

7 May 2021

JOINT SPC-EC PENSION ADEQUACY REPORT 2021

EUROPEAN EMPLOYERS' COMMENTS

General comments

- Maintaining current high levels of social protection in Europe can only be done through modernizing national social protection systems. They should be fit to cope with both short-term consequences of the current Covid-19 crisis, and adequately prepared for the recovery phase by improving structural performance of social systems. Since the pandemic puts additional strain on public budgets, these reforms are of the utmost importance and should be implemented swiftly.
- National pension systems should be financially sustainable and designed to embrace longer working lives and more diversified careers. National reforms of pensions systems are crucial to ensure financial sustainability of pensions. In the absence of timely reforms, demographic ageing could threaten the capacity of pension systems to provide pensions in future, which would be unfair for the younger generations. Necessary efforts to ensure sustainability of pension systems should go hand in hand with solutions that safeguard pension adequacy over the long run, in a fair way for workers belonging to different generations. Safeguarding adequate pensions is also not possible without future pensioner's participation, for example via supplementary pension schemes and/or private pension plans.
- Pension systems' architecture and pension-related policies belong to the Member States' competence and national social partners often play a role. The EU should support and complement the activities of the Member States. These different levels of competence should be respected. We welcome that the Indicators Sub-Group (ISG) continues to work on identifying suitable indicators for pension adequacy benchmarking framework and that the preliminary agreement has been reached as to the outcome and performance indicators.
- We support the SPC call for the broad and open debate on how social protection systems, including pension systems, can support adequate benefits against the background of ageing population and changing labour market. The follow up on the 2019 SPC and the Economic Policy Committee's paper on pensions is a very valuable proposition. Pensions should be discussed in relation to labour market developments such as participation rate, availability of diverse forms of employment, tailored ALMPs for those further from the labour market, access to childcare and LTC provisions as well as active ageing measures.
- But this is not enough. As part of debates on the future of the Welfare State, the Commission should develop every year in cooperation with Member States a report documenting the cost dynamics of national social security systems: access to such data would enable reflection on financing active ageing policies and financial consequence of different policy options, taking into account the need to reduce the tax- wedge on labour.



- Financial literacy and providing clear and understandable information on pension entitlement are also crucial to convince individuals about the need to work longer and complement their public pensions by private savings. We would welcome more reflection on this aspect in the report towards the identification of good practices in Member States.
- Reforms of national pension systems are high on the priority list of the European employers. We welcomed that sustainability and adequacy of pensions systems was addressed in the 2019 CSRs. The issue of social safety net adequacy and accessibility continued to be an important area of necessary reforms in the 2020 CSRs. The same number of Member States (14) received the pension-related CSRs in 2019 and 2020.

Adequacy and coverage

- Adequate pension systems should be based on well-defined eligibility criteria corresponding to the contribution periods. They should be accessible to all interested under the condition of paying into the system. National pension systems should be adapted to the needs of flexible and mobile labour force to enable “seamless” transitions from one system to another. The continuation of the pension rights’ accrual - independent on the country of residence within the EU - should also be secured.
- According to the 2021 Joint Employment Report pension adequacy has slightly worsened in 2019. Given this observation, supplementary pensions such as occupational schemes or private pension plans, are even more important to strengthen disposable income during retirement. The policies to mitigate associated risk are necessary to prevent income inequality and safeguard individual pension savings. Additional sources of individual and household income, for example pension top-ups or real estate and/or financial wealth, need to be taken into account while assessing pensions adequacy as well as comparing national situations.
- It is for Member States to decide how to provide for coverage, including the mix of state, occupational and private provision, the mixture between tax- and insurance-based schemes, whether to use opt-in or opt-out systems and to which groups of workers to provide coverage. Discussions on making pension coverage broader or more universal should not imply a preference for certain types of schemes and the long-standing role of social partners in the governance of insurance-based schemes should be respected. Occupational pensions supported by social partners play crucial role in addressing the challenges to come.
- Pension adequacy requires continuous monitoring and analysis, not only in the context of the Covid-19 crisis and its expected negative consequences for the labour market. On top of the EU-wide consolidated report on social security cost dynamics mentioned above, we also support the idea of regular national reports on the future cost dynamics of pensions as part of the Pensions Adequacy Report. Such reports would help to understand the expected increases in pensions related social security contributions (or taxes, depending on the systems) and how Member States want to ensure the financial sustainability of their pensions systems. Moreover, there is a need for better gender equality statistics. We would welcome if these recommendations were taken into account in the 5th Pension Adequacy report planned for adoption in 2024.



Trends and reforms

- The impact of the Covid-19 crisis on pensions is likely to be significant. It is delayed in time due to the cushioning effects of the emergency measures such as short-term work schemes or wage subsidies. As these measures cease to be applicable, a raise of unemployment may be expected. It will depend not only on the way in which these measures are lifted (gradual or with immediate effect), but also on the composition of economy of each Member State. This will translate into lower contributions to the social protection systems. An active support to employment transitions is of a crucial importance to limit unemployment and/or shorten its spell. We would welcome if the 2021 PAR could elaborate on the need to support employment in the recovery period so that the contribution level to social security systems remains stable.
- National pension systems need to secure adequate contributions. Activating those furthest from the labour market, for example the unemployed youth, people with disabilities or older people is crucial to achieve this objective, as well as ensuring that more women participate in the labour market. Extending working lives positively contributes to increasing pension entitlement and pension system sustainability. Such measures as phased out retirement, various options to combine retirement with part-time/flexible work or support for senior entrepreneurship are also necessary.
- Working longer means contributing longer to the pension systems. One of the key conditions of extending working lives is continuing reskilling and upskilling of individuals so their skills match labour market needs. Individual competences should be the basis for continuing employment and not legal regulations such as seniority pay or pre-retirement protection that are not linked to the individual performance. These measures often have an adverse effect.
- We welcome the clear link the draft report makes between gender pension gap and gaps in employment as well as pay gaps related to caring responsibilities. Lower employment rate among women leads to lower pensions, further weakened by the fact that women tend to live longer and have more care-related breaks. A key priority for more equal pensions between men and women is to significantly increase women's employment participation (currently 17.4 percentage points lower than men in full-time equivalent). To this end, accessible, affordable and good quality childcare and LTC provision are necessary in order that women with young children and/or dependent family members can work, work more or continue working at the level they wish. Childcare and care of relatives are socially important tasks that must be recognized.
- We welcome that the draft PAR stresses the interaction between long-term care (LTC) and pension benefit. On the one hand, it is important that reliable, tailored-made LTC provisions supports active aging and independent living, on the other, they are crucial to "free up" younger family members to pursue their professional activity and contribute into the system.
- Sustainability of pension systems should be shaped by intergenerational solidarity; we agree that further reflection is needed on the financing models that enable continuous solidarity between and within generations. Benchmarking activities are useful to facilitate mutual learning among Member States.
- Pension system reforms are a political issue. We are concerned by the fact that several Member States have backtracked on the implementation of the reforms, especially while the Covid-induced pressure on public budgets makes these reforms even more important.



Better involving social partners in the SPC work

- We welcome to be offered the opportunity to submit our comments to the outline of the 2021 PAR in February 2020 and to the draft 2021 PAR in May 2021.
- Whilst we acknowledge the improvements that have been made in involving EU and national social partners in the European Semester process, including in the joint meetings of EMCO and SPC, we believe that more could be done to facilitating at EU level more learning between Member States, EU and national social partners on successful design of pension reforms. As such reforms are often very sensitive at national level, involvement of national social partners can help in creating ownership. This could be done through more timely and systematic involvement of EU and national social partners in discussions in the SPC.
- On top of an improved social partner involvement in the SPC work, European employers call for the creation of a new tripartite Advisory Committee on Social Protection.
