SYNDICAT EUROPEÆN TRADE UNION CONFEDERATION

ETUC POSITION ON THE FUTURE OF PENSIONS IN EUROPE TWO YEARS AFTER THE PENSIONS WHITE PAPER

Adopted at the Executive Committee Meeting of 11-12 June 2014

Introduction

Key messages:

- Retirement pensions are earned over several decades of working life, thus reflecting levels of pay, periods of unemployment and working conditions in general.
- Pensions, including the retirement age, are a national competence.
- Raising the effective retirement age should be integrated in a coherent strive for a good working life for all: occupational health and safety, decent working conditions, access to life-long education and training and quality employment contracts that give rise to pension entitlements.
- We acknowledge that increased life expectancy must lead to higher effective retirement age, but legal retirement age must not be automatically linked to average life expectancy. Exposure to arduous working conditions must be taken into account.
- State pensions (first pillar pensions) that cover all should be strengthened, with public financing, based on solidarity between groups and solidarity between generations. Occupational pensions (second pillar pensions), based on collective bargaining, should be promoted. Private pensions savings (third pillar pensions) cannot be seen as an alternative to the first and second pillar pensions.

Pensions reflect conditions during the whole working life

Pension systems are long-term obligations. Rules surrounding pensions need to be safe and reliable. Pensions are based on promises between groups of people and solidarity between generations. Pension systems need to be sustainable over a long period of time, in order to deliver according to these promises and to secure the economic needs of people after their working lives.

Pension reforms are today a common part of the European policy discussion. The design of public pension schemes is within national competence. However, throughout the European Semester, the Commission and Council make recommendations about macro-economic stability and promoting sound public finances in general. Pensions are a large part of every state budget, and thus of course a tempting target for policy recommendations. In 2012 and 2013, a majority of EU member states received country-specific recommendations regarding pension reform issues. These mainly target the legal retirement age, suggesting it be linked to increased life expectancy or that early retirement possibilities should be reduced.

The ETUC supports the idea that there needs to be a balance between time spent in work and time spent in retirement but it is strictly opposed to the idea of meeting this target by simply raising the legal retirement age or by automatically aligning the legal retirement age with life expectancy. Primarily, increasing time spent in retirement (because of longevity growth) has to be counterbalanced by improving the labour market integration of people of all working ages. For 2013, Eurostat figures show an employment rate, including marginal employment, of only 68% in the age group 20-64. This clearly signals that there is a huge potential for increasing ‘time spent in work’, and this not only among older people. Raising employment rates for groups with lower rates, such as women, migrants and youth would significantly improve the relationship between time spent in work and time spent in retirement.

The fixing of the legal retirement age is of key importance in each society. The ETUC refuses the idea that national parliaments should hand over their regulatory competence to mathematical formulas referring to criteria such as life expectancy.

There is a need for a political decision, debate and discussion before changing the legal retirement age. Such a process must involve the social partners at national level. Retirement age and pension benefits are largely linked to conditions in working life, and thus linked to social dialogue.

Pensions reflect decades of working life experience and labour market conditions. Unemployment is not a personal choice, nor are insufficient part-time hours that do not pay your bills. Part-time work due to lack of care facilities for children and other dependent family members should not be seen as a personal choice to be punished through low pensions either. People who have become ill or unemployed at the end of their working lives must be entitled to social protection benefits until retirement age. In times of economic hardship and deregulation of working conditions, different forms of precarious employment contracts and internships are flourishing, with low or no pension entitlements connected to them. The ETUC demands decent employment contracts that give rise to pension entitlements.

A longer working life should be achieved through active labour market measures, better working conditions, with supporting policies like education, training, and provision of care facilities. Without these in place, the concept of working longer becomes mere rhetoric in many people’s lives.

The demographic development is often mentioned as a reason for an obligation to push back the legal retirement age, since fewer people of working age will have to support a larger number of retired people. While exceptionally large numbers of EU citizens are unemployed, the ETUC underlines that it makes more sense to consider the economic dependency ratio, which shows the relationship between the number of working people and those who do not work, irrespective of their age. This leads to a focus on promoting broader labour market participation and creation of quality jobs.

Misinterpreted demographic figures, focusing on the numerical relationship between age groups, still dominate the public debate about the long-term sustainability of public pension systems. Facts such as unemployment or inactivity due to health or family reasons are simply ignored. Unfortunately, so far, the White Paper definition of the economic dependency ratio has not been brought to the fore in long-term projections of the Commission.

The ETUC will continue to question to what extent the ageing of the population will translate into an increase of the economic dependency ratio. In our opinion this is to a high degree determined by the evolution of the labour market. Raising employment rates, by quality jobs, could help to considerably reduce the future increase of this ratio and, thereby, to alleviate the financial burden of ageing.

Adequacy is an aspect of pensions that requires more public interest. One quarter of European citizens today have pensions as their main source of income. They have little possibilities to find other sources of income. Therefore the benefits need to reach a level which ensures a decent living standard. Indexation of pensions needs to be adequate as well. A yearly loss in purchasing power ends up as a significant sum, for those who live longer.

There is a shocking gender gap in pensions. While the gender pay gap among people of working age is about 16% in EU, the gender gap in pensions amounts to 39%. This can to a large extent be explained by inequalities in work-life patterns, attitudes to traditional female work and to the design of pension schemes. The ETUC claims equal pay for equal work, and in addition equal pensions as well.

Poverty among older people is a real problem today. Sadly, this will even grow in the future, when the effects of the crisis years and mini-jobs without pension rights will reappear in the form of low pensions. Therefore, the ETUC reiterates the need for quality jobs with decent working conditions, including pension and other social security rights. In addition, first pillar pensions must provide for a decent standard of living and protect old people from poverty.

More and better information about pensions is required. As the pension landscape has become more diversified, the impact of individual decisions has become more important. People need clear and reliable information about their pension rights as well as an overview of how the parts of the pensions systems work, in order to be able to make informed decisions. Since pensions depend on previous working life conditions, recurrent information about the status of accrued pension rights as well as how different choices might affect your pension entitlement are important.

Comments on first pillar pensions:

State pension systems, so called first pillar pensions, are the main source of pensions for the large majority of retired people. Often it is said that these will not be sustainable, due to lack of financial resources. The trade union comment to such an assessment must be that if that is the case, more resources need to be allocated in the light of an ageing population. If there is not enough money for the first pillar, where everybody is covered and to which we all contribute, how could supplementary schemes possibly be a better solution?

The best way of securing adequate pension benefit levels for all is to strengthen the first pillar pensions. The ETUC insists that first pillar pensions must deliver an adequate replacement rate for people to be able to maintain a decent standard of living also in older years.

In first pillar pensions, redistribution is possible within the system. They are something more than a private account, in providing a common system for pooling of risks, and sharing of costs. First pillar pensions are based on solidarity, and suitable for a fair redistribution.

Arduous work is in some countries linked to pre-retirement schemes. Definition of arduous work should be done in consultation with social partners. They know about the conditions at work in the profession or the sector, as well as the social inequalitites, to which they are confronted, in terms of their level of education and training.

Comments on second pillar pensions:

Occupational pension schemes often form part of collective bargaining. ETUC supports collectively negotiated pension schemes.

In March the Commission presented its long awaited proposal for a recast directive on the activities and supervision of institutions for occupational retirement provision (IORP). The ETUC holds that provision of occupational pensions is a part of social and labour law and not an internal market issue. Occupational pensions are a part of the remuneration workers get for their work. Occupational pensions are not mandatory, but often based on collective agreements. About half of the workers in EU have an occupational pension.

The IORP proposal has a strong internal market and cross-border focus. However, occupational pensions mostly appear in a truly national context. They supplement the first pillar pensions, they are regulated by national tax legislation and they are often based on national collective agreements regarding remuneration. Cross-border schemes and cross-border provision of occupational pensions can be justified where there is an added value in this construction, but they are far from being a common way of organising occupational pensions.

The IORP proposals about cross-border provision of occupational pensions are based on the idea of promoting free movement of delivery of financial services across borders. If cross-border pension schemes are to be developed, the development must be driven by the needs of the companies and their employees, and not by the financial industry that would like to make money from delivering their services across borders.

Occupational pensions are not a commodity to be provided and delivered anywhere, without linkage and knowledge about the national, sectoral and sometimes even company-specific context of remuneration and labour regulation. The ETUC will continue to be actively engaged in the recast exercise.

Directive 2014/50/EU on acquisition and preservation of supplementary pensions is an attempt to enhance mobility by improving the treatment of mobile workers' pension rights. ETUC is in favour of the aim of safeguarding workers' occupational pension rights, but there could be better ways of doing so than the outcome of this new directive. As a starting point, it is important to remember that occupational pensions are not mandatory, and often based on collective agreements. Therefore, legislation in this area needs to respect the role of the social partners.

ETUC deplores that the definition of an outgoing worker, who is the person covered by the rights in the directive, is only about cross-border mobile workers, and omits workers who change jobs and occupational pension schemes, but stay within the same country.

The directive still permits rather lengthy vesting periods, during which the pension contributions of the employer are not given to the worker, if he or she leaves the employment during the vesting period.

Protection of dormant rights, including fair indexation, is an important part of the directive. The ETUC would like this to be strengthened. However, the directive gives a possibility to pension providers to not keep smaller sums of dormant pension rights (thresholds are to be defined in national law), but instead re-pay them as a lump sum to the outgoing worker. This might look positive, but there are problems with this, since small pension accounts are common among young workers, and among those who have temporary contracts. Repayments of lump sums might lead to losses by the workers. Pension providers normally impose charges on these transactions, and they might be subject to heavy taxation. A negative effect of re-payment, instead of preservation of dormant rights, is that workers may end up on the day of retirement with no occupational pension to be paid out, since they have already got their accrued rights re-paid as smaller lump sums during their working lives.

The ETUC supports the parts about information to workers on their pension rights and how these could be affected by mobility.

ETUC urges member states to actively involve trade unions and employer organisations in the implementation of this directive into national law.

Comments on third pillar pensions:

Private savings can never prevent poverty. Private savings for retirement purposes are only possible for those who can afford them, and thus not those who would need them the most. Third pillar products can never compensate for insufficient pension benefits from the first pillar. Many third pillar products, packaged as "retirement" or "pensions" savings, are possible to withdraw without having retired, or paid out as a lump sum or for a very limited number of years. Thus, they are far from being an additional income for an undefined number of years.