

15 JANUARY 2010



EFRP RESPONSE

**EUROPEAN COMMISSION WORKING DOCUMENT
CONSULTATION ON THE FUTURE “EU2020” STRATEGY**

EU REGISTER ID: 5199259747-21

1. Identification of Response

The **European Federation for Retirement Provision (EFRP)** represents the various national associations of pension funds and similar institutions for supplementary/occupational pension provision. Its membership at large consists of institutions for workplace (2nd pillar) retirement. Some of them are also operating purely individual pension schemes (3rd pillar).

The EFRP has **26 members associations** in most EU-15 Member States and other European countries that have a significant – in size and relevance – workplace pension system¹.

Within EFRP the **Central & Eastern European Countries Forum (CEEC Forum)** has been established (26 October 2006) to discuss issues common to pension systems in that region.

83 million EU citizens are covered for their workplace pension plan by EFRP Members. Through its Member Associations the EFRP represents approximately **3,5 trillion of assets (2008) managed** for future occupational pension payments.

EFRP Members are large institutional investors representing the **buy-side** on the financial markets. It are specialised financial institutions dedicated to the sole objective of accumulating and decumulating assets over a long period of time with the sole objective of providing a supplement to the State pension to avoid old-age poverty.

¹ EU Member States: Austria, Belgium, Finland, France, Germany, Hungary, Ireland, Italy, Netherlands, Portugal, Romania, Spain, Sweden, UK.

Non-EU Member States: Croatia, Guernsey, Iceland, Norway, Switzerland.

2. General Comments

The EFRP welcomes the opportunity to comment on the Commission’s outline on the future of the “EU2020” strategy.

Despite the financial and economic crisis which contributed to missing the original targets set, we assess the Lisbon strategy as a positive policy instrument to set-up an EU-level process to streamline policy objectives in areas for which Member States remain largely responsible.

We fully support the new key objective as proposed by the Commission: a **successful exit from the crisis** and the entrance into a new **sustainable and greener social market economy**. This high level policy line captures very well the societal issues of today and stresses the importance of returning as soon as possible to the pre-crisis growth path to meet one of Europe’s greatest challenges i.e. **ageing**.

In the following years, the baby-boom generation will start to retire and European Member States will have to finance their pensions. A number of Member States have already reformed their PAYG system to face this huge impact on their budget. In general, these reforms can be summarised as more people at work during a longer career path and lower State provided pensions. The effect of these reforms on households’ incomes in old age is largely understated and is potentially devastating to European societies since **Europe cannot afford to have a new category of poor people: the elderly and very old people (over 85)**. Hence, active ageing policies will become crucial as well as policies to secure income in retirement.

Pensioners and elderly people are becoming an important and increasing segment of the European population. If this category has insufficient means to maintain their pre-retirement living standards, European growth will be adversely affected.

Therefore, we recommend the Commission to closely work with the Member States to **enhance supplementary funded pension coverage** to make sure that EU citizens can maintain their living-standard upon retirement.

We believe that the EU 2020 vision is an appropriate EU-level policy instrument to put this objective – more supplementary pension provision through the workplace - on the policy agenda of the Member States. It is relevant to all Member States and each of them has to work on it by taking into account their different starting points and their different national specificities as to their pension

systems. Yet, the overall policy line of **accelerating the development of private pensions to supplement statutory / State pensions** to avoid increased old-age poverty, should be spelled out in the framework of budgetary reforms and fiscal consolidation within ageing societies.

As an annex to our response, we **attach** our policy paper for the incoming Commission. The paper sets out our views on how the Commission could take up the call of President BARROSO in his Political Guidelines to tackle the challenge of ageing. We explain which policy approach is needed for workplace pensions and IORPs to deliver modern and sustainable social protection systems to all European citizens.

3. Specific comments

*The EU now needs to make a stronger effort to work together to make a **successful exit from the crisis** and to shape the next generation of public policies in a very different set of circumstances. (page 2 – 2nd paragraph)*

The risk is a period of low growth which can only make it harder for Europe to tackle the major challenges we face today (page 2 – 3rd paragraph)

We agree with the Commission that a successful exit from the crisis is paramount: a period of low growth is no option for Europe if it wants to consolidate its social market economy model.

For private pensions, a low growth environment means that pension assets suffer from significantly reduced returns. Returns, which are desperately needed to build up a funded pension which is **affordable** for large part of the population.

In a low-growth environment, investment returns are most likely to be low, if not negative. Negative real investment returns could reduce accumulated pension assets of EU citizens which illustrates the importance of scheme design for funded pension provision.

*We also need to recognise the challenge presented by **European demography**....the crisis has exacerbated the long-term social challenges Europe faces today..... and solidarity between generations in the context of an ageing society. (page 3 – 5th paragraph)*

The 2009 Ageing Report and the 2009 Sustainability Report have already outlined the tremendous financial and budgetary challenge of ageing societies. State pensions are expected to further decline. If European citizens do not want to face old-age poverty, this gap needs to be compensated / supplemented with **more private pensions**.

In most Member States a three pillar pension model is in place. However, due to the diversity of the different systems **there exist at EU-level no common model or even common terminology** to describe these systems complicating analysis, comparison and exchange of best practices among Member States. The EU 2020 vision could provide an opportunity to describe how Europe's different pension pillar models could be put together into **a common EU-level structure**.

Most Member States have organised their **supplementary private pensions systems** through two layers or pillars: workplace pensions and individual pensions.

This two-layer/pillar structure overcomes the pitfalls of individual savings behaviour and contributes to the diversification of retirement income. The financial crisis has reminded us of the risk of concentrating all (pension) savings in "too big to fail" institutions. In our opinion this **two-layer structure** of the private pension market **need to be fostered and better recognised** in EU policy papers/initiatives on private pensions.

We believe that Community and Member State action should **focus on workplace pensions**: i.e. all the private pension schemes accessed through paid work including self-employed professionals.

Workplace pensions:

- overcome individual savings aversion and thus achieve **high participation**
- exploit economies of scale and thus have low operating costs and keep **marketing and sales expenses at a minimum**
- do not require plan members to take investment decisions and thus scheme members benefit from **professional decision makers**

*Removing disincentives to move to other Member States because of **lack of portability of social and pension rights**. (page 7 – 3rd paragraph)*

EFRP would like to re-state that it is **in favour of transferability of pension capital**. The Commission proposal to improve portability of workplace pensions, issued in 2005, was targeting the portability of supplementary occupational pension rights rather than trying to regulate the mere transfer of accrued pension capital. By doing so, the Commission was interfering in Member States' social and labour law. Pension rights are not only technically quite complex but also different among Member States which makes it difficult to insert them into another set of social and labour laws.

EFRP would like to stress that funded workplace pensions do not necessarily provide a disincentive for mobility. Pension rights in the employee's "old" scheme can be given a capital value which then is transferred into the "new" scheme. The capital is thus used to buy-in "new" rights in the new scheme which may involve different pension entitlements from those in the "old" scheme. This result should be accepted as a fact of life as long there are different workplace pension schemes across the EU.

*A **level playing field** needs to be preserved in the financial and business sectors. (page 9 – 1st paragraph)*

We read this statement in the context of recent government's intervention in the banking and insurance sector and would appreciate if the Commission would further precise the meaning of "level playing field in the financial sector" in its EU 2020 strategy.

We experience that the concept of "level playing field" is often used out of this competition context to motivate regulatory change in the IORP sector which could trigger unintended consequences to the workplace pension benefits of European citizens.

*Access to credit and efficient financial market supervision will be crucial for the recovery and the transition to the value economy will depend on the **availability of capital to finance innovation**. (page 9 – 2nd paragraph)*

The financial crisis has illustrated the weakness of a banking lending model for the European industry. Institutional investors are able provide companies access to capital to finance innovation and to create growth and jobs.

The build-up of a strong capital funded pension pillar(s) will provide European industry with a steady stream of long-term capital reducing the costs of capital for companies.

*The **Stability and Growth Pact** allows room for investing in the future (page 11 – 2nd paragraph)*

We value strict enforcement of the Stability and Growth Pact to ensure that price stability is maintained in Europe. High inflation has a devastating effect on funded pensions. A low inflation environment is essential to preserve the purchasing power of capital accumulated in funded pension schemes.

We would also like to suggest the Commission to investigate how the Stability and Growth Pact is **contributing to pension reform** and whether it provides the right trigger for Member States to prepare themselves for ageing societies.

The long-term liabilities of the PAYG pension systems should be taken into account while assessing the debt position of a Member State.

In the short term pension reforms often have a negative effect on the government budget. The benefits of such reforms become only visible afterwards. It should be avoided that Member States postpone pension reform or scale back pension reform because those reforms deteriorate their budget position in the short-term without taking into account the long-term improvement of their structural debt.

We experience that in some Member States, especially in the CEE region, such decisions have been taken. Those Member States had reformed their pension systems in the 90ies – part of the contributions for the first pillar (State PAYG pension) have been rerouted to a second funded pillar. In the short term such an operation is negative for the State budget due to less inflow and constant outflow of pension payments but in the long-term it will make their PAYG systems sustainable and reduce their government debt burden.

We hope that Commission and European Council will dismiss such short sighted policy initiatives and will consider how to provide the right incentives for short-term debt control as well as long term debt structure.
