



The Social Insurers of Europe

EUROPEAN SOCIAL INSURANCE PLATFORM, Rue d'Arlon 50, B-1000 Bruxelles

DG EMPL/E/1
J-27 01/122
European Commission
B-1049 Brussels

DG EMPL/E/1 A/23415
Date: 17-10-2005
CF: E
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Brussels, 11 October 2005
Dr T/let060

Re: European Commission Green Paper "Confronting demographic change: a new solidarity between the generations" – COM (2005) 94 final

Dear Sir or Madam

Please find enclosed the position of the *European Social Insurance Platform* – ESIP on the above Green Paper.

We thank you for taking our comments into consideration in your open consultation process.

If you have any questions, please do not hesitate to contact me.

Best regards



Dr Franz Terwey
Director

Enclosure: *ESIP Position Paper*



**European Commission Green Paper
“Confronting demographic change: a new solidarity
between the generations”
16 March 2005, COM(2005) 94 final**

**Joint Position Paper
of the European Social Insurance Platform**

submitted in October 2005

About the *European Social Insurance Platform* (ESIP)

The *European Social Insurance Platform* (ESIP) represents the social insurers of over thirty organisations from eleven Member States and Switzerland, active in the field of health insurance, pensions, family benefits, occupational safety and accident insurance and unemployment insurance. The aims of ESIP and its members are to preserve high-profile social security for Europe; to reinforce solidarity-based social insurance systems and to maintain European social protection quality. ESIP builds strategic alliances for developing common positions to influence the European decision-making process and is a consultation forum for the European institutions and other multinational bodies active in the field of social security.

For more information please visit the ESIP website at: www.esip.org

European Commission Green Paper
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1. General remarks

According to the responsibilities and competences of the partners working together in ESIP, only selected questions and assumptions of the communication can be reflected in the following comments.

The European Commission believes that there was never economic growth without population growth (chapter 1.1). Starting from this assumption, Europe is invited to promote policies that support the birth rate (Chapter 3).

There are basic doubts about this approach. Population growth alone is not at all a panacea for the economic failure of societies. There are many examples worldwide of populations with high birth rates that for long periods still have serious problems with their economic and social performance. Furthermore, increased future productivity could easily make up for part of a reduced labour force. Against this background, there is much evidence that with or without demographic change there will be now and in the future enough qualified (and less qualified) people in the Member States. What are missing are the appropriate jobs, even after professional retraining. In addition, national policies oriented towards population growth are for many reasons contested. Replacing national birth policies by a European birth policy will not change the image.

Experience shows however that without high quality education and (professional) training the chances for a successful integration in a dynamic and sophisticated labour market are very weak. So it might be more important to look at the "quality" of future generations and to invest in children already born than to focus on "quantity". It would be interesting to observe how Member States developed family and child policies that resulted in higher than average birth rates, in combination with policies that help to maintain or to reach a sustainable level of qualification (for instance: the fraction of young people with a scientific diploma at the age of 20).

ESIP would also underline that current and foreseen demographic development challenges social protection systems as a whole, not only the first pillars. Complementary regimes, regardless of whether they are based on the principles of

solidarity or purely on the principle of capitalisation, will have to face the same problems.

Chapter 1.1, last question: general conditions to reconcile family life and the need to perform a gainful activity

An appropriate answer to this question must consider the broad and complex environment of why many people don't have children even though generally they would like to have them. Among others, for many people job instability together with increasingly vulnerable, precarious and uncertain labour market expectations and expensive housing will be a decisive factor. Workers and employees are very well aware of the future risk to lose their income level – with and without children. They understand and react to the demand to be mobile in many directions: "For workers, working life is becoming more complex as working patterns become more diverse and irregular and an increasing number of transitions need to be managed successfully throughout the lifecycle. With rapidly changing economies and attendant restructuring, they must cope with new ways of working, including ... changes in their working status, and be prepared for lifelong learning. Geographical mobility is also needed to access job opportunities more widely and in the EU at large"¹

In addition, people are requested to undertake investments additional to the execution of their jobs in order to keep their "employability". The necessity to accept increasing risk, insecurity and permanent "modernization" will tend to prevent many people from taking the additional risk associated with the burden of bringing up children. Flexibility and security must go hand in hand.

The best condition to change this situation would be a general reduction of job instability. Unfortunately, in the global environment it is not clear what can be expected at short notice by public policy, neither by Member States nor by the European Union.

Chapter 1.1, Question 3: inner familiar distribution of household duties

A new allocation of house working between the sexes could particularly help women to better reconcile family life and work. The means of Social Security to achieve this goal are modest. However, making certain social benefits conditional to joint engagement by both partners in house working could give some incentives. E.g. in some countries parents' allowances are divided into mothers' and fathers' quotas which cannot be handed over to the other parent. This has proved successful in increasing the fathers' use of this allowance.

Chapter 1.1, questions 4 and 5: parental income and child care facilities

It is not a realistic option to overcome the medium and long-term insecurity people are facing in the labour market by reliable medium and long-term income guarantees for parents staying at home. Social benefits in the form of a permanent income for those taking parental leave can ease the burden of bringing up children for short periods when they replace to a certain extent former professional income. But every

¹ Integrated Guidelines for Growth and Jobs – adopted by the summit on 17 June 2005 - introduction to integrated guideline 20 "Promote flexibility combined with employment security and reduce labour market segmentation"

temporary extension of such benefits must carefully be measured against the risk of long-term losses in employability and chances in the labour market. Instead, improving high quality public child care facilities and structures that are affordable for all seems to be a very important tool to help parents to reconcile family life and labour market participation². In addition, everything should be done to help parents to give their children a good start and improve their integration into society. There is no need for "demographic growth" to motivate such a policy rather respect for the dignity and well-being of children - a common value of all European societies.

Chapter 2.2, question 2: changes in the organisation of work

Changes in companies' work organisation, including (re)training services after a professional break invested in childcare, could be one important element for better reconciliation of work and family life. Public entities such as social insurance administrations have done a lot to give family members with children more flexibility, helping them to stay in the job.

Chapter 1.2: The role of immigration

It is not clear how immigration could be targeted to replace (alleged) expected demography-related losses in the labour force. Experience shows that – as a consequence of the legal environment – the socio-economic structure of immigration into Europe is hardly governable. Even if demographic decline is not solved through immigration, immigration is often related to economic demand in the country of destination. Backed by targeted integrative measures it could be possible to take advantage of the presence of migrants in Europe and to expect an economically sustainable answer to demographic change. Therefore the European Commission is correct to insist on more and better systems for "integrating migrants, in particular young people". But this is necessary with or without an unfavourable demographic background.

Chapter 2.2: Active ageing

Active ageing in connection with raising the average retirement age would be one possible answer to demographic change, provided that jobs are available without targeted age related discrimination of workers. But it must be recognized that such an approach will not be available for free. Much more must be done for the health and medical/professional rehabilitation of older workers. This would have to be part of a solidarity-based social model – in return for increased labour performance of people having reached a point in their life-cycle when their work capacity is often changing.

² Private non-profit organisations have already started to implement such childcare facilities in many countries by opening wide access crèches allowing parents, and especially women, to manage professional and private life.

Chapter 2.3, questions 2 and 3; chapter 2.4, question 2: the new role of elderly people (65-79) – combination of wages and pensions – statutory retirement age vs. flexible retirement

Already in its Communication of 30 December 2003 "Modernising social protection - for more and better jobs – a comprehensive approach contributing to making work pay" [COM(2003)842 final] the European Commission expressed its view that in the future people should extend working life beyond regular retirement age in order – if necessary in combination with their pension – to have an adequate income. Achieving the aims of Barcelona for the year 2010 would thus mean continuing to work well beyond the age of 65.

In its Joint Position Paper of October 2004, the *European Social Insurance Platform* contradicted the European Commission emphatically, saying that:

"The aim of a socially reasonable old-age pension insurance policy is and has to remain the provision of workers with an adequate pension when they reach the normal retirement age. This does by no means exclude that those who want and are able to continue to work beyond the normal retirement age may do so. And it does not exclude any flexible retirement age provision or gradual arrangements using a combination of part time work and partial pension. The protection of an adequate standard of living must, however, be guaranteed for all those who cannot be expected to perform a gainful activity on a sufficient scale."

Now the European Commission has extended and specified its position, using as a framework a new "life-cycle model". This model could be interpreted to mean that "retirement" would in principle no longer exist: Everybody would be invited to continue working even until the age of 80, at least "through a combination of wages and pensions" and, if necessary, "in new forms of employment (part-time, temporary)". This seems to be sustained in chapter 2.3, question 2, where the concept of a "statutory retirement age" is explicitly put into question in favour of flexible, gradual retirement. In addition, it should be mentioned that the European Commission in chapter 2.4, question 2, is expressing the idea of abolishing the distinction between retirement pensions and dependency allowances.

If this interpretation is correct, it is worth several remarks:

First of all, it should be clear that the concept of a statutory retirement age and the possibility of flexible, gradual retirement are not contradictory. The concept of a flexible entry into retirement without strict age rules, such as is formulated in the Green Paper, is completely backed by ESIP. Flexible and gradual pension age, and not a rigid and compulsory one, is a good opportunity if it corresponds to an individual choice, depending on job, professional conditions, wages etc., and if it doesn't mean putting off the age for retirement for the whole population. Until today, all schemes represented in ESIP provide some sort of flexibility linked to the age of entry and the decision on full or partial pension. However, systematic arguments speak against a complete renunciation of any form of a statutory pension age. For two distinct reasons, the concept of a more or less typical pension age is essential for any pension scheme. Firstly, the earliest age – or a minimum period of contributions – for the drawing of a full pension has to be decided by law or other agreement. Secondly, old age provision is not only designed to avoid poverty, but to provide

income security by replacing work related income. Whatever the political decision on the level of income replacement might be – the calculation of contributions cannot be done without a vision of how long on average the pension will be drawn - and this needs a concept of when the worker is likely to retire. It might be possible for individuals to bring forward, to postpone or to graduate the retirement age and thus obtain an income replacement below or above the "ideal" level. But in any case, decisions on contribution level and the permitted age of entry have to be made rationally, whatever the design of the pension system and notwithstanding whether or not such an age will be called "statutory pension age".

Regarding the question of the distinction between retirement pensions and dependency allowances (chapter 2.4, question 2), it should be clear that this distinction would be relevant also in the future. Services aiming to help people maintain their autonomy in advanced age are essential and will grow in importance. However, they cannot replace an income, probably in the form of a pension, which is necessary to maintain a living standard and to make use of the autonomy.

But the most important message in the Green Paper regarding the elderly is certainly the new role attributed to the "Seniors" age 65 to 80. The European Commission has one focus, and it is obviously not demographic change alone that motivates chapter 2.3 in the Green Book. Instead, it can be understood in the broader context of the "Modernisation of the European Social Model". The main feature of this model is – in line with the Lisbon Strategy – making economic and employment growth a priority that gives the main orientation for a "productive" Social Protection. Its main task is to activate people, to increase their employability. The features are:

- Avoiding work disincentives as a consequence of Social benefits that compensate for inactivity
- Re-orientation of Social Benefits in order to give services (in kind) that help people to become or to stay employable and active
- Associated structure reforms (labour law, market law, collective agreements, wage policy, non-wage labour cost) that will help people to transform their employability into employment

The construction of a "New place for elderly people" in chapter 2.3. of the Green Paper is not more but also not less than an application of the "modernized social model" to the age group 65 to 80. Those people are considered to be in principle "employable" and therefore could be activated. It is obvious that such a concept should have strong implications for the design of old age security and pension policy. Some of these possible consequences are cautiously addressed in the Green Paper, without already providing a new, responsive construction of pension policy.

For the time being, it is not necessary to go into details. More important is the question of how well the new position of the elderly will be in touch with reality. It seems to imply that the majority of people between 65 and 79 will keep or find a job with decent revenues if only they are obliged to do so as a consequence of financial "incentives" in the form of low or absent pensions. But it is not obvious why and how the economy and the labour market should create these additional jobs or change its "youth orientation". We have at least to consider the existence of a problem which appears during the periods of industrial restructuring and that refers to the expulsion of the workers over-fifty from the labour market. But even worse, it seems as if this

phenomenon is not a temporary symptom but a permanent process. Many voices complain about the demographic ageing of the labour force and its unfavourable consequences for innovation, initiative and entrepreneurship; the Green Paper is going in the same direction (page 2). This scenario presumes that in the future too many enterprises, as long as they have the choice, will choose to recruit or to keep younger employees, instead of recruiting people between 65 and 79. In this context, the European Commission’s “benchmark” of an employment rate of 65-74 old of 18.5% in USA must not be assumed to be a model for Europe; besides, this figure should undergo a critical scrutiny in many aspects.

In this situation, it might be tempting to ask for special measures that could increase the employability of “elderly people”, for instance for lower wages or – in response to question 3 in the Green Paper – for “new forms of employment (part time, temporary)”. Apart from weak evidence that such measures will really improve the demand for older workers, they could easily result in an open and targeted discrimination against older people. Europe should not start a discussion in this direction.

Furthermore, it is not justified to regard those people between 65 and 79 as a homogenous group. Particularly after the age of 65, the spread of individual life and health expectancy, work capacity etc. becomes increasingly “asymmetric”. Some could – at least in theory – be expected to continue more or less extensive gainful activities, others will not be able to do so at all. It will be almost impossible to screen every single case. This is one of the rationales behind the social concept of a “pensioners perspective” in the life cycle, leaving enough room for individual, flexible and divergent options.

Chapter 2.4, question 6: Reduce sex related inequality after retirement

Unequal opportunities after retirement are often the result of unequal treatment and starting conditions during the professional phase of the “life-cycle”. Pension credits for periods bringing up children can ease this burden as long as they do not give incentives to “opt out” of qualified labour market options. But adequacy of female pensions will mainly require growth of female wages linked to higher incentives for employment, in terms of income, too: still today, salaries for woman are lower on average than those for men. This inequality, if not to say discrimination, will unavoidably result in lower old age pensions and at worst poverty for older women.

In addition, one way to reduce inequality between men and women when they reach retirement age is to provide splitting of pension rights in case of divorce.

Introduction – first question: The role for Europe

Finally, one has to ask if the European level is appropriate for a discussion on demographic change. It is not at all obvious if added value can be achieved through this initiative. This question cannot be answered generally, since demographic change has many different reasons and consequences for economy and society, and possible solutions will be multiple and could be anchored in very different economic and policy frameworks. And in parallel, many topics and questions tackled in the Green Paper are not only a sub-topic of an alleged main topic “demographic change”, but have other roots and must be solved with or without coincident

demographic changes for instance labour market integration (not only!) of vulnerable people, social integration and basic/professional education of young people, exclusion and poverty of families and children, migration, equality between men and women, the lifelong learning strategy and general quality of the working environment. Particularly the items "better integration of the young people" and "solidarity towards the elderly" are issues that should not be mixed but discussed separately.

So the qualification of the European level to find or to propose solutions depends on European competences in the respective policy field and the ability to create additional value compared to national policies. In addition, one has to consider that already today Europe is active in different fields and acting according to the level of its competences, for instance with regard to sustainability policies or the employment strategy (employment indicators and benchmarks for women and older workers, benchmarks for institutional child care facilities). And eventually, the trade-off between employment orientation for women and the mere traditional family-orientation linked to giving care to children will never allow for perfect solutions. Answers will be the result of very crucial policy decisions that can change over time. It is not obvious why Europe should be able to provide "better" solutions than those that can be provided at the national level.

Chapter 3 – first question: Information exchange on European level

The European Social Insurance Platform welcomes the idea of more European exchange. In this exchange, special attention should be given to selected fields such as reconciliation of working and family life or the real chances for older people to participate in the labour market without age related discrimination.

Chapter 3 – question 3: European Coordination of social protection policies

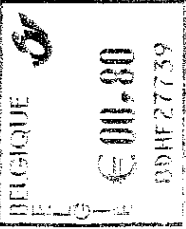
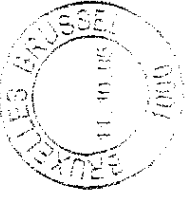
This is the place to remember that the so-called European "open method of coordination" (OMC) is already operational. In the field of pensions, its origin is explicitly to deal with the consequences of demographic change, under the label "sustainability". Similar work has to be done in order to grant long term "adequacy" of pensions. The process of OMC will be carefully expanded into health and long term care. This is once more motivated by the expected consequences of demographic ageing.

This position paper has the support of the following organisations:

AUSTRIA	HVSVT	Hauptverband der österreichischen Sozialversicherungsträger, Vienna
BELGIUM	ONP/RVP	Office National des Pensions/Rijksdienst voor Pensioenen, Brussels
CZECH REPUBLIC	CSSZ	Czech Social Security Administration, Prague
FINLAND	ETK	The Central Pension Security Institute of Finland, Helsinki
	FAII	Federation of Accident Insurance Institutions, Helsinki
	TVR	Finish Unemployment Insurance Fund, Helsinki
FRANCE	FNMF	Fédération Nationale de la Mutualité Française, Paris
	CNAF	Caisse Nationale d'Allocations Familiales, Paris
	CNAM	Caisse Nationale d'Assurance Maladie, Paris
	CNAV	Caisse Nationale d'Assurance Vieillesse, Paris
	CCMSA	Caisse Centrale de la Mutualité Sociale Agricole, Paris
GERMANY	AOK-BV	AOK-Bundesverband, Bonn
	IKK-BV	Bundesverband der Innungskrankenkassen, Bergisch Gladbach
	LKK-BV	Bundesverband der landwirtschaftlichen Krankenkassen, Kassel
	VdAK	Verband der Angestellten-Krankenkassen, Siegburg
	AEV	Arbeiter-Ersatzkassen-Verband, Siegburg
	KBS	Knappschaft Bahn See, Bochum
	See-KK	See-Krankenkasse, Hamburg
	HVBG	Hauptverband der gewerblichen Berufsgenossenschaften, Sankt Augustin
	BLB	Bundesverband der landwirtschaftlichen Berufsgenossenschaften, Kassel
	BUK	Bundesverband der Unfallkassen, Munich
	DRV	Deutsche Rentenversicherung Bund, Berlin
	GLA	Gesamtverband der landwirtschaftlichen Alterskassen, Kassel
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	INPS	Istituto Nazionale della Previdenza Sociale, Rome
LUXEMBOURG	ALOSS	Association Luxembourgeoise des Organismes de Securite Sociale, Luxembourg
THE NETHERLANDS	SVB	Sociale Verzekeringsbank, Amstelveen
	CVZ	College voor Zorgverzekeringen, Amstelveen
POLAND	ZUS	The Social Insurance Institution of Poland, Warsaw
SWEDEN	FK	Försäkringskassan, Stockholm
SWITZERLAND	SUVA	Schweizerische Unfallversicherungsanstalt, Lucerne

MAISON EUROPEENNE
DE LA PROTECTION SOCIALE
Rue d'Aidon, 50
B-1000 Bruxelles
Tél: +32 2 230 75 22
Fax: +32 2 230 77 73

PRIOR



EUROPEAN SOCIAL INSURANCE PLATFORM, Rue d'Aidon 50, B-1000 Bruxelles

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