Assembleia da República
[Portuguese Parliament]

His Excellency
Mr José Durão Barroso
President of the European Commission
Brussels

Subject: Process of Parliamentary scrutiny of European initiatives under Protocol 2
Opinion - COM(2010)365 final

Please find the attached Opinion drawn up by the Portuguese Parliament's Committee on European Affairs, and the Report produced by the relevant Parliamentary Committee (Committee on Employment, Social Security and Public Administration), in accordance with the process of Parliamentary scrutiny of European initiatives under Protocol 2, annexed to the Treaty of Lisbon, on:

- ***COM(2010)365 Final - Green Paper - Towards adequate, sustainable and safe European pension systems***

The Portuguese Parliament's scrutiny of the above initiative is thus concluded.

Please also note that the above-mentioned documents have been forwarded to the President of the European Parliament and the President of the Council of the European Union.

Yours sincerely,

PRESIDENT OF THE PORTUGUESE PARLIAMENT

JAIME GAMA

Lisbon, 15 November 2010
Letter 465/PAR/10/hr

ASSEMBLEIA DA REPÚBLICA

COMMITTEE ON EUROPEAN AFFAIRS

OPINION

COM(2010)365 Final - Green Paper - towards adequate, sustainable and safe European pension systems, SEC(2010)830

I. Preliminary statement

In compliance with Law No 43/2006 of 25 August 2006 on '*monitoring, appraisal and adjudication by the Portuguese Parliament in connection with the process of European integration*', the Committee on European Affairs was asked to give an opinion on the initiative: 'Green Paper. Towards adequate, sustainable and safe European pension systems'.

The Committee on European Affairs forwarded the above-mentioned Communication to the Committee on Employment and Social Security, in strict compliance with its responsibilities.

The Committee's Report outlines the Green Paper consultation process, which remains open until 15 November 2010[1], sets the initiative against the background of the European economic, financial and demographic situation, notes the synergies to be established with the '2020 Strategy', and highlights the major strands of the debate promoted by the Portuguese Parliament.

The Report includes conclusions on the need to offset European population ageing by means of additional measures to support the birth rate and active employment policies. It also highlights the different standpoints of the various Parliamentary groups, ranging from the need to 'diversify the pension system, considered by some of those present to be important and probably essential in the light of present economic circumstances' and 'the need to be aware of the risk associated to diversification and the need to diversify sources for funding social security.'

II. Object, content and background to the Communication - COM(2010)365 final

The Communication is organised as follows: 1. Introduction; 2. Key Challenges; 3. Priorities for Modernising Pension Policy in the EU; 4. Improving EU Statistics on Pensions; 5. Enhancing Governance of Pension Policy at EU Level; Glossary and Statistical Annex.

The broad lines of policy in the document will be set out to highlight the options that may determine future EU initiatives in this area.

1. Introduction, based on the following guidelines:

[1] The European Commission asked all interested parties to reply to the questions raised in the Green Paper, together with any additional comments, by 15 November 2010, by completing the questionnaire available at the following address:
http://ec.europa.eu/yourvoice/ipm/forms/dispatch?form=pensions

- the need to ensure adequate retirement incomes in the present and future, in a context of an economic and financial crisis that has exacerbated the effects of rapid demographic ageing in the EU;

- recognition that Member States are responsible for pension provision, which is why the proposal does not call Member State prerogatives or the role of the social partners into question, and does not suggest an 'ideal' pension system design;

- the need for EU policy coordination on pensions, since pension funds are an integral part of financial markets and influence the movement of labour and capital, stressing that 'the impact of public pension expenditure on public finances in one Member State may have serious repercussions in others';

- valuation of recent changes in pension schemes, notably shifts from Pay-As-You-Go (PAYG) to funded pensions, involving more risks to individuals;

- specification of the objective: 'there is now a need to thoroughly review the EU framework'; the aim of the Green Paper is therefore based on a consultation process to ensure that the EU can support Member State efforts to deliver adequate and sustainable pensions;

- the need for an integrated approach, proposed by the Green Paper, with the '2020 Strategy', imposed by the need to raise employment rates in the age group 55 to 65 (with a view to achieving the 75% employment target), the need to make the internal market in financial products safer and the need to facilitate labour mobility.

2. **The key challenges** relate to the change in the European demographic structure, the changes promoted and to be promoted in pension schemes and the impact of the financial and economic crisis, particularly the following:

   - the decline in Europe's working age population from 2012;
   - the dramatic change in the composition of the population by 2060: where at present there are four people of working age for every person over 65, the ratio will fall to two to one.

   It is thus forecast that:
   - the only source of growth by 2020 will be labour productivity;
   - age-related public expenditure will increase by almost 5% of GDP by 2060;
   - trends in the various reform processes are: for people to work more and longer (increases in pensionable ages, penalising earlier retirement, pensions based on working career average earnings rather than on best years, etc); lowering the share of public PAYG pensions in total provision while giving an enhanced role to supplementary private schemes; broadening of coverage, notably by increasing financial support for poorer pensioners.

   It is therefore clear that:
   - reforms have given and will continue to give rise to 'greater individual responsibility for outcomes';
   - net replacement rates will decline, which means that postponing the exit from the labour market will reduce that decline;
   - further pressure will be put on public pension spending.

The conclusion is that the crisis has given the reform agenda new needs, i.e. the need to:

- address adequacy gaps;
- ensure reforms consistent with the sustainability of public finances;
- raise effective retirement ages;
- reappraise the regulation of funded pension schemes;
- ensure effective financial market regulation, given the role of pension funds.

3. Priorities for modernising pension policy in the EU[2]

3.1. Adequacy and sustainability, by means of longer working lives, increased access to supplementary pension schemes and a reduction in the risk of funded schemes, in recognition of the fact that the Stability and Growth Pact is the framework for overseeing public finances, including pension systems;

3.2. Adequacy between time spent in work and in retirement, which means increasing the age at which people leave the labour market, focusing on the definition of 'common EU principles and pathways applied in a differentiated manner';

3.3 Removing obstacles to mobility in the EU:

- by strengthening the internal market for pensions, contemplating a review of the Directive on Institutions for Occupational Retirement Provision, further supervisory convergence and more transparency, notably with appropriate accounting standards;

- by means of the mobility of pensions, either through minimum standards to improve mobile workers' access to supplementary pension rights, or through the possibility of encompassing statutory and mandatory funded schemes in EU measures;

- by enhancing the provision of information to support decision-taking with a view to ensuring safer pensions, which will involve closing gaps in EU regulation and promoting hybrid systems, either with defined contribution schemes with a minimum return guarantee, or with defined benefits and contributions;

- by improving the solvency regime for pensions, addressing the risk of employer insolvency and taking informed decisions.

4. Improving EU statistics on pensions by promoting a methodology to standardise pension statistics with a view to 'facilitating common policy and regulatory challenges'.

5. Enhancing EU-level governance of pension policy by ensuring that pensions are consistent with the Stability and Growth Pact and with the Europe 2020 strategy

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[2] The analysis of this point shapes the key issues raised in the Green Paper consultation process.

III - Rapporteur's Opinion

The Communication under analysis states that since Member States are responsible for pension provision, it does not intend to suggest an 'ideal' pension system design. The above lines of analysis, however, anticipate the need for a trend-based standardisation of pension scheme policy options within the EU.

This dimension is furthermore highlighted by the assumption that pension options are pre-conditioned by the Stability and Growth Pact and the Europe 2020 strategy, imposing in particular an increase in the pensionable age.

Against this background, the competent bodies must maintain the level of alertness and expectation raised by the legislative package and, in support of democracy and solidarity, must reject any backward-looking process that compromises the national pension system, particularly by increasing the pensionable age, reducing pensions or diluting their PAYG nature.

The preservation of a solidarity-based universal public PAYG system is a condition of modernity and a qualification requirement for democracy. Since it is a right rather than an individual duty, workers cannot be penalised for a crisis which is not of their own making, nor for a financial system over which they have no decision-making capacity.

A financing model which is adjusted and diversified, notably by fiscal means, would also enable the current system to be improved without raising the pensionable age, with an assumption that the requirement for 40 contributory years, irrespective of age, should provide entitlement to a full pension.

IV – Conclusions

In terms of design and principles, the Portuguese pension scheme is one of the best adjusted in the EU and is based on the PAYG principle.

Without prejudice to the need to address the sustainability of the pension scheme, the issue under examination is protected by the Portuguese Constitution, particularly by Article 63(2), since the State is responsible for organising, coordinating and subsidising a unified and decentralised social security system, with the participation of trade union associations, other organisations representing workers and associations representing the other beneficiaries, and also by Article 165(1)(f), which gives the Portuguese Parliament exclusive legislative powers over the bases of the social security system.

V- Opinion

Since this is not a legislative initiative, respect for the principle of subsidiarity need not be established. The proposal under examination nevertheless does not call Member States' prerogatives or the role of the social partners into question, and nor does it suggest an 'ideal' pension system design. It acknowledges that Member States are responsible for pension provision and points to the need for pension policy to be coordinated at EU level.

This Committee therefore considers the process of scrutiny of this initiative to be closed, notwithstanding the Portuguese Parliament's future monitoring of the development of EU policy in this area by means of the presence of the European representative for relevant legislative initiatives in the future.

Finally, it is proposed to forward both the Report of the Committee on Employment and Social Solidarity and this Opinion as the Portuguese Parliament's contribution to the public consultation promoted by the European Commission up to 15 November, together with the regular correspondence with the European institutions in the framework of the Parliamentary scrutiny process of these initiatives.

S. Bento Palace, 9 November 2010

The Rapporteur	Committee Chair
[signature]	[signature]
(Cecília Honório)	(Vitalino Canas)

ASSEMBLEIA DA REPÚBLICA

COM (2010)365 FINAL
SEC(2010)830

GREEN PAPER

TOWARDS ADEQUATE,

SUSTAINABLE

AND SAFE

EUROPEAN PENSION SYSTEMS

REPORT

COMMITTEE ON LABOUR, SOCIAL SECURITY AND PUBLIC ADMINISTRATION

Rapporteur, Member of the Portuguese Parliament

TERESA SANTOS

LISBON, 4 NOVEMBER 2010

ASSEMBLEIA DA REPÚBLICA

REPORT

GREEN PAPER

TOWARDS ADEQUATE, SUSTAINABLE AND SAFE EUROPEAN PENSION SYSTEMS

1 – INTRODUCTION

Within the framework of its powers, the Committee on Employment, Social Security and Public Administration [CTSSAP] is responsible for 'monitoring, assessing and giving an opinion, under the Constitution and the law, on Portugal's participation in the process of European integration and on European initiatives within its field of competence, particularly as regards social security' – Article 2 of the CTSSAP rules of procedure.

As provided for in Article 7 of Law No 43/2006 of 25 August 2006 and according to the methodology adopted by the Committee on European Affairs for scrutinising European initiatives, the document was submitted to the appreciation of the Committee on Employment, Social Security and Public Administration.

The process of scrutinising the Green Paper is carried out in all EU Parliaments, and the European Commission has invited all interested parties to respond to the questions in the Green Paper, together with any additional comments, by 15 November 2010, completing the questionnaire available at the following address:
http://ec.europa.eu/yourvoice/ipm/forms/dispatch?form=pensions

The 11th Standing Committee of the Portuguese Republic – the Committee on Employment, Social Security and Public Administration – resolved to hold a public hearing jointly with stakeholders from the sector to analyse the Green Paper – 'Towards adequate, sustainable and safe European pension systems' - SEC(2010)830-COM (2010)365 Final.

Invitations were sent to a qualified and diversified group of speakers and the attached programme was drawn up (Annex I).

In addition to representatives of the *APEE - Associação Portuguesa de Ética Empresarial*, the *Confederação dos Agricultores de Portugal* [CAP – Confederation of Portuguese Farmers] and CGTP-IN, the meeting was also attended and addressed by the Secretary of State for Social Security, Mr Pedro Marques, and the Director of Social Protection and Integration in the European Commission's Directorate-General for Employment, Social Affairs and Equal Opportunities, Mr Georg Fischer.

Members who sit on the Portuguese Parliament's Standing Committee on European Affairs, in particular the chair, Mr Vitalino Canas, also attended.

The chair of the Committee on Employment, Social Security and Public Administration, Mr Ramos Preto, opened the session by welcoming all those present. He then underscored the importance of the hearing, said that the Portuguese Parliament was the proper place for a debate on a document that called upon all stakeholders to shoulder greater responsibility, and briefly put the Green Paper into context.

Mr Fischer, the Director of Social Protection and Integration in the European Commission's Directorate-General for Employment, Social Affairs and Equal Opportunities, then presented the Green Paper.

The Secretary of State for Social Security, Mr Pedro Marques, outlined developments in recent years in terms of social security reform in Portugal and presented a number of indicators.

Ms Teresa Santos, Rapporteur and Member of the Portuguese Parliament, moderated the debate and made a brief opening speech in which she stressed the Portuguese Parliament's role as the appropriate forum for the debate. She thanked the participants for attending and for their willingness to take part in the Europe-wide discussion which Portugal wished to be associated with on a range of issues addressed in the Green Paper. Ms Santos raised several variables for debate that were referred to in the document as areas of concern.

The hearing closed with contributions from representatives of the various Parliamentary groups: for the PSD, Ms Santos, for the PS, Ms Anabela Freitas, for the CDS-PP, Mr Pedro Brandão Rodrigues, for the BE, Ms Mariana Aiveca, and for the PCP, Mr Jorge Machado (see attached summary).

At the close of the hearing the chair of the Committee on European Affairs, Mr Vitalino Canas, summarised some of the issues he felt should be included in the conclusions, as suggested by the prevailing consensus.

On conclusion of the public hearing, in my capacity as Rapporteur I drew up the following Report on the Commission Green Paper.

2 – FRAMEWORK

EU Member States are responsible for pension provision in their countries. However, given that an adequate and sustainable retirement income for EU citizens now and in the future is a priority for the EU and bearing in mind that the recent financial and economic crisis has aggravated and amplified the impact of the severe trend in demographic ageing, the Green Paper is the subject of this Report and Opinion.

The Green Paper has clearly launched a European debate on the challenges facing pension systems and on how the EU can support Member State efforts to deliver adequate and sustainable pensions.

The document takes an integrated approach across economic, social and financial market policies and recognises the links and synergies between pensions and the overall Europe 2020 strategy for smart, sustainable and inclusive growth.

In these terms, the Committee on European Affairs calls upon the Committee on Employment, Social Security and Public Administration to draw up its Opinion on this issue.

3 – GUIDELINES

The reforms carried out have sought to significantly reduce the impact of ageing on future pension costs. Of the age-related costs which are still set to increase overall by almost 5 percentage points of GDP by 2060, half is due to spending on pensions. Meanwhile, the societal change arising out of new forms of starting a family is being addressed.

The 2001 Stockholm European Council agreed a strategy of:
- reducing debt rapidly;
- raising employment rates and productivity; and
- reforming pension, health care and long-term care systems.

In addition, the 2001 Laeken European Council agreed a set of common objectives for pensions.

The last decade has thus seen a number of legislative initiatives which have generally led to workers remaining longer in the labour market to achieve the same level of entitlements.

Stress has been laid on systems sustained by various pillars which reinforce the role of supplementary schemes. The adequacy of pensions has been tested bearing the most vulnerable groups in mind, and the situation of women in social protection systems has been addressed.

The Green Paper also analyses the impact of the economic and financial crisis and acknowledges that further adjustments are required, even where legislative reforms have been carried out to adjust social security systems.

Priorities for modernising policy to ensure that pensions are adequate and sustainable while respecting a balance between time spent in work and in retirement are highlighted.

Consideration is also given to the need to remove obstacles to mobility in the EU, and the portability of pensions and the associated taxation is examined in some depth.

The need to make pensions safer and more transparent and to close legislative gaps in the EU are also analysed.

Another fundamental aspect is security in the solvency of funds and sponsoring employers.

The various national approaches at statistical level, which detract from knowledge, comparability and simplicity, are also recognised.

The Green Paper addresses the need to enhance pension policy governance at EU level, though without disregarding Member State responsibilities in terms of pension system design and organisation.

In a committed effort to ensure participation in formulating better policies, the Commission has invited interested parties to answer the questions set out in the Green Paper.

The public hearing held in the Portuguese Parliament, the minutes of which are attached as an integral part of this Report, is an essential part of that effort.

4 – CONCLUSIONS

The following conclusions arise out of the joint public hearing on the Communication to the Commission (Green Paper), now being examined by the Committee on Employment, Social Security and Public Administration, and the positions outlined by the guest participants and Parliamentary groups:

The Green Paper on adequate, sustainable and safe European pension systems meets the acknowledged need for a cross-cutting approach to the issue. It is secondary to national pension systems and raises awareness of, simplifies and safeguards the rights involved.

1 – Additional measures to support the birth rate/Active employment policies

Since demographic ageing is the major challenge faced by Europe and will tend to intensify in the future, it is the most serious threat to the provision and enjoyment of adequate and sustainable pensions. A broad consensus prevailed among participants on this issue, and, as with other variables, the Green Paper drew Member States' attention to the pressing need for additional measures to support the birth rate as a matter of urgency. How important it was for Member States to develop 'active employment policies' was therefore highlighted.

2 – Pension scheme diversification/risk

Some of those present felt that it was important and probably essential to diversify the pension scheme in present economic circumstances, particularly if we wished to have sustainable, adequate and safe pension systems in the future, though others, notably certain Parliamentary groups, pointed out that the risk associated to diversification and the need to diversify sources for funding social security provision had to be borne in mind.

OPINION

In light of the above, the Parliamentary Committee on Employment, Social Security and Public Administration proposes that this report should be submitted for consideration to the Committee on European Affairs.

Portuguese Parliament, 4 November 2010

Rapporteur	Committee Chair
(Teresa Santos)	(Ramos Preto)

ANNEX I

PROGRAMME

09:30 – Opening

Speech by the Chair of the Committee on Employment, Social Security and Public Administration, Mr Ramos Preto

09:40 – Presentation of Green Paper – Director of Social Protection and Integration in the European Commission's Directorate-General for Employment, Social Affairs and Equal Opportunities, Mr Georg Fischer

10:00 – Speech by the Secretary of State for Social Security, Mr Pedro Marques

10:30 – Coffee break

10:45 – Debate

Moderator: Rapporteur, Committee on Employment, Social Security and Public Administration, Ms Teresa Santos (PSD)

12:30 – Closure

Speeches by representatives of the various Parliamentary groups (PS, PSD, CDS-PP, PCP, BE) – 5 minutes per group

Speech by the Chair of the Committee on European Affairs, Mr Vitalino Canas

HEARING SUMMARY

GREEN PAPER

Towards adequate, sustainable and safe
European pension systems

Senate Hall

20 October 2010

The Chair of the Committee on Employment, Social Security and Public Administration, Mr Ramos Preto, began by pointing out that the European Union was experiencing demographic ageing, due in particular to increasing life expectancy. Some analysts believed this would lead to further economic dependence among the elderly and would produce an army of pensioners in the short term. There was every likelihood that the situation would be unsustainable unless people who lived longer also worked longer, and unless expenditure on pensions increased substantially.

Mr Preto spelt out the challenges facing political decision-makers: how to restore the economic health of EU societies; how to foster economic recovery while restoring the balance in public finances, which should be done gradually throughout the EU; what consideration should be given to the rules for accumulating funds and to increasing the pensionable age; how to allow people to continue working even after they had retired and how to broaden the financial base of the system.

Mr Preto said that it was important to defend certain principles at EU level and in relation to each State in particular: subsidiarity; the portability of rights and pensions; the establishment of rules on prudential supervision, both at transnational and at a common level, and rules on issues related to statistical sources.

He said that the Green Paper tried to adopt an integrated view encompassing economic, social and financial dimensions and recognised the links and synergies between the issues we were facing in connection with pension systems and the Europe 2020 global strategy for smart, sustainable and inclusive growth. The economic and financial crisis had aggravated the underlying ageing problem, and, by demonstrating that the various schemes were interdependent and revealing weaknesses in some scheme designs, it also acted as a wake-up call for all pensions, whether PAYG or funded.

At that time all pension systems were finding it more difficult to fulfil their promises or expectations due to high unemployment rates, declining economic growth, higher national debt levels and market volatility. This was the framework for one of the major challenges in future decades: to guarantee adequate, fair and sustainable pensions for all European citizens.

The Director of Social Protection and Integration in the European Commission's Directorate-General for Employment, Social Affairs and Equal Opportunities, Mr Georg Fischer, began with some general comments on the Green Paper: it was a consultation document, which meant that at that time the Commission wanted to hear about and try to understand what areas the EU should have a tangible involvement in, not in abstract terms but in a world facing concrete challenges.

The Green Paper, an initiative of the President of the European Commission, was different from the Commission's previous work not because of the subject but because it looked at pensions in terms of adequacy, safety and sustainability.

It was common ground that pensions were the responsibility of Member States (it was not suggested that that responsibility should shift to the Union), which basically faced two challenges: first, the realisation that in the last 30 years the life expectancy of a 60 year-old in an average Member State had increased by four or five years, but the time spent in work, rather than increasing, had actually fallen; that meant that the decade had begun with a historic imbalance compared to the 1970s, for example: a gap had developed between time spent in work and in retirement. How could that gap be financed? It was possible to finance it in the past because of the demographic situation. The baby boomer generation allowed a great deal of expenditure to be financed, but the baby boomers were going to retire and it was no longer possible to finance the imbalance that would be generated due to demographic changes. It was not up to the EU to promote any specific retirement age. It was necessary, on the other hand, to correct the imbalances between time spent in work and in retirement.

A reform had been carried out that had reduced replacement rates, but Portugal was still one of the EU countries with the highest replacement rates in the period from 2008 to 2048.

The economic crisis had changed the outlook for funded pensions: before the economic and financial crisis, many people saw funded pensions as a universal panacea, not least because public pension schemes were burdensome, but the crisis had clearly shown that the approximately 30% reduction in capital accumulated in some EU countries meant that opting for a funded pension system was not an easy solution.

The Green Paper addressed three issues: general strategy, obstacles to mobility and approaches providing for safer pension schemes. The issue of whether the EU should play an advisory role in this area had been debated. Another interesting debate concerned whether life expectancy and the pensionable age should or should not be linked, and if they were linked, what type of link should it be, i.e. automatic or otherwise, and whether the European Union should be involved in some way. The idea may have been a good one, but each Member State would be responsible for deciding whether the EU should or should not become involved. The third issue concerned the type of supplementary employment policies that would be needed to allow people to work longer.

We lived in a constantly changing world and had to be aware of the situation governing the pensions of people who moved between countries. This gave rise to other issues, such as entitlement to an occupational pension after five years (a highly relevant issue for Austrians and Germans), or whether a single trans-European pension fund should be established.

As regards safer pensions, the third issue covered by the Green Paper, for many years most schemes were defined benefit schemes (averaging out the final 10 years of working life, for example). This was very burdensome for companies. The life expectancy risk had increased for pension fund financiers, and there had therefore been a shift away from this solution to the detriment of defined contribution pensions, such as saving schemes, the disadvantage of which was that the risk lay with the saver, even if the company contributed. This was the trend in most Member States: risks had shifted from the sponsor of the pension fund to the individual saver.

Two questions arose with regard to the EU's role: one concerned what the balance should be between risks and the possibility of paying safer pensions, which were always the most burdensome and therefore the most difficult to attain. The risk was expensive for those on low incomes. The other involved whether the European Union should adjudicate on what a pension should or should not be, and whether that might offer a degree of added value.

The Secretary of State for Social Security, Mr Pedro Marques, said that although the consultancy period for the Green Paper closed on 12 November, the Government had opened a consultation procedure with the social partners. Their contributions were therefore being brought together to inform the Portuguese Government's position, which was to be forwarded to the European Commission within the prescribed period. Mr Marques proposed that the Green Paper should be examined in the light of the recent social security reform in Portugal.

Social security sustainability had been a concern of various governments in most European countries over the last decade. In the process of social security reform in Portugal, which had been as long as it had been participatory, demographic change had been accompanied by two significant additional factors: an accelerated maturing of the pension system, on the one hand, and an increase in unemployment, on the other. From 2002 to 2005, for example, there had been a marked erosion in the financial balance of our social protection system. The Government had therefore opened a wide-ranging negotiating process with the social partners to try to establish a consensus for reforming the Portuguese social security model, based on a stringent diagnosis of long-term social security funding and of the adequacy of the social protection system.

Following a debate extended to civil society as a whole, with a very strong technical and policy impact, three options were proposed: a better adjustment of the system to demographic ageing and the economic conditions, maintaining the public social security model managed on a PAYG basis; a significant increase in the resources collected by the system through new contributions, based particularly on the added value of companies with greater technological resources and higher productivity; and a third option involving a gradual and more or less rapid shift towards a funded system (known in Portugal as the debate on 'capping').

The Government advocated three fundamental strands of reform: financial sustainability (essential if pensions were to be guaranteed on a permanent basis), social sustainability and economic sustainability. The reform also involved the convergence of pensionable ages, the promotion of active ageing, a change in the formula for calculating pensions by considering complete contributory years, and the application of new rules on the index-linking of pensions.

However, innovative mechanisms had been introduced to offset the effects of the sustainability factor. These were connected not only to active ageing and bonuses in calculating pensions for people who extended their working life beyond the pensionable age, but also to the establishment of an individual, supplementary and voluntary-based funded public scheme to reinforce the complementarity of pensions built up under the PAYG system. Penalties for early retirement had been raised to actuarially adequate values, but a more generous scheme had also been created in the European framework of bonuses for extending working life beyond the pensionable age: in practice this meant a 12% increase in the value of the pension for each additional year of work after the pensionable age for people with a complete 40-year career.

In addition to the system of minimum pensions under the social welfare scheme, the means-tested solidarity supplement for the elderly had been created. This was very important in terms of adequacy and had benefited well over 250 000 elderly people since its inception. A less well-known and less well-developed scheme, the total invalidity pension, had also been created.

There was a significant separation of sources of funding: as regards the collecting of revenue for the system, the solidarity-based dimensions of the social protection system were financed by taxation, while the welfare-based contributory dimensions were financed by contributions. What is more, the adoption of the *Código Contributivo* [social security code] would be important for combating the legal evasion of income, particularly in terms of the contribution base, as would the change in the self-employment scheme, which would bring workers' contributions closer to their real incomes, thus enhancing social protection.

Over the last 15 years, poverty among the elderly had been reduced by virtually half by the changes made to the social protection system in that time, something that had not happened in any other EU country.

Where the Green Paper addressed the issue of safer pensions, Portugal opted to maintain the PAYG scheme, as we know, though it acknowledged that supplementary schemes had a role to play in the global social protection system, which was why a funded public scheme had been set up to supplement the individually-based PAYG scheme.

Although pension portability was an issue that did not particularly affect Portugal, the Portuguese Government was nevertheless aware that the non-portability of pensions in that context represented a serious limitation on worker mobility in Europe and on the further development of social protection.

In recent years Portugal had had the opportunity to introduce a number of solutions that had now been presented in the Green Paper. The future could be approached with confidence, and the commitment to join forces to manage the resources available in the social protection system to make it more cohesive and more just could be strengthened.

The following spoke in the ensuing debate:

Ms Cristina Morais (Confederation of Portuguese Farmers [CAP]): Ms Morais said that the CAP had examined the Green Paper and was currently drafting its opinion as a social partner. She noted on behalf of the CAP that although the Green Paper referred to demographic ageing, it offered few suggestions in terms of increasing the birth rate. She

therefore wanted to know what the Government in particular was planning to do in that regard, though the Secretary of State for Social Security was no longer present.

Ms Cecília Honório (BE), Member of the Portuguese Parliament: Ms Honório recognised the hearing's importance and wished to retain the idea that in terms of social security model options, each country's sovereignty was absolutely protected, an issue she believed warranted a more serious and sustained debate.

She noted that all aspects of the economic governance model under construction in the EU involved full oversight of social security options. She also acknowledged a very worrying concern at European level – a deeply imbalanced demographic development, which was a European and national reality (and something the CAP representative monitored because she did not believe policies for stimulating the birth rate, maternity protection, paternity and the work-life balance raised concerns) – but the model being outlined clearly pointed towards an increase in the working age and increasingly late retirement. It was also a model that presaged the end of a unique system and that would suggest a multiplicity of largely welfare-based options, i.e. that would focus on the poorest in society and that would no longer view social security as a founding right of democracy.

Ms Maria do Carmo Tavares (CGTP-IN): Ms Tavares began by saying that the Economic and Social Council had already addressed the issue. As the other social partners were certainly sure to do, CGTP-IN had forwarded its opinion to the Government, which would refer it to the Committee on Employment, Social Security and Public Administration.

The CGTP argued that responsibility for social protection should lie with each country, was aware of the pressure the EU exercised over social policies, and hoped the Green Paper would not lead to another retrograde social step in Europe under the guise of social security sustainability, with increases in the pensionable age in some countries, changes to pension calculation, etc.

As regards social security funding, the CGTP presented one of the alternatives referred to by the Secretary of State for Social Security and would not accept pensioner impoverishment.

With respect to demographic ageing, it was important not to undermine the idea of intergenerational solidarity because the elderly could not be seen as a burden on society.
If a profound change in employment policy was not brought about in the future, pensioners would be poorer, since employment insecurity meant that people would not contribute for as many years.

Mr Serpa Oliva (CDS-PP), Member of the Portuguese Parliament: focusing on demography, Mr Oliva said that because of his medical training he saw the measures presented in the Green Paper as therapeutic rather than prophylactic: incentives for adoption and having children were increasingly rare. For each Portuguese national who died, he would like to see three births, which would perhaps ensure a broader base to the pyramid in 2050.

Mr Oliva wanted to know what measures should be taken in this respect and whether mandatory funded schemes should be covered by EU measures.

Mr Jaime Henriques (*Associação Portuguesa de Ética Empresarial*): Mr Henriques made two observations: first, the Green Paper did not contain a single reference to active unemployment policies, and second, large families ultimately did not benefit from the system in any way.

Ms Catarina Marcelino (PS): Ms Marcelino said that the social security system in Portugal was correct in terms of principles, i.e. intergenerational solidarity. The demographic issue formed the basis of the system and could jeopardise it.

The solution was not to place women outside the labour market or to give them bonuses because they had children, not least because that had been shown not to work. There had to be a paradigm shift: women could not be seen merely as reproducers and men merely as producers; better conditions had to be created for men and women to make their choices on an equal footing.

The following Members of the Portuguese Parliament spoke in the closing session:

Ms Anabela Freitas (PS): Ms Freitas believed that the discussion on the Green Paper highlighted the trade-off that had to be made between adequacy and the need to strike a sustainable balance between time spent in work and in retirement.

She said that the PS was concerned by the document's pro-privatisation tone towards funded social security schemes. Besides the issues already mentioned concerning the birth rate and active employment policies, she drew attention to positive immigration policies and was opposed to the idea of 'guillotine' retirement.

Ms Teresa Santos (PSD): Ms Santos said that in Portugal at that time people who worked did not contribute to pay for their retirement but to pay for the pensions of current pensioners. That that was what the PAYG scheme involved. According to that premise and in view of population ageing, the base of the age pyramid that would have to sustain the system would shrink substantially, which was a major risk in terms of future contributions if the aim was to have adequate, sustainable and safe pension systems.

On the basis of these assumptions, Ms Santos stressed the idea of sustainability and the need for measures to be taken to minimise the negative effects of demographic ageing. Around 100 000 births were recorded in Portugal in 2009, 4.46% less than in the previous year, hence the importance of policies to support the birth rate and active policies to support employment.

Mr Pedro Brandão Rodrigues (CDS-PP): Mr Rodrigues welcomed the European Commission's presentation of the Green Paper. Referring to pension sustainability, he said that the CDS-PP did not agree with the PAYG system in place at the time because people had to work longer, pay more contributions and receive a smaller pension for it to be sustainable. And while Portugal currently had replacement rates that were greater than those in other European countries, they would have to be abandoned in the near future. The balance would lie between the PAYG system and the funded system. The State, however, should always be responsible for the lowest pensions but no longer for the highest.

Another problem in Portugal was the number of poor people living on minimum social welfare pensions. They would be the ones most seriously affected by the austerity measures that were about to be introduced.

Ms Mariana Aiveca (BE): Ms Aiveca began by stating that the Green Paper called upon political decision-makers to change the PAYG scheme, the type of pension scheme in place in Portugal, which, unlike the CDS-PP, the BE supported. She said that the challenges arising could not be bypassed, particularly demographic challenges, active ageing and rising life expectancy, which could not give people the impression that if they lived longer they would have to be tied to a workplace. But neither did anyone want to leave the workplace to sit in the garden.

The philosophy underlying the Green Paper was the trend towards privatisation (defined contribution schemes). The BE, however, believed that sources of funding must be changed and diversified.

Mr Jorge Machado (PCP): Mr Machado said that for the PCP, any interference in Portuguese social security was unacceptable. PAYG was still the fairest model, despite its problems and challenges. Longevity was also a challenge but ageing could not be a 'penalising' factor, and it was not equal in all occupations. And while in general people lived longer, it was also true that they produced much more. Wealth was therefore also a problem: why did the Green Paper not address the problem of wealth redistribution?

The objective for people who thought about such things at EU level and for the Parliamentary right in the Portuguese Parliament was always the same: to attract pension funds to the private sector as an area of business, to penalise the pensionable age and to penalise reforms reducing its amount. Portugal was faced with an inevitable reality: 86% of Portuguese pensioners received less than the national minimum wage. In terms of social security revenues there was much to be done: the way to ensure social security sustainability was to combat fraud and contribution avoidance and ensure that people who had the most wealth contributed according to the wealth they produced.

Chairman of the Committee on Social Affairs, Mr Vitalino Canas: Mr Canas said that it was a very complex issue that could be approached in several ways, though he assumed that everyone agreed that something had to be done to preserve the existing model. Portugal had carried out a reform in 2006, the monitoring of which had to continue, not least because it involved problems that would only be resolved in the long term.

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