

Adequate and Sustainable Pensions

A report by the Social Protection Committee on the future evolution of social protection

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1. This report from the Social Protection Committee forms part of its ongoing work in response to the mandate given to it by the European Councils in Lisbon, Feira and Stockholm to study the long-term future of social protection, focusing in particular on the sustainability of pension schemes. Set within the framework of strengthened co-operation in the area of social protection, the report presents the initial results of the Committee's work on strategies for responding to the challenge of ageing. It draws on evidence from the national reports that all Member States submitted in February 2001 on the basis of a questionnaire issued by the Social Protection Committee, as well as on the preliminary results of analysis undertaken by the Economic Policy Committee of the implications of ageing for public finances. It also takes account of the approach outlined originally in the Commission's communication of 11 October 2000 and which was confirmed in the progress report of the High Level Working Party on Social Protection submitted to the European Council at Nice in December 2000. The report has been discussed with the Economic Policy Committee.
2. In line with the approach endorsed by the Nice European Council, the report considers what will be needed to ensure that pension systems provide retired people with a **securely financed, adequate income that does not destabilise public finances or impose an excessive burden on future generations**, while maintaining **fairness and solidarity**, and **responding to the changing needs of individuals and society**. The sustainability of pension systems requires that citizens have confidence in their long-term future – confidence that is potentially undermined by current doubts about their ability to cope with the projected demographic ageing. Only a **comprehensive approach comprising a wide range of measures aimed at ensuring the long-term ability of pension systems to meet their social objectives can maintain and strengthen public confidence in the pensions systems** of the Member States. The main purpose of this report by the Social Protection Committee is to present the elements of such a comprehensive approach and the ways in which employment policy, economic policy and social protection policy can interact in a positive way.
3. The Social Protection Committee therefore considers that the sustainability of pension schemes in the face of future demographic and societal challenges cannot be reduced to the financial dimension. Securing the long-term sustainability of pension systems requires meeting a triple challenge:
 - to **safeguard the capacity of pension systems to meet their social aims** of providing safe and adequate incomes to retired persons and their dependants and ensuring, in combination with health and long-term care systems, decent living conditions for all elderly persons;
 - to maintain **the financial sustainability of pension systems**, so that the future impact of ageing on public finances does not jeopardise budgetary stability or lead to an unfair sharing of resources between the generations; and
 - to enhance **the ability of pension systems to respond to the changing needs of society and individuals**, thereby contributing to enhanced labour market flexibility, equal opportunities for men and women with regard to employment

and social protection and a better adaptation of pension systems to individual needs.

4. The Committee considers that meeting this challenge will require that policies are set in a way which promotes the **greatest possible transparency and predictability**, and **ensures that confidence among citizens is maintained**. Long-term stability can only be guaranteed if pension reforms are **based on a broad social consensus** which involves all relevant actors. The Committee proposes that these approaches should also underpin future co-operative exchanges in this domain at the European level.
5. A strategy to make pension schemes sustainable must, above all, tackle the **root of the problem**, namely **the growing imbalance between the number of those who are employed and the number of pensioners** and hence between contributors and beneficiaries. In accordance with the guidelines laid down in Lisbon, the search for reform strategies that meet this challenge must be **consistent with a focused effort to restore full employment and raise employment levels, particularly of women and older workers**. This is to be achieved primarily by fighting unemployment, by ensuring a high level of qualifications and employability, and by improving the conditions for the participation of women and older workers on the labour market. The Social Protection Committee considers the new target, agreed by the European Council in Stockholm, to increase the average EU employment rate among older women and men (55-64) to 50% by 2010 as particularly important.
6. Increasing employment levels entails economic, social and employment policies centred on vigorous reforms. This makes it necessary in particular to implement policies aimed at significantly **lowering unemployment rates and raising employment levels, particularly among women and older employees**. Increasing the employment rate for women requires, inter alia, that steps be taken to **make it easier to reconcile family life and working life**: the lack of support services for families acts as a brake on keeping women in the labour market. Many Member States referred in their reports to the need for such services.
7. Achieving the general employment targets set in Lisbon will not be possible without **increasing the employment rate among older people**. This makes it necessary to adapt pension systems and other aspects of tax/benefit systems to **encourage people to remain in work longer and employers to retain older workers** (limiting the use made of pre-retirement schemes, modifying the rules on retirement age or the period during which contributions have to be paid to obtain a full pension, introduction of more flexible rules governing retirement that reflect individual aspirations, stronger actuarial links between contributions and benefits); to create more **favourable conditions for the continued employment and recruitment of older workers**; and to **tackle problems of age discrimination** in work places and on the labour market and as regards access to training. The reports of the Member States show that these issues are now high on the political agenda and that they are linked to the more general question of 'active ageing' and the role of older people in society. Reform efforts are for the most part focused on raising the effective retirement age by creating incentives for workers to stay longer on the labour market. This implies a **trend towards more flexible retirement systems** in which, ultimately, statutory retirement ages may become less and less significant.

8. However, according to the Economic Policy Committee's analysis, achieving high employment levels will, in many cases, not be sufficient to prevent a substantial increase in public expenditure on pensions as a proportion of GDP. **Significant reform measures targeted at the parameters and structure of pension schemes** (e.g. benefit levels, eligibility conditions, indexation of pensions, retirement age, relative weight of the different pillars etc.) have been highlighted by Member States and many of these are already being implemented – although further progress may be required in many Member States. Pension reforms must not only meet the financial consequences of demographic change. They must also contribute to the goal of social cohesion by providing adequate pensions to all older people, enabling them to maintain a comfortable living standard, and by ensuring a degree of redistribution and solidarity. To the extent that more scope is created for second and third pillar provision, the regulation and prudential supervision of such supplementary schemes also becomes more important. The reports of the Member States show very firmly that, even when moves towards occupational and private individual provision take place or are being planned, such reforms **do not involve an abandonment of the basic principles and social aims of pension systems**. Furthermore, Member States indicate that they do not envisage radical transformations of their pension systems; in general, their national reports set out pragmatic approaches that seek to improve their existing systems. This reflects the recognition that according to the current state of analysis no type of pension scheme (pay-as-you-go vs. funded, private vs. public, defined benefit vs. defined contribution) can be regarded as inherently superior to another.
9. A very important strand in the national reform strategies is the **overall management of public finances**. Where Member States have set out how they are planning to cope with the increased expenditure needs resulting from ageing, many have focused on the benefits of **running down public debt**, as proposed in the report from the Commission and the (ECOFIN) Council to the Stockholm European Council on "The Contribution of Public Finances to Growth and Employment: Improving Quality and Sustainability". This will lead to **reduced interest payments in the future** and hence to an increased budgetary room for manoeuvre which could be used to meet ageing-related needs. Many Member States want to give a clear signal that today's savings efforts will be available for use for future pensions expenditure and have **set up specific reserve funds** to this end.
10. The national reports show that **reform efforts should not be seen as being exclusively targeted at the demographic challenge**, but rather part of a wider effort to **modernise pensions systems and to adapt them to the changing needs of society and individuals**. Thus the changing role of women in society, more flexible labour markets, greater individual choice and different family and household structures are all being reflected to varying degrees in the national reform programmes. In addition, Member States are engaged in improving the social effectiveness of systems (improving coverage – particularly in the case of supplementary schemes; greater emphasis on reducing inequalities – especially between men and women; overcoming incompatibilities with more diverse forms of employment).
11. **The living conditions of older people depend not only on cash payments from pensions systems**. Policies on housing, health, long-term care and social services, specific tax rules for the elderly and reduced prices for certain economic and

cultural services can all contribute to a better quality of life and greater social inclusion. The social and financial dimensions of this broader range of public policies will have to be taken into account in future co-operation on the implications of ageing.

12. The study carried out by the Social Protection Committee clearly demonstrates that the aim of guaranteeing adequate and sustainable pensions cannot be achieved through adjustments in the pensions systems alone. The challenge of demographic ageing **requires concerted and mutually reinforcing efforts in three broad policy areas: social protection, employment and public finances**. Social protection policies must ensure that **adequate pension provision** is available to all **without imposing too heavy a burden on the active population**. A key instrument in this respect is the **strengthening of incentives to work longer**. The employment strategy must **improve employment opportunities, particularly for women and older workers**, and ensure that people have the **right qualifications** for these jobs. Finally, economic policy has to **unleash the full growth potential** of the economy, thereby fostering more employment growth, and to ensure **sound public finances** today so that more budgetary resources can be made available for ageing-related needs tomorrow.
13. The Social Protection Committee underlines the importance of the conclusions of the Stockholm European Council which call for the potential of the open method of coordination to be used in the field of pensions, taking due account of the principle of subsidiarity and recognising that responsibility for their pension systems rests with individual Member States. It also highlights the importance of an exchange with applicant countries on pension reforms. Appropriate objectives and working methods for future cooperation in the European Union on these issues will be proposed by the Commission in a forthcoming communication, taking into account the common objectives and principles presented by the Commission in its communication of October 2000 and the conclusions of the present report. Furthermore, it will be necessary to develop appropriate links with the policy coordination processes in the areas of employment and economic policy/public finances. Such cooperation between different policy processes will be crucial for implementing the three-pronged strategy, combining higher employment rates, debt reduction and the reform of pension and care systems, identified by the Stockholm European Council as being necessary for ensuring the adequacy of pension systems.

1. Introduction: Pensions and the concerted strategy for modernising social protection

1. Following the Commission communication of 14 July 1999 on *A concerted strategy for the modernisation of social protection*, a consensus has emerged among Member States to ensure that the reform of social protection systems responds to four major objectives:

- To make work pay and provide a secure income;
- To make pensions safe and pension systems sustainable;
- To promote social inclusion;
- To ensure high quality and sustainability of health care.

This approach was approved by the Council in its conclusions of 17 December 1999, which also called for equal opportunities between women and men to be taken into account in all work on these objectives.

2. The European Council in Lisbon on 23-24 March 2000 gave a decisive impetus to developing closer cooperation in the area of social protection. "*Conscious that the challenge can be better addressed as part of a cooperative effort,*" the Heads of State and of Government invited "*the Council to strengthen cooperation between Member States (...) and to mandate the High-Level Working Party on Social Protection, taking into consideration the work being done by the Economic Policy Committee (...) to prepare, on the basis of a Commission communication, a study on the future evolution of social protection from a long-term point of view, giving particular attention to the sustainability of pensions systems in different time frames up to 2020 and beyond, where necessary.*"

3. Since then, the High-Level Working Party, and subsequently the Social Protection Committee, has focused its work on the fight against social exclusion and on the long-term sustainability of pensions. In regard to pensions, different contributions have been made:

- The Working Party submitted an initial report to the European Council of Santa Maria da Feira on 19-20 June that outlined the fundamental objective of pension systems along with the various strategies and methods of reform. In particular, this report stresses that the debate on the future of pensions should contribute to safeguarding citizens' trust in the various pension schemes (basic and supplementary schemes, both public and private). In all Member States, these schemes continue to be one of the major foundations of social protection and play a key role in creating a more cohesive society. Their fundamental objective remains as always: to provide people with a securely financed, adequate income after retirement, an income to replace earnings or derived income during working life. Over the decades ahead, these objectives have to be achieved while maintaining a sense of fairness and solidarity.
- In accordance with the conclusions reached in Lisbon, the Commission submitted a communication on *The Future Evolution of Social Protection from a Long-Term Point of View: Safe and Sustainable Pensions* ((COM (2000) 622 final) dated 11 October 2000). This report presents the extent of the demographic challenge facing pension schemes, and proposes an overall

reform strategy to meet this challenge, based on ten major principles and objectives.

- In addition, the Economic Policy Committee has developed long-term projections (2000-2050) of the effect of ageing on public pension expenditure. These projections are based on commonly agreed demographic and economic scenarios, as well as specific assumptions by each Member State about the long-term effect of envisaged or current reforms of pensions systems.
 - On the basis of these, the High-Level Working Party on Social Protection, submitted a progress report to the European Council in Nice which called for a comprehensive examination of the sustainability and quality of retirement pension systems. It also invited the Member States, in co-operation with the Commission, to exchange their experience and present their national strategies in this area.
 - In March 2001 the Stockholm European Council called for "*clear strategies for ensuring the adequacy of pension systems as well as of health care systems and care of the elderly, while at the same time maintaining sustainability of public finances and inter-generational solidarity.*" It added that, "[w]here appropriate, the potential of the open method of coordination should be used in full, particularly in the field of pensions, taking due account of the principle of subsidiarity."
4. The present text draws upon the responses of Member States to a questionnaire jointly prepared by the Commission and the Social Protection Committee. The analysis reflects the set of common objectives and principles which were presented in the Commission's communication of October 2000. These are:
- (1) *Maintain the adequacy of pensions:* The three pillars of pension systems, operating in combinations decided by the Member States, should enable people to remain financially autonomous in old age and, within reasonable limits, to maintain the living standard achieved during their working life.
 - (2) *Ensure intergenerational fairness:* The efforts needed to cope with demographic ageing should be shared in an equitable way between the active, be they employees or entrepreneurs, and the retired generations.
 - (3) *Strengthen solidarity in pension systems:* No-one should be excluded from pension systems because of low-income or an unfavourable risk profile. Pension systems should have a redistributive element in favour of people with poor labour market opportunities or who had to provide care to children, disabled or frail elderly people.
 - (4) *Maintain a balance between rights and obligations:* Benefits should reflect an individual's contributions to a pension system. In particular, postponing one's retirement should result in higher benefits.
 - (5) *Ensure that pension systems support the equality between men and women:* In particular, adjustments are needed to strengthen the incentives for women to enter, re-enter and improve their position in the labour market.

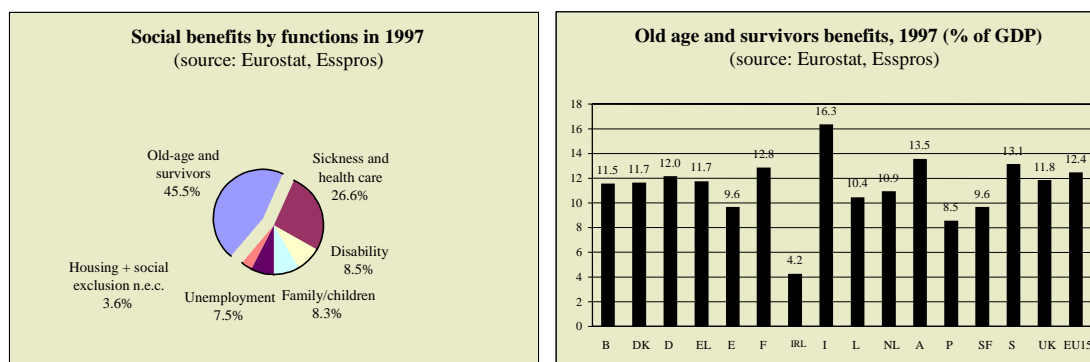
- (6) *Ensure transparency and predictability*: It should be clear to pension scheme members what they can expect in terms of benefits under various circumstances.
 - (7) *Make pension systems more flexible in the face of societal change*: Pension systems should be able to adjust to foreseeable changes in their economic and demographic environment.
 - (8) *Facilitate labour market adaptability*: Pension systems should accommodate professional and geographic mobility and allow a degree of individual choice, for instance regarding the retirement age and the organisation of learning, working and leisure phases.
 - (9) *Ensure consistency of pension schemes within the overall pension system*: Pension pillars should be mutually supportive and well co-ordinated.
 - (10) *Ensure sound and sustainable public finances*: Reforms must ensure that the tax burden arising from public pensions is set at an appropriate level and that other essential public expenditures are not crowded out.
5. The present report will not attempt to assess how these objectives and principles are being achieved in each Member State, but will illustrate the extent to which these objectives and principles are evident in the Member States' policies, and in particular the extent to which they can be seen in the recent, current and planned reform programmes of Member States.

2. Challenges confronting pensions systems

- 6. Pension systems provide an income in cash to people who retire from the labour market on grounds of age (old-age pension) or health (invalidity pension) or to people whose living standard depended on the income of a deceased person (survivors' benefits). Pension systems are usually divided into three distinct pillars, although the boundaries between them can be somewhat blurred in some national pension systems: statutory public schemes (first pillar), occupational schemes (second pillar) and individual retirement provision (third pillar).
- 7. Most of the resources available to older people are provided by pension systems. The overall package of resources to people after retirement also comprises such items as income from work and wealth, support from relatives, means-tested benefits, benefits (sometimes benefits-in-kind) related to specific outgoings such as housing and transport and support for people with special needs (e.g. provision of health and long-term care). Pensions represent the largest share in this package of resources, and the main source of pension income in all Member States is currently public (statutory) pension schemes financed out of social insurance contributions and general taxation, although at least two Member States (UK and Netherlands) expect 2nd and 3rd pillar schemes to become more important than public schemes over coming decades. Old-age and survivors' benefits together represent nearly 45 per cent of total social protection spending in the EU, or around 12 per cent of GDP (see charts below).¹

¹ These figures include expenditure from private pension schemes according to

8. Pensions systems are therefore among the most important institutions in our societies. They determine the living standards of millions of citizens in the EU – and play a decisive economic role . Therefore no government can afford to ignore the challenges that will confront these essential components of the European social model. The main challenge is clearly demographic ageing – a phenomenon that is certainly not new, but will amplify from 2010 onwards as a result of the baby-boom generation reaching retirement age. Member States also have increasingly to adapt their pension systems to changing employment and family patterns which creates new opportunities, but also new risks and social needs.



2.1. Demography and sustainability

9. As the Commission communication of October 2000 and the Economic Policy Committee's report point out, Member States' pension systems will have to face a major demographic challenge. They have coped in the past with an increasing old-age dependency ratio (the number of people of 65 or older divided by the number of people from 15 to 64) which rose from just over 16% in 1960 to approximately 24% in 2000² in the 15 Member States. This trend will accelerate over the coming decades: according to Eurostat's baseline scenario, the dependency ratio (using in this case the more realistic ration between the number of people of 65 or older over the number of people from 20 to 64) should practically double between 2000 and 2050, going from slightly under 27% in 2000 to just over 53% in 2050 (see table 1).
10. In the last 30 years demographers and pension planners have systematically underestimated the growth in longevity and thus the average time in which people draw on pension systems after their retirement. Life expectancy at retirement has increased substantially and there are indications that the rate of growth in longevity could even speed up over the next decades. Substantial and sustained longevity growth raises the question of how the pension cost of longer average lives should be borne. Recently some Member States, in particular Sweden, have introduced provisions which ensure that the trend towards longer lives is taken

the EUROSTAT methodology and hence differ from public expenditure data gathered by the Economic Policy Committee and presented in Table 2.

² Although precise figures are not available for the EU as a whole, the number of pensioners can be assumed to have grown faster due to the tendency for a lower actual retirement age.

into account in the formula used to calculate the pension entitlement at the moment of retirement.

Table 1: Baseline dependency ratio projections for the elderly in the Member States of the European Union (people over 65 compared to the 20-64 group)

	<i>2000</i>	<i>2010</i>	<i>2020</i>	<i>2030</i>	<i>2040</i>	<i>2050</i>
BE	28.1	29.4	35.6	45.8	51.3	49.7
DK	24.1	27.2	33.7	39.2	44.5	41.9
DE	26.0	32.9	36.3	46.7	54.7	53.3
GR	28.3	31.6	35.8	41.7	51.4	58.7
ES	27.1	28.9	33.1	41.7	55.7	65.7
FR	27.2	28.1	35.9	44.0	50.0	50.8
IRL	19.4	19.1	24.5	30.3	36.0	44.2
IT	28.8	33.8	39.7	49.2	63.9	66.8
LU	23.4	26.2	31.0	39.8	45.4	41.8
NL	21.9	24.6	32.6	41.5	48.1	44.9
AT	25.1	28.8	32.4	43.6	54.5	55.0
PT	25.1	26.7	30.3	35.0	43.1	48.7
FIN	24.5	27.5	38.9	46.9	47.4	48.1
SE	29.6	31.4	37.6	42.7	46.7	46.1
UK	26.4	26.9	32.0	40.2	47.0	46.1
EU-15	26.7	29.8	35.1	43.8	52.4	53.4

Source : Eurostat

11. The other major new development over the coming decades will be that the large baby-boomer cohort, born after the end of World War II, reaches retirement age. This demographic bulge will initially be reflected in an ageing workforce, then, from 2010 onwards in a sharp increase in pensioner numbers and later in increased needs for health and long-term care. This trend and the subsequent growth of the old-age dependency ratio is expected to occur in all the Member States. The baby-boom effect will cause the old-age dependency rate to peak between 2030 and 2050 (depending on the country) and then fall slightly. The combined effect of a rise in the number of older people due to the ageing of the baby-boom cohort, lower fertility rates and higher life expectancy will be such that the increase in the old-age dependency ratio can not be halted by any realistic inflow of immigration. Thus pensions systems, and society as a whole, will have to adapt to a permanently higher share of older people in society. At the same time, society must recognise that current and future older generations are better educated, in better health and better placed to contribute to society than previous generations. Being 65 today is different from what it was forty years ago or what it will be in 40 years. This fact needs to be reflected by the institutions of a society.
12. The foreseeable demographic change as outlined here is the main driving force behind reform efforts in the Member States, although the national reports show that most reforms try to tackle other challenges at the same time. Without appropriate reform measures, demographic ageing will have serious consequences for the financial situation of pension systems. However, as we will see below, it is not so much the change in the old-age dependency ratio that is important for the financial situation of pension schemes, as the change in the economic dependency ratio (i.e. the demographic dependency ratio corrected for employment rates). From this perspective, the future situation could be less unfavourable than it appears from demographic projections alone, if the reversal of the unfavourable

trends observed in the EU in the 1970s and 1980s (decline in the employment rate and large public deficits) continues.

13. While demographic change can be expected to have implications for the financial situation of all three pillars of pension systems, there is particular concern about the first pillar and the risk that an increasing imbalance between contribution revenues and benefit payments will ultimately destabilise public finances. This issue is being examined by the Economic Policy Committee, which, in response to a request from the ECOFIN Council in February 2000, prepared a progress report on the impact of ageing on the financial equilibrium of public pension systems. This report considers two scenarios: a current policy scenario and one based on the implementation of the full employment strategy defined in Lisbon.
14. The current policy scenario takes in Eurostat's central demographic scenario and incorporates the macroeconomic assumptions defined in conjunction with the OECD. These assumptions can be characterised as "current policy" in that they assume non-implementation of new structural reforms as implied by the goals set by the European Council in Lisbon: unemployment rates would remain high in several countries; employment rates, although rising for women, would remain low for certain categories of working-age people; and productivity gains would continue along present trends and converge between 2020-2030 at about 1.75%. Based on these assumptions, the Member States have developed financial projections for estimating the changes in public pension expenditure in GDP until 2050. These projections take into account pension reforms that have already been planned and whose effects will be felt during the period under consideration.

Table 2: Projections of public pension expenditure – Current policy assumptions ⁽¹⁾ (as a percentage of GDP, before tax)

	2000	2005	2010	2020	2030	2040	2050	Maximum growth
Belgium	9.3	8.7	9.0	10.4	12.5	13.0	12.6	3.7
Denmark ⁽²⁾	10.2	11.3	12.7	14.0	14.7	13.9	13.2	4.5
Germany ⁽³⁾	10.3	9.8	9.5	10.6	13.2	14.4	14.6	4.3
Greece ⁽⁴⁾	12.6	12.4	12.6	15.4	19.6	23.8	24.8	12.2
Spain	9.4	9.2	9.3	10.2	12.9	16.3	17.7	8.3
France	12.1	12.2	13.1	15.0	16.0	15.8	N.A.	3.9
Ireland	4.6	4.5	5.0	6.7	7.6	8.3	9.0	4.4
Italy	14.2	14.1	14.3	14.9	15.9	15.7	13.9	1.7
Luxembourg ⁽⁵⁾	7.4	7.4	7.5	8.2	9.2	9.5	9.3	2.1
Netherlands ⁽⁶⁾	7.9	8.3	9.1	11.1	13.1	14.1	13.6	6.2
Austria	14.5	14.4	14.8	15.7	17.6	17.0	15.1	3.1
Portugal	9.8	10.8	12.0	14.4	16.0	15.8	14.2	6.2
Finland ⁽³⁾	11.3	10.9	11.6	14.0	15.7	16.0	16.0	4.7
Sweden	9.0	8.8	9.2	10.2	10.7	10.7	10.0	1.7
UK ⁽⁷⁾	5.1	4.9	4.7	4.4	4.7	4.4	3.9	0.0

Source: EPC

⁽¹⁾ With the exception however of Spain, which used a higher decline in its unemployment rate (4% in the long-term), and Portugal and Denmark which used changes in productivity of 3% and 1,5% respectively.

⁽²⁾ For Denmark, net of the supplementary semi-funded scheme (ATP), the increase from 2000 to the peak year is only 3,1% of GDP.

⁽³⁾ Figures refer to the statutory pension scheme excluding the civil servants' scheme "Beamtenversorgung".

⁽⁴⁾ Provisional data.

⁽⁵⁾ Figures refer to the public pension scheme for the private sector and do not include the public pension schemes for civil servants and assimilated employees.

⁽⁶⁾ For the Netherlands the second tier is quite well developed. Such characteristics have a direct positive effect on the public pension scheme by reducing the burden of ageing populations on first pillar pensions. However, there is also an important indirect implication: taxes on future pension benefits (which are drawn from private funds) are expected to be quite high and may partially counterbalance the rise in public pension benefits.

⁽⁷⁾ The figures for the UK do not reflect the substantial increase in pensions announced recently. This change will increase the share of GDP devoted to public pension expenditure. Social assistance for pensioners has also been substantially increased and will be modified to reward private provision. The UK also has well-developed second and third pillar schemes. Taxes on future pension benefits drawn from private funds will partially counterbalance the rise in public pension expenditure.

15. For their projections, Member States calculated several parameters on the basis of their own assumptions:

- firstly, each country projected changes in employment rates (unemployment rate and active employment rate) thus providing a baseline assumption for the economic dependency ratio. This depends on the initial employment rate for women and older people, the so-called structural unemployment rates, in the event that structural reform policies are not implemented, and the effects on the employment rates of older people from pension reforms already under way;
- secondly, each country calculated implicit changes in levels of public pensions relative to earnings.

As the EPC itself emphasised, these are projections and not forecasts; the reliability of these projections necessarily depends on the underlying assumptions, which are subject to a considerable degree of uncertainty given the very long time span considered. Furthermore this work deals with only one aspect of the consequences of ageing, albeit the important one of public budgets. This work is to be continued so that the results can be refined and made more comparable.

16. The expenditure projections carried out by the Economic Policy Committee show a significant rise in public expenditure on pensions. However, the projected impact differs from one Member State to another, reflecting considerable differences in their starting positions, in terms of expected growth performance, level of employment, degree of advance in the reform process and the current situation of public finances. Differences in pensions systems also lead to different perceptions of future challenges.

17. According to the projections, demographic ageing will cause a considerable increase in the public financing of pension schemes in the majority of Member States (see table 2). For most countries (Belgium, Denmark, Germany, France, Ireland, Austria, and Finland) the increase in expenditures in relation to GDP would be between 3 and 5 percentage points; for Spain, the Netherlands and Portugal, the increase would be even greater³; Italy and Sweden would, however, show a relatively limited increase in their expenditure, less than 2 percentage points of GDP.

³ See footnote 5 to table 2.

18. Any assessment of the social sustainability of pensions must – in addition to an analysis of the effects of ageing on pension expenditure – involve an evaluation of how changes in the level of public and private pensions will evolve over the long run in relation to changes in earned incomes. The Social Protection Committee intends to work with the EPC on such an assessment over the projection period.
19. Thus, particular attention will have to be paid to the contribution that supplementary retirement schemes (pension funds, life insurance, etc. - second and third pillars) can make to ensure safe and adequate income for the elderly. It will be necessary to examine their effects in terms of the fairness and solidarity of such schemes, and their economic and fiscal impact. The impact of demographic change on the investment performance of funds operated on the basis of capitalisation should also be analysed. In addition, household wealth of older people could also be considered (notably with regard to home-ownership).

2.2. *New employment patterns*

20. Most pension systems were originally designed for households with men working full time as sole breadwinners. The increase in female employment, but also the need for increased employment flexibility, has led to the rapid development of diversified forms of employment such as part-time, temporary and agency work. Lifelong employment with the same employer is becoming less and less common.
21. Such flexible forms of employment already account for more than 28 % of the total number of jobs in the EU in 1999. With approximately 80 % of the total number of part-time jobs, it is mostly women who are concerned by this type of job. However, the number of men working part-time is rising fast. Half of the net additional jobs created for men between 1994 and 1999 were part-time ones. Temporary work and agency work has also increased over the last five years from 11 % to 13 %.
22. Such flexible forms of employment, which concern in particular women and young people, present several challenges to the future social sustainability of pension systems. By postponing the effective integration of young people, or by causing a precarious attachment to the labour market, such flexible forms of employment may not create sufficient provisions for future pensions of a significant share of today's work force. Unless adequate childcare facilities and/or leave schemes are accessible, women will tend to interrupt their working careers after the birth of their first or second child, thereby reducing their pension entitlements. A review of the conditions under which these more flexible forms of employment create pension benefit rights may be needed in order to provide adequate security for such workers and create incentives, particularly for women, to enter or re-enter the labour market.
23. Some Member States reflect on the new problems created by more flexible forms of employment. Spain observes that the pension level of persons with these new types of contracts tends to be below average, but that ways of adapting pension systems to this situation are currently under review. In Austria, Germany and Italy efforts have been made to bring some of these new forms of work (part-time working, home and telework, 'new self-employed', intermittent employment) within the scope of the statutory social protection system. In one of its recent reforms, Austria has extended compulsory insurance to all forms of gainful employment, adding 60000 new insured persons. In France, people in precarious

forms of employment benefit from generous rules concerning the recognition of employment periods and interruptions in the old-age pension scheme. In Finland, any gainful employment that lasts at least one month gives rise to a pension entitlement under the statutory scheme.

2.3. Evolution of family structures

24. The number of households and families is increasing in the European Union while their average size is getting smaller (2.4 people per household in 1999, compared to 2.8 in 1981). At the same time, households are becoming less stable due to family break-ups and the de-institutionalisation of family life (fewer marriages, more unmarried unions, and extra-marital births). However, there are significant differences within the Union. In the southern Member States a significant number of larger and more complex households can be found where different generations live together. Young people tend to remain longer in the parental home. The northern Member States are characterised by increasing numbers of young and old people living alone. Finally, the total fertility rate is below the replacement level in all Member States, but it is especially low in the southern Member States where it has been more difficult to reconcile labour market participation with family life.
25. One effect of lower fertility rates will be that older people cannot continue to rely on family support to the same extent as before. Urbanisation and increased geographic mobility reinforce this effect as more and more children will be living far away from their elderly parents. It is also to be expected that increased labour force participation of women will diminish their ability to provide care for elderly relatives to the same extent as they used to. Under these changed conditions, the effective living conditions of elderly people will to an increasing extent also be determined by their access to services (home care and specialised assistance for dependent elderly people).
26. In their responses to the questionnaire, some Member States have highlighted the effects of these important societal changes. Greece points out that traditional family solidarity used to make an important contribution to social protection, but this will tend to become looser in a more urban society with fewer descendants. Ireland highlighted the trends towards cohabitation and lone parent households. In the period 1990 to 1999 the numbers of single parent families receiving income support from the State more than doubled. In addition, over 30% of births were outside marriage in 1999 compared with 5% in 1980, although many of the parents will marry later. The United Kingdom, too, observes a continuing decline in marriage rates and rising numbers of cohabiting partners.
27. The numbers of lone parent households are also increasing, but the rate of growth has slowed down and may actually decline in absolute numbers from 2010 onwards, as the age group in which lone parenthood is most likely will shrink. The increasing number of cohabiting couples could be a reflection of the trend towards postponing marriage. This would imply that married couples with children will continue to represent the norm during the middle of the life cycle, as was observed by Germany.
28. Many countries feel that pensions systems need to be adapted to cater better to such diverse family patterns. Austria, for instance, particularly stresses the need to adapt pensions systems in response to increasing divorce numbers and single-parent households, but also to strengthen the autonomy of women. Sweden,

Finland and the Netherlands, by contrast, consider that they are already well prepared for such changes in family structures, thanks to pensions systems that are mainly centred on the individual. In Sweden, derived benefits are being phased out and survivors' pensions and wife's supplements, which are examples of derived benefits, represent a diminishing proportion of pension benefits. The previous widow's pension has been replaced by a new, temporary and gender-neutral adjustment allowance. Sweden therefore does not foresee any problems due to changes in the family structure except to the extent that this might have adverse effects on fertility. Sweden insists that an essential condition for maintaining a high level of employment is that parents are given real opportunities for combining careers with responsibility for their families.

3. Meeting the challenges

29. Pensions systems have a social purpose, namely to provide retired people with an adequate income. However, they can only fulfil their mission if they are built on a sound financial basis. It is therefore right that recent policy debates have mainly focused on the **financial sustainability of pensions systems**. The national reports on pension reforms show, however, that there is also a strong concern with **maintaining social cohesion and solidarity** and with **adapting pensions systems to a changing society**. This section presents some ways in which the transparency and predictability of pension systems can be improved before giving an overview on reform efforts targeted at these broad goals and tries to link them to the 10 objectives and principles identified in the Commission communication of October 2000.

3.1. *Transparency and predictability*

30. If strategies for making pensions sustainable are to strengthen public confidence they must enhance the transparency and predictability of pension systems. It is important for individuals to have a fairly clear idea of what they can expect in exchange for their contributions. Quantified targets set by the Member States relating to the main parameters of their future pension provision can be useful in that regard, but there are not many examples of this. Ireland states that its main reform aim is to establish a predictable basic level of pension rate. A rate equivalent to 34% of average industrial earnings is being discussed at present. Sweden circulates information annually to all household on pension rights accrued, with a prediction of the resulting future pension entitlement. In Finland, people are entitled to receive a record of their employment pension accrual.

Ensure transparency and predictability

A clear reform strategy is necessary to maintain confidence in pension systems and to allow individuals to adapt to future changes. Germany is proposing a replacement rate target of 67%; other countries set limits to contribution rates.

31. Several Member States have adopted measures aiming at improving predictability in relation to the level of pension contributions. They have established limits/ceilings relating to the rates of contribution which will be charged on earnings, "to prevent them from soaring as a result of demographic ageing"

(Netherlands). Netherlands has set a limit of 18.25% of taxable income, with a commitment to make up any shortfall from general tax revenue. Germany has made a similar commitment: Contributions are not to exceed 20% in 2020 and 22% in 2030. This is tied to a commitment to maintain pension replacement rates at 67% (including publicly supported second and third pillar provision).

32. Belgium will establish an annual "note de vieillissement" which will set out the budgetary policy on pensions for the medium and long term, taking account of supplementary outgoings and of other social security costs. This will set out the general government policy on how to meet the costs of ageing. It will also contain statements regarding the financial position of reserve funds, expenses and receipts of the Funds. In creating pension reserve funds, Netherlands and Ireland have introduced legislation setting out the conditions – covering the medium and long-term – under which they will operate, e.g. no payments out before 2020 (Netherlands) and 2025 (Ireland).
33. Some Member States are seeking to bring extra transparency to the way 2nd and 3rd pillar schemes operate. Denmark has plans to publish transfer costs of such pensions, starting this year. An important dimension of this issue has to do with measures to ensure the security of private pension schemes. UK, Ireland and Netherlands report on their extensive legislative mechanisms governing the conditions under which schemes can operate.
34. Austria expressed an interest in a policy exchange with other Member States on how to create clear long-term goals and targets regarding, for example, maximum contribution levels, net replacement rates, poverty rates, the weight of different pillars.

3.2. Safeguarding the financial sustainability of pensions systems

35. Whatever their methods of organisation and financing, all pension schemes transfer resources to pensioners by drawing on wealth currently produced. The problems that confront pensions systems are to a large extent the result of a gradually deteriorating balance between the size of the working population and the number of pensioners. In the face of rising unemployment from the 1970s to the early 1990s, lowering the effective retirement age, or otherwise encouraging the early withdrawal from the labour market, became, for most countries, an instrument for regulating the labour market and alleviating the immediate social consequences of industrial restructuring.
36. While such strategy is today under review in most Member States, the idea that increases in life expectancy should be shared between extending the pension period and extending the period of active employment is still far from being widely accepted. If the strategy to make pension schemes sustainable is to gain credibility, it must address the root of the problem, which is the growing imbalance between the

Ensure sound and sustainable public finances

By raising employment rates and through sound management of public finances, difficult choices between higher contribution/tax rates and lower pension levels can be avoided to some extent.

number of those actively employed and the number of pensioners. A failure to do so would force decision-makers to arbitrate between generations by deciding how much those in employment have to contribute and how high the living standards of those in retirement will be. Such choices, openly focusing on the income distribution between generations, could prove damaging for the cohesion and stability of our societies. While sound budget management today can certainly increase the financial resources available in the future, the first priority must be to address the issue of how to increase the level of employment.

3.2.1. The impact of improved employment performance

37. The Social Protection Committee is pleased that both the Commission's communication and the Economic Policy Committee's report emphasise the importance of the Lisbon strategy, which consists in mobilising all the potential of available labour combined with sound macro-economic policies and growth-enhancing structural reforms creating a favourable economic and business environment. The success of this integrated strategy set out at the Lisbon Summit will be vital for future sustainability of pension schemes.
38. Conversely, the reform of pension systems can make a major contribution to higher employment rates if incentives for labour market participation are improved. The Social Protection Committee therefore welcomes the Stockholm European Council's call upon the Council and the Commission to report jointly, in time for the Spring European Council in 2002, on how to increase labour force participation and promote active ageing.
39. The European Council in Lisbon concluded that, on the basis of economic growth of 3% of GDP in coming years, Member States should approach a total average employment rate of 70% by 2010, with the rate for women being over 60%. The Stockholm European Council added to this a specific target for the employment rates of women and men aged 55 to 64 which should reach 50% by 2010.
40. The Economic Policy Committee has developed a scenario on the basis of the Lisbon targets and has asked Member States to make another projection of public expenditure on pensions in accordance with that scenario. The scenario assumes that structural policies are implemented and are successful, resulting in major increases in the employment rates and substantial reductions of the unemployment rates. The benchmark corresponds to the average of the three Member States recording the best performance in this area during the second half of the 1990s. The total employment rate would reach 83% in 2045. The Economic Policy Committee's report emphasises correctly that such an objective cannot be achieved, in most countries, without reforming pension schemes in order to provide more incentives to retire later. In addition, the unemployment rate that should be achieved according to the Lisbon scenario would converge toward 4% in 2045. Finally, a favourable assumption of the change in the number of people of working age (a high demographic assumption by Eurostat) was used.
41. The results of the projections on the basis of the Lisbon scenario are shown in table 3. According to this scenario, the rising share of GDP devoted to public pensions would be cut back. The move from a set of results obtained using the current policy assumptions to results using the Lisbon scenario is not straightforward, since the differences in assumptions vary with the country concerned. As an example, using the current policy scenario, the employment

rates in 2050 will vary between approximately 70% and 83% depending on the country, while the unemployment rate will be between 4% and 7% depending on the country. The effect on pensions expenditure resulting from the Lisbon scenario therefore depends, for each country, on the initial reference point. Any such reduction also reflects the basic choice of whether or not to include a reform of the parameters used in pension systems scheme calculations (see note ⁽¹⁾ in the table). In all cases, however, as the EPC notes, a high-employment policy as defined in Lisbon will not by itself resolve the problem of financing long-term pensions. Nevertheless, by reducing expenditure on pensions and increasing contribution and tax revenue it has to make a major contribution to addressing the financial impact of ageing.

Table 3: Projections of public pension expenditure – Lisbon scenario ⁽¹⁾ (as a percentage of GDP, before tax)

	2000	2005	2010	2020	2030	2040	2050	Maximum growth	
								<i>Lisbon</i>	<i>Current policy</i>
Belgium ⁽²⁾	9.2	7.9	7.6	8.7	10.3	10.8	10.4	1.6	3.7
Denmark	10.2	10.7	11.8	12.8	13.0	12.1	11.3	2.8 ⁽³⁾	4.5 ⁽⁴⁾
Germany	10.3	9.8	9.5	10.5	12.2	12.6	12.3	2.3	4.3
Greece ⁽⁵⁾	12.6	12.1	11.9	14	16.8	20.2	20.6	8	12.2
Spain	9.4	9.2	9.2	9.8	12.0	14.9	15.8	6.4	8.3
France	12.1	11.3	11.7	13.6	14.7	14.8	NA	2.7	3.9
Ireland	4.6	4.6	5.5	6.7	7.4	8.3	8.2	3.7	4.4
Italy	14.2	13.9	13.9	14.0	14.6	14.5	14.1	0.4	1.7
Luxembourg ⁽⁶⁾	7.4	7.4	7.5	8.2	9.2	9.5	9.3	2.1	2.1
Netherlands ⁽⁷⁾	7.9	8.3	9.2	11.5	13.3	13.9	13.4	6.0	6.2
Austria	14.5	14.4	14.4	14.7	15.8	15.2	13.5	1.3	3.1
Portugal	9.4	10.1	11.0	12.7	13.5	12.7	11.0	4.1	6.2
Finland	11.3	10.9	11.6	13.6	15.1	15.4	15.6	4.3	4.7
Sweden	9.0	8.6	8.7	9.4	9.6	9.4	8.9	0.6	1.7
UK ⁽⁸⁾	5.1	4.8	4.4	4.0	4.0	3.8	3.4	0.0	0.0

Source: EPC

⁽¹⁾ For the Lisbon scenario, France assumed unemployment rates and active employment rates below the ones described above. The active employment rate is lower because no allowance is made for changes in pension eligibility requirements to increase labour force participation by the elderly. France's assumptions provide a more optimistic scenario in the medium term (around 2010-2020) whereas the opposite occurs in the longer term. Italy's active employment rates are lower than those described in the general methodology, whereas Spain's productivity growth is slightly higher after 2035. Portugal used the mean-variant population scenario rather than the high-variant scenario.

⁽²⁾ Belgium assumes an employment rate of 76.5% taking into account tighter conditions for early retirement and long-term unemployment schemes, the increase in the participation rate of women (except for those below the age of 30) and the increase in the effective retirement age. An increase in the employment rate of younger people was not assumed as this would imply lower attendance rates in education.

⁽³⁾ For Denmark, net of the supplementary semi-funded scheme (ATP), the increase from 2000 to the peak year is only 1.6% of GDP.

⁽⁴⁾ For Denmark, net of the supplementary semi-funded scheme (ATP), the increase from 2000 to the peak year is only 3.1% of GDP.

⁽⁵⁾ Provisional data.

⁽⁶⁾ In the case of Luxembourg the current scenario is the same as the Lisbon scenario: this scenario assumes an unconstrained growth of real GDP of 4 % per year over the entire projection period which corresponds to the average growth of the last 40 years. Figures refer to the public pension scheme for the private sector and do not include the public pension schemes for civil servants and assimilated employees.

⁽⁷⁾ For the Netherlands the second tier is quite well developed. Such characteristics have a direct positive effect on the public pension scheme by reducing the burden of ageing populations on first tier pensions. However, there is also an important indirect implication: taxes on future pension benefits (which are drawn from the private funds) are expected to be quite high and may partially counterbalance the rise in public pension benefits.

⁽⁸⁾ The figures for the UK do not reflect the substantial increase in pensions announced recently. This change will increase the share of GDP devoted to public pension expenditure. Social assistance for pensioners has also been substantially increased and will be modified to reward private provision. The UK also has well-developed second and third pillar schemes. Taxes on future pension benefits drawn from private funds will partially counterbalance the rise in public pension expenditure.

42. Mobilising all of society's potential, as proposed in Lisbon, also implies vigorous economic, social and labour policies leading to reform. This requires, in particular, the establishment of policies to bring down structural unemployment significantly, discourage early retirement schemes, and increase the employment of women. As the Commission communication emphasises, pension schemes must also be made consistent with all other elements of the Lisbon strategy, in particular in what concerns the conditions for sustained economic growth, the completion of the Internal Market and increased competitiveness, to the extent that they are key contributors to its success.

43. Obviously, the unused labour force potential differs from one Member State to another. Denmark points out that its employment figures already exceed the Lisbon targets and that, as a result, the scope for further increases is limited, although certain groups, notably older workers, immigrants and refugees and people currently on disability pensions could contribute to a higher overall activity rate. The Netherlands and the UK also stressed the importance of helping disadvantaged groups back into the labour market, mentioning also single parents and people living in areas with poor labour market opportunities. Austria suggested that there may be scope for raising the employment rates of younger people by shortening education periods before the entry into the labour market – provided that this does not deteriorate the quality of education.

44. In most Member States, increasing the participation of women in the labour market constitutes a major lever for improving the balance between the employed and those in retirement. As regards the labour market participation of women, Ireland observes that the main obstacle is the fact that family and caring responsibilities still fall disproportionately on women. This is certainly the case in all Member States and many of them stress the need for child care and elder care services as well as the need to make working hours and work organisation more family-friendly. The lack of care services and of family-friendly work organisation forces many women to arbitrate between their professional careers and their family life. This may contribute to maintaining low fertility rates, hence aggravating the problem of ageing in the long term.

45. While the need for more support for working parents is universally accepted, there is also widespread recognition of the need for maintaining the pension entitlements of those whose careers suffer due to family responsibilities. It is

important to avoid creating financial incentives for a complete withdrawal from the labour market. Germany, for instance, plans to uprate the pension entitlements of parents who work part-time, rather than withdrawing completely from the labour market. Since the 1997 pension reform, Belgium has a similar measure in place: between two and five 'bonus years' are awarded to employees working part-time for family reasons. This benefit can be taken up in a flexible way, allowing the employee to choose the most appropriate type of part-time arrangement.

46. The German report also emphasised the need to reduce the pay differentials between men and women so that labour force participation becomes more attractive for women. This is obviously linked to the quality of jobs on which the Irish report drew attention. The positive impact of increased labour force participation could be significantly weakened if many jobs provide low incomes and poor employment security.
47. A vital question for the financial equilibrium of pension schemes is the early departure from the labour market of older workers. Since the mid-1970s, pensions policy tended to reflect labour market conditions. Early retirement was in most Member States regarded as a socially acceptable alternative to unemployment, and as an encouragement to the recruitment of young people. Thus pension systems played, to some extent, the role of unemployment insurance, albeit in a purely passive way and without any reintegration function. In the face of demographic change Member States now increasingly recognise that it is not only necessary to reduce unemployment, but also to increase employment, and accept that pension systems should no longer be used to restrict labour supply.
48. Actual retirement age or the age at which active employment ceases reflects these policies of the past and is currently appreciably lower than the statutory retirement age. In most Member States, a rapid fall in employment beginning from the age of 55 can be observed (see table 4).

Table 4: Employment rates by age group in 1999 ⁽¹⁾

	B	DK	D	GR	E	F	IRL	I	L	NL	A	P	FIN	S	UK	EU15
50-54	60.3	80.4	73.4	60.1	57.2	74.1	62.1	57.2	64.6	70.2	72.7	71.4	78.9	84.2	75.9	69.2
55-59	36.9	70.9	55.1	47.4	44.8	46.8	50.5	36.6	38.2	49.6	41	59.1	54.6	77.8	62.1	50.7
60-64	12.9	34	19.6	30.4	24.7	10.1	35.9	17.9	12.9	18.6	11.7	43.6	22.2	47.9	35.6	22.3
65-69	3.8	6.2	5	11.5	3.9	2.1	14.3	6.2	n.a.	5.2	4.9	24.8	4.4	10.7	11.6	6.5

Source: Eurostat - Labour Force Survey

⁽¹⁾ The employment levels cited above are not corrected for part-time working.

49. Member States reported a wide range of measures that should lead to a reversal of this trend towards earlier retirement. Many of them are tightening the conditions for early retirement while taking into account specific working conditions that may justify early retirement. In general, Member States do not envisage to raise the statutory retirement age, focusing instead on measures that would raise the effective retirement age. Nevertheless, countries that have yet to equalise the pensionable ages of men and women would achieve this by progressively raising the retirement age of women. France maintains the official retirement age in the public pension scheme at 60 while increasing the number of years that is required

to obtain a full pension. Portugal has recently provided for flexibility in the age of retirement. Finland offers stronger incentives for longer working lives by raising the benefit accrual rate in the statutory employment pension scheme from 1.5 % per year to 2.5 % above the age of 60. In Sweden, collective agreements tend to stipulate a retirement age of 65. The reformed pension legislation no longer specifies any retirement age and the amount of the pension is based

Maintain a balance between rights and obligations

Many Member States are strengthening the link between contributions and benefits, thereby creating better incentives to stay longer on the labour market. However, the effectiveness of such measures depends on the support from employment policies targeted

on lifelong earnings and the age at which a person starts to draw a pension. It is therefore very important that people should have the opportunity to work after the age of 65. The five parties in Parliament which supported the pension reform therefore agreed to introduce a rule allowing employees to continue working up to a later age than was previously possible. The UK Government is considering new options in how people approach retirement, such as the concept of what is 'normal' retirement age, and the introduction of more flexible, phased retirement schemes. Spain is creating incentives for workers who want to remain on the labour market beyond the age of 65, and a consensus has been reached in April 2001 with the social partners to improve the employability of older workers. Italy now offers workers with a full contribution record to work beyond the statutory retirement age and to earn additional pension rights and entitlement to assistance in exchange for their contributions. Italy's gradual transition to a stronger actuarial link between pensions and contributions will also strengthen the incentives to postpone retirement. Austria, Greece and Ireland also stress the importance of clear links between contributions and pension entitlements.

Make pension systems more flexible in the face of societal change

More flexibility in the retirement age and phased transitions to retirement are being introduced in many Member States, allowing people to decide how and when to retire from the labour market.

50. Measures such as those presented in the previous paragraph also contribute to a general tendency towards more flexible transitions from work to retirement. Germany took a first step in 1996 with the law on the promotion of gradual retirement. The law on the further development of old-age part-time working of 1999 has improved and simplified the possibilities for a larger group of people to move gradually into retirement and combined this with additional incentives to hire new employees. The Netherlands encourage the two sides of industry to negotiate a conversion of early retirement programmes into flexible retirement plans. A number of Member States promote part-time working of older workers as a gradual transition to retirement. This requires of course the possibility of combining income from work with pension benefits.
51. The objective of maintaining older workers longer in working life has led some Member States to adopt more stringent employment protection legislation for older workers. Finland makes employers increasingly liable for the costs of unemployment or pension benefits for dismissed older workers, and France is considering to make dismissals of older workers more costly to employers.

Austria introduced an early warning system under which individual dismissals of older workers have to be notified.

52. Some Member States, notably Denmark and Finland, have programmes aimed at making employers more aware of the potential of older workers. The UK, building on its code of practice on age diversity in employment which has set the standard for non-ageist approaches to recruitment, training and development, promotion, redundancy and retirement, is planning to legislate against unfair age discrimination in employment. This legislation will implement Council Directive 2000/78/EC of 27 November 2000 establishing a general framework for equal treatment in employment and occupation. Obviously, the transposition of this directive in national law should provide an opportunity for all Member States to improve the labour market situation of older workers. Some Member States are already considering measures that will restrict the use of mandatory retirement. Thus, the Swedish government intends to propose legislation that would make it impossible to conclude agreements requiring workers to retire before the age of 67.
53. A major reason for early labour market exit is disability. Very often, this only prevents a worker from exercising his or her previous job, but not necessarily another one. Sweden has enacted rules that provide for 'dormant disability pensions which allow beneficiaries to try out various jobs for a certain period without losing their entitlement to the disability pension. Luxembourg is planning to introduce a series of measures to help workers who are no longer able to exercise the current profession to find another job. The need for disability pensions can also be reduced by adapting the working conditions to the needs and abilities of older workers. France is considering ways of adapting the organisation of work following the general reduction in working time. The government of the Netherlands, while encouraging the social partners to develop policies for a better work organisation to enhance the labour market chances of older workers, lifted the exemption granted to unemployed aged 57 ½ to 65 of registering with the employment office and accepting suitable work.
54. Clearly, life-long learning is crucial for maintaining the employability of older workers. Without being very specific, several Member States refer to the need for better training opportunities. The Netherlands has already introduced tax incentives to promote training.

3.2.2. Sharing the financial consequences of ageing equitably between the generations

55. As the EPC analysis shows, a policy of achieving high employment levels will, in many cases, not be sufficient to prevent a substantial increase in public expenditure on pensions as a proportion of GDP. Unless additional resources can be made available through a sound management of public finances (see section 3.2.3 below) the question arises how adjustments can be made by changing the different pension calculation parameters and/or modifying the respective weight of the different tiers (first, second and third tiers). The aim of

Ensure intergenerational fairness

Increased employment rates and reduced public debt may not be sufficient to meet the challenge of ageing. Member States aim for an equitable sharing of additional efforts between the active and the retired.

national reforms is to ensure that the additional expenditure requirements resulting from ageing can be shared equitably between the active and the retired. It is necessary to maintain adequate income provision in old age while keeping the level of contributions and taxes at an acceptable level. A major concern expressed by some Member States in this regard is to keep labour costs of less skilled workers low.

56. In the light of reforms undertaken or planned, on the basis of the Lisbon scenario regarding growth and employment, most Member States express confidence in their ability to face these challenges. In their national reports, some Member States suggest that the consequences of population ageing may be less dramatic than those implied by the above projections. Some Member States emphasise an expected increase in labour force participation. Spain, for instance, recalls that strong employment growth recently has led to an increase in the number of contributors to social security by 3.3 million between 1995 and April 2001.
57. Other Member States stress that reforms already completed will prevent pensions expenditure from rising in line with the old-age dependency ratio. For example, Finland expects that the challenge of ageing will not have such a critical effect on pensions expenditure as might have been expected. As a result of the reforms of the 1990s and further planned measures, pensions expenditure is expected to be substantially lower in the long term (by the year 2040) than it would have been without these reforms. France undertook reforms in 1993 which will curb the future increase in expenditure and which clarified the financial responsibilities of the government vis-à-vis the statutory social security scheme. Belgium pursued very cautious policies over the past 20 years, indexing pensions and earnings ceilings on prices. Furthermore, the 1996 reform, by raising the retirement age and the contribution periods for women and reducing some future benefits significant savings will be achieved. Recent reforms in Italy will also have a very significant impact on future pensions expenditure.
58. While many national reports express confidence in the ability to meet future challenges to pension systems, most Member States recognise that further reform efforts, involving in most cases extensive modifications in pensions legislation, will be required in order to avert unsustainable increases in pensions expenditure. Sweden introduced an automatic adjustment mechanism in its legislation to ensure that the pension system remains sustainable. This mechanism foresees that assets and liabilities are calculated and reported annually. If pension liabilities exceed assets then pension indexation automatically falls behind the income index until the balance between assets and liabilities has been restored. Other countries, notably Belgium, indicate that they expect to benefit from current high primary budget surpluses which will reduce future interest payments and therefore help ensure long-term financial sustainability without the need for sharp cuts in benefit levels.
59. Nonetheless, further work is necessary to assess the extent of the financial challenges facing pensions systems and to monitor progress in pension reform. In this process it will be important to keep in mind that financial sustainability cannot be achieved at the expense of pension systems' ability to meet their social goals. Reforms that only focus on financial sustainability are likely to generate social problems and political pressures for increased expenditure. Thus it is not possible to separate financial from social sustainability; one cannot be guaranteed

without the other. Only a comprehensive approach to making pension systems sustainable has real chances of success. This implies considering the financial as well as the social implications of reforms, analysing the impact of ageing on all three pillars of pension systems and taking account of other consequences of ageing, particularly for the labour market, financial markets and health care systems.

60. Many Member States envisage an increased role for private second and third pillar provision in the context of ageing. However, this cannot be expected to develop spontaneously and is being supported by government intervention that may take very different forms. In some Member States, the Netherlands being the best-known example, the two sides of industry can set up supplementary pension schemes in which membership can be made mandatory. Belgium is

Ensure consistency of pension schemes within the overall pension system

A scaling-down of first pillar pension provision will not automatically lead to growing second and third pillars. Member States develop various methods for ensuring that the different pillars contribute in a consistent way to adequate income protection in old age.

interested in following this approach. The UK offers the possibility to opt out of the state earnings-related pension scheme (SERPS) in favour of occupational or individual schemes. Austria envisages to transform the termination allowance foreseen by labour law (an amount that depends on the length of service and which is payable by the employer at the end of a period of employment) into a transferable 2nd pillar pension entitlement. In most Member States there is no compulsion to join a supplementary scheme, but these schemes enjoy a favourable tax status. As tax deductibility is worth more to people on higher than on lower incomes, Germany is planning to support contributions to supplementary pension schemes by low-income earners through grants.

61. Some Member States express confidence that privately funded pension schemes will make it possible to curb the increase in public expenditure on pensions. The UK expects more people to be entitled to pensions, thanks to increased labour force participation, and expects that many individuals will choose private pension arrangements to maintain the replacement rate of their pension rather than remaining in the state earnings-related pension system. The UK does not therefore expect an unsustainable burden to be placed on Government resources. Denmark expects an increasing number of pensioners to be covered by second pillar schemes and a reduction in the relative importance of public pensions. The Netherlands also relies on a highly developed second pillar, while at the same time stressing the need for raising labour force participation, especially of older workers. Sweden, while introducing a partly prefunded system, acknowledges that with such schemes becoming increasingly important, pension levels will depend more and more on the return on capital. This means that there is a risk of greater fluctuations in pension levels, and that, in the absence of public intervention, the level of pensions may be reduced if the rate of return is low or negative for an extended period of time.
62. In spite of these reforms, the majority of Member States expect that the statutory first pillar schemes will remain the most important element of pension provision. France and Luxembourg state that the development of private sector

supplementary pensions must neither substitute for the statutory system, nor develop to the detriment of it. France considers that a strong first pillar embodies a strong commitment of her society to solidarity and equality. The development of the other pillars should only be envisaged as a complement to the first pillar and after the pay-as-you-go system has been successfully consolidated. Belgium states that it envisages a role for the 2nd pillar in ensuring the replacement rate of pension income; however, it should not replace the 1st pillar. The UK statement reflects a different balance: "state pensions will complement private pensions to give people a decent income in retirement". It will operate a public 2nd tier scheme, the State second Pension, aimed at low and moderate earners and those with broken labour market participation and, ultimately, the economically inactive.

63. As the Social Protection Committee stated already in its report for the Feira European Council, the economic, fiscal and social effects of developing supplementary schemes (second and third pillar) should be examined. In particular, the issue of financial sustainability has to be considered not only in relation to public pension schemes, but also private ones.

3.2.3. Increasing the budgetary room for manoeuvre

64. The ability of Member States to provide an adequate level of public pensions will depend not only on changes in pension scheme expenditure, but also on other factors determining whether public finances are in balance. This is a fertile area for analysis. Clearly, a reduction in public debt as foreseen under the Growth and Stability Pact, and thus in future interest payments, would free up these funds for reallocation in order to meet the needs of an ageing population more effectively. Denmark and Sweden refer to the need to further reduce public debt in their reports. Several Member States opted for channelling public sector saving into specific reserve funds (notably IRL, NL, P, F, E), are planning to do so (B) or envisage this as a possibility (L). The creation of such reserve funds gives a clear signal to citizens that these resources are to be used to maintain adequate pensions during the period in which demographic ageing will put particular strain on pension systems. Part-funding of public pensions (Sweden, Finland) is seen as playing a similar role.
65. Adaptations to the tax and contribution systems can also play an important part in ensuring that public finances can cope with increased ageing-related needs. Some Member States have adapted the tax/contributions base, others have started raising revenue for pensions systems from new sources such as ecotaxes. The method of taxation of pensions themselves is also an important determinant of future sustainability. In the EET taxation model for pensions (i.e. contributions are exempt, investment returns are exempt and benefits are taxed), revenues from taxes on benefits will be at their highest when the number of pensioners reaches its peak. The tax regime applied to pensions can also contribute to reducing income disparities among pensioners.
66. A changing age structure of the population may create some scope for expenditure reallocation, notably from the young to the old. However, it should be kept in mind that maintaining a high level of employment is likely to require more investment in education and increased expenditure on life-long learning. Furthermore, it is inevitable that an ageing population will lead to an increase in health care and long-term care expenditure. The Social Protection Committee

believes that further study is needed of the factors that will determine the balance between public revenue and expenditure. What room there is for manoeuvre in reallocating resources will also have to be assessed.

67. Ireland referred to the trade-off which exists between the direct public provision of pensions and the costs of tax incentives which are used to facilitate private provision. It reports an estimation that the value of tax relief for pension scheme contribution in 1994/5 amounted to £299m, equivalent to 2.8% of total tax revenue. Germany states that, in the context of building up supplementary provision and in order to allow employees on average and low incomes to participate, it will provide grants and tax relief equivalent to DM 20 bn per year after 2008.

3.3. Maintaining social cohesion

68. Pension reforms must not only meet the financial consequences of demographic change. They must also contribute to the goal of social cohesion by providing adequate pensions to all older people enabling them to maintain a comfortable living standard and by ensuring a degree of solidarity. Member States' reform efforts therefore usually combine measures aimed at making pensions systems financially sustainable with other measures designed to alleviate deficiencies in pension schemes.

69. Member States generally seek to ensure, through a variety of policy measures targeted at the three pillars, that all older people have an adequate income and that those who had been in employment can, to a reasonable extent, replace earned income and hence maintain their living standard after retirement. In addition, many Member States are committed to allow retired people to share in the benefits of economic growth.

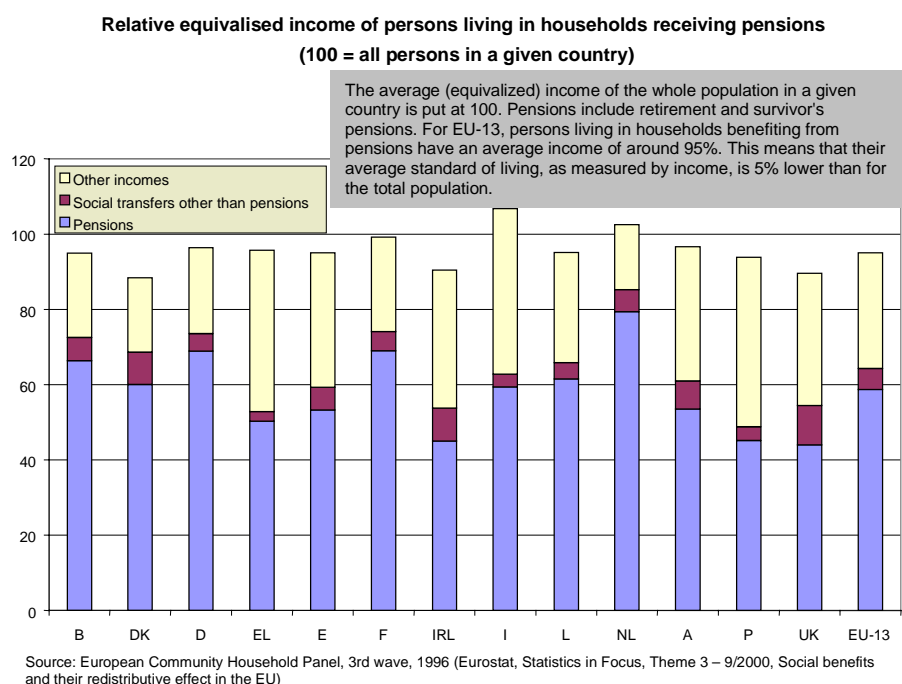
Maintain the adequacy of pensions

In many Member States, strong second and third pillar provision will be required to allow everyone to maintain their living standards in old age. Most Member States, however, want to preserve a strong first pillar so as to ensure solidarity in their pension systems.

70. Pensions systems have ensured that older people now enjoy reasonable and sometimes even comparatively high living standards. The average net adjusted⁴ income of persons living in households receiving at least one pension (retirement or survivor's pension) is very close to average incomes of the population as a whole. Pension systems contribute around 60 per cent of the total net income of such persons. Other incomes include social transfers other than pensions, income from property and income from work (especially in those cases where pensioners share a household with people who are still in employment). However, there are still some gaps in income provision for older people. Poverty rates, especially among older women are usually higher than average. Present gaps in the adequacy

⁴ The net income is adjusted per "adult equivalent" to take account of differences in household size and composition: the income received by a household is divided by its "equivalent size" computed using the modified OECD equivalence scale. Any member of a given household, child or adult, is assigned the same equivalized income.

and fairness of pensions call into question the Lisbon objective of creating greater social cohesion.



3.3.1. Poverty risks in old age

71. Despite the general success in countering the risk of poverty in old-age, there are still cases in which pension systems fail to provide adequate minimum resources. Older women, who constitute 2/3 of pensioners above the age of 75, are particularly prone to the risk of poverty in many Member States. In some countries, poverty rates are still higher among older people than in the total population, although the difference has narrowed and may continue to diminish as pensions systems mature and more people with full contribution records retire.
72. In the absence of minimum pension provision, short employment spells and career breaks often lead to inadequate pension provision, particularly in the case of women without adequate derived rights. Growing labour market participation of women should result in a better protection in old age. However, women are still more likely to compromise their careers for family reasons and hence accumulate lower pension entitlements than their partners. As long as families are stable, pension systems may provide adequate protection through derived benefits. With increased family instability, the issue of sharing pension entitlement between spouses becomes more and more important.

Strengthen solidarity in pension systems

In order to give all individuals an opportunity to earn an entitlement to an adequate pension, Member States build elements of solidarity into the pension system in favour of those with incomplete careers and low earnings.

73. Pension reforms will need to be carried out bearing in mind such inadequacies. In particular, cuts in the level of pensions under certain pensions systems may not turn out to be as financially advantageous as expected if they lead to increased reliance on means-tested social assistance, thus merely shifting expenditure from pension systems to other social protection schemes. Furthermore, reliance on means-tested social assistance or minimum pensions may also undermine incentives to work (part-time after retirement from one's main job, or to earn income to meet the needs of elderly relatives) and to provide for one's own retirement (people on low incomes may not expect a pension above the social assistance level). Sweden, for instance pointed out that the guaranteed pension, combined with housing supplements, progressive taxation and certain income-related municipal rates, exposes low-income earners to high marginal tax rates. As a result, they may not be able to increase their pensions by working more. Similar problems exist in other Member States. The UK has also set out its intention to ensure that rules regarding the treatment of savings in means-tested benefit schemes do not penalise people who have saved during their working lives. In general, Member States agree that pension systems, through the combination of the different pillars, should achieve more than guaranteeing a minimum income level covering only basic needs.
74. Germany highlighted the problem of benefit non take-up among older people. Although entitled to means-tested benefits, older people often refrain from claiming them because these payments may be recouped by the benefit offices from their children. This problem is to be addressed as part of the current reform efforts by introducing a specific law on needs-based minimum security in old age and in the event of invalidity. People aged 65 and over as well as permanently invalid adults who are needy according to the definition of the social assistance law will be entitled to income support regardless of any possible claims they may have vis-à-vis their children or parents.

3.3.2. Improving the quality of occupational and personal pension schemes

75. Pension reforms seeking to bolster the role of occupational and personal pension schemes will also need to address certain weaknesses of these schemes. The absence of vesting (as for instance in Portugal) or long vesting periods (as in Germany where they are to be shortened) in occupational pension schemes make it difficult for people who are not part of a company's core workforce and hence in long-term employment to earn sufficient pension entitlements. High management fees for personal pension plans can make them very unattractive to low-paid workers, and the practice of levying charges on initial contributions (front loading) imposes a high costs on scheme leavers. Ireland and the UK have highlighted this problem and are working on solutions ('stakeholder pensions' in the UK, 'personal retirement savings accounts' in Ireland). Ireland pointed out that because occupational pension coverage is currently concentrated among higher taxpayers the tax treatment of these schemes disproportionately benefits the better-off. The German pension reform tries to address this problem by supporting contributions to private schemes through grants for low-income earners. At EU level, the lack of coordination of such schemes' legal frameworks, notably in the area of taxation, needs to be addressed to remove obstacles to cross-border mobility. With growing reliance on second and third pillar schemes their prudential supervision becomes an increasingly important issue.

76. There is a recognition among Member States which are seeking to promote occupational private pension schemes that there can be a problem of low and uneven coverage with a tendency for certain sectors, categories of workers and types of businesses to lag behind. The extent of such a problem varies according to the system of industrial relations and collective agreements. High rates of coverage are found in Denmark (80%) and Sweden (90%) where, although all such occupational arrangements are voluntary, they are backed by the comprehensiveness of collective bargaining agreements. Other policy options to address this issue include making membership of such schemes mandatory, offering cash incentives (instead of tax incentives) for scheme membership and allowing the two sides of industry to make scheme membership compulsory for an entire sector or profession as is common in the Netherlands and being considered in Belgium.

3.3.3. Solidarity and redistribution in pensions systems

77. Strengthening the actuarial link between contributions and benefits (a measure which would strengthen the employment incentives in pension schemes) does not necessarily weaken solidarity. Sometimes stronger actuarial links may actually strengthen solidarity. Sweden drew attention to the fact that the old pensions systems gave unjustified advantages to people with an erratic income profile because pensions were based on earnings during the best 15 years rather than lifetime earnings, an issue that was also important in the Italian pension reforms. Other pension systems may penalise (from an actuarial point of view) certain categories of workers with flat earnings profiles – notably manual workers - if pensions are calculated on the basis of final earnings or a number of years with high earnings without taking account of all contribution years and shorter life expectancy.

78. On the other hand, most pension systems also comprise important redistributive elements in favour of the less-well off, for instance when they guarantee a minimum pension regardless of employment and contribution records, when certain career interruptions give rise to pension rights or when contributions are levied on all incomes but benefits are capped.

79. In countries with a great diversity of statutory pension schemes (e.g. for different sectors, professions) there is often a perceived need to harmonise these different schemes. This is, for instance, the case in Austria and Finland which have already reformed civil servants' pension schemes to bring them more in line with the general scheme. This issue is also linked to the complexity of the pension systems which, as was pointed out by Greece, can lead to undesired consequences in terms of discrimination between different groups in the population and increased compliance costs for employers.

3.3.4. Other policies determining the relative living standards of retired people

80. The living conditions of the elderly do not depend only on cash payments from pension schemes. Policies on housing, social and health services, access to certain economic or cultural services at reduced costs, social assistance benefits, special tax and contribution rules as well as help from relatives and friends can all contribute to a better quality of life and more social inclusion. These elements can

be difficult to quantify, but may have a significant impact on the welfare of older people.

81. Many Member States do not only look at the future of pension provision, but also at the living conditions of older people in general. Thus, in the United Kingdom, an Inter-Ministerial Group for Older People co-ordinates the Government's approach, whereas in Germany, an expert committee of the federal government is in charge of reporting about the situation of the older generation as a whole and in Denmark public hearings involving the elderly people are organised. Belgium established an advisory committee for retired persons that submits comments on laws and legislative proposals to the government and may question ministers on pensions-related matters.
82. One area that is particularly important for the elderly is health and long-term care. Most of Member States report that pensioners benefit from reduced fees or co-payments for health care services and products such as medicines. In some cases they are even completely exempt from such payments, although this is in general subject to a means test. The most serious conditions are generally fully covered by the Social Security systems. Member States also put great emphasis on prevention and healthy ageing in the development of their social and health care services which encourages the elderly to get involved in social, physical and cultural activities.
83. Most Member States point out that special support is available to dependent elderly people. This mainly takes the form of specific allowances based on the degree of dependence and, in some countries, subject to a means test. Specific insurance against the risk of dependency has also been introduced as part of the social security system (e.g. Germany) or is encouraged by the government (e.g. UK); France is currently reforming its system and plans to introduce dependency allowances subject to a means-test. Another option is the direct provision of services such as home assistance. In Denmark, local authorities provide free home help and also offer preventive home visits twice a year to all citizens of age of 75 and above. In order to encourage caring activities, Germany's care insurance provides payment and social security cover for carers, including relatives.
84. As regards housing policy, most of the reports underline that a majority of retired people own their accommodation. Some countries offer, however, specific (means-tested) housing allowances for pensioners (for example, in Luxembourg, a National Solidarity Fund takes in charge part of the price of the accommodation in care institutions for older people's homes) or reserve a more favourable treatment to older people concerning housing benefits or tax relief for rented accommodation (in Ireland, for example, tax relief for rent paid for private accommodation is available at a higher rate for the elderly: those aged 55 and over can qualify for rent relief that is more than double the rent relief available to those aged under 55). There may also be special protection for older people as tenants and privileged access to social housing.
85. Taxation is another important area in which older people can receive government support. Practices in this field are very diverse. Some countries do not apply any specific tax regime to pensioners whereas other are applying a more favourable tax regime, notably to pension benefits.

86. Finally, most of Member States point out that elderly people benefit from reduced fees in public transports, museums, cultural events etc.

3.4. Adapting pensions systems to a changing society

87. The failure of pensions systems to provide adequate incomes for all elderly people partly stems from their insufficient adaptation to a changing society. Thus the traditional way of providing for the welfare of older women, i.e. survivors' pensions, will no longer be satisfactory in a society where divorces are common. Conversely, survivors' pensions may become less necessary when more and more women have earned their own full pension rights. Pensions systems also have to cope with changes in the labour markets leading to more diversified employment patterns and to respond better to the aspirations of individuals in an ageing society. A one-size-fits-all model of retirement is no longer appropriate.

3.4.1. Gender equality in pensions systems

88. Pension systems traditionally addressed the pension needs of women through derived benefits which ensured women who depend on the income of their husbands an adequate income in widowhood. Furthermore, it was common to allow women to retire at a younger age than men, reflecting the statistical observation that men tend to be older than their wives; so in order to allow a couple to retire at the same moment, a lower retirement age for women was regarded as desirable.

89. The basic assumptions justifying direct discrimination in relation to survivors' benefits and the pensionable age no longer reflect the social reality as well as they used to and lead, in an increasing number of individual situations, to unsatisfactory outcomes for women (notably in cases of divorce or separation) or men (e.g. when their earnings are lower than their spouses' or when they have accepted a larger share of family responsibilities). Such

Ensure that pension systems support the equality between men and women

Member States are progressively abolishing direct discrimination between men and women in pension systems, as other measures are being introduced to compensate for labour market handicaps mostly – but not necessarily – suffered by women.

direct discrimination can, on the one hand, compensate for career sacrifices, usually made by women; on the other hand, they also risk cementing traditional gender roles if certain advantages are only available to women, but not to men who might accept to take on a greater share of family responsibilities.

90. All Member States are therefore committed to moving away from direct discrimination. This commitment is enshrined in Directive 79/7 for statutory social security schemes and in Directive 86/378 (amended by Directive 96/97) for occupational security schemes. Nevertheless, Directive 79/7 allows for certain exceptions to be maintained provisionally. Thus in Great Britain the state pension age is currently 65 for men and 60 for women. Legislation is in place to equalise gradually between 2010 and 2020 the state pension age at 65. In Belgium a law of 1997 provides for the progressive equalisation of the retirement age in the private sector. Furthermore, the rules governing the calculation of pension rights in the private sector will be equalised. All this is to be achieved by the year 2009.

Austria maintains a difference of five years between pensionable ages for men and women in the statutory pension scheme (such a difference does not exist in civil servants' scheme). Equalisation is to be achieved between 2019 and 2029 for the early retirement age and between 2024 and 2034 for normal retirement. However, in a recent case, the Court of Justice of the European Communities ruled that certain regulations in other areas which reflect these differences in retirement age can be unlawful under EC law (*Buchner, C-104/98*). This judgement may cause further pressure to remove differences in retirement ages for men and women under Austrian legislation.

91. An important problem in private pension schemes are gender differences in contribution rates or, in the case of defined contribution schemes, benefit levels for men and women. These reflect the higher life expectancy of women. Gender-specific contribution rates are common in third-pillar provision (life insurance), and a given capital accumulated in a defined contribution scheme will normally buy a higher annuity for a man than for a woman. In the Netherlands, however, legislation has been introduced in December 2000 to ensure that men and women pay equal contributions and receive equal pensions from second-pillar defined contribution schemes. Furthermore, the possibility to choose between survivors' benefits and better individual pension rights has been introduced. Italy requires unisex rates to be used for calculating pension benefits. In the new Swedish pension system – which is contribution-defined – women and men on identical earnings will receive the same pension amount in spite of the longer life expectancy of women. Thus, the system redistributes in favour of women.
92. The Member States recognise that a complete switch to individual rights would leave many women without adequate pension rights in view of their lower earnings and often long career interruptions. Different options are chosen by Member States to tackle this issue.
93. One commonly used approach in many Member States consists in compensating people who interrupt their careers for family reasons. Child rearing periods are treated as employment-equivalent periods (sometimes this is subject to a means test), giving rise to pension entitlements. In some countries, like Ireland, full pension insurance cover is guaranteed during periods of part-time employment and periods spent in full time caring for dependants. Countries such as France, Germany and Italy add contribution years to the insurance records of women who raised children. France offers one to two years of contributions, whereas in Germany three insurance years are credited for children born after 1992. Germany also offers higher pension entitlements for parents working part-time during the first ten years after the birth of their child. For the calculation of pension benefits it is assumed that these parents receive a full-time income (up to average earnings) instead of their reduced part-time earnings.
94. Survivors' benefits remain an important element in the social protection of older women even when in the legislation no distinction exists between women (widows) and men (widowers). As long as women continue to have less favourable earnings histories and live longer than men they will tend to be the main beneficiaries of survivors' pensions.
95. The introduction of guaranteed minimum pensions in many Member States has also greatly contributed to a better social protection of women. Such minimum

pensions are independent from contributions and therefore effectively protect women with very low labour market participation.

96. Most Member States are also concerned with improving women's individual rights. This is particularly advocated in Nordic countries and the Netherlands which tend to favour perfectly gender-neutral pension systems because of fear that compensation might cement traditional gender roles and are no longer appropriate in a society where marriage becomes less common and divorce and separation rates are rising. Individualisation of rights is only beneficial if women can in fact obtain adequate pension rights. Most of the Member States are concerned about improving women's individual rights and have developed various methods. In particular the sharing of pension rights in case of divorce is important. In Germany, younger couples will be able to agree on the splitting of pension rights during their marriage; this is usually advantageous for women.
97. In the long run higher labour force participation of women and reduced pay differentials between men and women will lead to better individual rights for women. To what extent this will reduce the need for approaches such as survivors' benefits, the crediting of contribution periods for child care etc. remains to be seen. There is universal recognition of the need to develop child-care and educational provisions which facilitate the employment participation of mothers. Furthermore, there is now a consensus on the importance of encouraging men to accept a greater share of parental responsibilities (for example by making it easier for fathers to take parental leave).
98. Some Member States also seek to introduce financial incentives for women to get involved in the labour market. For example, Germany's pensions reform envisages that pension entitlements will be uprated for parents who are employed during the first ten years in a child's life, but have to reduce their working hours. The aim of this reform is to encourage women to keep career breaks as short as possible and to return to the labour market as soon as possible by taking at least a part-time job. Finally, it is also accepted that the quality of female employment needs to be raised and that this must be reflected in more equal pay. This will then be reflected in more equal pension rights. Some Member States stress the link between better training for women and equal pay, on the one hand, and the discussion on pension reform on the other.

3.4.2. Adapting pensions systems to changing employment patterns

99. Most public pension schemes already cope reasonably well with career interruptions and flexible employment patterns. Germany recently extended statutory pension insurance cover to part-time workers with weak labour market involvement and to certain self-employed who can be treated on a similar basis as employees. The main issues, however, are access to, and quality of, supplementary pension provision.
100. Workers who may not be satisfied with the level of income replacement from their statutory pension scheme will not automatically benefit from an occupational scheme. There are five Member States in which the accrual of occupational pension rights is currently very significant: the UK, the Netherlands, Ireland, Denmark and Sweden. Only about half of the workforce are covered by occupational schemes in the UK and Ireland whereas in Denmark, the Netherlands

and Sweden coverage rates exceed 80 per cent. The main determinant of the scope of second pillar provision therefore seems to be not the size of the first pillar, but other factors determining the development of occupational pension schemes. Particularly important in this respect appears to be the system of industrial relations and the ability of the two sides of industry to agree on extensive occupational pension provision. Belgium also plans to promote occupational pension schemes through collective bargaining.

101. Other methods, specifically targeted at low-income earners, are going to be tried as well. Germany will offer direct grants in addition to the much more common tax incentives whereas the UK is introducing “Stakeholder Pensions” which are designed to be a low cost, transferable product, designed to meet the needs of moderate earners. Every employer with more than five employees, who does not provide an occupational scheme, will have to offer their employees access to a stakeholder pension as of October 2001. In addition, the UK is taking measures to ensure that second pillar occupational schemes permit individuals to take less demanding, or less than full-time jobs with their existing employers without disproportionately affecting their pension rights.

102. Another important issue in relation to occupation pensions is their portability. Most Member States have introduced mandatory vesting so that workers who leave their employer before reaching retirement age do not lose all their entitlements. Vesting periods, waiting periods (i.e. the time of employment before one can join an occupational scheme) and minimum age requirements can, however, act as a major obstacle to the acquisition of occupational pension rights for people in more flexible employment relations. Even for those who have acquired a vested pension right, professional mobility will often result in a significant reduction of the future pension amount.

Facilitate labour market adaptability

Many occupational pension schemes still impose high costs on workers who change jobs or who are in non-standard employment relations. Member States need to consider ways of making occupational pension provision more accessible and more portable.

103. The Danish approach to developing a 2nd pillar of fully funded, defined contribution, occupational schemes appears to have managed to avoid this effect. This is based on large schemes without health criteria and waiting periods, with immediate vesting of rights and full transferability of accrued rights, offering retirement, invalidity and survivors benefits and covering entire sectors of collective agreements. Thus despite its character of private, fully funded and being tied to the employment contract, the system presents no barriers to labour mobility.

104. Thus, while such an approach appears to provide good occupational pension provision for mobile workers, in general it seems that the issue could receive more attention in other Member States in which second pillar provision is expected to play a large role in the pension system.

105. Many Member States have different statutory social insurance structures for different categories of workers (e.g. self-employed, blue and white collar, miners, public sector employees). Often these structures no longer reflect today’s labour market realities – a fact that may be reflected in declining numbers of active

members – and their reform is high on the political agenda. An integration into, or harmonisation with, the general statutory scheme can easily run into political difficulties, not least because these schemes often represent both the equivalent of the first and second pillar. Thus, Austria is planning an organisational reform of its social insurance with a view to making it more efficient and lowering administration costs. However, the harmonisation of different schemes for specific professional groups (blue-collar workers, employees, self-employed, farmers, railway workers etc.) should not diminish the high quality of social insurance.

3.4.3. Individual choice and flexible retirement

106. One of the most important choices individuals may have in pension systems is the age of retirement from the labour market. This issue has been discussed in connection with the need to raise the effective retirement age (see section 3.2.1). While there is a clear tendency to tighten the eligibility conditions for early retirement – which would reduce the range of options available to individuals – there are also many moves to introduce more flexible transitions from work to retirement. Actuarial links between contributions and benefits, in combination with a flexible retirement age, can help to give individuals a greater degree of control over the decision as to when to retire.
107. Many reforms also lead to more choice – and hence more responsibility – being given to individuals regarding pension providers and investment strategies. This is the case where the possibility to opt out of a mandatory scheme exists (UK) or where there is a choice of pension provider to manage a share of one's contributions (Sweden) or when a reduction in public provision leaves more scope for the third pillar (Germany). A high level of information about the implications of particular choices becomes crucial in these cases as wrong decisions can have major implications for future pension levels and may not be easy to correct.

4. National reform processes and the role of the European Union

108. Pension systems are core elements of the European social model and they affect a larger group of citizens for a longer period of time than any other form of social protection. At the same time they impact significantly on the economy in different ways. This makes reforms of pension systems complicated and politically sensitive. It is clear from the Member States' responses that they are keenly aware of this: the political process can be as important for the success or failure of reform attempts as the content of reform proposals. Member States therefore tend to aim not just for the construction of majorities in favour of reforms, but to seek a consensual solution, which – even if all actors may not actively back it – is broadly acceptable to everyone. Such consensus building is also crucial for the long-term stability of pension systems. If they were remodelled after each change in government it would become impossible to plan for one's own retirement.

4.1. Methods to build the necessary consensus for conducting these reforms and to ensure public confidence

109. Broad agreement on pension reform is emphasised as a priority not just in the reports from countries with long consensual traditions such as the Netherlands, Finland and Denmark. Its importance is also underlined in the reports from, for example, France, the UK, Italy, Spain and Germany. The UK report speaks of the government's intention to build a national consensus on pension reform; the French highlights the need for debates, concertation and transparency; the Italian report sees a broad and clear debate as a fundamental consensus element; Germany underlines that major reforms require as broad a consensus as possible and Spain expects the ongoing reform process to proceed in accordance with the comprehensively consensual Toledo pact of 1995. In Ireland, pension policy and reform has been, since the 1980s, the product of wide consultations with the social partners and other interested parties both through the Pensions Board and the Partnership Process.
110. Any consensus reached may be subject to constitutional constraints. In some Member States it is possible for citizens to challenge new legislation before the constitutional court. Thus, Austria mentions that its constitution offers protection against sudden changes in the legal situation and that legislation meant to raise the minimum age for early retirement from 1.10.2000 is being challenged before the constitutional court. The question raised is how long transition periods need to be in order for pension reforms to be compatible with the constitution. While the possibility of such legal challenges may increase the stability and predictability of pension systems, it can also make the task of reacting fast and decisively to the challenges confronting the pension system more difficult.
111. The process leading towards a decision on pension reform is often an important element in achieving a broad consensual agreement. This is clearly demonstrated by the energy which many Member States devote to designing the process as a sequence of phases of analysis, debate, construction of reform proposals, further debate, consultations and negotiations before final decisions are made. Often great care goes into ensuring that enough time is allotted for each phase and that the process becomes sufficiently transparent. Some Member States also plan a follow-up phase where the implementation and future changes in the underlying demographic, social and economic situation are closely monitored. The protracted Swedish reform process of the 1990's, which explicitly aimed to overcome former, strong divisions in pension policy, followed such a pattern. Moreover, this is how other Member States envisage to proceed, whether already in the middle of further pension reform considerations such as France, Spain, Austria and Greece or planning and preparing for processes leading to pension reform such as Belgium.
112. Easy access to reasonably unbiased information is – not surprisingly – perceived as a precondition for conducting meaningful public debates. Many Member States have processes and institutions in place which allow the government and the population to solicit information on the present and future state of the pension system. Yet, these may not be perceived as sufficiently neutral. In order to depoliticise the analysis and create official input to the debate there may therefore be a need to establish new advisory bodies. In France the

government is establishing a new council composed of members of parliament, social partners and experts. Its main tasks are to monitor the impact of economic, social and demographic change on pensions and to report regularly to the government and parliament. These reports will be made available to the public. Similarly Austria recently established an experts committee to monitor the long-term evolution of the pension system. Italy established in 1995 the *Nucleo di Valutazione della Spesa Previdenziale (NVSP)* which monitors pension trends and evaluates the financial impact of possible reforms.

113. Getting unbiased information and to be seen to actively seek it is also important. In the preparation of the 2nd phase of pension reform the Greek government has taken the step of commissioning a study of the long-term prospects of the Greek system from an independent, international actuary.
114. Another problem has to do with the complexity and very long-term horizon of the pension issue. There is a definite need for clear explanations of the available options to be presented to interested lay people and eventually to the voters at large. Consultative bodies such as the ones mentioned above may also have to ensure the production of easily accessible, popular presentations of issues and solutions.
115. Most Member States consider it essential to consult the social partners about reform plans. The Netherlands and Denmark pointed out that there are areas of pension policy, such as the one pertaining to the 2nd pillar occupational arrangements based on collective agreement, where nothing can be achieved without the acceptance and support of the social partners. 2nd tiers of the statutory pension system in France, Finland and Luxembourg are regulated in two or tripartite institutions. Many Member States have comprehensive institutions for consultations with the social partners and various other interest organisations on matters such as pensions. Belgium, for instance, has a well-developed array of institutions for consultations with parliamentarians, the social partners and older peoples organisations. Ireland uses the Pensions Board, which was set up in 1990 to regulate occupational pensions and comprises the social partners, government and other interested parties, in an advisory function for pension reform.
116. In some Member States it is common to consult also with older peoples' organisations. The involvement of voters and beneficiaries themselves is furthermore attempted in a number of Member States. In Sweden comprehensive information was sent to all citizens who would be affected by the new reform during the process of change and implementation. The Swedish government furthermore expects that the yearly statements which everyone will receive will help to raise the awareness of the new system and keep public debate about pension conditions alive.
117. However, consensus building should not be to the detriment of political leadership. Thus, Sweden explained the successful conclusion of its pension reform by the fact that political parties first discussed among themselves. This allowed party representatives to explore a wider range of options, eventually leading to an innovative compromise which might not have been possible if the social partners and other established interests groups had been involved right from the beginning. In Spain, a special commission in Parliament has been working since June 2000 to make proposals for renewing the Toledo Pact.

4.2. The current state of play of national reform processes

118. Several Member States expressed confidence that they had arrived at a pension system which they believe to be reasonably sustainable in the face of population ageing. Sweden and Italy, for instance, have put the main features of their radical reforms from the mid-1990's in place and perceive themselves as safely on course to meet the forthcoming challenges. The Netherlands see little need for reform of the Dutch pension system. Denmark considers the situation to be fully manageable as long as the present emphasis on debt reduction and employment promotion, including for people with a reduced work ability, is successfully continued. In the view of the Finnish government the present pension system is efficient and can be further developed. Nevertheless, in most of these countries there is significant scope for improvement in the employment rates of older workers – particularly after age 59.
119. A number of countries are currently engaged in reform efforts. Germany is preparing a major reform and expects that this will be sufficient to meet the challenges of the next few decades. Ireland is focusing its attention on a possible reform of public service pensions. Belgium expects that she will be able to bring the necessary reforms to a successful conclusion. France adopted substantial reforms in the early and mid-1990s and can now be said to be preparing for a second round of major reforms. The UK is trying to strike a new social balance in its pension system by improving the pension situation for people with moderate to low incomes. Thus it is adding new elements to both the public and the private side of its pension system at the same time as it is upgrading the value of its 1st pillar national pensions. After a period of debate and consultation followed by parliamentary adoption of the principles of reform Portugal is presently working out the legal details of the reform and preparing for its implementation. This spring, the Greek government opened the second and decisive round of pension reforms by releasing projections relating to the prospects and challenges faced by the pension system. The Greek government is now in the process of building as broad a consensus as possible – involving parliamentary parties and the social partners – on the best ways of meeting the challenges. Given that postponing reforms could ultimately result in greater adjustment costs, the government has underlined the importance of bringing this process to a successful conclusion. In the spirit of the Toledo pact Spain is preparing a number of gradual changes to its national pension system. Politically Spain has long since entered the process of reform, but it is still facing new reforms which may be needed to make the system sustainable in view of population ageing. Ireland is focussing attention on extending supplementary pension coverage through the introduction of Personal Retirement Savings Accounts (PRSAs), and on a possible reform of public service pensions.

4.3. The value of European collaboration

120. As the Commission had stressed in its communication of October 2000, it is for the Member States to decide what pensions system they want and what policy mix is required to maintain adequate incomes for older people without jeopardising the stability of public finances, undermining employment incentives or squeezing out other essential public expenditures. However, despite the

considerable diversity within the European Union, Member States face common challenges and share common objectives with regard to pension systems. They are also committed to a number of principles, amongst which are equity and social cohesion, which characterise the European social model. This makes it useful for Member States to co-ordinate their efforts and exchange views and information on practices and reforms in progress or at a planning stage. National choices and priorities in the strategies and detailed reform process do, however, remain the responsibility of Member States. The role of the European Union will be to help the Member States to progressively develop their own policies, and the Stockholm European Council specifically asked that the potential of the open method of coordination should be used to the full in this field.