PensionsEurope Answers to the EC consultation on the Green Paper on Ageing

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Introduction and general comments

PensionsEurope welcomes the Green Paper on Ageing and believes this paper is a good starting point to launch a debate on the main impacts of the demographic transformations in Europe.

As representative of national associations of pension funds and similar institutions for workplace and other funded pensions, PensionsEurope believes one of the main needs people have is to enjoy an adequate standard of living in retirement, which implies having good pensions. Today, around 20% of EU citizens are still at risk of poverty or social exclusion in older age in average in the EU, although with consistent differences across Member States (MSs). We think more needs to be done at the EU and national levels and with the involvement of the social partners and all interested stakeholders to ensure that all people will enjoy adequate living standards in old age. PensionsEurope promotes different types of workplace pensions and employment-related retirement provisions which have a vital role for many Europeans.

In this light, our contribution focuses on pensions and on the role played by workplace pensions in maintaining adequate pension income and sustainable pension systems.

The Green Paper correctly notes that *the challenge of maintaining adequate, fair and sustainable pensions in an ageing society and the need for people to accumulate additional savings have been highlighted repeatedly*. Indeed, population ageing, coupled with the COVID-19 crisis, is increasingly putting pressure on pension systems and especially public finances, the latter being heavily affected by growing public spending and debt. PensionsEurope believes the Green Paper should reflect more on the role that workplace pensions can play to (a) provide people with additional retirement income, (b) keep pension systems sustainable in the long term, and (c) contribute to economic growth in Europe.

The green paper, the debate that will follow, and the measures that will eventually be considered by the European Commission should include policies and initiatives aimed at facilitating and encouraging participation in workplace pension schemes. **Workplace pensions are essential for the adequacy and sustainability of our pension systems. PensionsEurope and its members are strong supporters of multi-pillar pension systems** able to provide adequate and sustainable pensions to people in Europe. It is important that pension systems do not leave anyone behind, and this is not the case today as e.g. due to the changing world of work many are not adequately covered and the pension gender gap is very big.

In our opinion, multi-pillar systems present important advantages:

- Multi-pillar systems ensure risk diversification and provide protection both against demographic changes (which have an impact on the pay-as-you-go – PAYG – elements) and adverse capital market developments (which have an impact on the funded elements). The 2020 Mercer CFA Institute Global Pension Index shows that the highest-ranking countries rely on a mix between the two financing mechanisms.
- Pension funds invest with a time horizon that often spans decades. They can build diversified long-term portfolios that include investment in the real economy. Pension funds invest in public equity, bonds, and are important shareholders of listed companies, and provide debt funding for capital investments of corporates. As professional investors that benefit from economies of scale, they are also able to invest in parts of the market often unavailable to

retail investors. For example, many pension funds support SMEs and private companies through private equity investments and securitisation. Many funds also invest directly in real estate and infrastructure. Finally, pension funds are the biggest venture capital investors in Europe providing capital for a third of these investments that are important for future growth in Europe.
Households in countries with strong second and third pillar funded pension systems, therefore, invest, through pension funds and other pension providers, significantly more in capital markets than countries with a stronger focus on pay-as-you-go systems. Developing strong multi-pillar pension systems would therefore not only improve the sustainability and adequacy of pensions but also deepen cross-border capital markets.

- Multi-pillar systems improve the adequacy and the fiscal sustainability of social protection. The demographic challenges of an aging society imply that a shrinking working population will need to support an ever-increasing number of retirees. The costs associated with the alarming figures on the old-age dependency ratio will have significant economic, budgetary, and fiscal impacts. PAYG systems alone cannot cope with this demographic shift and public budgets are heavily affected by the huge costs associated with the current pandemic. Therefore, we see an increasing need to complement PAYG systems with funded supplementary pensions. Europeans need to be made aware and to be able to understand these challenges. They also need to be informed about their overall expected retirement income, considering all pension pillars. As many are not saving for retirement, people will find that they need more supplementary pensions to enjoy an adequate standard of living in retirement. In this regard, we welcome that the European Commission will look at best practices and performance of auto-enrolment mechanisms and highlight that it will be key to also analyse other practices to stimulate participation in occupational pension schemes, as foreseen by action 9 of the Action Plan on the Capital Markets Union (CMU).
  Moreover, we welcome that the Commission will facilitate the monitoring of pension adequacy in Member States through the development of pension dashboards, and that they will develop best practices for the set-up of national tracking systems for individual Europeans. Because of the social policy questions at stake, DG EMPL should also be closely involved in this work.

  PensionsEurope also welcomes the initiatives on financial literacy included in action 7 of the CMU Action Plan, as we believe that a competence framework would help identifying weaknesses and areas that require improved competences. One of the key areas to be covered by the framework should be retirement education and planning. Improved financial competences in this area would stimulate funded pensions coverage, increase retirement savings and asset ownership, and foster risk sharing.

- Multi-pillar pension systems improve the awareness of participants to funded pensions of the importance of pensions.

Against this background, we think the Green Paper on Ageing should recognise the importance of having multi-pillar pension systems and the Commission should discuss and decide which actions are needed to further support their development. In this regard, we note that the Action Plan on the European Pillar of Social Rights sets as a headline target for the EU to reduce the number of people at risk of poverty or social exclusion by at least 15 million by 2030. However, although the Action Plan includes many positive initiatives in a variety of policy areas, it does not give equal importance and weight to all the 20 principles of the Social Pillar and does not provide specific actions for each of its 20 principles. As it concerns our domain, the AP remains silent on the principle on old-age income and pensions[1], and we would therefore expect that the Commission will consider actions on pensions under the discussions on the Green Paper on Ageing.

We believe the Commission should consider and respect the following principles when discussing any follow-up action of this paper regarding pensions:

- **Respect diversity**: the design and structure of pension systems is a MS's competence and therefore very diverse across the EU, as it depends on the national specificities of each MS, e.g. on the economic and social situation, the social, labour, and tax laws, the cultural preferences, etc. Any action at EU level should recognise and respect this diversity: at the EU level, there are no one-size-fits-all solutions on pensions. Respecting this diversity is also important to keep the participating social partners and sponsors engaged and interested in pensions.
- **Support a holistic approach:** the way pensions systems are designed, and workplace pensions are framed, is also closely linked to the function they are intended to fulfil in the MS concerned. In addition to the level of protection provided by public pension schemes and other forms of social security, factors such as the financial resources of the state, the existence/role of social partners, or the willingness of individuals and society as a whole to take risks also play a role. We believe these and other relevant factors should be considered by national legislators when designing their pension system: in other words, pension policy should follow a holistic approach.
- **Choose IORP-specific legislation**: supplementary pensions are important and should be supported by adequate and forward-looking regulation. Legal and regulatory requirements for workplace pensions should be set in a way to encourage employers / social partners to provide them. The EU should consider that the IORP II Directive classifies IORPs as financial service providers with a social purpose (see Recital 32 of the IORP II Directive 2016/2341).

  This also means that the EU should only amend the IORP II Directive when additional requirements are agreed upon specifically for IORPs. We have reservations on the EU approach of legislating horizontally for all financial service providers, as it has for instance recently happened with the Sustainable Finance Disclosure Regulation (SFDR), and with the proposal for a Regulation on Digital Operational Resilience for the financial sector (DORA). This

[1] See principle 15 on *Old age income and pensions*
Workers and the self-employed in retirement have the right to a pension commensurate to their contributions and ensuring an adequate income. Women and men shall have equal opportunities to acquire pension rights. Everyone in old age has the right to resources that ensure living in dignity.

approach does not reflect the special social purpose IORPs play as stipulated by Recital 32 of the IORP II Directive, and thus risks to not fully grasp the specificities of IORPs and leads to difficult to implement and expensive regulations that in the end have to be paid by the beneficiaries through lower pensions, and without adequate added value or benefit. We note that the Joint Committee of the ESAs reported in the Final Report on draft Regulatory Technical Standards (RTS) on the SFDR that preparing a single set of draft RTS at the pre-contractual level that can work equally well for the very different types of documents listed under Article 6(3) SFDR was extremely challenging and has led to a sub-optimal situation to strike a compromise.

- Always **consider the principles of subsidiarity and proportionality** and that MSs are responsible for determining the pension scheme characteristics and retirement provisions.

  A cost-benefit analysis must precede any legislative initiative at EU-level in the field of pensions. Over the last years, we, unfortunately, have seen that many legislative initiatives, but also proposals from EIOPA, entailed an increasing administrative burden without bringing any visible benefit to members and beneficiaries. Moreover, this also makes the administration and management much more complex, leading to further additional costs.

- **Support a collective approach:** Collective pension systems allow for sharing of risks such as longevity, interest rate, investment risk, and invalidity and/or survivors' pension. Several studies show that sharing risks with different generations in pension arrangements could improve welfare. However, intergenerational pension contracts limit opportunities for individual choice, in particular regarding investment strategies. This means that these and other decisions are taken by employers / social partners for the members and beneficiaries.

We have included in Annex I some examples of well-functioning workplace pension systems and schemes that are able to provide good outcomes to their members and beneficiaries.

As for the role of the EU, we find it very important that the EC is often highlighting the need to save more for retirement and to have more supplementary pensions. The current discussions at EU-level demonstrate a continued interest in supplementary pensions, e.g., in the recent developments around the recommendations put forward by the HLG on Pensions, the CMU action plan, and the PEPP.

However, more could be done.

- Due to the advantages of workplace pensions, the EU should also foster initiatives of the social partners to establish occupational pension schemes. A recent report of the High-Level Group of Experts on pensions revealed that occupational pensions are most successful in countries with a strong role of social partners in the pension sector. Therefore, both MSs and the EU should actively support, strengthen, and promote social dialogue and collective bargaining to foster the development of occupational pensions with broad coverage.
- To do so and considering the important role played by Europe in supporting the national efforts to ensure a high level of social protection, e.g. by facilitating mutual learning and exchange of best practices, providing a forum for exchange at the EU level might help. MSs face similar challenges when it comes to ageing and, turning to pensions, e.g. the gender

pensions gap and intergenerational fairness are relevant issues for many MSs. Despite the differences between MSs mentioned above, and in line with what also suggested by the High-Level Group of Experts on pensions, we believe the establishment of a multi-stakeholder forum is urgent and needed. EU competences cover important aspects related to pensions, such as the single market for supplementary pensions, the protection of rights in case of cross border mobility, consumer protection, and gender equality. The Commission should set up a forum to facilitate the structured exchange between social partners, pension providers, beneficiary representatives, independent experts and EU and national authorities on pensions.

This is important and urgent since the Pension Forum is no longer operative. We think it is key for the Commission to set up and cooperate with stakeholders in the field of pensions to gather strategic views, discuss and test ideas on what can be done for ensuring that people in Europe have good pensions. There is not such a forum on pensions now, as EIOPA's Occupational Pension Stakeholder Group (OPSG) is meant to facilitate EIOPA's consultation with stakeholders in Europe on EIOPA's own activities. As EIOPA is not a policymaker and is only covering supplementary pensions, we believe there should be a forum to discuss and share good practices with the EU and national policymakers.

- The EU could also play a much larger role in improving people's awareness of pension's challenges and improving financial literacy. To contribute to this objective, PensionsEurope intends to join forces with other European associations to organise the first edition of a European Retirement Week in the week of 29 November 2021. This would be an effective way to help shed light on Europe's retirement challenges. The European Retirement Week would not only serve the objective of raising awareness across Europe of the pension challenge but also as a platform for stakeholders and policymakers, both at national and EU level, to trigger discussions and exchange best practices.

PensionsEurope's answers to the Consultation on the Green Paper on Ageing

1. How can healthy and active ageing policies be promoted from an early age and throughout the life span for everyone? How can children and young people be better equipped for the prospect of a longer life expectancy? What kind of support can the EU provide to the Member States?

The Commission intends to work based on a 'lifecycle approach'. Although lifecycles change only slowly, we highlight that over longer periods they are not stable. For instance, broad participation in third-level education (e.g., universities) is historically relatively recent. What we now experience is that even this extended period of education does not suffice anymore for a full career until retirement. Three phases of education, career and retirement cannot be taken for granted anymore. Re-education and renewed training, and sometimes radical career changes, may become necessary for much larger groups of workers than at present. Also, a new phase may come into being, roughly between 50 and 70 when many people and the societies may have to deal with double care responsibilities, both for children and parents.

Finding good solutions can be difficult and there is no one-size-fits-all solution at the EU level. To better equip children and young people for the prospect of a longer life expectancy, we believe financial literacy and pension awareness should be improved. This might include considerations on the need of educating people providing them since early stages (i.e. from schools) with the right set of skills and knowledge that allows an individual to make informed and effective decisions, and of raising awareness on the importance of saving for retirement. In this regard, PensionsEurope is working with other European associations to organise the first edition of a European Retirement Week in the week of 29 November 2021. Financially literate people conscious of the current demographic trends may find life easier to navigate. It is important that people understand concepts such as compounded interest, the time value of money and the fact that spending over a lifetime, as well as capacity to work, fluctuate. Helping people to learn how to manage such demands will help. A combination of these aspects with other elements of financial education looks logical. We welcome that DG FISMA has established a workstream on financial education, following the 2nd CMU Action plan of September 24th, 2020.

2. What are the most significant obstacles to life-long learning across the life-cycle? At what stage in life could addressing those obstacles make most difference? How should this be tackled specifically in rural and remote areas?

To enable workers to develop new skills and knowledge to be able to change career paths, MSs might consider solutions that go beyond short time training that now is still often connected to a worker's present job or profession. It may entail periods in which a worker cannot earn a full income and more flexible working arrangements will be needed. In such circumstances, there will be consequences on pensions, and we note that people should be made fully aware of them.

One of the main benefits of life-long learning is to enable workers to keep their skills up to date with changing demands of the labour market. Upskilling and reskilling of workers and providing young people with skills that can be transferred across jobs, will increase employability and with that the possibility to earn an income which enables saving adequately for retirement. A key objective should be to identify the skills that are needed for the jobs of the future. At the same time this is a major challenge for employers and educational institutions.

3. What innovative policy measures to improve participation in the labour market, in particular by older workers, should be considered more closely?

Improving participation in the labour market and raising productivity are the most important factors to manage ageing. Both have in fact been taking place for a long time, as well described in the OECD Pensions at a Glance 2019. Women, in particular, have started to work a lot more in gainful employment, and effective retirement ages have been going up in quite a few MSs. Growing demand for labour, due to ageing, may help these developments if incentives are set right for those groups where an expanded labour participation can reasonably be expected. In some cases, this may need specific measures for specific groups, but also general measures should not be underestimated. If it pays for people to work, compared to remaining inactive, this helps. Some people may be able and have a wish to continue working beyond the statutory pensionable age.

From our experience, the decision to leave the labour market mainly depends on two factors: on whether the expected pension is sufficient, and on the health as well as physical and emotional well-being of the individual.

Regarding the first point, a key measure to raise effective retirement ages is to restrict/limit as much as possible early retirement. For instance, in Germany the first pillar pension is generally cut permanently if it is taken before formal retirement age. Often, occupational pensions are also set up in a way which incentivises working until the legal retirement age.

The Green Paper states that a key measure to raise effective retirement ages is to close down as many routes as possible to early retirement. Yet, social partners and pension funds have experience in facilitating part time retirement arrangements, especially aiming at maintaining people happy and fit in their jobs and avoiding outflow due to health issues and incapacitation. On the other hand, we see that providing information for people who have a choice to retire or continue to work, about the benefits of continuing work, and which possibilities could be made available to facilitate this, could be helpful. It could also be helpful to reflect on what, when and how to channel such communication in the most efficient way. In most MSs, the pensionable age has been raised and/or it has been decided to raise it automatically with further increases of longevity. There should be no financial (tax) disadvantage to working longer, or even beyond the pensionable age.

At the same time, in many countries the percentage of workers that retire at or close to the pensionable age is on the rise. This development is very positive, but by no means covering all workers. The question, therefore, is how to ensure that those who cannot work for longer are not disproportionately affected. Behind this issue hides a discussion about particularly mental health issues and physically demanding jobs in which many employees suffer job-related health problems even before retirement. Comparison of best practices between Member States may be of great use. Change in work responsibilities and reduction of working hours may be helpful in the last years of a career.

4. Is there a need for more policies and action at EU level that support senior entrepreneurship? What type of support is needed at EU level and how can we build on the successful social innovation examples of mentorship between young and older entrepreneurs?

This is not in PensionsEurope's remit.

5. How can EU policies help less developed regions and rural areas to manage ageing and depopulation? How can EU territories affected by the twin depopulation and ageing challenges make better use of the silver economy?

The freedom of movement and residence for persons is the cornerstone of Union citizenship, which was established by the Treaty of Maastricht in 1992. Solutions to regional depopulation and ageing cannot be found in restricting this freedom. European regional policy already provide support to less-favoured regions. Strategies from that context should be geared towards the new challenges of depopulation and ageing, and there is a large role for MSs and regional authorities. Trans-European Networks, in particular for digital services, could open new economic possibilities but can be costly to set up. If more projects would be structured in ways that allow for investment by large institutional investors, the possibilities for financing would increase substantially. Pension funds and pension services providers are already important investors in most MSs. Appropriate public private partnerships, and well-structured EU financing, in which the EU and its institutions invest alongside private investors and/or where these investors take a so-called 'first loss position' may crowd-in more large institutional investors and at the same time help develop the European Capital Markets Union.

The development of fast internet and other digital infrastructure can be very promising, as is seen for instance in Estonia. A silver lining to the COVID crisis is that we have seen that a good digital infrastructure allows for delocalization of work. This opens to new opportunities.

Within the 'silver economy', tourism is often mentioned as a possible venue, although COVID has worked out very negatively for this sector. Making it easier for retired people to move to other MSs without having to solve very complex tax and pension questions and finding ways in which affordable care could be provided also in other MSs than the one where one may have pursued a career, could perhaps really develop a 'silver economy', in which ageing is not just seen as a negative.

6. How could volunteering by older people and intergenerational learning be better supported, including across borders, to foster knowledge sharing and civic engagement? What role could a digital platform or other initiatives at EU level play and to whom should such initiatives be addressed? How could volunteering by young people together with and towards older people be combined into cross-generational initiatives?

Unpaid work and volunteering can bring great societal benefits. However, depending on the type of care provided, there may also be an issue of crowding-out of paid workers. This subject need attention on its own merits. Shifting unpaid work and volunteering towards those in retirement should not be a way to avoid looking carefully whether such activities should not in fact be paid. From the perspective of mobilizing the capacity to still work by people in retirement, is better served by looking at possibilities for paid work, and/or find appropriate ways to compensate people for some types of more complicated and burdensome care tasks they may provide.

With regard of those who remain fit and active in retirement, it might be more relevant for the Commission and the MSs to study what obstacles there are for them to participate in paid work, and what types and amounts of paid work would be attractive for them. There may for instance be regulatory and tax obstacles.

7. Which services and enabling environment would need to be put in place or improved in order to ensure the autonomy, independence and rights of older people and enable their participation in society?

We understand "older people" as those who have left the labour market and are retired.

While of course not the only one, we note that financial autonomy is a key prerequisite for participation in society. For older people, this is generally addressed through multi-pillar pension systems. Workplace pensions and other employment related retirement provisions can and should play an important role in providing the financial means to ensure the autonomy, independence and rights of older people and enable their participation in society.

8. How can the EU support vulnerable older persons who are not in a position to protect their own financial and personal interests, in particular in cross-border situations?

The protection of vulnerable older people is very important. A key element is life-long income, which protects older people from falling into poverty and from longevity risk. The first pillar plays an important role here specially to avoid old-age poverty, but the second and third pillar can also contribute to this goal by helping to maintain the living standard (depending on the role they have in the respective overall pension system). An adequate system of health and long-term care insurance and various social security benefits are also important.

Supplementary pensions can offer advantages for vulnerable older people. MSs have the freedom to choose how to design decumulation options and whether to leave members any leeway in choosing the option that best suits their interests. MSs use taxation and other (financial) incentives to favour one form instead of another. For instance, in Germany tax law for occupational pensions incentivises life-long annuities over lump-sum payments, and members and beneficiaries are generally protected by labour and social law. Many aspects of occupational pensions are fixed, it is e.g. not possible to switch providers or enter a secondary annuity market. This means that vulnerable older people are protected from the risks arising in these and similar situations such as e.g. mis-selling. If beneficiaries have a question / issue regarding their pension, union members can and do refer to their local branch and seek support there.

Taking an even broader perspective, the protection of older vulnerable people starts many decades before by providing an occupational pension system they can or have to join to avoid financial problems later. Considering that there are also younger vulnerable people, and that even those not considered vulnerable might not be inclined to spend a lot of time planning their retirement, collective systems with little or manageable choice can be beneficial in the accumulation phase as well. This would benefit those working part-time or taking care breaks (mostly women) or those in non-traditional employment relations (e.g. platform workers) which are currently on the rise. Also, financial education efforts, which would anyway benefit from increased investment and policy attention, should also specifically aim to reach vulnerable persons with tailored programs.

Taking a cross-border perspective, it should be noted that DG-FISMA has sent a call for advice to EIOPA on national pension tracking systems, that explicitly refers to an initiative for a European pension Tracking System (link) that is supported by DG-EMPL. Not only the elderly in retirement, but also workers still actively pursuing their careers profit from better insight into their pension rights across borders. Therefore, we welcome the set-up of the European Tracking Service (ETS). It might help those who have worked in several MS around retirement age or younger to find their pension and plan their retirement, and thereby help to avoid problems later.

9. How can the EU support Member States' efforts to ensure more fairness in the social protection systems across generations, gender, age and income groups, ensuring that they remain fiscally sound?

Bearing in mind that decisions regarding retirement systems are taken at the MS level (as the question rightly suggests), that the existing systems across the EU differ to a great extent, and that retirement systems have a very long-time horizon, we see the following possibilities for the EU to make a difference:

- At the EU level, certain overarching objectives can be agreed, while leaving it up to each MS to decide how to pursue them. The approach of the European Pillar of Social Rights is, therefore, an adequate one.
- The EU should offer a forum for exchange about what works in the MSs. In order to gather all necessary stakeholders, establishing a new Forum to replace the no-longer-operative Pensions Forum could be a possible solution.

We also note that, in December 2020, the Commission sent a Call for Advice to EIOPA regarding the Pensions Dashboard as laid out in the Action Plan A capital markets union for people and businesses. We would like to stress that the goal of the Pension Dashboard should be clearly set out at the beginning by the MSs and the Commission (DG EMPL and DG FISMA). It should consider all pillars of multi-tier pension systems and their interdependences. Depending on the objective, the Commission should bring together the relevant actors to develop the Pension Dashboard. The MSs could be involved through the Economic Policy and the Social Protection Committees. In addition, EIOPA's role should be limited to technical advice on the pensions they cover (provided by institutions of occupational retirement provision and insurance undertakings).

Questions of intergenerational fairness in pensions work out differently according to how pensions are financed. At the EU level, article 7 of the IORP Directive requires IORPs to take into account, where relevant, inter-generational issues by stating:
"As a general principle, IORPs shall, where relevant, have regard to the aim of having an equitable spread of risks and benefits between generations in their activities."

In case of PAYG the argument might be that due to ageing an ever-smaller group of active workers has to pay for an ever-larger group of retired people. This would lead to upward pressure to raise premiums, so that the young will pay too much for this type of public pension. This argument is however somewhat disingenuous. Basic public first pillar pension systems like the Dutch AOW, aim at avoiding old age poverty, and therefore specifically aim for income redistribution, but for a legitimate reason. Second pillar pensions provided by Dutch IORPs are incentivised by an EET tax regime. This leads to tax deferral, but also implies that those who profit from pensions from IORPs contribute to society by paying income tax over those pensions as well.
Although one sometimes reads that young generations today will earn less income than earlier generations, and are therefore worse off, it is questionable whether this results from ageing, or from less effective redistributive policies in general. In the Netherlands, for instance, the Gini coefficient for income distribution is quite stable, while this is not the case in some other MSs.
Intergenerational fairness in funded pensions cannot be judged on a pure financial comparison at the individual level. The first thing to realize is that different types of risk sharing may lead to higher benefits for all. This is certainly the case for individual-longevity risk, but according to many authors also for macro longevity risk, i.e. the risk that the whole generation will live longer than earlier expected.

The Covid-19 crisis has also shown that there are groups of (vulnerable) persons that tend to fall between the cracks of the social security safety net. In particular, workers in non-traditional employment relationships such as platform workers and the self-employed and/or those working few hours or earning a small income are at risk. The work on the European Pillar of Social Rights and Covid-19 recovery measures offer the opportunity to start a societal dialogue on who should be covered and reducing unintended gaps in a changing world of work.

10. How can the risks of poverty in old age be reduced and addressed?

Multi-pillar pensions have the advantage to spread the risks of diverse economic and demographic developments. A first public PAYG pillar is less dependent on financial markets but more vulnerable to ageing than a funded second pillar pension. Therefore, multi-pillar systems are the most stable option. Workplace pensions and other employment related retirement provisions can help to address the risks of poverty in old age. They have the most potential if an individual joins at a young age and contributes regularly. Compound interest will help to make the most of the contributions. Always considering that there is no one-size-fits all solution in pensions, MSs and the Commission should support and strengthen the (further) development of workplace pensions and other employment related retirement provisions in all countries.

Employers and social partners can organize provision collectively and e.g. automatically enrol employees when joining a company like e.g. in some sectors in Germany. In this way, they can achieve lifelong security in old age, especially for low-income employees, at low cost and with well-balanced standards for security and return and provide collective coverage for the elementary risks of death and disability. Therefore, here - in contrast to individual pension provision - risk equalization can take place without individual risk assessment on the basis of gender-neutral tariffs. There is essentially no exclusion of "uninsurable" risks.

Furthermore, collective occupational pensions have the advantage to be less complex than other individual pension products. This lower degree of complexity entails less need for advice and hence generates lower costs. However, increasing regulation means that occupational pensions become more complex, potentially jeopardising their efficiency. In addition, employers and social partners are likely to shy away from occupational pensions if they are too complex.

In Germany, incentives for those on lower incomes to contribute to an occupational pension were strengthened with the Law strengthening occupational pensions in 2018: during the accumulation phase, there are now incentives for employers of those with up to 2.200 EUR income to contribute to an occupational pension (30% of employer contribution, max. 144 EUR p.a.). During the decumulation phase, an allowance for low-income pensioners when claiming social assistance (100 EUR plus 30% up to just over 200 EUR) was introduced. These measures corrected the previously existing disincentive for those expecting to be on social assistance during their retirement to contribute to an occupational pension at all.

At the European level, another relevant work stream is found in the report of the HLG on pensions, as well as in the 2nd Action plan on the CMU of the Commission of September 24th, 2020. See also our answer to question 12.

11. How can we ensure adequate pensions for those (mainly women) who spend large periods of their working life in unremunerated work (often care provision)?

The financial situation in retirement often mirrors the situation in the labour market, which lasts several decades. The gender pay gap and with it the gender pensions gap have several causes, including women working in different sectors than men, discrimination, and the reduction of formal work in order to carry out care work (mostly childcaring and care for elderly relatives). We note and welcome the report published on 10 March 2021 by the OECD titled: "Towards Improved Retirement Savings Outcomes for Women". This report describes not only the reasons behind the gender pension gap', but also discusses options for measures within the pension scheme to mitigate unnecessary unequal outcomes.

Childcare and care of relatives are socially important tasks that must be adequately rewarded. The questions of how and by whom are to be answered in the national context.

We report two examples below, from Germany and the Netherlands.

In Germany, attempts are made to recognise care work in the pension system. Periods of childcare are taken into account in the first pillar; this compensation is tax-financed. There is no uniform regulation in occupational pension schemes. Collective agreements can stipulate that a compensation is made and that the costs are either borne by the collective or that the employer makes special payments in this case. This question can also be clarified at company level between the social partners.

However, from our perspective society should bear the related costs, and any compensation should be tax-financed. An idea could be that the state covers the contributions to occupational pensions for these periods out of the general tax revenue.

An alternative way of dealing with missing contribution periods or reducing their effects is to make the funding framework more flexible. Since 2018, the Law strengthening occupational pensions makes it possible in Germany to "catch up" on contributions tax-free under certain conditions.

In November 2020, the latest report on the German retirement system was published by the Ministry for Labour and Social Affairs (Alterssicherungsbericht). It shows that women, on average, have less income in retirement than men (1305 EUR/month vs 1910 EUR/month). Focusing on single households, the gap between men and women has been declining since 2003, because women have seen higher growth than men in their monthly incomes and stood at 1816 EUR/month vs 1607EUR/month in 2019.

In the Netherlands, since basic first pillar pensions do not relate to the employment history, the system ensures almost all elderly to live above poverty level. In the second pillar of funded pension schemes, gender-based differences in working patterns will have an effect. Working less hours for lower salaries, will reduce pensions. However, this effect does not come into play for maternity leave, because wages and premiums continue to be paid. During parental leave there is no legal requirement for employers to pay wages or pension premiums, however social contracts for sectors or larger companies may partly or in whole compensate for this. Also, Dutch divorce law entitles partners who separate to demand that both pensions are split and divided evenly over the former partners. From 2022 onwards, second pillar pension entitlements will be automatically split and converted into individual entitlements. This will ensure hassle-free access to these entitlements and protect the partner who has earned less against a big pension gap.

Although practice in the Netherlands leads to unequal outcomes, these are mitigated in particular by divorce law, and do not seem to infringe, certainly not directly, on principle 15 of the European Pillar of Social Rights that reads: "Women and men shall have equal opportunities to acquire pension rights."

A root-cause for gender differences in the Netherlands is that Dutch women work much more often part-time than Dutch men. Both the OECD (link) and the Dutch government (link) have produced extensive reports on this issue.

The gender difference is mainly due to cultural reasons. The OECD report describes how these same cultural reasons have helped build social structures that make change very complicated, in particular for parents of younger children. School schedules and day-care facilities that are more expensive than in quite a few other Member States, play an important role. Dutch income tax results in higher marginal rates for the second partner to increase working hours to fulltime, than in most other Member States. Unpaid care for the elderly is in practice unevenly distributed over men and women. And in some sectors like education and care, there is a prevalence of jobs being offered part-time. A redistribution of unpaid care and paid work in households, would be the real solution. If on top of that labour supply of women and men combined would go up as well, this would also help mitigate costs related to ageing.

Measures at EU level that look from a gender perspective on issues like parental leave and other care leave are helpful to close the gender pay gap, which will in turn contribute to closing the gender pension gap. For instance, parental leave for fathers will be increased in the Netherlands due to EU legislation. Minimum agreements about continuing wages and/or pension premiums while being on such leave, is important as well and can be arranged for both at the European and the national level. In setting this type of obligations it is important also to consider non-traditional families.

There is however scope for increased action to close the gender pay gap and facilitate women's increased participation in the labour market, by EU and Member States' policymakers and the industry. In fact, many companies are taking additional steps to provide equal opportunities, but (some) struggle with defining which measures are most effective. Furthermore, increased transparency on gender equality policies, as part of work sustainability policies, of companies would likely have a positive effect on their uptake and could form part of the work of the EU on ESG disclosure concerning the 'S' social pillar.

12. What role could supplementary pensions play in ensuring adequate retirement incomes? How could they be extended throughout the EU and what would be the EU's role in this process?

A very important aspect to take note of is that public pensions that are funded by PAYG depend on the ratio between active people paying taxes or premiums and retired people receiving pensions. Ageing leads to a deterioration of this ratio and therefore threatens the financial sustainability of PAYG. Supplementary pensions that are funded are much less vulnerable to ageing but are more dependent on financial markets. Present market circumstances with expectations about low yields and low interest rates make the creation of new supplementary pensions more difficult and requiring long periods of time. Nevertheless, it should also be noted that existing funded occupational pensions are still economically rational, as can be seen in figures presented by the OECD in its Pension Markets in Focus (link) and its Pension Outlook reports (link). In practice, a combination of a public PAYG system for basic protection against poverty and funded supplementary pensions may be the most reliable and robust solution.

Public finance constraints and the advantages of multi-pillar systems described in the general comments above lead us to believe that, if supplementary pensions are important today, they will gain importance over the decades to come. How exactly that role looks like depends on the overall pension

system, which is determined at the national level. Different MS might choose different approaches e.g. in terms of how (and how much) risk is run in the different pillars, and how that is shared between the state, employers / social partners and members and beneficiaries. It is important that the overall system provides an adequate level of protection.
We would like to emphasise that a collective approach to occupational pensions supported by the social partners from our perspective has the most potential to be effective in tackling the challenges to come. In particular, the governance structures of occupational pensions are often composed both by employers' and employees' representatives. This equal representation ensures that the interests of all parties are taken into consideration. Although the improvement of financial literacy is very important, not every EU citizen will reach the level of knowledge to make the right individual decisions to save for an adequate pension in retirement. Especially for these people the collective approach is vital. However, any collective approach can only be successfully implemented at national, sectorial, or company level to take the specific situation into consideration.
An important aspect to consider is whether pension schemes provide solidarity (e.g., protection against biometric risks). In Germany, covering biometric risk is a precondition for an occupational pension (if this aspect is missing, the scheme does not attract the tax relief for occupational pensions).

Regarding the second question, we would like to stress again that supplementary pensions differ significantly across the EU. Depending on the historical developments, the situation on the labour market, cultural preferences and financial possibilities, the pension systems of the MSs are structured differently. Again, the EU should take this diversity into account when legislating and more generally when being active in this area.
We have laid down these arguments in more detail in our general comments.

Finally, we take note and support the good initiatives on pensions suggested by the 2nd Action plan on CMU, namely on pension dashboard for MS, on national pension tracking systems for individuals, and the study on the methods to encourage participation in supplementary pensions, amongst which auto-enrolment. Moreover, we also support the envisaged initiatives on financial education. To contribute to this objective, PensionsEurope intends to join forces with other European associations to organise the first edition of a European Retirement Week in the week of 29 November 2021.
We also take note of the European Pillar of Social Rights Action Plan of 4 March 2021 and of the revised Social Scoreboard in Annex 2. Although we understand the importance of finding the right focus to make progress towards 2030, we also feel that too little is said about how to implement principle 15 on pensions. We hope that through the discussion on ageing and as a follow-up to the advice that EIOPA will deliver on a dashboard and on national tracking services, specific indicators will be included at a later date in the Social Scoreboard to achieve progress on pensions as well. Meanwhile, we note that several of the secondary indicators do directly relate to the issues we have discussed in our answers.
Examples are the gender gap in part-time employment, persons living in a household with a very low work intensity, the aggregate replacement rate for pensions and healthy life years at age 65. In general, we are of the opinion that ageing and related issues, amongst which pensions, should be integrated in the European Semester and in implementing the NextGenEU programs in the Member States.

13. How can the EU support Member States' efforts to reconcile adequate and affordable healthcare and long-term care coverage with fiscal and financial sustainability?

Public health policy is mainly competence of the Member States and is not in PensionsEurope's remit.

14. How could the EU support Member States in addressing common long-term care challenges? What objectives and measures should be pursued through an EU policy framework addressing challenges such as accessibility, quality, affordability or working conditions? What are the considerations to be made for areas with low population density?

Long-term care is not in PensionsEurope's remit. However, we note that working conditions is an area where the EU already has sufficient competences to make further progress.

15. How can older people reap the benefits of the digitalisation of mobility and health services? How can the accessibility, availability, affordability and safety of public transport options for older persons, notably in rural and remote areas, be improved?

This is not in PensionsEurope's remit.

16. Are we sufficiently aware of the causes of and impacts of loneliness in our policy making? Which steps could be taken to help prevent loneliness and social isolation among older people? Which support can the EU give?

To prevent loneliness and social isolation among older people, one of the elements to be considered is the availability of adequate economic and financial resources in old age. In this context, in a long-term perspective, the adoption of policies aimed at favouring the development of second and third pillar pension schemes, both at the level of the European Union and at the level of member states, in a subsidiarity perspective, should be considered as one of the main elements of the strategy to prevent these risks.

Furthermore, in the short term, second and third pillar supplementary pension schemes, if adequately incentivized by a favourable social, regulatory, and fiscal framework, can represent an important vehicle to channel investments towards projects aimed at creating infrastructures and, where legally possible, services to support and benefit the elderly population, in compliance with the prudent investor principle. Under the right conditions, pension funds can make an important role in addressing the problems of isolation and loneliness, and they can also make a significant contribution to investments in the real economy.

17. Which role can multigenerational living and housing play in urban and rural planning in addressing the challenges of an ageing population? How could it be better harnessed?

Multigenerational living and housing are not in our remit. However, we note that, as also mentioned in our answer to question five, a good investment climate for large institutional investors can be helpful to attract them to co-invest with public authorities in developing new housing solutions.

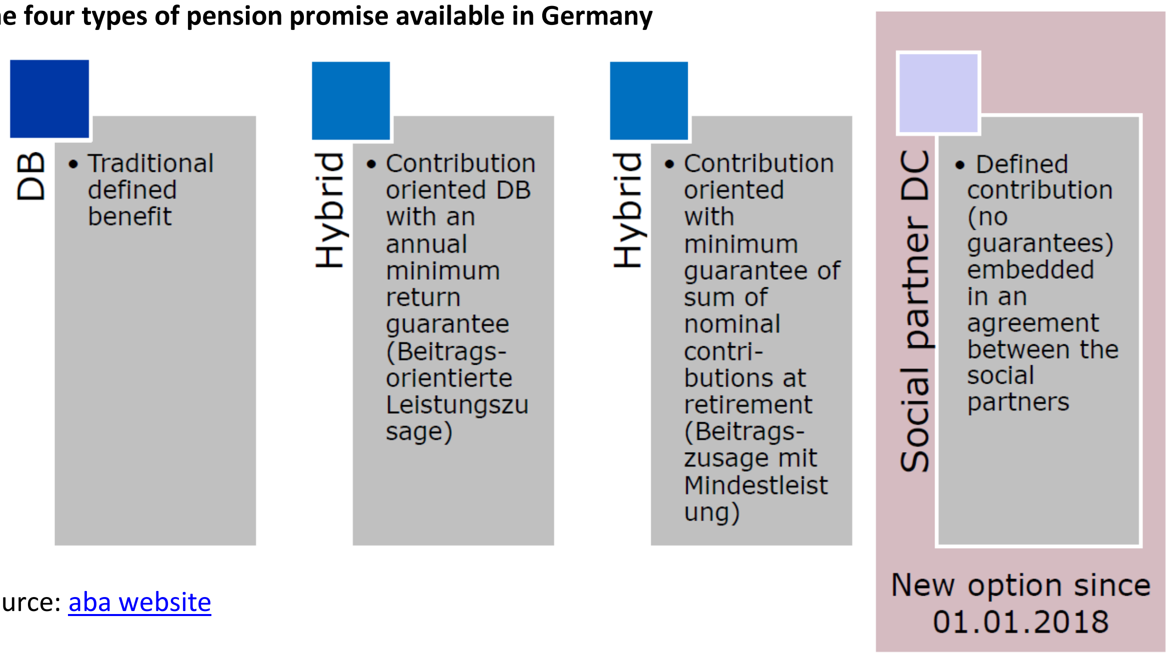
ANNEX I – Examples of pension systems, reforms and/or pension schemes able to provide adequate and sustainable pensions

1. Social Partner DC in Germany

Defined contribution pensions are relatively new in German occupational pensions: it is only since January 2018 that a Social partner DC plan can be used to deliver an occupational pension in Germany.

Since then, we have four types of pension promise in Germany (see diagram): at one end of the spectrum, there is the traditional defined benefit promise. As in many other countries, however, new pension promises often do not take this form, but are a hybrid solution: there are contribution-oriented DB plans with e.g. an annual minimum return guarantee (Beitragsorientierte Leistungszusage) and contribution-oriented promises with a minimum guarantee of the sum of nominal contributions at retirement (Beitragszusage mit Mindestleistung). In January 2018 a Social Partner DC was introduced (for more details, see the presentation Das Betriebsrentenstärkungsgesetz), which offers no guarantees and is embedded in an agreement between the social partners. So far, no Sozialpartnermodell has been set up, but discussions between the social partners are well underway.

The four types of pension promise available in Germany



Source: aba website

The cornerstones of the German Social Partner DC are:

- guarantees are not allowed,
- annuities are mandatory and integral part of the framework,
- pensions in payment can increase and decrease depending on funding ratio,
- collective bargaining agreements for implementation are required.

We would also like to point out that the reform introducing the Social Partner DC in German included additional measures, for example it was made legally water-tight for employers and contained measures for those on low incomes.

2. Occupational Pensions in the German Public Sector

A good example for a well-functioning occupational pension scheme is that of the public sector, which reaches back almost 100 years ago. The pension plan is settled by the social partners of the public sector and hence covers almost all employees of the public sector, i.e. nearly 6 million persons. It is still a DB plan, however, the responsible social partners have constantly undertaken reforms in order to ensure the viability of the scheme. In 2001, they have passed a fundamental reform by abolishing the former costly top up scheme and by introducing a point-based pension scheme like in the private sector. And in 2015 and 2016, the social partners agreed on a recalibration of the contributions in order to cope with the low interest level and the rising life expectancy.

3. Dutch pension system

For many years the [Dutch pension system] has been recognised as one of the best in the world. Poverty amongst older people is low and the difference between disposable income before and after retirement is small. This is due to the way in which retirement provision is organised in the Netherlands. A strong feature of the Dutch pension system is the combination of pay-as-you-go funding for the state pension ('*AOW*') as the first pillar, and capital funding for the occupational pension as the second pillar. The system in which pension funds continue to take investment risk on a collective basis in the second pillar both before the retirement date and while the pension is in payment provides good final pensions for the participants. The same applies to the hedging of interest rate risk. At more than 1400 billion euros, capital-funded pension assets amount to twice the Dutch gross national product. This huge pension capital, along with other strong features such as a high degree of solidarity, collective risk-sharing, the not-for-profit character and permanent attention to cost control, means that the Dutch pension system is robust and scores extremely well in comparison with retirement provision in other countries.

4. Swedish pension system

In Sweden, pensions are provided according to a three-pillar system:

I The national pension
- Income Pension System, a DC-pension system
- Premium Pension System, a DC-pension system with a fund selection

The national pension system covers salaries up to appr. € 50.000. Since 1998 the first pillar national pension system was transformed from a DB to a DC system.

II Occupational Pensions

Occupational pensions are normally based on collective agreements between labour market parties covering 85 – 90 % of the working population. Four major collective agreements have since long been in place, all of them transitioned, or under transition, to DC-type pensions, offering investment alternatives to the employees. However, DB pensions still are important and stand for 50% of pension benefits.

III Private pensions and savings arrangements

About PensionsEurope

PensionsEurope represents national associations of pension funds and similar institutions for workplace and other funded pensions. Some members operate purely individual pension schemes. PensionsEurope has **24 member associations** in 17 EU Member States and 4 other European countries[2].

PensionsEurope member organisations cover different types of workplace pensions for over **110 million people.** Through its Member Associations PensionsEurope represents more than **€ 4 trillion of assets** managed for future pension payments. In addition, many members of PensionsEurope also cover personal pensions, which are connected with an employment relation.

PensionsEurope also has **25 Corporate and Supporter Members** which are various service providers and stakeholders that work with IORPs.

PensionsEurope has established a **Central & Eastern European Countries Forum (CEEC Forum)** to discuss issues common to pension systems in that region.

PensionsEurope has established a **Multinational Advisory Group (MAG)** which delivers advice on pension issues to PensionsEurope. It provides a collective voice and information sharing for the expertise and opinions of multinationals.

What PensionsEurope stands for

- A regulatory environment encouraging workplace pension membership;
- Ensure that more and more Europeans can benefit from an adequate income in retirement;
- Policies which will enable sufficient contributions and good returns.

Our members offer

- Economies of scale in governance, administration and asset management;
- Risk pooling and often intergenerational risk-sharing;
- Often “not-for-profit” and some/all of the costs are borne by the employer;
- Members of workplace pension schemes often benefit from a contribution paid by the employer;
- Wide-scale coverage due to mandatory participation, sector-wide participation based on collective agreements and soft-compulsion elements such as auto-enrolment;
- Good governance and alignment of interest due to participation of the main stakeholders.

Contact:
PensionsEurope
Montoyerstraat 23 rue Montoyer – 1000 Brussels
Belgium
Tel: +32 (0)2 289 14 14
info@pensionseurope.eu

[2] EU Member States: Austria, Belgium, Bulgaria, Croatia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, Netherlands, Portugal, Romania, Spain, Sweden. Non-EU Member States: Iceland, Norway, Switzerland, UK.