension schemes. In the context of the crisis and its aftermath, the Pension Forum could help Member States and relevant stakeholders develop better pensions systems with more efficient synergies between all such schemes.

Recommendations:

- Set up at European level a structured civil dialogue on pension reforms within the framework of the European Pension Forum whose mandate should be extended to cover all pension pillars and the articulation between them.

- Discuss through this extended thematic coverage protective measures for vulnerable groups such as women, informal carers, long-term unemployed older workers, older disabled people, and migrants with limited careers in the EU etc
- Open up the dialogue on pension reforms to all relevant civil society organisations, including both younger and older people's organisations both at EU and national level.

Conclusions

The crisis shows that neither banks nor economists nor governments can prevent stock market instability and collapse, with its harmful effects on pension funds and jobs. However, the crisis provides an opportunity to review the efficiency and goals of pension systems and gives a clear warning against unconditional reliance on funded pension schemes. While these are valuable as a supplementary source of income, they cannot replace the security and fairness provided by state-regulated pensions. Better regulation of the stock market and of pension funds' investment strategies may help, but these are not a panacea to guarantee adequate and secure old-age income for all, including women and those with broken career histories.

Pension adequacy, a decent level of minimum income for all pensioners, safeguards for workers' savings and pensioners' provisions and possibilities to extend working lives are all areas where substantial improvement is needed to restore confidence in national social protection systems and the EU social model. AGE considers social protection to be essential for social cohesion and adequate pensions to be necessary for the very large majority of the EU population. Pension reforms should re-establish the responsibility of public authorities to ensure a decent standard of living for people of all age cohorts, based on greater solidarity between and within generations.

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Glossary

Adequate pensions

Requirement that the income provided by a pension should be sufficient to maintain a decent standard of living. In an ageing society, the adequacy of pensions is closely linked to their financial sustainability. Agreed EU common objectives for pensions adequacy are to prevent social exclusion in old age, allow people to maintain their living standards, and promote solidarity between and within generations.

(Source: European Commission)

Co-decision procedure

The co decision procedure is the legislative procedure based on the principle of parity between the European Parliament and the Council. None may adopt legislation without the other's assent. Having been established by the Maastricht Treaty, and extended and adapted by the Treaty of Amsterdam to make it more effective, the co-decision procedure covers today 43 areas under the first pillar (based on the Treaty establishing the European Community).

Defined benefit pension schemes

Schemes in which employees are entitled to a pre-set level of pension, depending on their length of their contributory period and their salary. It is the pension benefit which is defined, and the contributions from both the employer and the employee must then be sufficient to provide that benefit. In practice, this usually means that the employer carries all or most of the risks associated with the pension. (Source: European Commission)

Defined contribution pension schemes

Schemes in which the employer's contributions are either a set amount or a percentage of the employee's pay. The employer is under no obligation to make further contributions if a scheme does not have sufficient assets. Employee benefits are determined by the investment return on the contributions. In practice, this usually means that the employee carries all or most of the risks associated with the pay-out phase of the pension.

(Source: European Commission)

Effective retirement age

Age at which a person exits the labour market.

First pillar pension

See the definition of statutory pension

Funded pensions

In funded pension schemes, employees and employers contributions accumulate in a fund, which is used at retirement to pay the pension. The pension may be 'defined benefit' or 'defined contribution' (see above the detailed definitions). Funded schemes may be organized collectively in a workplace or industry (so-called occupational funded schemes or second pillar and may be mandatory or voluntary). Funded schemes also cover contracts arranged between individuals and insurance companies (so-called voluntary private schemes or third pillar).

Institutional triangle

This consists of the Council (representing national governments), the European Parliament (representing citizens) and the European Commission (a body independent of EU governments that upholds the collective European interest). These bodies participate in adoption of EU laws, such as regulations, directives and recommendations along with EU policies.

Intergroup on Ageing

First established in 1982, the Intergroup on Ageing brings together MEPs willing to defend the specific interests of older people, and discussing the challenges that ageing poses for all of Europe's citizens. In the last parliamentary term, over 35 MEPs from the majority of Member States supported the Intergroup.

Lisbon Strategy

Strategy launched in 2000 to implement ambitious reforms at national and European level, aiming to make the European Union "the most dynamic and competitive knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion" by 2010. Due to unsatisfactory results, the Lisbon Strategy was refocused on two main areas in 2005: growth and employment.

Mandatory retirement age

Age at which employers can legally force employees to step down, or retire from their job.

Means-testing

A process in which individuals' eligibility for a particular benefit or exemption from charges is determined by their level of income.

MEP

Member of the European Parliament

Minimum income schemes

A guaranteed minimum income is a means-tested, non-contributory and universal income guarantee, designed to act as (part of) the ultimate safety net of social protection in order to prevent individuals or households from falling into (severe) poverty or below decent living standards. Guaranteed minimum income schemes play a specific and crucial role in the fight against poverty and social exclusion, as they are a last resort of social protection and a main component of the global safety nets.

(Source: European Commission)

Minimum pension

Minimum income scheme which applies only to persons above a certain age (usually the statutory pension age). In some countries, minimum pensions are lower than the minimum income. (See the above definition of minimum income schemes)

National Strategic Reports (NSRs) on social protection and social inclusion

Reports that Member States submit to the European Commission once every 3 years, which explain what national policies are in place (for each of the three areas of Social Inclusion, Pensions and Health/Long-Term Care) and what reforms are planned to achieve the commonly agreed objectives of the Social Open Method of Coordination. NSRs should be drafted in consultation with relevant NGOs but often reflect only the government perspective.

Non-regression

In the proposal for an EU directive on improving the portability of supplementary

pension rights (2005), a non-regression rule was proposed to ensure that the implementation of the directive may not, under any circumstances, be used as a reason for reducing the degree of portability of supplementary pension rights already existing in Member States.

Occupational pensions

Pension arrangements made by employers to provide income in retirement for their employees. As these pensions are job-related, their portability is often an issue (see below the detailed definition).

(Source: European Commission)

Old-age dependency ratio

The ratio of the number of elderly persons of an age when they are generally economically inactive (usually aged 65 and over) to the number of persons of working age (usually from 15 to 64).

Open Method of Coordination

The Open Method of Coordination (OMC) is a framework of political coordination without legal constraints. It is based on benchmarking progress of each Member State towards common European objectives and mutual learning in areas where the EU does not have the competence to legislate, such as employment, social protection, social inclusion, education, youth and training. The European Council adopted in March 2006 a new framework for the OMC on social inclusion, pensions and health and long-term care, bringing these three areas together under common objectives and simplified reporting procedures to form the new Open Method of Co-ordination for social protection and social inclusion, also known as Social OMC.

Peer review

The exchange of tools, methods and experience between policy-makers and other stakeholders on the basis of information about relative performance. Peer reviews are a key instrument of the Social Open Method of Coordination (OMC). They are aimed to enable an open discussion on social protection and social inclusion policies in the different EU Member States and facili-

tate the mutual learning process among them. External stakeholders including NGOs are regularly invited to participate in peer reviews.

Pension fund

A fund set up to collect regular premiums from employees and their employers. The contributions are invested in equities, bonds, real estate or a combination of these, and the accumulated fund is used to pay out to employees who reach a specified age and retire.

Portability

The right to transfer the acquired occupational pension entitlements when a worker changes jobs or retires in another Member State. This can be between different employers in the same or different occupational sectors, or between employers in different countries.

Poverty risk

People are considered at risk of poverty if they live with a disposable equivalised income below 60 percent of the national median income. In the EU such low income is considered insufficient to maintain a decent standard of living. Whether persons below the 60 percent threshold are actually experiencing poverty will depend on a number of factors, including the relevance of the threshold; the length of time on this relatively low income or the possession and use of other assets, especially one's own home.

(Source: European Commission)

Private pensions

Generally built up through contracts with commercial insurers, private pensions may be based on contributions by employers and/or employees, often within group schemes. Individuals, including the self-employed, may also take out private pension insurance. Many EU countries are using tax incentives to encourage private complementary pension provision.

(Source: European Commission)

Supplementary pension

Often synonymous with 'occupational' and in some countries known as second pillar pension, the supplementary pension schemes (often funding-based - see pension fund) are most often created by an employer or within an industrial branch for the benefit of employees. The supplementary pensions can be mandatory or voluntary, in which case they may be encouraged by fiscal incentives.

Social Open Method of Coordination

See Open Method of Coordination

Social Protection

Measures put in place to provide a minimum standard of welfare and to protect citizens against the risks of inadequate income associated with unemployment, illness, disability, old age, the cost of raising a family, or the death of a spouse or parent. Social protection includes social insurance benefits (e.g. provision of pensions) as well as universal access to services such as healthcare and long-term care.

(Source: European Commission)

Social Protection Committee (SPC)

Committee composed of representatives of the Commission and of the Member States which aims to: monitor the social situation and the development of social protection policies in the Member States and the EU; exchange information and examples of good practices; prepare reports and formulate opinions within its fields of competence.

Solvency II

Solvency II is the updated set of regulatory requirements for insurance firms that operate in the EU. Since the introduction of the first Solvency framework in the early 1970s, complex risk management systems have been developed. Solvency II introduces a comprehensive framework for risk management by defining required capital levels and procedures to identify, measure, and manage risk levels.

Statutory pension age or pensionable age

Age at which a person normally becomes entitled to retire.

Statutory pension

Often synonymous with 'public pension', 'state pension' (in some countries also referred to as the first pillar); the statutory pension covers various forms in the EU countries and is funded from diverse sources (by the state, from current workers' and employers contributions). It is financed on a current disbursement method, also known as the pay-as-you-go (PAYG) method i.e. with benefits paid directly from current workers' contributions and/or taxes.

Streamlining

Combining different policy areas within an Open Method of Coordination. In the case of the Social OMC, the policies of social inclusion, pensions and health and long-term care have been streamlined to increase efficiency by synchronising the reporting processes (see also Open Method of Coordination).

Subsidiarity principle

The subsidiarity principle means that EU decisions must be taken as closely as possible to the citizen. In other words, the Union does not take action unless its action is more effective than those taken at national, regional or local level.

The above glossary is partially based on the Social Protection and Social Inclusion Glossary of the European Commission:

http://ec.europa.eu/employment_social/spsi/docs/social_inclusion/glossary_en.pdf

Please also see for more information, the Pension Glossary of the Organisation for Economic Cooperation and Development:

<http://www.oecd.org/dataoecd/5/4/2496718.pdf>

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For more information see:

http://ec.europa.eu/employment_social/progress/index_en.html