



# Key directions in EU pension regulation following the Green Paper

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# Outline of presentation

- The EU role on pensions
- Pensions Green Paper
- Pensions White Paper/next steps
- Issues for funded DC provision

# EU role on pensions (I)

- Design of pension systems largely the responsibility of Member States
- **Regulatory framework** at EU level covers 4 main points:-
  1. Cross border coordination of social security pensions and some basic rules on supplementary pensions to facilitate the free movement of workers and equal treatment for workers who change country;
  2. Establishing an internal market for funded occupational schemes and the necessary minimum standards on prudential rules to protect scheme members and beneficiaries;
  3. Minimum guarantees concerning occupational pensions and accrued rights in case of the insolvency of enterprises as sponsors;
  4. Anti-discrimination rules which apply, although with some differentiation, to both statutory and private pension schemes.

# EU role on pensions (II)

- Separate **coordination process** (the Open Method of Coordination - OMC) used to facilitate and promote national reform, share best practice and set high level objectives and indicators.
- **Fiscal sustainability** where the Treaty requires Member States to run budgets that do not jeopardise the functioning of the EMU. The new European Semester/Annual Growth Survey process includes pension reform as one of ten key points to be considered by all Member States in their National Reform Programmes.
- *For more detailed information on the EU role on pensions, see the Commission Staff Working Document "EU legislation, coverage and related initiatives" accompanying the Green Paper.*

# Drivers of EU level work on pensions

- Demographic ageing with rising longevity and lower birth rates.
- From 2012 the working age population in Europe will begin to shrink.
- Financial and economic crisis has made the situation more difficult still with pension fund losses, public budget deterioration and employment impacts.
- Hence President Barroso tasked Commissioner Andor to “...work with other Commissioners to develop proposals to secure Europe’s pension systems.”
- Commissioner Andor worked closely with Commissioners Rehn and Barnier as co-authors to produce the Green Paper “Towards adequate, sustainable and safe European pension systems”

# Green Paper on pensions – Brief content (I)

- Review of EU framework on coordination and regulation
- Begins with overarching objectives of ensuring adequate, sustainable and safe pensions
- Three main themes beneath this as well as discussion of statistics and governance:  
(1) How EU can support MS's to balance periods people spend in work and retirement  
(links with Europe 2020)

# Green Paper on pensions – Brief content (II)

- Themes 2 and 3:
  - 2) Removing obstacles to mobility in the EU
  - 3) Safer pensions (eg mitigating and sharing risk eg through default funds and certain specific approaches to investment for funded pensions)

# Third Theme: little more detail

- As this theme particularly relevant to this conference, a little more detail:
- Questions covered areas such as:-
  - Whether to review EU legislation and which parts
  - How EU could help with the balance of risk, security and affordability
  - What solvency rules should apply to pension funds.
  - Enhancing sponsoring employer *insolvency* protection
  - Information disclosure
  - Participation and investment default options



# Consultation responses

- 1674 responses to the Green Paper including around 350 from Member State Governments, National Parliaments, business and trade union organisations, civil society and representatives of the pension industry
- All responses were published online in December
- Published the full summary of responses on 7<sup>th</sup> March to coincide with EPSCO
- Also published a short 3 page report on the responses which was presented and discussed at EPSCO by Commissioner Andor
- All available at:  
<http://ec.europa.eu/social/main.jsp?catId=700&langId=en&consultId=3&visib=0&furtherConsult=yes>

# Summary of responses – content

- The Green Paper's contribution to the pension debate was broadly welcomed and the holistic approach taken was widely praised
- The main messages that emerged from the public consultation reflect the Commission's ongoing work, in particular the main lines of the Annual Growth Survey. Issues raised in the contributions included:
  - 1) The need for pension reforms to support sustainability of public finances and adequacy of pensions;
  - 2) Higher effective retirement ages are necessary;
  - 3) Pension tracking services are to be encouraged and facilitated so as EU citizens can keep track of all their pension entitlements;
  - 4) A recognition of the important role for the EU in the policy coordination of pension policies by facilitating surveillance, coordination and mutual learning between the Member States;
  - 5.) EU regulations on occupational pensions should be reviewed to reap the full benefits of the Single Market.

# Next Steps

- White Paper in 3<sup>rd</sup> Quarter
- IORP Review in 4<sup>th</sup> Quarter
- European Semester/National Reform Programmes
- European Year of Active Ageing 2012
- Ageing Report 2012
- Commissioner Group recently met to help to shape next steps and will continue to play role in maintaining holistic approach going forward

# Market exposure of future pensioners in DC schemes

- The questions for countries that have opted for an important role for funded DC provision:
  - how to control the risk for the individual
  - how to give people a realistic idea about what can be obtained
  - how to consider for which income and career profiles these schemes are an appropriate solution
  - how to ensure the payout phase matches the original purpose of pension savings as efficiently as possible

# How to control risk for the individual?

- How to mitigate investment risk and volatility close to retirement?
- Not all mandatory funded DC schemes contain life-styling option

# How to give people a realistic idea about what can be obtained?

- Choice of investment strategies: many people go for riskier options than justified
- Growth expectations: too optimistic assumptions in some Member States?
- Importance of access to unbiased information
- Introduction of limited-risk default options

# Which income and career profiles?

- What should be the appropriate maximum proportion of overall pension income expected to come from DC schemes?
- How to limit charges?

# The pay-out phase

- Which option provides the best protection against poverty?
- How to prevent leakage of pension savings for other purposes?
- Pay-out phase still not legislated in some Member States



# Systemic pension reforms: The problem of double payment

- Diverse situation in different EU Member States that introduced mandatory DC pensions (BG, EE, LT, LV, HU, PL, SE, SK, and RO)
- Common feature: The need to shoulder net transition costs
- Reform reversals: consultation and transparency are important

# Thank you for your attention

- The Green Paper, associated documents, online questionnaire, consultation responses, full summary and short report on the responses can all be found on the website of the DG for employment, social affairs and inclusion.
- Link:  
<http://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=839&furtherNews=yes>