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Mefop reactions to

GREEN PAPER ON PENSIONS

Towards an adequate, sustainable and safe

European pension system

Introduction

Mefop greatly appreciates the renewed attention given to the sustainability problem of pension systems by the European Commission. An adequate and stable retirement provision, now and in the future, is one of the cornerstones of European policy.

In the last decades, all the member states have been engaged in structural reforms of public retirement schemes in order to deal with the problem of ageing. However, the recent financial and economic crisis has amplified the effect of ageing on pension systems, showing how more must be done to improve the efficiency and safety of pension schemes.

Mefop responses to the questions in the Green Paper

1) How can the EU support Member States' efforts to strengthen the adequacy of pension systems? Should the EU seek to define better what an adequate retirement income might entail?

In the Green Paper, the European Commission said that adequacy and financial sustainability are two different sides of the same coin. If the pension systems are balanced there is no need for adjustments, if the provisions are adequate no political and social pressure is exerted to increase the levels of coverage.

However, sustainable pensions could not necessarily be appropriate. The recent pension reforms, approved in order to deal with the effects of ageing on budgets, have been characterized by the introduction of defined contribution schemes, by the increase in the legal age of retirement, by tax relief to stimulate the voluntary postponement of retirement. These measures act on the side of sustainability rather than on that of adequacy; in the end, the achievement of financial stability reduces the adequacy. Sustainability and adequacy would seem to be a trade off rather than being complementary, and in the future we could be forced to make further sacrifices to ensure the economic and financial stability of pension systems.

An increase in the level of coverage of the second pillar and a raise of the retirement age are the main answers to the problem of guaranteeing the adequacy and sustainability of retirement provisions. Integrating the public regime with a proper occupational or/and private pension pillar could enforce the time consistency of the pension reforms and avoid the risk of increasing public pensions in the near future, which could be unsustainable for state budgets.

In strengthening the adequacy by promoting the role of the second pillar, the European authorities have to take into account the diversities of pension systems across member states. By making safer and integrating the financial products market and encouraging the mobility of workers across member states, important steps could be taken towards the fulfilment of the common market.

With regard to the commitment of European authorities in better defining what an adequate retirement income might entail, we think that member states must themselves define what they consider to be an adequate level of retirement income. The economic situation and purchasing power among member states are still too varied to allow such a standard to be determined at EU level. Furthermore, every definition risks of being vague and the states could interpret the rules differently. In fact, this issue is strictly related to the national constitutions and to the organization of the national welfare states.

2) Is the existing pension framework at EU level sufficient to ensure sustainable public finances?

The role and the powers of the European Commission in the pension field are really weak and should be reinforced in order to strengthen its powers of control over the member states' budgets. Regulation and the “open coordination” of national policies represent important tools for moral suasion, but appear insufficient in preventing irresponsible national choices in the pension field. Unsustainable public pension spending could create a negative spill-over in the budgets of the member states. These risks could be exacerbated by the effects of the recent economic and financial crisis on ageing. All member states are facing serious budgetary deficits and government debt positions are moving towards new peaks. Without stronger actions at EU level, the budgetary situation of member states is expected to worsen still further. However, it remains unclear how the enhancement of the European Commission’s powers over state finances should be implemented and how the framework of the relations between the European Authorities and member states should change. The recent proposals from the European Commission on economic governance (Sustainability and Growth Pact) seems to be a first and positive step towards achieving this goal, but more should be done.

3) How can higher effective retirement ages best be achieved and how could increases in pensionable ages contribute? Should automatic adjustment mechanisms related to demographic changes be introduced in pension systems in order to balance the time spent at work and in retirement? What role could the EU level play in this regard?

The sustainability of pension systems is closely linked to the rising of the effective age of retirement. This is a difficult choice, both for social and political reasons. However, we think it is unavoidable because of the changes in the demographic balance. Due to the reduction in fertility rates, increased longevity and changes in the labour market, rising the retirement age can no longer be postponed.

The introduction of automatic adjustment mechanisms that link the rising of the retirement age to demographic changes could represent an interesting solution. The Italian government has recently approved a law (122/2010) that introduces an automatic mechanism in determining the age of retirement. This solution has some important features: it limits the "ladder effect", avoiding marked differences in the provisions of people who start withdrawal before and after the update of the legal age; furthermore it discourages early retirement. Finally, its political cost is reduced compared to that of raising to a given "target age" in one single step. Such a policy solution should not be mandated at European level, but member states should be able to decide whether automatic adjustment mechanisms could represent a useful solution.

4) How can the implementation of the Europe 2020 strategy be used to promote longer employment, its benefits to business and to address age discrimination in the labour market?

Rising the age of retirement should be sustained by active ageing policies such as training to provide older workers with new skills and allow them to remain in the labour market, improving health standards so that all working people can participate effectively and actively in the labour market, ensuring that the labour market is sufficiently flexible to accommodate the needs of older workers.

Higher employment rates will strongly improve the sustainability of the public pension systems and boost the levels of economic growth. More people at work will create more income and more growth.

5) In which way should the IORP Directive be amended to improve the conditions for cross-border activity?

The Iorp Directive is inadequate for improving cross-border activity. The main amendments to the current framework should be focused on the rules that give national authorities the power to impose stricter requirements for cross-border activity.

Mefop is in favour of removing state provisions in order to increase the dimensions of the second pillar common market and achieve better levels of economies of scale. In fact, there are still major differences among state legislations, one example being in tax and contributory fields.

However, we recognise that the first step towards achieving a competitive and efficient common market in pensions is to guarantee to workers the conditions for choosing the best solutions in order to ensure adequate provisions at national level.

6) What should be the scope of schemes covered by EU level action on removing obstacles to mobility?

The scope of schemes covered by EU action on removing obstacles to mobility should be as broad as possible. Any loss of money due to movement across EU Member States would turn into an obstacle for the mobility of workers. Of course, care should be taken to avoid sudden measures that could damage unfunded schemes.

7) Should the EU look again at the issue of transfers or would minimum standards on acquisition and preservation plus a tracking service for all types of pension rights be a better solution?

The EU should look at the issue of transfers again. The idea of preserving pension rights instead of transfers is a second-best solution that could be taken into consideration only for those schemes where a transfer could result in extensive damage. However, even in this case a full transfer of money should be the final goal of the new EU regulations, provided that pension schemes are granted the time to adapt to the new rules. This time could vary from scheme to scheme, according to the greater or lesser difficulty in adapting to cross-border transfers. From this point of view, a clear and complete taxonomy of all EU pension schemes could be very useful.

8) Does the current EU legislation need reviewing to ensure a consistent regulation and supervision of funded (i.e. backed by a fund of assets) pension schemes and products? If so, which elements?

The Iorp Directive has proved to be unable to support the growth of pension funds. It appears insufficient as a legislative framework to ensure the adequacy and sustainability of the pension system. The European Commission should be involved in the revision of the Directive, highlighting and overcoming critical points.

9) How could European regulation or a code of good practice help Member States achieve a better balance for pension savers and pension providers between risks, security and affordability?

In order to achieve a better balance for pension savers and pension providers between risks, security and affordability, Mefop supports the use of both automatic and non-automatic mechanisms that switch the savings from riskier to less risky funds, the closer members are to retirement.

Mefop supports the development of a best practice code for the implementation of such life-cycle strategies, rather than the imposition of new legislation.

10) What should an equivalent solvency regime for pension funds look like?

The protection of pension benefits is one of the main problems to be dealt with. The recent financial and economic crisis has highlighted the need for strengthening solvency requirements, also with regard to pension funds. The extension of the Solvency II Directive to IORPs could represent an important step in this direction, but some adjustments, which take into account the nature of pension funds, are needed, so that the stronger financial requirement requested by the Directive should not result in damage to that of the Iorp.

11) Should the protection provided by EU legislation in the case of insolvency of pension sponsoring employers be enhanced and if so how?

The issues posed by European Court of Justice with regard to the Robins Case provide the European Commission with a clear and sufficient framework for further implementations in this field. We think that no other activities regarding this matter are needed.

12) Is there a case for modernising the current minimum information disclosure requirements for pension products (e.g. in terms of comparability, standardisation and clarity)?

The disclosure of information in order to favour the comparability and clarity of pension funds should be one of the main tasks for the EU authorities. The quality of information to be supplied to members is a key aspect in ensuring safe and adequate pensions. In fact, research has pointed to a reduced level of financial skills among pension funds members and, more generally, among workers.

European authorities should elaborate a set of information requirements (with regard to both public and complementary schemes) to make members aware of pension issues. However neither the form nor the substance of members' information should be mandatory, in order to avoid losses in the efficiency of pension funds.

13) Should the EU develop a common approach for default options about participation and investment choice?

Mefop agrees on the fact that EU Commission should provide a general address to default options. However we do not believe it would be appropriate or desirable to set out common approaches or bring this into European legislation. Members should always maintain the opportunity of opting out from this option if they think other investment alternatives can perform better, in order to guarantee adequate and safe pension provision.

14) Should the policy coordination framework at EU level be strengthened? If so, which elements need strengthening in order to improve the design and implementation of pension policy through an integrated approach? Would the creation of a platform for monitoring all aspects of pension policy in an integrated manner be part of the way forward?

A policy coordination framework at EU level can play an important role in ensuring adequate and sustainable pension systems. A control of the effects of pension expenditure on state budgets should be a cornerstone of this framework in order to respect the rules of the Stability and Growth Pact.

Another possible field of intervention for EU authorities could be a stronger commitment to financial education, in order to make citizens aware of the problems related to adequacy and safe public pensions and to promote the acquirement of financial skills.

The creation of a platform for monitoring all aspects of pension policy in an integrated manner could represent a useful tool in achieving these goals.