EUROPEAN COMMISSION

Brussels, 16.2.2012
SWD(2012) 7 final

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COMMISSION STAFF WORKING DOCUMENT

IMPACT ASSESSMENT

Accompanying the document

WHITE PAPER

An Agenda for Adequate, Safe and Sustainable Pensions

{COM(2012) 55 final}
{SWD(2012) 8 final}

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1. Procedural issues and consultations

Against the background of accelerating demographic ageing, the economic crisis and a decade which had seen major changes in pension systems in a number of Member States, there was a clear need to open a new debate on how the EU level pensions framework could best support Member States in ensuring that their citizens enjoy adequate, sustainable and safe pension systems both now and in the future. Hence in his political guidelines for this Commission, of September 2009 President Barroso said "We need to ensure that pensions do the job intended of providing maximum support to current and future pensioners, including for vulnerable groups." Subsequently Commissioner Andor was tasked by the President to "…work with other Commissioners to develop proposals to secure Europe's pension systems."

Accordingly, the European Commission examined the full scope of the current EU pension's framework in view of possible improvement to better support Member States. This led to a public consultation via a Green Paper[1] on Pensions published on 7 July 2010. The Green Paper took an integrated approach across economic, social and financial market policies and recognised the links and synergies between pensions and the overall Europe 2020 strategy for smart, sustainable and inclusive growth. An accompanying document[2] published alongside the Green Paper covered the current framework of EU legislation, coverage and related initiatives in more detail including the results of a mapping exercise undertaken with national pension regulators via the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS)[3].

The Green Paper was underpinned by the joint analysis of the Economic Policy Committee (EPC) and Social Protection Committee (SPC)[4] which took stock of progress in national pension reforms over the last decade and re-assessed these advances in the light of crisis setbacks and the accentuated challenges of delivering pensions in a context of lower growth, accelerating ageing and severely deteriorated fiscal positions. The final EPC/SPC joint report[5] formed the basis for the Council Conclusions of 17 November 2010[6] which stated[7]:

> *"The Council RECOGNISES that many recent pension reforms have made benefits more contingent on the ability of labour markets to provide opportunities for longer and less interrupted contributory careers, and on positive returns from financial markets. In the light of significant increases in longevity measures to extend working lives and increase the effective retirement age will continue to be the key components of… reforms."*

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[1] Green Paper "towards adequate, sustainable and safe European pension systems" SEC(2010)830 of 7.7.2010 COM(2010)365 final available at:
http://ec.europa.eu/social/main.jsp?catId=700&langId=en&consultId=3&visib=0&furtherConsult=yes

2 "COMMISSION STAFF WORKING DOCUMENT EU LEGISLATION, COVERAGE AND RELATED INITIATIVES Accompanying document to the GREEN PAPER towards adequate, sustainable and safe European pension systems" of 7.7.2010 SEC(2010) 830 final available at:
http://ec.europa.eu/social/main.jsp?langId=en&catId=752&newsId=839&furtherNews=yes

3 As of 1 January 2011, the European Insurance and Occupational Pensions Authority (EIOPA) has replaced CEIOPS.

4 The Interim Joint Report of the EPC and SPC was noted by the 7-8 June 2010 Council (ECOFIN and EPSCO) Report available at http://europa.eu/epc/publications/index_en.htm, see Council Conclusions http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/114988.pdf .

5 Joint Report on Pensions: Progress and key challenges in the delivery of adequate and sustainable pensions in Europe Oct. 2010 available at:
http://www.bmask.gv.at/cms/site/attachments/2/3/9/CH0982/CMS1304403432073/joint_report_on_pensions.pdf

[6] Full text available at http://register.consilium.europa.eu/pdf/en/10/st15/st15885.en10.pdf

[7] See also the executive summary of the Joint Report in annex 5.

"… the need to consider pension policies in a comprehensive manner using existing EU level policy coordination frameworks and taking into account the many interlinkages between labour markets, social protection systems, financial market policies, and other relevant policies."

"…the urgency for further implementation of structural reforms, consistent with the Europe 2020 strategy for jobs and smart, sustainable and inclusive growth, in order to support fiscal consolidation, improve growth prospects, strengthen work incentives, ensure flexible labour markets and extend working lives."

To fortify the holistic approach, the EU level pensions work is led by a Commissioners Group on pensions set up by President Barroso and chaired by Commissioner Andor. The Group's mandate is to develop, outline and communicate an EU approach for adequate, sustainable and safe European pension systems building on the political guidelines of the President. The Group met for the first time in June 2010 to finalise the Green Paper. As a follow up to the Green Paper, a White Paper on pensions was announced in the Commission work programme for 2011[8] in order to take forward the next stage of the EU level pensions work, guided by the Green Paper consultation. The work programme stated that *"the Commission will support Member States' action to deliver adequate and sustainable pensions for citizens through concrete measures to be identified following the consultation launched in 2010"*. The annex to the work programme stressed that "*if the EU is to sufficiently support and complement Member State efforts to deliver adequate and sustainable pensions for citizens, the incomplete and fragmented European framework of policy coordination and Regulation needs to be reconsidered holistically"*.

The formal consultation initiated by the Green Paper ran for over 4 months and sought views on 14 specific questions designed to determine what action the EU level could take to best support Member States and their pension systems. During the consultation period, a number of presentations and events were held to maximise engagement and debate. The Green Paper consultation itself was very successful, receiving 1674 formal responses including around 350 from Member State governments, national parliaments, business and trade union organisations, civil society and representatives of the pension industry.

The European Parliament, the European Economic and Social Committee (EESC) and the Committee of the Regions (CoR) also considered the issues raised in the Green Paper and adopted formal resolutions or opinions on the paper.

In light of the scope of the demographic challenge and the ground which a coherent set of responses to this challenge would have to cover, the Commission announced on 27 October 2010 at the presentation of the Commission Work Programme 2011 that it would publish a White Paper on Pensions. The Commissioners Group on pensions met again in February 2011 to discuss the responses to the consultation and an official summary of the responses[9], which also took full account of the views of the Parliament and the EESC and CoR, was published

8 Commission Work Programme 2011COM(2010) 623 final, 27.10.2010 available at: http://ec.europa.eu/atwork/programmes/docs/cwp2011_annex_en.pdf

9 Summary Of Consultation Responses to the Green Paper "Towards Adequate, Sustainable And Safe European Pension Systems" of 7th March Available at: http://ec.europa.eu/social/main.jsp?catId=700&langId=en&consultId=3&visib=0&furtherConsult=yeshttp://ec.europa.eu/social/main.jsp?catId=700&langId=en&consultId=3&visib=0&furtherConsult=yes

on 7th March 2011 to coincide with a report to EPSCO Council[10] by Commissioner Andor. The summary noted that the holistic approach of the Green Paper was very much welcomed; however there was not a strong support for a greatly enhanced role of the EU in pension policies. Stakeholders had the expectation, though, that the Commission would ensure greater consistency and efficiency in its policy initiatives on pensions in its follow-up work. More details on the results of the consultation process are presented in Annex 2 to this document and the full official consultation summary is reproduced at Annex 3.

The debate launched by the Green Paper was also reinforced by other developments, notably the need for pension reforms in the context of sustainable public finances. The Commission delivered strong policy messages in its first Annual Growth Survey[11] (AGS), calling on Member States to reform pension systems to support fiscal consolidation efforts by:

- Increasing the retirement age and linking it with life expectancy.
- Reducing early retirement schemes and use targeted incentives to employ older workers and promote lifelong learning.
- Supporting the development of supplementary private savings to enhance retirement incomes.
- Avoid adopting measures related to their pension systems which undermine the long term sustainability and adequacy of their public finances.

The Annual Growth Survey announced that the Commission will review the Directive[12] on occupational pension funds and present new measures as a follow up to the Green Paper on pensions.

The Euro Plus Pact[13] took up parts of the Green Paper debate and the AGS recommendations relating to a better balance between time in work and time in retirement. The Pact emphasised the need to raise *effective* retirement ages and noted the importance of adequacy. For pensions, reforms to ensure the sustainability and adequacy of pension systems could include:

- aligning the pension system to the national demographic situation, for example by aligning the effective retirement age with life expectancy or by increasing participation rates;
- limiting early retirement schemes and using targeted incentives to employ older workers (notably in the age tranche above 55).

The European Semester process culminated in the Country-Specific Recommendations (CSRs)[14] which are based on the Commission services' analysis[15] of the National Reform Programmes and the specific budget, growth and employment situation of each Member

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10 Report on the consultation on the Green Paper: "Towards adequate sustainable and safe European pension systems" Presentation by the Commission of 7th March 2011 available at: http://ec.europa.eu/social/main.jsp?catId=700&langId=en&consultId=3&visib=0&furtherConsult=yes

11 COM(2011) 11 final, 12.1.2011

12 DIRECTIVE 2003/41/EC Of The European Parliament And Of The Council of 3 June 2003 on the activities and supervision of institutions for occupational retirement provision available at; http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2003:235:0010:0021:EN:PDF

13 EUROPEAN COUNCIL CONCLUSIONS 24/25 MARCH 2011, Annex I, EUCO 10/1/11 REV 1[13] Reference as agreed/adopted at 11March extraordinary European Council

14 As adopted by European Council 24-25 June 2011: http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/ecofin/123611.pdf

15 http://ec.europa.eu/europe2020/tools/monitoring/recommendations_2011/index_en.htm

State. Recommendations on pensions were addressed to a majority of Member States and focused on (number of relevant Member States in brackets)[16]:

- increasing the pensionable age and linking the to longevity growth (9)
- increasing the effective retirement age and older workers employment (12)
- reducing early retirement (5)
- developing supplementary private savings (2)
- balancing sustainability and adequacy concerns (3)
- addressing adequacy problems (1)[17]

These developments have raised the profile of pension reforms still further and highlighted their importance within the context of the Europe 2020 strategy, albeit so far and because of the financial crisis primarily from a public finance perspective. A new comprehensive initiative on pensions will thus need to be designed to support the scope of the Europe 2020 strategy, including, given the EU's poverty reduction and employment targets, greater attention to the issue of adequacy and notably the capacity of pension systems to reduce poverty in old age. In practical terms this means addressing the employment rate of older workers, i.e. raising the effective retirement age.

Based on the outcome of the Green Paper consultation and the related developments, discussions on the possible substance of a White Paper on pensions as well as its impact have taken place in an Impact Assessment Steering Group[18]. The group included a wide range of Commission services (EMPL, MARKT, ECFIN, JUST, TAXUD, SANCO, RTD, ENTR, SG, Legal Service)[19] with an interest in the issues so that the full range of pension related interests could be considered in a holistic way. The Steering Group met on 14th March, 4th May, 21st June and 27th July 2011. These discussions together with internal work in the DG's and various bilateral contacts have helped to develop and assess a range of possible measures to form a credible holistic package to respond to the needs of EU citizens.

As part of this policy development work and to continue the holistic approach at the highest level, the Commissioners Group on pensions met again in June 2011 to consider the emerging policy responses developed with the input of the IASG and to give their views and a high level steer on how this work should develop for the White Paper. The Group is expected to meet again in the autumn to continue to shape this work in its final stages.

2. Problem Definition

Pensions presently determine the living standards of a significant and growing proportion of European citizens namely about 24%[20]. They are the main source of income of people in their sixties and above and ensure, in many countries, that older people are not exposed to a higher risk of poverty than people of working age. As most pension benefits are delivered by public

[16] Figures in brackets relate to how many Member States had such a recommendation; Member States may have received recommendations relating to more than one of the above topics.

[17] See annex 6 for more details about how adequacy and sustainability requirements have been addressed in the Country-Specific Recommendations.

[18] The setting up of the IASG was agreed with DG ECFIN and DG MARKT at the meeting on the 21st of February 2011.

[19] Invitation to participate in the IASG was also sent to DG BUDG and EUROSTAT which decided not to attend the meetings of the group.

[20] According to the 2009 Ageing Report there were about 119 million pensioners (social security) in the EU-27 in 2010. The number includes recipients of old-age, early retirement, disability, and survivors pensions (also those aged less than 65).

schemes, pensions also represent a major share of public spending (around 10% of GDP), and form a core part of the automatic economic stabilisers of particular relevance in times of recession. Moreover, the design of pension systems and the incentives they provide to retire at an earlier or later age has significant impacts on employment and hence economic growth. Where private pensions are highly developed, pension funds constitute key parts of national savings and as institutional investors are major actors in financial markets; this, too, can play an important part in the functioning of the economy and economic growth.

Various challenges are looming for pension systems related to the fact that the working population in the EU is projected to age significantly in the coming decades while the age-dependency ratio will increase sharply. A broad consensus exists that in order to address this challenge older people should be encouraged to remain active by working longer and retiring later. As Annex 4, 5 and Annex 7 illustrate, Member States are introducing pension reforms (see Table 1 in the Annex 5), but the impact of enacted reforms on longer working may fall behind what is needed to face the demographic change (Figures 5 and 6). This requires adequate policy responses as market forces on their own will not always generate a desirable outcome in an efficient and equitable way.

Thus pension policies are major determinants of success in key policy areas which will determine Europe's future economic performance and prosperity. Clearly, successful pension policies in the Member States matter for the EU as a whole. Therefore, an effective framework at EU level is necessary to support reforms in Member States, and to monitor and constantly review the performance of national pension systems. Member States remain nevertheless responsible for the design and organization of their pension systems even though some specific aspects, particularly concerning private pensions and pension entitlements of people who move across border, are subject to EU legislation. Moreover for the Eurozone countries there is an increasingly tight surveillance of the public finance implications of pension systems.

This section briefly recalls the major challenges that Member States have to tackle[21] and discusses to what extent pensions have become – or may yet become – a matter of common concern for the EU as a whole. It argues that the problem the EU faces is that there could be a growing mismatch between, on the one hand, the fact that successes and failures of national pension policies have increasingly strong spill over effect on other Member States, and, on the other hand, the absence of a consistent and comprehensive EU-level policy framework that could promote reform efforts in the Member States in a way that is conducive to the EU's fundamental policy objectives as defined in the Treaties and, in more operational terms, in the Europe 2020 strategy.

The specific economic and social impacts of the baseline scenario will be discussed in chapter 5 *Assessment of Impacts* alongside the economic and social impacts of other policy options.

2.1. Challenges that Member States face in the delivery of adequate, sustainable and safe pensions

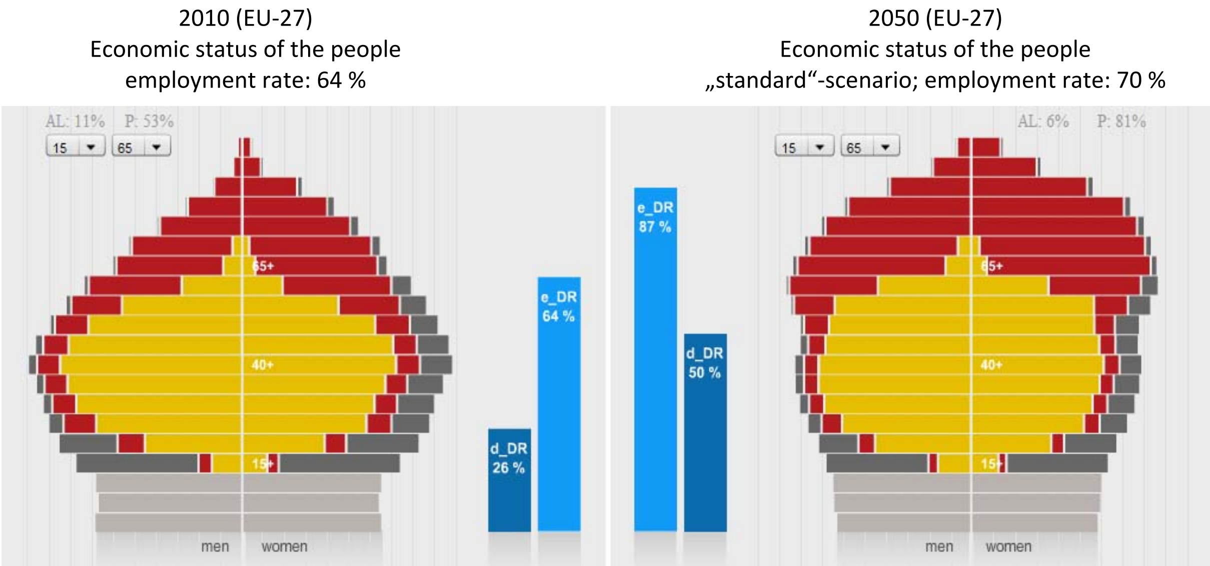
Present and future challenges to the pension systems of Member States have been the topic of more than a decade of analysis and diagnosis by EU institutions and bodies. One main strand

[21] For further details see Annexes 4 and 5.

of this work focused on demographic ageing and the risk that rising pension expenditure could pose to the sustainability of public finances as addressed in the context of the Stability and Growth Pact. Another strand focused on the extent to which pension reforms ensured adequate pension provision, in the sense of poverty prevention and income replacement, and adapted pension systems to changing labour markets and gender relations. This latter work has taken place in particular in the context of the Open Method of Coordination on social protection and social inclusion (the Social OMC) starting with the definition of common objectives at the Laeken summit in 2001. The main challenges have been highlighted in the 2009 Ageing Report of the European Commission - Economic Policy Committee[22] and the 2010 Joint EPC – SPC (Social Protection Committee) Report on Pensions[23] where the two separate strands of work were brought together and finally the Green Paper which by fusing these with the work on the regulation of occupational pensions with Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) and European Financial Reporting Advisory Group (EFRAG)[24] took an integrated approach across economic, social and financial market policies.

The fundamental challenge for which Member States have to prepare is population ageing. According to projections[25], the EU-27 will face a substantial increase in the demographic dependency ratio (population 65+ to population 15-64) from 26% in 2010 to 50% in 2050 and 53% in 2060. The ageing challenge is even better illustrated with its potential impact on the economic dependency ratios, comparing the number of beneficiaries and contributors. This ratio depends on two demographic effects: increasing life expectancy and changing cohort sizes (due to lower birth rates); and also on the employment situation, i.e. the proportion of the working-age population which is actually in employment.

Figure 1 Projections of the demographic and economic dependency ratios in 2010 and 2050, EU-27



Source: AK-Wien, Dependency Ratio Calculator

[22] European Commission - Economic Policy Committee, *2009 Ageing Report* – Economic and Budgetary Projections for the EU-27 Member States (2008-2060), available at http://ec.europa.eu/economy_finance/publications/publication14992_en.pdf

[23] 2010 EPC-SPC Joint Report on Pensions: "*Progress and key challenges in the delivery of adequate and sustainable pensions in Europe*" available at: http://ec.europa.eu/economy_finance/publications/occasional_paper/2010/op71_en.htm

[24] See Commission report on some key aspects concerning Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision (IORP Directive) of 30.4.2009, COM(2009) 203, available at http://ec.europa.eu/internal_market/pensions/docs/legislation/iorp_report_en.pdf.

[25] Europop 2008 population projections.

The ratio between beneficiaries and contributors can be changed by legislation which defines who is obliged to contribute and who is entitled to benefits. Already, pension systems have to cope with the fact that large cohorts (the 'baby-boomers') are now reaching the retirement age and are being replaced by smaller cohorts as a result of lower birth rates since the late 1960s. In the long run, rising life expectancy will continue to strongly affect pension systems. At unchanged retirement ages, the expected increase in life expectancy of seven to nine years over the next half century would result in further – and major - imbalances between time spent working and time spent in retirement, making it much more costly to provide adequate incomes in retirement.

Already now the average exit age from the labour market in the majority of Member States is lower than the legally defined pensionable age. In consequence, in a number of countries people spend 25 or more years receiving pensions or other benefits.[26] The impact of demographic ageing on pension systems can be mitigated if Member States tap the potential of labour markets and increase the employment rates of the working age population. The example of Austria is here a good illustration: improving the future employment rate to the level of currently best-performing Member States would to a large extent help to mitigate the adverse effects of ageing (see Annex 5 for further details).

Under the legislation currently in place in the Member States, public pension expenditure, which currently stands at around 10% of GDP, could rise to 12.5% by 2060[27]. This EU27 average masks, however, important differences across countries; for around one third of the Member States the projected increase is five percentage points of GDP or higher. This represents a major challenge to the sustainability of public finances which compounds the impact of the financial and economic crisis on public finances (see Annex 5 on assessment of sustainability of public finances in the EU Member States). Indeed, the crisis has been a major setback to one of the possible ways for preparing for the projected costs of ageing societies, namely to reduce public debt at a fast pace.

Against this backdrop, the generosity of public pensions is in most cases expected to decline. Whilst this helps to tackle sustainability, it puts the adequacy of pensions at risk unless flanking policies to protect the most vulnerable groups are implemented. Some Member States are already currently facing an adequacy challenge, as measured notably by the proportion of older people who are at risk of poverty. Older women are particularly vulnerable due to their less favourable employment and earnings histories (in 2007 the at-risk-of-poverty rate in the EU-27 was at 16% for men and 22% for women aged 65+)[28]. While increasing labour force participation of women could bring some improvements, other trends, such as the rising number of single person households and the reduction of survivors' benefits (widow's pensions) could worsen the situation[29]. Many of the reforms implemented over the past two decades have tended to diminish the future generosity of public pensions[30], although this is supposed to be at least partially compensated for, in a number of countries, by a higher

[26] See annex 5.
[27] *2009 Ageing Report*
[28] EPC-SPC Joint Report on Pensions: "Progress and key challenges in the delivery of adequate and sustainable pensions in Europe", 2010, available at: http://ec.europa.eu/economy_finance/publications/occasional_paper/2010/op71_en.htm
[29] Average family and household size has been declining since the 1960s. Despite the slight increase in fertility rates in the early years of the 21st century, the decline in household size continued between 2005 and 2009 in all EU-27 Member States, except Austria, Belgium, Germany, Hungary, Romania and the United Kingdom, where it remained stable. For EU-27, average household size fell from 2.5 members to 2.4, with the largest reduction recorded in Lithuania (-0.5) and Slovakia (-0.3). Source: Demography report 2010. Older, more numerous and diverse Europeans, European Commission, March 2011, p.72:
[30] For more detailed information on future generosity of public pension schemes see annex 5.

contribution to old-age incomes from private pension savings. The development of private pension savings poses new challenges to the Member States who have to ensure the safety of these savings and create a framework that allows such schemes to provide reliable pension benefits at low costs to scheme members[31].

A second critical pensions-related challenge that Member State face is the employment rate of older workers. As figure 2 shows for the EU as a whole the employment rate of older workers (55-64) increased from 36,9% (2000) to 46,3% (2010). High employment rates provide a major opportunity for making pensions both adequate and sustainable. Many Member States have considerable room for improvement in the age group 55-64 and, in future years beyond the age of 65, as countries raise the pensionable age and offer more possibilities for postponing pension take up (often allowing people to earn higher pensions). Of interest is the difference between the two genders which despite the upward trend in the employment rate of older female workers remains significant with the EU employment rate of older female workers equal to 38,6% compared to 54,6% for males (2010).[32]

Member States must find ways of translating higher pensionable ages and tighter conditions for early retirement into higher labour force participation of older workers and hence higher effective retirement ages. Failing this, other welfare programmes (unemployment, social assistance) may become more expensive, or people below the pensionable age who are unable to stay in work will be more at risk of poverty.

The thrust of the 2011 Annual Growth Survey's recommendations on pensions, namely to postpone retirement and to enhance the role of supplementary savings, addresses the two main tools through which Member States can ensure the long-term sustainability of adequate pension provision. Raising the pensionable age has a powerful impact on financial sustainability, as it reduces the number of beneficiaries and increases the number of contributors. This depends, however, on whether an increase in the pensionable age will actually translate into a similar increase in the effective exit age (the average age at which people leave the labour market). However, despite the fact the Barcelona Council already in 2002 concluded that "a progressive increase of about five years in the effective average exit age at which people stop working in the EU should be sought by 2010" on balance the increase in the average exit year has been modest[33] rising in the EU27 from 59,9 years (2001) to 61,4 years (2009). In this regard, the workability and employability are crucial, and key determinants are the health status of older workers, their skills and the absence of discrimination (including mandatory retirement rules) and employment disincentives (in tax and benefit systems). Calculations done by the EPC have shown that the growth in public expenditure on pensions may be reduced by about a third for every year people on average work longer without incurring extra entitlements.

There is strong indication that (pre)retirement decisions are the outcome of a complex process, conditioned by individual and household characteristics, as well as macroeconomic and institutional variables. As an indication about 20% of people aged 50-64 are not in work for health reasons[34]. As much as a third of older workers leaves the labour market prematurely due to unemployment or early retirement options aimed at alleviating unemployment among

[31] The new risk incurred are discussed in the EPC-SPC Joint Report on Pensions (see annex 4) and in the Green Paper.
[32] See annex 5.
[33] See annex 5.
[34] See Annex 5 p.57 for further details.

older workers. Postponing (pre)retirement requires a comprehensive "active ageing" approach covering policies in the fields of the labour market, lifelong learning, the working environment, health and safety at work, and social protection reform[35].

Working longer, if it can be supported through the right policy mix, is a powerful tool for reducing public spending on pensions, but it also represents an opportunity for individuals to enhance the adequacy of their pension entitlements in a context of declining generosity of public pension schemes. Model calculation of pension benefits relative to pre-retirement earnings show that public pensions will, in many countries, be significantly lower for cohorts entering the labour market today than for those who retire today. In some Member States postponing retirement by two years can compensate the overall projected reduction in public pension generosity.[36]

Another way of compensating for less generous public pensions consists in developing private retirement savings. Except in few countries (notably NL, DK, SE, IE and UK) they represent only a minor share of current retirement income, but a number of Member States expects this share to grow significantly, thanks to mandatory private schemes (as is the case in many Central and Eastern European Member States), generous incentives and collective bargaining. Thus, when it comes to securing adequate, safe and sustainable pensions, the key challenges for Member States consist in achieving higher effective retirement ages and a stronger contribution of private supplementary savings to retirement incomes.

However, in many countries the crisis demonstrated that the ability of pre-funded pension schemes to mitigate risks and absorb shocks is far from optimal. If the envisaged contribution to pension adequacy is to be delivered it will be important to enhance the safety and cost effectiveness of private pensions[37].

Moreover, the recession and the subsequent deterioration of public budgets revealed some fundamental weaknesses in the way several Member States had sought to build mandatory private pension schemes[38]. Most of these Member States have therefore had to scale back their ambitions and will now have to reconstruct private pensions and adjust the timeframe for and scale of their contribution to future pension adequacy.

In their need to achieve a better balance between time in work and retirement Member States must reach for powerful combinations of pension reform and labour market measures to prolong working lives. In order to secure future adequacy of pension provision most Member States will have to enhance the contribution from complementary retirement savings through the promotion of private schemes and encompassing measures to increase their safety and raise their cost-effectiveness. This will increase the complexity of pension delivery and raise the need to find ways to ensure and coordinate the contributions from employment, financial

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[35] Employment and Social Protection Committee (2007).

[36] As illustrated in the annex 5, the net replacement rates for hypothetical workers retiring at 65 are projected to drop in 15 Member States between 2008 and 2048 (range of reduction varies from 2% to around 30%). Working until 67 instead of 65 can help build additional pension rights and increase the net replacement rate (e.g. in PT the increase in the net replacement rate can be as high as 22%, in LT 17%, and in DE 9%).

[37] For more information on the impacts of the financial and economic crisis on funded pension schemes see Annex 5 page 56 and Memo/09/99 "The economic crisis and pensions in the EU" available at: http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/09/99

[38] Financing these by simply shifting part of the social security taxes needed for current pensions into individualised accounts in private pension funds eroded the deficit and debt position of these countries and as economic growth slowed this practise became unsustainable. As social taxes forgone were not explicitly replaced by other taxes or gradually increased private pension contributions the double payment problem was primarily tackled by taking on more public debt.

markets, public finance and social protection policies to adequate pensions that are safe and sustainable. Beyond their borders there is a common problem of mobility, portability and tracking of supplementary pension entitlements. Member States also have a collective interest in pooling the cost of knowledge gathering and facilitating the transfer of good practise in relation to pension and retirement policies

2.2. Increasing interdependence: Pensions as a matter of common concern for the EU

It has long been recognised that the financial sustainability of public pension provision is a common concern. At its meeting in Stockholm in 2001, the European Council defined a three-pronged strategy for dealing with the long-term sustainability of public finances consisting of:

- reducing debt at a fast pace;
- raising employment rates and productivity;
- reforming pension, health care and long-term care systems

The validity of this strategy was reiterated recently in Council Conclusions on *Adequate, safe and sustainable pensions for all European citizens* adopted on 6 December 2010.

The current debt crisis that a number of Member States are facing following the recession is a clear illustration of how unsustainable public finances in one Member State can affect other Member States, particularly those belonging to the Eurozone where economic shocks are not only propagated through trade and investment links, but also through the stability of the common currency. This explains the prominence of pensions in the Annual Growth Survey, the EuroPlus Pact and the Country-Specific Recommendations.

Successful pension reforms in the Member States are also key determinants of the EU's ability to achieve two of the five targets of the Europe 2020 strategy, namely the employment rate target (75% of the 20-64 year-olds to be employed), which requires in most Member States a much higher participation of older workers, and the poverty reduction target (at least 20 million fewer people in or at risk of poverty and social exclusion). Pension systems capable of delivering adequate benefits can make a huge difference to the numbers of people at risk of poverty: the proportion of older people at risk of poverty ranges from below 10% in Hungary and the Czech Republic to around 50% in Cyprus and Latvia the EU average of 19% being somewhat above the level of people at risk of poverty for the active population (15%).

In future years, the fact that Europeans move more freely across borders can also result in greater interdependence. The failure of one country to deliver adequate pensions may impact other countries if people without adequate pensions choose to move to countries with better benefits or choose to remain in those countries, rather than returning to a country of origin which is unable to provide adequate social protection. [39] In addition, increased cross-border mobility, in conjunction with a growing importance of supplementary pensions not covered by regulation 883/2004 (see below), will make it more important to tackle the issue of protecting such pension rights when people move.

[39] See Annex 5 section on increased cross border mobility

There is therefore also increasing social and employment aspects to the common concerns in pensions which give grounds for moving towards more comprehensive and effective EU support to the efforts of Member States and other key stakeholders to achieve adequate and sustainable pension systems.

2.3. The EU Framework to support Member States in their efforts to deliver adequate, safe and sustainable pensions

With national pension policies becoming increasingly a matter of common concern, it is necessary to examine whether the current EU framework for pensions is appropriate and used in the best possible manner to bring about results that will further the common EU interest.

Member States are responsible for the design and organization of pension systems. As a result, pension systems differ widely across the EU. Nevertheless, the EU has certain specific competences which include:

- Ensuring that the free movement of persons is not hampered by a loss of pension entitlements as people move across borders (Regulation No 883/2004 on the coordination of social security systems, Directive 98/49/EC on safeguarding the supplementary pension rights of persons moving within the Community);
- Ensuring that non-statutory pension schemes can benefit from the freedoms of the Internal Market, including the freedom to provide services and the free movement of capital (Directive 2003/41/EC on Institutions for Occupational Retirement Provision, IORP) whilst ensuring the adequate investor protection;
- Setting minimum standards in the area of labour law (including the protection of pension rights of workers in the event of insolvency of their employer – Article 8 of Directive 2008/94/EC, the employer's insolvency Directive) and health and safety at work;
- Monitoring the sustainability of public finances to safeguard the stability of the common currency (Stability and Growth Pact).
- Enforcing fundamental rights, including the prohibition of discrimination on the grounds of gender and age (Directive 79/7/EEC, Directive 2000/78/EC Regulations No 883/2004 and No 987/2009).

In addition to these core competences, the Treaty on the Functioning of the European Union requires the Union to take into account employment and social protection in all its policies (article 9) and defines employment, which is a key determinant of the sustainability of adequate pension provision, as a matter of common concern (article 146). These objectives are pursued through ‘soft’ governance processes within the Social OMC, in accordance with article 5 of the Treaty, which allows the Union to ensure the coordination of Member States’ social policies, and with the Employment Title (articles 145-150), which is the basis for a coordinated employment strategy. Articles 151 and 153 are key for social protection while surveillance of public budgets are covered by Article 126 and provisions to ensure the functioning of private pension institutions in the Internal Market are adopted in accordance with Articles 26 and following (further details in annex 10).

2.4. Subsidiarity

The Treaty, in its Article 153, clearly recognises *the right of Member States to define the fundamental principles of their social security systems*. Moreover, Article 5 of the Treaty on European Union stipulates that *the use of Union competences is governed by the principles of subsidiarity and proportionality. (…) Under the principle of subsidiarity, in areas which do not fall within its exclusive competence, the Union shall act only if and in so far as the objectives of the proposed action cannot be sufficiently achieved by the Member States, either at central level or at regional and local level, but can rather, by reason of the scale or effects of the proposed action, be better achieved at Union level.*

Given that pensions are a competence of the Member States, it follows that the European Union has only limited possibilities of influencing the major policy orientations that will determine the success or failure of national pension policies. However, this does not mean that the EU has no role to play. Sections 2.2 shows that there is a growing common concern, for instance on matters of the sustainability of public finances and social and employment aspects. Section 2.3 outlines the competences the EU has in various areas. Thus, although there is a growing need for a comprehensive EU strategy on pensions, this same strategy has to recognise that, apart from some specific issues for which EU competences exist, the effectiveness of pension policy at EU level will depend on the acceptance of EU policy orientations by national policy makers.

2.5. Weaknesses of the current EU approach to pensions

Beyond the common objectives for pensions agreed in Laeken in 2001[40], there has been no attempt to build a comprehensive policy vision and strategy for the future of pensions in the EU. Instead, a patchwork of legislation and policy coordination processes exists for which there is no overall mechanism to ensure policy coherence.

For example, a somewhat disjointed approach to the pension challenges faced by Member States has become apparent in the first European semester under the Europe 2020 strategy. In line with the concern with public finance impacts, the Country Specific Recommendations drafted by the European Commission and adopted by the European Council focused mainly on the financial sustainability of pension provision. The links between working longer and pension sustainability and challenge of increasing the currently low employment rate of older workers in particular, has been rightly raised in the case of several Member States. However, the commonly agreed objective to provide adequate pensions received limited attention, including in those cases where indicators show clear risks for (future) adequacy[41]. Without tackling poverty among pensioners it will be difficult to achieve the Europe 2020 objective to reduce poverty and exclusion. In addition the need for complementary private retirement savings received sparse attention and key safety issues were only skirted.

Lack of mutual consideration of adequacy and sustainability issues by the Social Protection Committee (SPC) and the Economic Policy Committee (EPC) as well as limited attention for pensions issues in the Employment Committee (EMCO) are other examples which illustrates the consequences of having a disjointed approach at the EU level. As raised by Member States themselves, the work of those committees is not well coordinated which may lead to

[40] These objectives were updated and confirmed in 2006: Commission Communication "Working together, working better: A new framework for the open coordination of social protection and inclusion policies in the European Union", http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52005dc0706:EN:NOT
[41] For an overview of CSRs on pensions please see annex 7.

duplication of work and inconsistency in results. The concepts and methods used by the SPC (ISG[42]) and EPC (AWG[43])are so different that their findings are difficult to combine as witnessed by the November 2010 Joint EPC-SPC Report[44].

Moreover, the basic purpose of pension systems, namely to deliver adequate retirement incomes, is the main focus of only one EU policy initiative, the Social OMC. Other EU policy initiatives are primarily concerned with non-pension objectives, such as free movement, freedom to provide (financial) services, sound public finances or employment.

To conclude the Treaty requires the EU to take into account requirements linked to the guarantee of adequate social protection in its policies and activities. It can be argued that the various policy initiatives of the EU that affect pensions in the Member States in one way or another are in line with this Treaty requirement. However, as the EU steps up its pressure on Member States to reform their pension systems, notably by issuing country-specific recommendations, it does so mainly from the perspective of sustainable public finances that are needed, especially for the good functioning of the euro area.

Thus, the problem can be defined as a mismatch between the increasing interdependence of Member States with regard to their pension systems, on the one hand, and the weakness of the somewhat ad hoc and fragmented EU policy instruments at the other which tackle pensions-related challenges in a piecemeal way. As the EU is increasingly concerned about the risks of insufficient pension policies in the Member States, it has to develop more effective ways of influencing policy at the national level, taking into account the limited powers that the Treaty confers on the EU in this area. A shared vision, between the EU and national levels, on the future of pensions and an EU framework for pensions that is comprehensive and integrated are likely to be key for better coordinated measures and their reflection in national policies.

3. Objectives

As argued in the problem definition, whilst drawing on the Green Paper on Pensions and the 2011 country specific recommendations, Member States face the challenge of ensuring the long-term sustainability of adequate pension provision and to tackle it, they have to raise effective retirement ages and enhance the contribution of complementary private retirement provision. If they fail to achieve this, significant negative spill-overs can be expected to affect other Member States, and general policy goals, including the Europe2020 targets of reducing poverty and increasing employment are less likely to be achieved. The Member States have an common interest in developing good EU supports for their efforts to secure sufficient pension delivery.

For EU support and guidance to be effective, a consensus should be forged with the Member States and key stakeholders on a long-term strategy for adequate, safe and sustainable pensions in the EU. Further a set of EU-level tools and measures that can be deployed to complement and support Member State's pension policies must be identified. This way one can achieve the highest possible level of acceptance of these EU policy initiatives and compliance with policy recommendations, notably in the context of the Europe2020 strategy.

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[42] Indicator Sub Group is a working group of SPC

[43] Ageing Working Group is a working group of EPC

[44] Cf. the EPC-SPC Joint Report on Pensions and ECOFIN & EPSCO Council conclusions of Nov-Dec 2010 – as partly reprinted in Annex 4.

Thus, the EU's general objective is to promote more successful pension policies in the Member States (which have the primary responsibility for pensions). More specifically, policy guidance needs to be developed with regard to the two most powerful policy avenues for tackling the challenge Member States face, namely (1) raising the effective retirement age (or achieving a better balance between time spent working and time spent in retirement) and (2) enhancing the contribution to adequacy of private retirement savings. In addition, the EU must (3) strengthen its monitoring and coordination tools, notably by developing the monitoring of pensions adequacy alongside the surveillance of financial sustainability of pension systems. These three constitute the specific objectives which moreover each can be said to relate to the policy areas emerging from the problem definition that must be brought together in holistic framework at EU level.

These general and specific objectives are presented in the table below. Under the specific objectives one can also find the policy areas they relate to.

Table 1: Objectives and policy area

General Objective	*Specific objectives and policy areas*
Provide more effective support to Member States in their endeavours to make adequate pensions provision safe and sustainable in the context of ageing societies and public finance constraints.	**1 – Support Member States in achieving a better balance between time spent in work and in retirement** **Policy areas:** ➢ **Pension system reform** ➢ **People's ability to stay longer on the labour market** **2 – Support Member States in enhancing the contribution to adequacy from complementary[45] private retirement savings** **Policy areas:** ➢ **Coverage and cost-effectiveness of complementary private pensions** ➢ **Safety of complementary private pension provision** ➢ **Mobility of supplementary[46] pensions** **3 – Enhance the EU's monitoring and coordination tools in the area of pensions** **Policy areas:** ➢ **Coordinated monitoring of the adequacy, sustainability and safety of pensions** ➢ **Coherent policy making at EU level**

4. Policy options

The problem definition highlighted both the wide spectrum of issues that Member States face in the area of pensions and the complexity of these issues, including the interlinkages between different policy areas. In addition, it was demonstrated that the current EU approach does not adequately respond to these circumstances which is detrimental to the EU potential of providing effective support to Member States.

Chapter 2 shows that stakeholders in their responses to the Green Paper called for a holistic EU approach on pensions. Holistic means treating pensions in a comprehensive and integrated

[45] The term word 'complementary private retirement savings' refers to both 2nd and 3rd pillar pensions, i.e. both occupational schemes and individual pension and retirement savings contracts.
[46] Supplementary pensions are the established EU term for occupational pensions.

cross-policy approach taking into account synergies and spill-over effects between a variety of policy areas. The overwhelmingly positive response to the innovative approach of the Green Paper strengthens the arguments for developing a White Paper that corresponds to this approach.

To do so, the EU needs to identify and address those policy areas impacting pensions where it has competencies and based on a thorough and joint assessment propose measures to support Member States to achieve adequate, sustainable and safe pensions for all their citizens. To be comprehensive policy options would need to cover all types of pensions (i.e. public and private and pay-as-you-go (PAYG) as well as pre-funded 1^{st}, 2^{nd} and 3^{rd} pillar schemes). To be integrated they should bring together all policy areas impacting on the various scheme designs and take in the entire retirement problematique. Moreover, they would have to combine all three types of EU instruments: legislation, financial incentives and policy coordination. Finally, they should differ from the status quo in their focus, scale or scope and their integration should make their impact larger than their mere sum by building on the possible synergies between them.

Three policy options for EU action are presented. The first option is to maintain the current approach, which implies that the EU framework has the potential to incrementally change, but this would not necessarily lead to a comprehensive and integrated approach to pension policy.
The second policy option - which is considered in two variants - sees the forthcoming White Paper as a juncture in EU pension policy building on the responses to the Green Paper as well as experiences gained from the first European Semester. These options represent a holistic (i.e. comprehensive and integrated) EU response to the challenges that Member States face when devising and implementing their pension systems.
The third policy option would consist in gradual harmonisation of national pension policies.

4.1. Option I: Status Quo

Option I implies that present policies are continued, without introducing major new measures. Consequently pension adequacy will be discussed in the context of the Social OMC whilst other pension related matters are discussed in separate fora pertaining to labour markets, financial markets and public finances. Collaboration between the EPC and the SPC would be strengthened but no real coordination of the work would be ensured. Partly this lack of coordination and comprehensiveness is compensated by the governance structure offered in the Europe 2020 strategy, however, the focus thereof remains mainly on (short-term) actions aimed at improving the stability of public finances, and growth and employment.

Under this option the EU legislative framework for occupational pension schemes is developed further through the planned revision of the directive on Institutions for Occupational Retirement Provision and possibly a modified proposal for the portability directive. At the same time the wider context for private pensions in the form of well regulated financial markets would be taken forward through financial sector regulations presently being prepared and treated by the EU institutions. One could point in this respect at the forthcoming Packaged Retail Investment Products (PRIPs) initiative which aims at protecting investors and ensuring that the retail investment market works efficiently.

Under this option, there would be no integrated EU framework guided by a global EU vision on the future adequacy and sustainability of pensions. Policy measures at EU level that relate to or impact on pensions are unlikely to be developed and presented as part of a holistic approach to secure adequate and safe pensions on a sustainable basis. Many Member States would continue to implement and adjust pension systems in response to economic and demographic challenges. But some would not. Moreover the reform process would be able to draw on a comprehensive strategy and a fully coherent framework at EU level for guidance and support.

4.2. Option II: Holistic (comprehensive & integrated) approach to pension policy at the EU level

This policy option seeks to develop a holistic approach to how the EU can support Member States addressing their pension related challenges. This option dwells upon the challenges identified in chapters 3 and 4 and aims to establish the package of measures for a comprehensive and integrated EU's pension policy framework. Various possible measures are considered under the policy areas identified in chapter 4 as corresponding to the specific objectives. The tables below present two alternative, comprehensive and integrated packages of these measures to be discussed.

4.2.1. Sub-Option IIa: Integrated, comprehensive approach

Most measures in sub-option IIa are well within the borders of the EU's competences and dwell heavily on the Green Paper consultation. This sub-option consists of different kind of measures, combining for instance legislative action with recommendations and instruments such as peer reviews. In addition to this Green Paper consultation based approach and in response to the European Parliament's call for more attention to the gender dimension and to back up the Country Specific Recommendations, sub-option IIa proposes a Commission recommendation on equality for women and men in pension systems. This instrument should address gender differences in pension adequacy focusing in particular on differences in pension and retirement ages, which while adding substantial extra pension costs also is a contributing factor to the gender gap in pensions[47]. The proposal in sub-option IIa for a Commission recommendation on abolishing mandatory retirement ages goes beyond the Green Paper but addresses its key issue of balancing better time in work and in retirement and is supported by and in line with the 2011 Country Specific Recommendations to raise pension ages and link them to longevity growth. It would be highly contradictory to continue mandatory retirement ages while strongly promoting that people work longer and retire later to take up a pension. Mandatory retirement ages terminate the employment of older workers and block their recruitment merely on age grounds without consideration for whether they are capable of doing the job in question. This also prevents workers from earning higher pension entitlements through work after the pension age[48].

The measures cover various aspects of the pension challenges identified in the problem definition such as the need to reduce early retirement[49], promote pension reform and assess the performance of pension and labour market retirement mechanisms together. They also address the need for promoting healthy work places, enabling and encouraging older workers to work till higher ages including by working with the social partners to adapt work place and

[47] For further details please see Annex 8 p. 76.
[48] For further details please see Annex 8 p. 81.
[49] For further details please see Annex 8 p. 79.

labour market practices to longer working lives and opening better opportunities for older workers also through more end-of-career-jobs.

Further measures relate to the need to bolster the coverage and cost-effectiveness of occupational schemes and optimise the effect of public subsidies for complementary private retirement savings. Four types of measures address the need to improve the safety of private pension schemes: occupational schemes will be covered through a review of the IORP directive and initiatives aimed at more effective enforcement of article 8 of the Insolvency directive; the quality and consumer protection relating to third pillar pension products will be addressed through voluntary codes possibly including a scheme of EU certification; and codes of good practice will also be used to raise the ability of occupational and mandatory private schemes to mitigate and absorb risk and optimise their performance. Cross-border mobility and portability problems of occupational pension rights will be covered through a modified version of the portability directive and a possible extension of Regulation (EC) No 883/2004 to occupational schemes for public officials. Promotion of national pension tracking services as basis for an EU level facility is aimed at enabling people to keep account of the many different pension entitlements they may earn over a lifetime (including in its cross-border dimensions) and the full value of their final pension package.

Commission efforts to tackle tax obstacles to cross-border mobility and investments of pension funds form part of the holistic approach. EU pension governance is be substantially improved through a set of changes and initiatives to secure better coordinated monitoring of the adequacy, sustainability and safety of pensions and more coherent policy making at EU level. The background to, substance of and mutual synergies of all measures in Suboption IIa are further set out and discussed in Annex 9.

Measures in sub-option IIa that are similar to the baseline scenario, but now brought under the comprehensive pension's framework are shaded in grey.

Table 2 Sub-option IIa Integrated, comprehensive approach to pension policy at the EU level

<table>
<tr><td colspan="2">Specific Objective 1: Support Member States in achieving a better balance between time spent in work and in retirement</td></tr>
<tr><td rowspan="4">Pension system reform</td><td><u>Gender equality in pensions</u>:
A Commission recommendation on equality for women and men in pension systems addressing differences in retirement ages as well as the pensions adequacy gap between women and men will be presented by early 2013.</td></tr>
<tr><td><u>Reducing early retirement:</u>
The Commission will present a recommendation on restricting access to early retirement schemes and other early exit pathways in 2012.</td></tr>
<tr><td><u>Promoting pension reforms:</u>
In the framework of Europe2020 and the European Semester, the Commission will from 2011 intensify its support for pension reforms that improve the adequacy and sustainability of pensions in Member States, in particular by reducing access to early retirement, encouraging later pension take up, connecting entitlements to contributions and linking benefit levels and/or pensionable ages to longevity growth.</td></tr>
<tr><td><u>Assessing reform needs in pension and retirement policies:</u>
Financial support from the PROGRESS programme will from 2012 be provided to Member States who want to review the need for reform of their pension and retirement policies particularly in the light of their country-specific recommendations. This support will allow Member States to access expertise from other countries or international organisations (e.g. OECD led country reviews) and can cover consideration of all aspects including for example how to design, scale and scope the build up of complementary private pensions so as to improve their sustainability and safety as well as their</td></tr>
</table>

	contribution to adequacy.
People's ability to stay longer on the labour market	***<u>Ending mandatory retirement ages</u>*****:** The Commission will present a *recommendation* on abolishing mandatory retirement ages and addressing other barriers to working longer in early 2013.
	<u>Promoting healthy ageing at work:</u> The Commission will in 2012 propose a new strategy for health and safety at work 2013-2020 in which special attention will be paid to healthy ageing at work and invite the European Agency for Safety and Health at Work to focus on issues that prevent older workers from remaining longer on the labour market.
	<u>Enabling older workers to stay longer on the labour market:</u> To open for greater support from the European Social Fund for work place and labour market measures that enable older workers to work longer Commission will facilitate the review of ESF Ops in the current programming period. For the next programming period 2013-2020, the Commission will encourage Member States to use their ESF programmes in line with reform needs identified in Europe2020.
	<u>Adapting work places and labour markets to longer working lives:</u> In the framework of *European Social Dialogue* the Commission will in 2012 call on the social partners - and request Eurofound to provide advice and expertise - to develop ways of adapting work place and labour market systems for training, remuneration, work organisation and working time, as well as career management notably for workers in strenuous jobs, so as to facilitate working longer and ensure the employability of older workers.
	<u>Opportunities for extended working lives and end-of-career jobs</u>**:** The Commission will from 2012 intensify its support for policy coordination and joint work on enabling and encouraging older workers to stay longer on the labour market in the framework of Europe 2020, European Social Dialogue the European Employment Strategy and the Social OMC. This will include promoting *joint work by the SPC/EMCO/EPC* on obstacles to, and opportunities for, extended working lives and the development of end-of-career labour markets across the Member States.
Specific Objective 2: Support Member States in enhancing the contribution to adequacy from complementary private retirement savings	
Coverage and cost-effectiveness of complementary private pensions	***<u>Promoting cost-effective supplementary pension schemes</u>*****:** From 2012 financial support for Member States and social partners wishing to set up cost-effective supplementary pension schemes will be provided from the PROGRESS programme, so that they can benefit from the good practices and experiences of other countries, notably for collective schemes on an sectoral, intersectoral and/or territorial basis which would also allow to increase the affiliation of workers in SMEs to pension systems.
	<u>Optimising the effect of tax expenditure in support of private pension savings:</u> The Commission will intensify work with Member States to optimise the efficiency and effectiveness of tax expenditure in support of private pension provision (via EPC and SPC and TAXUD) including by providing extra tax relief for pension contributions for those who otherwise would not build up an adequate pension.
Safety of complementary private pension provision	***<u>Increasing the safety of occupational pension schemes:</u>*** The Commission will *review the IORP directive* and present proposals for its amendment with a particular view to the solvency requirements in 2012.
	<u>Improved protection in case of insolvency of pension sponsoring employer:</u> The Commission will in 2012 take initiatives to ensure a more effective enforcement of article 8 of the Insolvency directive on the basis of a horizontal assessment of its state of implementation across the EU and in the light of the ECJ jurisprudence.
	<u>Raising the quality of third pillar pensions and improving consumer protection :</u> The Commission will by 2013 present an initiative aimed at raising the quality of third-pillar retirement products and improving the protection and information of consumers (including payout phase products and ways to access housing wealth) via *voluntary codes* and possibly an EU certification scheme for such products.
	<u>Improving the design and performance of funded occupational pension schemes:</u> In collaboration working with stakeholders such as the social partners, the pension industry and advisory bodies such as EIOPA and the Pension Forum the Commission will develop a *code of good practice for occupational pension schemes* (2nd pillar) , thus addressing issues such the payout phase, risk-sharing and mitigation, cost-effectiveness,

	shock absorption and ways of avoiding pro-cyclicality in investments.
Mobility of supplementary pensions	***<u>Improving cross-border portability of supplementary pension rights:</u>*** The Commission will table a modified proposal for a *portability directive* based on setting minimum standards for the acquisition and preservation of supplementary pension rights at the latest by early 2013.
	<u>Improving cross-border portability of statutory supplementary pension rights:</u> The Commission will in 2012 explore the possibility for extending Regulation (EC) No 883/2004 on the coordination of social security systems to occupational schemes for public officials and thus remove barriers to cross border mobility for the occupational pension rights of these groups.
	<u>Improving people's ability to keep track of their various pension rights:</u> The Commission will promote the development of national pension tracking services as basis for building a *European pension tracking service* allowing people to keep track of their pension entitlements. First step will be the commissioning of a feasibility study in 2012 .
	<u>Removing tax obstacles to cross-border mobility and investments of pension funds and life insurance providers</u>*:* The Commission will tackle the issues of *tax obstacles to cross-border mobility and cross-border investments* linked to discriminatory taxation of transfers of occupational pension and life insurance capital and of life insurance contributions paid to providers established elsewhere in the EU, as well as *discriminatory taxation of cross-border investments* by occupational pension funds and life insurance providers.
	<u>Improving cross-border security of occupational pension rights for migrating researchers:</u> The Commission will pursue the on-going work on a pan-European Pension Fund for Researchers.
Specific Objective 3: Enhancing EU's monitoring and coordination tools in the area of pensions	
Coordinated monitoring of the adequacy, sustainability and safety of pensions	***<u>Coordinating the monitoring of adequacy, sustainability and safety</u>*** The Commission will promote cooperation between EPC and SPC with the aim of *presenting future adequacy trends*/challenges alongside ageing-related public spending trends while covering all pension types and finding ways to connect this also to the monitoring the safety of private pensions. Working with Member States the Commission will in 2012 raise the attention to private pensions in the Ageing report and complement it with a *Pension Adequacy Report*. Building on this the Commission will be promoting common methodologies for assessing the present and future adequacy of pension provision, including its gender dimension, via work in the context of the Poverty Platform and the social OMC and developing guidance that makes it possible for Member States to establish criteria for a minimum level of pensions taking into account the specific national circumstances.
	<u>Raising the quality of adequacy monitoring:</u> The Commission will promote the use of *agreed indicators for benchmarking, review of national policies and outcomes, exchange of best practice focusing on cost-efficient provision of adequate incomes and living conditions of older people*, with a special emphasis on the gender dimension and on vulnerable groups, whilst bearing in mind the role of services (housing, health and long-term care) in ensuring decent living conditions in old age.
Coherent policy making at EU level	***<u>Strengthening the coherence and integration of EU policies impacting on pensions:</u>*** The Commission will review the mandate and functioning of the Pensions Forum with the aim of strengthening its contribution to the European pensions debate and broadening its material scope.
	<u>Securing full coordination and integration of Commission pension policies:</u> The Commission will continue the *Commissioners Group* on pensions beyond 2012 and support it by establishing a standing *inter-services group on pensions* to oversee the implementation of the White Paper measures and consolidate a comprehensive approach to pension challenges across Commission services.
	<u>Securing holistic monitoring of progress in pension delivery in the EU:</u> The Commission will publish a *report* on progress towards 'adequate, sustainable and safe pensions in Europe' in 2014.

4.2.2. Sub-Option IIb: Integrated, comprehensive approach with stronger instruments

Measures in Option IIb, whilst addressing the same policy concerns, generally put more emphasis on legally binding instruments in the combination of measures. As such, this sub-option is still holistic, but goes further than the Green Paper responses suggested would be the right course of action. For example, one measure would propose amending existing EU legislation on gender equality in social security[50] to require Member States to guarantee full equal treatment of women and men, including with regard to the pensionable age. Presently 13 Member States have a difference in pensionable age for men and women of up to five years. A number of these Member States are already implementing a gradual gender equalisation of pensionable ages; by 2020 ten Member States would still have gender differences in the pensionable age. Five of these would slowly eliminate these over the decades thereafter, but the other five have so far no plans to equalise pensionable ages. Among these are two big Member States, Italy and Poland. Furthermore, the issue of mandatory retirement would be tackled by amending the anti-discrimination directive of 2000[51] which currently excludes retirement ages from its scope and permits Member States to set (minimum and) maximum ages of access to employment. Other measures in sub-option IIb extend or strengthen some of the measures retained under sub-option IIa. For example, measures in sub-option IIb include suggestions to: amend, rather than improve the enforcement of, article 8 of the insolvency directive; reintroduce minimum standards also for transferability in the proposed portability directive[52]; establish a detailed timetable for developing a tracking service instead of first testing its feasibility; introduce conditionality in the new European Social Fund rules, requiring notably compliance with country-specific recommendations on pensions; develop common standards for pensions delivery and setting national and EU targets; and replacing the Pensions Forum with a new European platform covering all scheme designs and all issues pertaining to pensions. Measures in sub-option IIb that differ from sub-option IIa are shaded in grey.

Table 3 Sub-option IIb Integrated, comprehensive approach with stronger instruments

Specific Objective 1: Support Member States in achieving a better balance between time spent in work and in retirement	
Pension system reform	***Gender equality in pensions*:** The Commission would by 2013 propose gender equalisation of pension ages in public schemes so that women become eligible for pensions at the same age as men by *amending Directive 79/7/EEC* of 19 December 1978 on the progressive implementation of the principle of equal treatment for men and women in matters of social security. The aim is to improve opportunities for women to build adequate pension entitlements while improving financial sustainability and encouraging women to work longer.
	Reducing early retirement: The Commission will present a *recommendation* on restricting access to early retirement schemes and other early exit pathways in 2012.
	Promoting pension reforms: In the framework of Europe2020 and the European Semester, the Commission will

[50] Council Directive 79/7/EEC of 19 December 1978 on the progressive implementation of the principle of equal treatment for men and women in matters of social security.
[51] Council Directive 2000/78/EC of 27 November 2000 Establishing a general framework for equal treatment in employment and occupation.
[52] Standards for transferability had been included in the original proposal from the Commission presented in 2005 and were dropped when a modified proposal was tabled in 2007.

	intensify its *support for pension reforms* that improve the adequacy and sustainability of pensions in Member States, in particular by reducing access to early retirement, encouraging later pension take up, connecting entitlements to contributions and linking benefit levels and/or pensionable ages to longevity growth.
	Assessing reform needs in pension and retirement policies: Financial support from the *PROGRESS* programme will from 2012 be provided to Member States who want to review the need for reform of their pension and retirement policies particularly in the light of their country-specific recommendations. This support will allow Member States to access expertise from other countries or international organisations (e.g. OECD led country reviews) and can cover consideration of all aspects including for example how to design, scale and scope the build up of complementary private pensions so as to improve their sustainability and safety as well as their contribution to adequacy.
People's ability to stay longer on the labour market	***Ending mandatory retirement ages:*** The Commission will by 2013 propose to amend the anti-discrimination Directive (2000/78/EC) with the aim of restricting the use of mandatory retirement ages and enhancing opportunities for men and women to continue working beyond the pensionable age and thus improve their pension entitlements.
	Promoting healthy ageing at work: The Commission will in 2012 propose a new strategy for health and safety at work 2013-2020 in which special attention could be paid to healthy ageing at work and also invite the European Agency for Safety and Health at Work to focus on issues that prevent older workers from remaining longer on the labour market.
	Enabling older workers to stay longer on the labour market. To open for greater support from the European Social Fund for work place and labour market measures that enable older workers to work longer Commission will facilitate the review of ESF Ops in the current programming period. For the next programming period 2013-2020, the Commission will encourage Member States to use their ESF programmes in line with reform needs identified in Europe2020 but also propose *tighter conditionality*, for instance in terms of compliance with country-specific recommendations on pensions.
	Adapting work places and labour markets to longer working lives: In the framework of European Social Dialogue will in 2012 call on the social partners - and request Eurofound to provide advice and expertise - to develop ways of adapting work place and labour market systems for training, remuneration, work organisation and working time, as well as career management notably for workers in strenuous jobs, *so as to facilitate working longer* and ensure the employability of older workers.
	***Opportunities for extended working lives and end-of-career jobs*:** The Commission will from 2012 intensify its support for policy coordination and joint work on enabling and encouraging older workers to stay longer on the labour market in the framework of Europe 2020, European Social Dialogue the European Employment Strategy and the Social OMC. This will include promoting *joint work by the SPC/EMCO/EPC* on obstacles to, and opportunities for, extended working lives and the development of end-of-career labour markets across the Member States.
Specific Objective 2: Support Member States in enhancing the contribution to adequacy from complementary private retirement savings	
Coverage and cost-effectiveness of complementary private pensions	***Promoting cost-effective supplementary pension schemes*:** From 2012 financial support for Member States and social partners wishing to set up cost-effective supplementary pension schemes will be provided from the PROGRESS programme, so that they can benefit from the good practices and experiences of other countries, notably for collective schemes on an sectoral, intersectoral and/or territorial basis which would also allow to increase the affiliation of workers in SMEs to pension systems.
	Optimising the effect of tax expenditure in support of private pension savings: The Commission will intensify work with Member States to *optimise the efficiency and effectiveness of tax expenditure in support of private pension provision* (via EPC and SPC and TAXUD) including by providing extra tax relief for pension contributions for those who otherwise would not build up an adequate pension.
Safety of complementary private pension	***Increasing the safety of occupational pension schemes:*** The Commission will *review the IORP directive* and present proposals for its amendment with a particular view to the solvency requirements in 2012.

provision	***Improved protection in case of insolvency of pension sponsoring employer:*** The Commission will by 2013 *propose an amendment of article 8 of the Insolvency directive* to define a high level of protection of occupational pension entitlements of employees in the event of their employer's insolvency**.**
	Raising the quality of third pillar pensions and improving consumer protection : The Commission will by 2013 present an initiative aimed at raising the quality of third-pillar retirement products and improving the protection and information of consumers (including payout phase products and ways to access housing wealth) via *binding standards.*
	Improving the design and performance of funded occupational pension schemes: In collaboration working with stakeholders such as the social partners, the pension industry and advisory bodies such as EIOPA and the Pension Forum the Commission will develop a *code of good practice for occupational pension schemes* (2^{nd} pillar) , thus addressing issues such the payout phase, risk-sharing and mitigation, cost-effectiveness, shock absorption and ways of avoiding pro-cyclicality in investments.
Mobility of supplementary pensions	***Improving cross-border portability of supplementary pension rights:*** The Commission will by early 2013 table a modified proposal for a *portability directive* based on setting minimum standards for *transferability* as well as acquisition and preservation of supplementary pension rights.
	Improving cross-border portability of statutory supplementary pension rights: The Commission will in 2012 explore the possibility for extending Regulation (EC) No 883/2004 on the coordination of social security systems to occupational schemes for public officials and thus remove barriers to cross border mobility for the occupational pension rights of these groups.
	Improving people's ability to keep track of their various pension rights: The Commission will from 2013 develop *the European pension tracking service* through public procurement and regulatory means (reporting and record keeping obligations).
	Removing tax obstacles to cross-border mobility and investments of pension funds and life insurance providers: The Commission will tackle the issues of *tax obstacles to cross-border mobility and cross-border investments* linked to discriminatory taxation of transfers of occupational pension and life insurance capital and of life insurance contributions paid to providers established elsewhere in the EU, as well as *discriminatory taxation of cross-border investments* by occupational pension funds and life insurance providers.
	Improving cross-border security of occupational pension rights for migrating researchers: The Commission will pursue the on-going work on a pan-European Pension Fund for Researchers.
Specific Objective 3: Enhancing EU's monitoring and coordination tools in the area of pensions	
Coordinated monitoring of the adequacy, sustainability and safety of pensions	***Coordinating the monitoring of adequacy, sustainability and safety:*** The Commission will promote cooperation between EPC and SPC with the aim of presenting future adequacy trends/challenges alongside ageing-related public spending trends while covering all pension types and finding ways to connect this also to the monitoring of the safety of private pensions. Working with Member States the Commission will in 2012 raise the attention to private pensions in the Ageing report and complement it with a *Pension Adequacy Report*. Building on this the Commission will be promoting common methodologies for assessing the present and future adequacy of pension provision, including its gender dimension, via work in the context of the Poverty Platform and the social OMC and developing guidance that makes it possible for Member States to establish criteria for a minimum level of pensions taking into account the specific national circumstances.
	Raising the quality of adequacy monitoring: Starting in 2012 the Commission will propose the development of a common definition of pension adequacy and some connected standards of cost-efficiency, sustainability and safety and work towards some target setting at EU and national level, possibly with annual implementation reports.
Coherent policy making at EU level	***Strengthening the coherence and integration of EU policies impacting on pensions:*** The Commission will in 2012 replace the Pensions Forum (currently focusing only on occupational pensions) with a *new European platform on pensions* with a wider remit covering all types of pension provision and with more resources at its disposal.

	Securing full coordination and integration of Commission pension policies: The Commission will continue the *Commissioners Group* on pensions beyond 2012 and support it by in 2011 establishing an *inter-services group on pensions* to oversee the implementation of the White Paper measures and consolidate a comprehensive approach to pension challenges across Commission services.
	Securing holistic monitoring of progress in pension delivery in the EU: The Commission will from 2014 publish *periodical reports* on *progress* towards 'adequate, sustainable and safe pensions in Europe'.

4.2.3. Differences between sub-options IIa and IIb:

The table below sets out the differences between sub-options IIa and IIb. Together the variations form the difference between a package that is comprehensive and integrated and one that seeks to address the policy objectives via a greater emphasis on legislation and compulsion.

Table 4 Sub-option IIa compared to sub-option IIb

Specific Objective 1: **Support Member States in achieving a better balance between time spent in work and in retirement**		
Pension system reform	***Gender equality in pensions*:**	
	Issue ***Commission recommendation*** on gender equality in pension age and addressing the gender adequacy gap in pensions	Propose ***amending Directive*** *79/7/EEC* of 19 December 1978 so to ensure that women become eligible for pensions at the same age as men.
People's ability to stay longer on the labour market	***Ending mandatory retirement ages*:**	
	Issue a ***Commission recommendation*** on abolishing mandatory retirement ages and addressing other barriers to working longer.	Propose ***amending Directive*** *2000/78/EC* outlawing discrimination in employment to restrict use of mandatory retirement ages
	Enabling older workers to stay longer on the labour market.	
	Encourage Member States to use European Social Fund means for greater support for measures that enable older workers to work longer	***Introduce tighter conditionality*** in ESF if MS do not follow Country Specific Recommendations on measures to enable older workers to work longer and use ESF for this purpose
Specific Objective 2: Support Member States in enhancing the contribution to adequacy from complementary private retirement savings		
Safety of complementary private pension provision	***Improved protection in case of insolvency of pension sponsoring employer:***	
	Ensure more ***effective enforcement of article 8 of*** the Insolvency directive	***Propose amending article 8*** of the Insolvency directive to raise protection
	Raising the quality of third pillar pensions and improving consumer protection :	
	Raise quality and consumer protection via ***voluntary codes*** possibly including some EU certification of third pillar products.	Raise quality and consumer protection via ***binding standards*** *and EU certification of third pillar products.*
Mobility of supplementary pensions	***Improving cross-border portability of supplementary pension rights:***	
	Table proposal for portability directive with minimum standards for acquisition and preservation of pension rights	Table proposal for portability directive with minimum standards for ***transferability*** as well as acquisition and preservation
	Improving people's ability to keep track of their various pension rights:	
	Promote basis for EU level pension tracking services *through development of*	Develop a European pension tracking service through ***public procurement and***

<table>
<tr><td></td><td>national pension tracking services</td><td>regulatory means.</td></tr>
<tr><td colspan="3">Specific Objective 3: Enhancing EU's monitoring and coordination tools in the area of pensions</td></tr>
<tr><td rowspan="2">Coordinated monitoring of the adequacy, sustainability and safety of pensions</td><td colspan="2">Raising the quality of adequacy monitoring:</td></tr>
<tr><td>Use existing processes and indicators to raise quality and scope of adequacy and other pension performance monitoring</td><td>Develop common standards for adequacy and other aspects of pension performance to be used in national/EU target setting</td></tr>
<tr><td rowspan="4">Coherent policy making at EU level</td><td colspan="2">Strengthening the coherence and integration of EU policies impacting on pensions:</td></tr>
<tr><td>Strengthen role of the Pensions Forum in coherent EU pension policy.</td><td>Replace the Pensions Forum with a new European platform on pensions covering all types of pension provision.</td></tr>
<tr><td colspan="2">Securing holistic monitoring of progress in pension delivery in the EU:</td></tr>
<tr><td>Publish one report on progress towards adequate, sustainable and safe pensions in 2014.</td><td>Publish periodical reports on progress towards adequate, sustainable and safe pensions.</td></tr>
</table>

4.3. Option III: Harmonization of national pension policies (not retained for in-depth analysis)

This option would seek a much greater role for the EU in shaping pensions policies at the national level by proposing the harmonization of pension systems in many important areas such as minimum statutory ages (and linking it with increases in life expectancy), standards on minimum income for older people, common rules on early retirement and common quality standards for occupational pension schemes which would imply that some types such as book reserves schemes would have to be phased out.

This option has not been retained for further analysis for three main reasons. First of all, this option does not respect the subsidiarity principle as it regulates the areas which directly fall under the national competence. Secondly, there is no political acceptance for any attempts to harmonize and standardize pension systems across Europe. Finally, harmonization of national pension schemes may lead to the opposite than desired effects e.g. setting minimum income standards could increase sustainability problems in many countries, equalizing minimum statutory retirement ages at the same high level in all Member States may result in large inflows of older people into social assistance benefits.

Therefore, it is considered that this option is not realistic and should be excluded from further consideration.

5. Assessment of impacts

In this section, the ability of the options to achieve the general policy objective of providing better support to Member States in their endeavours to make adequate pensions provision safe and sustainable will be discussed. It is not possible to reach firm conclusions on the ultimate economic and social impacts of such improved support, as these depend on how Member States respond to the new EU policy framework. The key question that should therefore determine the choice between the two policy options and if appropriate sub-option IIa and IIb, is which of these will optimise the effectiveness of the EU support in helping Member States with their pensions reforms. Social and economic impacts of the chosen option will depend on the influence the EU can develop on national policy making. Indeed, the limited EU competences in this area will not allow the EU to have a strong direct bearing on the fundamental challenge of securing adequate and safe pensions in sustainable manner in a context of tight public budgets and a fast-rising number of older people.

The options are not expected to have any significant direct environmental impacts or impacts on third countries. Some legislative measures included in sub-options IIa and IIb may have impacts on SMEs, but these would have to be examined in specific impact assessments for these initiatives which could of course be designed in different ways. Particular attention to impacts on SMEs, competiveness and administrative burdens will be required for the envisaged revision of the directive on Institutions for Occupational Retirement Provision and for the modified proposal for a directive on the portability of occupational pensions. Any policy initiatives restricting mandatory retirement and early retirement schemes would also have direct repercussions on companies that would need to be carefully assessed.

5.1. Option I: Status Quo

Under this option, the EU would continue taking policy initiatives with implications for pensions in the Member States, but not as part of a wider strategic framework aimed at making adequate and safe pension provision sustainable. Given the increasingly tight budgetary surveillance and policy recommendations on pensions issued in this context, the EU might not be perceived as respecting subsidiarity and the responsibility of Member States for the fundamental principles of their social security systems and their financial equilibrium. Perceived interference from the EU in national pension policies would increase, but without a clear signal from the EU that it shares the Member States' concern about sustainable adequacy of pensions, and that it tries to contribute to achieving this goal in a holistic and coherent manner.

This would mean that providing more effective support would become increasingly difficult. EU policy making with regard to pensions could become less efficient if the EU is seen as not sufficiently bearing in mind the policy needs of Member States, and in particular the need to secure adequate and safe pensions to their citizens. This could result in increasing reluctance of Member States to accept an active role of the EU in pension matters at a time when national pension policies are having more and more impacts across borders.

It should also be added that the credibility of the Commission (and thus the effectiveness of its approach) in this policy area would suffer from a failure to deliver a comprehensive policy framework. The holistic approach taken by the Green Paper has raised expectations to which the Commission responded by announcing a White Paper on pensions. Without such a White Paper, the Commission would forego a major opportunity for contributing better to enhancing adequacy, safety and sustainability future of pensions in the EU. Its approach would remain piecemeal and would risk being perceived as highly technocratic, due to its focus on specific issues of EU competence.

5.1.1. Option I: Economic Impacts

The economic impacts of no-policy change at EU level are very difficult to estimate as they will depend on how well Member States could address pension challenges without a better support from the EU. It is reasonable to expect that in the face of major demographic challenges and growing economic and financial interdependence (as discussed in problem definition), the need and importance of efficient support at EU level will increase.

The pressure to reform pension systems exists, and Member States are aware of this. Reform processes are, however, often controversial involving a wide range of stakeholders and political interests. Under option I, the EU would mainly act by warning about looming public finance crises i.e. due to unsustainable pension trends. The EU would lose effectiveness on part of the political spectrum, which would feel that the EU does not share their concerns about adequacy. This would reduce the likelihood that the EU will have a strong positive impact on reform processes in the Member States over the longer term, and the influence of the EU would mainly be felt when an acute budget crisis has already arisen.

Furthermore, without the structured framework and a better co-ordinated approach the EU will not be able to make the best use of available resources. Identified problems such as unsatisfactory level of coordination will continue to exist, potentially leading to many inefficiencies (e.g. duplication of work) and development of sub-optimal policies (e.g. not enough emphasis on adequacy issues).

The lack of a comprehensive EU framework for pensions might also make it more difficult to make progress with some of the planned legislative projects related to private pensions, notably the revision of the directive on Institutions for Occupational Retirement Provision and the directive on the portability of occupational pension rights. These initiatives, which will be subject to specific impact assessments, would contribute to making occupational pension provision more efficient and to facilitating the mobility of workers, thus contributing to growth and employment. Within a comprehensive framework, these initiatives could be presented not just as a response to a relatively narrow problem, but as part of a wider strategy that is needed to achieve adequate and safe pensions, to which occupational pension schemes will have to make an increasing contribution in the future.

Finally, the lack of a joined-up approach will reduce the EU ability to quickly react and adapt to new challenges that can emerge in the future.

5.1.2. Option I: Social Impacts

Option I puts most of the emphasis of EU policy recommendations on the sustainability of public finances. Thus, Member States may be pushed towards reforms that pay too little attention to adequacy and poverty in old age may rise as a result (which may result later on in political pressure to raise pension spending, thereby endangering the positive economic impact of the reforms). Moreover, the EU would offer only limited help to national policy makers in developing policy synergies between adequacy and sustainability concerns. In particular, calls for statutory pensionable ages to be raised, as have been addressed to a number of Member States in the 2011 country-specific recommendations, will produce better results if there are flanking measures aimed at raising the effective retirement age, allowing people to acquire full pension rights (better adequacy) and having to rely less on other benefits (improved sustainability). Option I could therefore have negative social impacts, if the focus of the EU's would be on budgetary policy recommendations instead of taking sufficiently into consideration the need for higher effective retirement ages from the adequacy perspective.

Moreover, without stronger focus on adequacy issues at EU level, the further development of common indicators is likely to proceed very slowly. This will impede the EU ability to comprehensively monitor the performance and effectiveness of national pension systems.

Finally, gender aspects will continue not to be sufficiently reflected at the European level. As pointed out by many stakeholders (e.g. European Parliament[53]) the EU does not do enough to support Member States in addressing gender specific problems such as gender income gap in retirement. Without better coordination and a strategic vision at the EU level it is unlikely that Europe will be able to support Member States effectively in tackling this important problem[54].

5.2. Option II: Holistic (integrated and comprehensive) approach to pension policy

Option II which involves moving towards a holistic approach is considered in two sub-options, IIa and IIb. Both sub-options are a reflection of a holistic - i.e. comprehensive and integrated - approach to the challenges Member States face. In the text below the impacts of both sub-options will be separately assessed. The assessment of sub-option IIb will be based on the assessment of sub-option IIa, where the sub-options propose the same policy measures

5.2.1. Sub-option IIa Integrated, comprehensive approach

Developing a comprehensive approach at EU level would not overcome any conflicting priorities between the EU and national levels, but it would allow such conflicts to be discussed and settled on the basis of a shared vision for the future of pensions. The EU would demonstrate to the public that it cares about providing adequate and safe pensions to citizens, whilst safeguarding fiscal sustainability. Sub-option IIa tries to maximise the efficiency of the EU action on national policy making through a consensual approach It does not relinquish any of the initiatives which are necessary to achieve the EU's specific policy goals (notably related to the internal market, free movement and, sound public finances), but links them to the concerns about long-term adequacy and sustainability of pensions and, in addition, further develops existing soft policy coordination tools in the area of social protection and employment so as to provide better guidance for national policy makers on how to achieve

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[53] European Parliament resolution of 16 February 2011 on 'Towards adequate, sustainable and safe European pension systems' (2010/2239(INI)) available at: http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P7-TA-2011-0058+0+DOC+XML+V0//EN

[54] The impacts of the legislative proposals envisaged under this option on the fundamental rights will be assessed in separate Impact Assessments. If successfully implemented these proposals are likely to have a positive effect on fundamental rights e.g. freedom to choose an occupation. All other measures under this option are not expected to have any significant impacts on fundamental rights.

higher effective retirement ages, better supplementary pension provision and better comparative information on pension adequacy.

Sub-option IIa would result in policy messages and guidance from the EU that would be perceived by the public as more balanced and paying proper attention to the social purpose (and the *raison d'être*), as well as to the fiscal sustainability, of pension systems: providing adequate incomes to older people. The emphasis would be on policy strategies that can contribute to adequacy and sustainability at the same time, i.e. policies that contribute to a better balance over the life-cycle between time spent working and time spent in retirement. It can be expected that this will enhance the effectiveness of the EU's strong policy recommendations on financial sustainability, as national policy makers could no longer dismiss EU policy orientations as being biased towards public finance concerns and not caring enough about social impacts.

5.2.2. Sub-option IIa: Economic impacts

If this sub-option succeeds in increasing the acceptance of EU policy recommendations on fiscal sustainability, notably by getting national policy makers to focus more on raising effective retirement ages and restricting access to early retirement, there would be positive economic impacts in terms of reduced risks to the sustainability of public finances: fewer older workers would need public support (in the form of pensions or other benefits) and more people would be in employment and hence pay taxes and contributions, as well as contributing to GDP growth. These effects can be quite powerful[55] [56].

As for EU competitiveness measures included under this sub-option are likely to have relatively small, but positive impacts[57]. For example, enhancing worker mobility would contribute to more efficient labour markets and a better match of supply and demand. Higher tax revenues from more people staying in work for longer would improve budgetary positions of Member States, thus helping to ease pressures to increase taxation levels in order to achieve sustainable public finances. Some positive budgetary impacts are also expected through optimising the effect of tax expenditures in support of pension savings. At the micro-level, a higher proportion of older workers in the labour force could enhance business competitiveness as employers can benefit from an increased labour supply.

The increased focus on adequacy under this sub-option could also help avert future sustainability problems: if an unfavourable adequacy trend is detected early, it can be tackled by measures such as promoting higher effective retirement ages and supplementary savings. This would reduce the risk of future political pressures for ad hoc responses to adequacy problems in the form of spending increases.

Sub-option IIa also foresees support to national policy makers wishing to design supplementary pension schemes[58]. Depending on the take-up of this support and the extent to which large-scale occupational schemes are introduced, there could be a positive effect on the

[55] Barrel R., Kirby S., Orazgani A. (2011) Macroeconomic impacts from extending working lives, DWP Working Paper No. 95.

[56] The cost of early retirement has been estimated to consume as much as 9.1% of output. Orszag J. M. (2003): The Early retirement Burden. Assessing the costs of continued prevalence of Early Retirement in OECD countries, Watson Wyatt.

[57] It is very difficult to estimate the exact impacts on the EU competitiveness due to the 'soft' nature of most of the measures envisaged under this option.

[58] The role of supplementary funded pensions is projected to increase in the future in a dozen of Member States (see annex 5).

financial sector, supported also by the revision of the IORP directive. The improvement of consumer information and protection rules stemming from the application of common European rules would contribute to enhancing workers' and investors' confidence in individual retirement products, which could contribute to the development of this market[59].Moreover, by improving the chances of getting support for the portability directive, sub-option IIa could also contribute to higher labour mobility with its associated efficiency gains.

A Commission recommendation on abolishing compulsory retirement ages (if implemented by Member States) could lead to some additional costs for businesses (including SMEs), but this crucially depends on whether and how such a recommendation is implemented by national authorities. A gradual implementation would allow businesses to adapt and find other ways of managing the employment of older workers. Moreover, the direct extra administrative cost to businesses of familiarising themselves with new legislation in this area can be made quite limited.[60]

Finally, it is important to note that economic (and social) impacts will vary between Member States. Given the 'soft' nature of the proposed measures, the largest effects are to be expected in countries which have received country-specific recommendations and are ready to comply with them. Option IIa will make this easier by offering targeted support (studies etc) for pension reforms, notably from PROGRESS. Small countries with limited financial and human resources, which still face major pension sustainability and adequacy challenges, are likely to benefit most from EU assistance.

5.2.3. Sub-option IIa: Social impacts

Depending on the take-up of the policy support foreseen under sub-option IIa by national policy makers, this option could have a positive social impact (and the risk of a negative impact is very small). Raising statutory pensionable ages can have strong negative social impacts for those people who cannot remain in employment until they reach the pensionable age; they may receive a reduced pension or may have to rely on other welfare schemes (invalidity, sickness benefit, unemployment, social assistance)[61]. By contrast, measures which increase the effective retirement ages would allow people to achieve better incomes, resulting in better pension adequacy and lower at-risk-of-poverty rates[62]. Moreover, extending working lives can also help to combat issues of social isolation and exclusion of older people. Studies suggest that on average, older people who are in work are healthier and happier as a result of this than those unemployed or retired[63]. As for competition for jobs between young and old, there is no evidence to show that increases in employment of older workers will impact negatively on the employment rate of younger workers (Gruber et al., 2009)[64]. Staying active

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[59] The impact would be particularly felt in Member States with strong occupational provision (e.g. IE, UK, NL), or those where mandatory funded pensions have been introduced in the last decade (e.g. the EE, LV, LT, or PL).

[60] BIS January 2011, Phasing out the Default Retirement Age: Government Response to Consultation: Impact Assessment, p.21.

[61] Please see annex 5 for more detailed information on the impact of career breaks (including due to unemployment) on the theoretical replacement rates.

[62] Calculations of the future net theoretical replacement rates show that retiring at 67 instead of 65 would result in considerably higher pension benefits (see annex 5).

[63] See for example Esteban G., "Does Working Longer Make People Healthier and Happier?", February2006, Centre for retirement research at Boston College;

[64] Gruber J., Milligan K., Wise D. (2009) Social Security Programs and Retirement Around the World: The Relationship to Youth Employment, Introduction and Summary, National Bureau of Economic Research Working Paper No. 14647.

for longer does not mean that older people are being deprived of their well-deserved retirement for the benefit of the young, or that older workers will keep jobs that would otherwise be available to younger workers; indeed, those Member States with the highest employment rates for older workers also have some of the lowest youth unemployment rates. Over the longer run, the number of jobs is not fixed, but depends notably on the supply of qualified workers. The increased availability of experienced older workers will enhance Europe's growth potential and thus create more opportunities and better living conditions for the young and the old. This vision of a society offering better opportunities for people of all ages will be also at the heart of the European Year 2012 for Active Ageing and Solidarity between Generations.

The stronger focus on adequacy under sub-option IIa will also make it possible to pay more attention to gender impacts which are particularly important in the area of pensions: a majority of older people are women, and there is a large gap between the pension entitlements of women and men[65]. Sub-option IIa foresees a better monitoring of adequacy and will help to highlight gender-specific challenges. This should alert national policy makers to problems and could, together with the envisaged Commission recommendation on gender equality, result in better pension outcomes for women.

The envisaged measures related to supplementary private pensions are also aimed at helping national policy makers and could, again depending on take-up, result in a bigger contribution of funded pension schemes to adequate incomes in old age[66]. Again, there would be no risk of negative impacts.

Finally, the proposed initiatives are likely to have a positive effect on fundamental rights including freedom to choose an occupation and the right to engage in gainful employment (depending on the implementation of the Commission initiative on mandatory retirement ages), equality between men and women (Commission recommendation on equality for women and men in pensions systems) and, more generally, the rights of the elderly to lead a life of dignity and independence and to participate in social and cultural life. It is important to note that impacts of several measures, notably legislative proposals included in the package will be examined in detail in separate impact assessments.

5.3. Sub-option IIb: Integrated, comprehensive approach with stronger instruments

Compared to sub-option IIa, sub-option IIb has a more interventionist approach, particularly in the area of legislation, but also in terms of defining and monitoring adequacy, which might allow the EU to address certain issues in a more decisive way. Thus, it would use the EU's legislative possibilities to contribute to Member States' efforts to raise statutory and effective retirement ages by equalising pensionable ages for women and men also in public pension schemes, and by phasing out mandatory retirement ages. It would also be more prescriptive by using conditionality in the European Social Fund. Regarding private pensions, it would seek to clarify the level of protection of occupational pension rights that must be given to workers in the event of insolvency of their employer.

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[65] In 2009 older women (aged 65 and more) were more exposed at risk of poverty than older men in 25 out of 27 EU Member States (see the annex 5).

[66] For the evidence of growing share of funded pensions in total pension income please refer to the annex 5.

Whilst there are good justifications for such measures, the Green Paper consultation has shown that key stakeholders would be reluctant to extend EU competences. Stakeholders generally welcome a more active role based on a holistic approach, but do not want too much interference in national pension policies. The main risk of sub-option IIb is that it could push away stakeholders unwilling to accept some of the initiatives envisaged under this sub-option. This would divert attention away from those measures that are most important in terms of achieving adequate and safe pensions on a sustainable basis. Based on the outcomes of the Green Paper it seems a valid assumption that sub-option IIb could antagonise the Commission and Member States, reducing the perceived legitimacy of EU policy initiatives, including those that, in the more consensual approach of sub-option IIa, would be perfectly acceptable to the Member States.

5.3.1. Sub-option IIb: Economic impacts

If the addition of more controversial measures under sub-option IIb does indeed weaken the legitimacy of the EU's policy interventions in the area of pensions, and if it does divert attention away from the most important issues, then its economic impact would be less favourable than that of sub-option IIa, due to the loss of influence on national policy making in the key decisions on (statutory and effective) retirement ages and on supplementary pension schemes. In the absence of adverse effects on the EU's influence in these areas, sub-option IIb could have much stronger economic effects than sub-option IIa in a number of Member States, where pensionable ages for women and men would be equalised faster[67], and in most Member States if the phasing out of mandatory retirement and restricting access to early retirement schemes would result in more older workers staying on the labour market. It is important to note that these legislative initiatives will be subject to separate impact assessments where the economic impacts (including impacts on EU competitiveness and SME-s) will be carefully assessed.

Regarding private pensions, sub-option IIb could also have a slightly stronger positive economic impact in terms of labour market efficiency by including the option of transferring pension rights from one occupational scheme to another in the portability directive, but the impact on businesses in terms of administrative burdens could be significant and would have to be carefully assessed[68].

Furthermore, defining a high level of protection under the insolvency directive could raise the cost of insuring occupational pension promises. This may cause employers to offer less occupational pension provision or switch to schemes that are less risky for employers, but more so for employees (defined-contribution instead of defined-benefit). Again, this would have to be assessed in depth.

5.3.2. Sub-option IIb: Social impacts

[67] The impact would be important in Member States that do not intend to equalise the retirement age between men and women (e.g. BG, IT, PL, RO, and SI).

[68] Businesses in Member States with considerable share of occupational pension provision would be affected (e.g. DK, IE, NL, SE UK).

For social impacts, too, the key question is how the more interventionist stance of the EU in this sub-option compared to sub-option IIa would affect the willingness of Member States to accept EU policy recommendations on those areas of reform that have the biggest impact on adequacy and sustainability. If negative reactions to a more interventionist EU approach can be avoided, then the social impacts could be better than under sub-option IIa. A clearer definition of adequacy could help in setting benchmarks against which national policy makers could measure the performance of their pension systems. Equalising pensionable ages for women and men would allow women to accumulate higher pension rights, particularly under defined-contribution and private schemes.

Abolishing mandatory retirement ages could allow some workers to prolong their careers to ensure that they have adequate savings and pension entitlements for their retirement. It would also send a strong signal to stakeholders in the labour market that age management practices need to change in order to enable and encourage people to continue working for some more years, including beyond the (increasing) statutory pensionable age. Presently, it seems that only the UK has decided to adopt legislation which does away with mandatory retirement on grounds of age. Similar changes to the status quo have, however, been discussed in a number of Member States. Amending EU legislation in this area would thus help improve labour market opportunities for older workers in almost all Member States, which as shown by the consultation would be very much welcomed by key stakeholders such as AGE, the European Platform of older people's organisations.

The possibility of transferring their occupational pension rights to a new pension scheme (rather than preserving them in the previous scheme) could bring a small positive social impact for workers changing employers[69]. Workers whose employer has become insolvent would also have more clarity about their pension rights thanks to an amendment of the insolvency directive. However, they may find employers reducing their pension promises or switching to less favourable defined-contribution plans. How strong these social impacts are depends on the precise design of these two initiatives. Therefore these would be guided by specific impact assessments.

Reducing early retirement possibilities could have some negative social impacts especially on older workers who will not be able to remain in employment until reaching statutory retirement ages. Again, this issue will have to be carefully examined in detail in a separate Impact Assessment.

Due to the greater emphasis on legislation under sub-option IIb, the impacts on fundamental rights can be expected to be stronger than under policy sub-option IIa as there would be no guarantee that a recommendation on abolishing mandatory retirement ages will be implemented by Member States, whereas including such a requirement in a directive would oblige Member States to implement it.

[69] This could have a positive impact on workers from Member States with high rate of temporary out-migration.

Table 5 Summary of main social and economic impacts

<table>
<tr><th colspan="2">Policy option</th><th>Social Impacts</th><th>Economic Impacts</th></tr>
<tr><td colspan="2"><u>Option I</u></td><td>Too little attention paid to adequacy and poverty issues in old age

Focusing on raising statutory retirement ages without measures to support longer working lives could lead to negative social impacts (more older workers flowing into social assistance benefits)

Gender specific problems will continue to receive too little attention

Slow progress in developing new indicators could impede EU's ability to comprehensively monitor the performance of pension systems</td><td>The EU will not make the best use of available resources (duplication of work, weak coordination between different structures)

The lack of coordinated approach can lead to development of sub-optimal and fragmented policies which may fail to maximize positive economic impacts and mitigate negative economic effects

Little progress in removing barriers to worker mobility

Reduced ability of the EU to quickly react and adapt to socio-economic and financial challenges that may emerge in the future</td></tr>
<tr><td rowspan="2"><u>Option II</u></td><td><u>Sub-option IIa</u></td><td>Measures to increase effective retirement ages will have positive employment effects. This can enhance retirement incomes of older people, combat issues of social isolation and exclusion

More attention will be paid to gender issues

Better monitoring of adequacy of pensions

Positive impacts on fundamental rights</td><td>Removing barriers to worker mobility would contribute to more efficient labour markets especially in view of expected labour market bottlenecks for certain professions

Measures to increase effective retirement ages can have positive impacts on public finances (higher revenues and lower social assistance expenditures), EU competitiveness (increased labour supply) and GDP growth

Better use of resources at EU level

Some positive impacts on the financial sector

Small transition costs on business and SMEs of adapting to new legislation

Increased safety of supplementary private pensions

Optimising the effect of tax expenditure in support of private pension savings</td></tr>
<tr><td><u>Sub-option IIb</u></td><td>If negative reactions of Member States to more interventionist EU approach can be avoided the overall social impacts could be more positive than under IIa

Possibility to transfer occupational pension rights to a new pension schemes can have additional positive social impacts

Greater positive impacts on fundamental rights compared to IIa</td><td>Stronger positive economic impacts compared to IIa if proposed measures are successfully and timely implemented

However there is a risk that Member States will resist to proposed solutions which will weaken the overall effectiveness of the package and the positive economic impacts

Increased protection under the insolvency directive and transferability of pension rights can lead to more significant costs on business and SMEs</td></tr>
</table>

6. Comparison of options

This chapter compares first whether moving from the status quo to a more holistic approach is justified. It does this on the basis of the criteria "effectiveness", "coherence" and "efficiency". The chapter will first establish that a holistic approach is the best way to help Member States in their endeavours to provide their citizens with adequate, sustainable and safe pensions. On the basis of the aforementioned criteria, this chapter will then conclude that sub-option IIa is the optimum way to do so.

6.1. Effectiveness

The effectiveness of each option is assessed by determining the likelihood of achieving the defined objectives, focusing in particular on the specific objectives.

6.1.1. Option I (Status Quo)

The baseline scenario does not fully meet the strategic and specific objectives. As discussed in the problem definition, it is very unlikely that, without a holistic approach and better joined-up efforts, Europe will be able to provide more comprehensive and effective support to Member States.

Failure to develop a holistic EU approach and a shared vision for pensions would mean that the EU would play a weaker role as a catalyst for change. There is a considerable risk that the status quo approach would result in the EU losing credibility on pension matters and the trust not only of Member States, but also of citizens and key stakeholders. The piecemeal policy developments that are taking place under the status quo option will not give pensions policy at the EU level the strength and the effectiveness that are needed to help those Member States that could benefit from EU-level support in reforming their pension systems. Option I would also fall short of the expectations expressed in the consultation responses to the Green Paper on pensions.

6.1.2. Option II (holistic approach)

This option meets the general and specific objectives. It presents an integrated and comprehensive, holistic approach, which will allow the EU to provide consistent and more effective support to Member States in their efforts to ensure adequate, sustainable and safe pensions.

Sub-option IIa (Integrated, comprehensive approach)

The set of measures included in the option does not propose radical changes to the European policy interventions in the area of pensions, but it presents a coherent vision of how to make a better use of available resources, and how to improve the coordination and consistency of EU action. It meets largely the expectations expressed by stakeholders in the consultation responses to the Green Paper (see Annex 2 for details on the Green Paper consultation process and Annex 3 for the summary of responses)[70] and therefore has a high chance of support from

[70] These responses show that the vast majority of stakeholders see clear limits to EU action. For instance, ETUC stresses that "…the EU has no competence to intervene in the organisation, structure and financing of the legal pension systems". BusinessEurope writes that due to national differences "…it is difficult to regulate pension schemes at EU level. The EU's role should be to make the principles and objectives

stakeholders. Given the 'soft' non-legislative nature of most of the measures, such support will be necessary to ensure the package is effective.

The main downside risk relates to the 'soft' nature of many measures envisaged by the option. If Member States and important stakeholders, such as the social partners and private pension industry, would prove to be reluctant to engage and cooperate at the European level, this may result in limited effectiveness of the EU efforts to support pension reforms in Europe.

Sub-option IIb (Integrated, comprehensive approach with stronger instruments)

The overall effectiveness of this option depends on two key elements. First, how difficult it will be to reach agreement to legislative changes with Member States and Parliament, given the anticipated level of opposition as expressed in the Green Paper consultation and how long all this may take before it makes any difference on the ground. And second, the degree to which this approach might make constructive cooperation between the EU and Member States and other key stakeholders more difficult could jeapordise the wider adoption of the 'softer' non-legislative measures. Assuming legislation can be agreed, in the absence of legitimacy problems and a possibly antagonising effect discussed above, sub-option IIb would be somewhat more effective than sub-option IIa, notably because it would force policy changes in two areas that are relevant for the objective of ensuring a better balance between time spent in work and in retirement. Member States would be obliged to equalise the pensionable age between genders, restrict access to early retirement schemes and to phase out mandatory retirement. However, revisions of Directive 79/7/EEC on equal treatment for men and women in matters of social security and the anti-discrimination Directive (2000/78/EC) would require unanimity in Council. This would require more lengthy negotiations and possibly compromise solutions which could undermine the effectiveness of these initiatives.

Annexes 2 and 3 give more details on the outcome of the Green Paper consultation, but a clear theme coming from nearly all stakeholders was that Member States have different situations, so whilst co-ordination and interaction at the EU level is thought necessary, subsidiarity should be respected. For example, the European Parliament "points out that traditions, economic and demographic situations and specific labour market features differ from Member State to Member State and that the principles of subsidiarity and solidarity, under which Member States retain full responsibility for the organisational set-up of their pension systems, have to be respected".

The achievement of the objective of enhancing the contribution to adequacy from supplementary private retirement savings would not differ much under sub-options IIa and IIb. A better protection of supplementary occupational pension entitlements in case of insolvency of the employer could have the unintended consequence that employers reduce their pension promises or replace defined-benefit schemes with defined-contribution schemes. The transferability of supplementary pension rights in the modified proposal for the portability directive would be a useful option for mobile workers, but it would also make negotiations more complicated and could delay progress on a dossier where agreement has already proved elusive over a six year period.

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of the OMC more visible and better use them to challenge Member States to further reform their pensions system." Finally, the comprehensiveness of the option is likely to maximise complementarity and synergies between different measures. Such a holistic approach is strongly supported by stakeholders. For example, AGE Platform Europe writes "The proposed holistic approach to pension reforms, looking across all components of pension architecture, is the right approach if we want to develop solutions which are financially and socially sustainable on the long-term.". The European Parliament also "Welcomes the holistic approach adopted by the Green Paper".

6.2. Efficiency

The assessment of the efficiency of the options considers the relationship between inputs, in terms of resources, and the desired impacts. It also considers the Commission’s and Member States' ability to deliver, in terms of internal processes to handle the implementation of each option and of political support.

6.2.1. Option I (Status Quo)

"Status quo" would mean that identified inefficiencies in the current EU approach to pensions will continue to exist. Without new concerted actions, progress in improving cooperation at the European level would be slower and unlikely to produce the comprehensive and integrated policy framework for pensions needed and welcomed in the consultation. Given the lack of a strategic view and structured framework, an effective attainment of the strategic and specific objectives will be rather difficult if not unlikely.

6.2.2. Option II (holistic approach)

This option gathers a wide range of existing measures in a comprehensive approach and proposes various improvements in the use of existing structures and processes.

Sub-option IIa (Integrated, comprehensive approach)
The administrative burden and additional financial costs of sub-option IIa are low as the main changes compared to the status quo option consist in bringing a comprehensive selection of existing instruments and processes together so secure their integration and coherence while adjusting their focus and to some extent their scale and scope. The development of a holistic strategy for adequate, sustainable and safe pension and the comprehensive approach including some adaptations to existing processes will make EU support more relevant for the reform efforts of Member States. Thus, sub-option IIa can be accommodated within existing budgetary and human resources and does not impose new burdens on Member States. By achieving a better cooperation between different national and European structures and across the latter, sub-option IIa can be expected to eliminate some inefficiencies and duplication of work.

The financial help offered to Member States willing to review their pension system in the light of their country specific recommendations will be covered by PROGRESS or the ESF and does not require increases in these budgets.

The proposed measures are broadly politically acceptable, and as the consultation responses to the Green Paper on pensions indicate (see Annexes 2 and 3), are likely to be welcomed by most stakeholders as a proportionate and helpful response. Energy and political capital will therefore not be wasted pursuing measures which have little real chance of being accepted.

Sub-option IIb (Integrated, comprehensive approach with stronger instruments)
Sub-option IIb would lead to more significant demands in terms of human and administrative resources than sub-option IIa or Option I. It would require launching additional legislative processes with complicated and lengthy negotiations, involving the Council and the European Parliament. Implementation of measures would require Member States to amend their legislation, which would create some additional administrative burden. Some measures (e.g.

mandatory retirement age, insolvency directive, transfer option in the portability directive) would also impose additional costs on businesses.

Option IIb would imply that Europe took on a markedly larger role in the setting of some key parameters of pension systems and retirement practices in Member States. While this would appear quite rational in substance and well in line with the larger role for Europe, it is, however, still likely to be contentious –- as indicated by the responses of Member States to the Green Paper (see Annexes 2 and 3) where the vast majority of stakeholders insisted on the need to respect subsidiarity and stressed the dangers of imposing universal solutions to different national situations.

6.3. Coherence

The coherence of the options is assessed in relation to the objectives of EU policy, in particular the overarching goals of the Europe 2020 strategy and the Stability and Growth Pact.

6.3.1. Option I (Status Quo)

The status quo option falls somewhat short of achieving some key EU policy objectives, particularly with regard to the Europe 2020 poverty reduction and employment targets. The important role of pension systems and reforms in achieving these targets would not be fully acknowledged.

The status quo option would also mean that the EU will fail to respond to calls for a more holistic approach which emerged from the consultation responses to the Green Paper. This could undermine confidence of EU citizens and stakeholders in pension policy at the European level and weaken the role of the EU in promoting the pension reform agenda in the Member States.

6.3.2. Option II (holistic approach)

The proposed measures in both sub-options are compliant with the role and strategic objectives of the EU and ensure appropriate respect for subsidiarity and proportionality.

Sub-option IIa (Integrated, comprehensive approach)

Option IIa contains initiatives that address the pensions challenge in a comprehensive way, bringing together a number of initiatives planned under the status quo option and complementing them with some missing elements, notably a stronger concern with adequacy. These objectives are fully consistent with, and in support of, other EU policies and strategies, and in particular with the Europe 2020 Strategy and the Stability and Growth Pact. Measures proposed under this option would notably help Member States achieve the Europe2020 targets of increasing workforce participation to 75% and reducing the number of people in or at risk of poverty by at least 20 million. The consultation responses highlighted the holistic approach as something to be particularly welcomed. For example, the European Economic and Social Committee said in their official report "…attempts to ensure adequacy and sustainability of these systems [pensions] must take a holistic approach."

Sub-option IIb (Integrated, comprehensive approach with stronger instruments)
As said, also the proposed measures in sub-option IIb are compliant with the role and strategic objectives of the EU; they respect subsidiarity, but proportionality could be regarded as somewhat problematic. The legislative approach will be costly in terms of resources and possibly also in terms of less constructive collaboration on pension between the Commission, on one hand, and the Member States and other stakeholders, on the other.

Equalisation of pensionable age between genders, phasing out mandatory retirement, tackling early exit paths from the labour market, strong protection of supplementary occupational pension entitlements, and transferability of supplementary pension rights are coherent with the Europe 2020 Strategy and its targets of higher employment, and lower risk of poverty and exclusion. Under Option II B, the Commission would claim a stronger leadership in line with the agreed policy objectives of the EU, but it is far from certain that all Member States and other key stakeholders would want to follow this lead[71].

6.4. The choice of the preferred option

Based on the analysis developed in the previous chapters and the sections in this chapter, the following conclusions can be drawn with regard to the two options:

It is questionable whether improvements envisaged under Option I will be sufficient to meet the defined objectives and effectively tackle the problems identified in the problem definition. 'Business as usual' would also entail the risk that these problems get worse in the medium or long-term, requiring a more powerful policy response at the EU level. At the same time the Commission could be perceived to care primarily about its narrow competence areas when it comes to pensions, rather than the fundamental purpose of pension systems, namely to provide adequate and safe incomes in old age on a sustainable basis. Furthermore, while respecting the subsidiarity and proportionality principles, this option would not give optimal support to key EU policies such as Europe 2020 and the Stability and Growth Pact. Finally, maintaining the "status quo" would mean that the EU will not be able to respond to the expectations raised in consultation responses to the Green Paper.

The holistic approach of option II can meet the general and specific objectives. Overall, measures envisaged under the options are expected to have real positive economic and social impacts.

In principle both sub-options IIa and IIb respect the principle of subsidiarity and are consistent with other EU policies. However, there is some risk that sub-option IIb may be challenged by some Member States on the grounds of the proportionality of the EU intervention. The European Parliament and the vast majority of stakeholders, including

[71] At the EPSCO Council meeting on 7th March 2011, Commissioner Andor gave a report on the outcome of Green Paper consultation (a full official summary was published on the same day and is attached as Annex 3). Reacting to this, as recorded in the official EPSCO Press Release, "*[a]*ll ministers stressed that it was important that any improvements to the existing EU pension framework should avoid taking a one-size-fits-all approach and should fully respect the subsidiarity principle in view of the variety of the national social protection systems stemming from different economic performances and demographic trends." From this and the official consultation responses of the Member States, it is evident that Member States see clear limits on the EU role and primarily support an approach based on better utilisation of existing EU level mechanisms.

BusinessEurope and the ETUC, have also raised to a greater or lesser extent the subsidiarity issue and the need to acknowledge national differences when considering what action to take. As a consequence proposing the measures in sub-option IIb now could weaken stakeholders support for a more holistic and comprehensive approach as argued for. Also, preparation and implementation of legislative proposals envisaged under sub-option IIb is likely to be a very lengthy and difficult process which would require much more resources at EU and national level. Finally, some of the measures in sub-option IIb are not likely to be more effective in comparison to those under sub-option IIa .

Thus, sub-option IIa is proposed as the preferred option since it is the one most likely to be effective, proportionate and supported by stakeholders. The collection of specific measures that constitute the comprehensive package was analysed in the Impact Assessment Steering Group and also discussed in the Commissioners' Group on Pensions. At all these occasions, it was recognised that this is a critical juncture to launch a new and innovative approach to pensions in the EU. To reap the benefits of this juncture, stakeholders must be positively engaged and this is fully recognised in the choice of measures proposed under sub-option IIa. Moreover the measures here are broadly in line both with the thrust of the 2011 country specific recommendations in Europe 2020 and with the outcomes of the Green Paper consultation which showed strong support for a holistic approach to pensions at the EU level, but without calling for strong policy interventions from the EU. Whilst the measures in sub-option IIa do not substantially extend the range of EU initiatives compared to the status quo, they make better use of existing instruments by adjusting their focus and to some degree their scale or scope while importantly also enhancing their combined ability to help Member States address the challenges of securing adequate and safe pensions on a sustainable basis for their citizens through the synergies between the different measures as part of an encompassing strategy.

To conclude and compared to the measures in sub-option IIb the measures in sub-option IIa build on the *acquis* that are widely accepted by stakeholders. They also add some elements that support the emphasis in the 2011 Country Specific Recommendations on raising the pensionable age and linking it to longevity growth. These characteristics of the measures in sub-option IIa correspond best to the general objective.

Table 6 Comparison of options against baseline

Criteria	**Option I: Status quo**	**Option II: holistic approach**	
		sub-option IIa	sub-option IIb
Effectiveness	**0**	++	**+++ or +** (if negative reaction to interventionist stance)
Coherence	**0**	++	++
Efficiency	**0**	++	**-**

Table 7 Definition of values

Symbol	Description
0	Baseline or equivalent to baseline
+ / ++ / +++	Minor to major improvements compared to baseline
- / - - /- - -	Minor to major worsening compared to baseline

7. Monitoring and evaluation

The first test for the success of the White Paper on Pensions will be the reactions of key stakeholders and in particular the Member States, the Social Partners at the European and national levels, civil society and the European Parliament. Strong support will establish a legitimate role for the Commission and a clear mandate to go ahead with the implementation of specific measures indicated in the White Paper.

The extent to which the EU will gain more influence on national pension policies as a result of this policy initiative will not be measurable as the counterfactual (what would have happened in the absence of the White Paper) cannot be established. Monitoring and evaluation efforts should therefore not narrowly focus on the specific impact of the White Paper itself, but on progress in the Member States along the policy orientations defined in the White Paper.

While reforms can be decided relatively fast factual delivery on the ground is the real test. However the impacts of reforms in terms of adequacy and financial sustainability may take decades to materialise. Therefore it is crucial to closely monitor both reform measures and policy outcomes . This can be done with the instruments developed for the Open Method of Coordination and the surveillance instruments developed under the EU 2020 strategy and the Stability and Growth Pact. These include not only reporting on reforms, but also outcome indicators and projections (of future spending and future replacement rates, in particular) and effective surveillance mechanism to prevent and correct macro economic imbalances with potential spill over risks. It is envisaged that the SPC will adopt a Pension Adequacy Report in 2012, in parallel to the 2012 Ageing Report which will be prepared by the EPC. Subsequently, adequacy reports could be published periodically, possibly in parallel with the EPC Ageing Reports.

The main indicators to monitor the performance of national pension systems are presented in the table below. These are well-established indicators which have been developed together with Member States.

Table 8Common indicators to monitor and assess the performance of national pension systems

Indicators
Effective labour market exit age (average exit age from the labour force)
Employment rate of older workers
Pension system dependency ratio
Gender differences in the at-risk-of-poverty rate of elderly people
Gender differences in the aggregate replacement ratio
Benefit ratio
At-risk-of-poverty rate of elderly people, (65+)
Median relative income ratio of elderly people, (65+)
Aggregate replacement ratio (excluding other social benefits)
Theoretical prospective replacement rates: base case and variant cases
Share of occupational and statutory funded pensions in total gross replacement rates
Complementary pension coverage (to be developed)

With the adoption of a White Paper, such monitoring would become more important and more comprehensive, and would be pursued through the existing policy coordination processes (OMC, Stability and Growth Pact, Europe 2020 Strategy). In addition, the holistic approach at the EU level requires stronger cooperation and coordination across different policy domains. The main mechanisms for monitoring the implementation of the comprehensive EU approach on pensions will be the Commissioners Group on Pensions and the Inter-service Group on Pensions. These two bodies would focus on achieving a better consistency of EU actions and stronger synergies between the different instruments. The Commissioners Group would meet at least twice a year and the Inter-Services Group could have quarterly meetings.

An important milestone in monitoring and evaluating the White Paper implementation will be in a progress report which will be published in 2014, before the end of the current Commission mandate. Some of the issues which will be discussed in the report will include: implementation of Commission recommendations and voluntary codes, take-up of Progress/ESF funds by Member States to reform national pension systems, progress toward removing discriminatory taxation in the pension area and improvements in cooperation between various committees EPC/SPC/EMCO at the EU level and services across the Commission.