European Trade Union Confederation (ETUC)
Confédération européenne des syndicats (CES)

ETUC Resolution
Towards adequate pension systems – the ETUC response to the EC Green Paper

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ETUC in principle welcomes the European debate on pensions launched by the European Commission on 7 July 2010 by publishing its Green Paper "Adequate, Sustainable and Safe European Pension Systems."

ETUC intends to get fully involved, together with its organisations, to defend the interests of the working and retired people that it represents.

1) Common challenges

It is worth acknowledging that the 27 EU Member States are facing similar problems, albeit with nuances at times, such as:

- The (happy!) ageing of the population, which none the less has consequences for financing pensions in the long term and/or the development of services and care facilities for older or very old people;
- Changes in family structures entailing changes in the calculation and attribution of pension entitlements in particular;
- The development of the market which is characterised by the fact that there are always people who retire early, i.e. before the legal pension age, and were doing so already before the crisis, but also by young people entering the world of work later and later, plus greater precariousness due to enhanced pressure on wages (significant increase in the number of working poor);
- The pressure exerted on the pension systems to make more room for private systems that depend essentially on the financial markets, to the detriment of public systems based on inter- and intra-generational solidarity; and
- The economic and financial crisis, of course.

In its Green Paper, the Commission pretends to present the debate on the future of pension systems as being purely "technical," whereas the questions raised and answers expected are eminently "political."
ETUC wishes in this regard to reiterate firmly that, having regard to the current treaties, the European Union has no competence to intervene in the organisation, structure and financing of the legal pension systems.

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Among the issues broached in the Green Paper, three have drawn ETUC's attention in particular.

2) Be careful not to miss the point when dealing with the impact of the demographics

For the Commission, the first challenge that the pension systems face is that of **demographic ageing.** This is a reality that must certainly be taken into account, but not be overestimated, as is often the case, because it can be anticipated (as can be seen from the fact that the Member States did not wait for the Green Paper to adapt their retirement systems) and concerted solutions can be brought to bear.

But it is worth noting above all that the Commission draws no clear distinction between the "demographic dependency ratio" and the "economic dependency ratio." It actually addresses only the former, ignoring the latter whilst moreover relying on projections for the very long term (50 years) which are not reliable, as things can change greatly on this front.

Now, for pay-as-you-go systems, only the "economic" ratio is decisive, namely the number of people who are working, and who are therefore financing such a system, but also the increase in productivity and generated GDP, which must have positive repercussions on the quality of employment and wages.

This ultimately means that faced with this challenge, it is vital to concentrate on the struggle for "more and better jobs" and more widely on increasing the rate of employment (which now stands at only 66% in the different EU Member States).

In response to this rather biased approach, the Commission wonders (while being delighted that some Member States have already embarked on this path) whether the solution does not consist in **raising the legal pension age** and therefore keeping older people at work longer.

Such an option raises several types of questions. For instance, what is the relevance or the significance today of trying to get older workers to work longer, when at the same time, the same workers are not afforded the possibility of continuing to work until the legal age of retirement, because companies use them as variable to adjust their workforce. As the Commission itself recognises, "less than 50% of people are still in employment by the age of 60," whence the necessity of an employment policy for all ages.

Wanting to raise the legal pension age in the current context is tantamount to postponing the problem rather than solving it, i.e. going from the problem of financing pensions to that of unemployment and its financing. It is not enough therefore to decree that "people must work longer;" there must be work for them to do, which refers,

- For one, as already mentioned, to the responsibility of employers; and
- Secondly, to the responsibility of the Member States, in particular for the development and town and country planning policies which they implement or fail to implement.

What is striking in this type of discussion is the tendency to cite personal responsibility and even make individuals feel guilty, when the causes and solutions actually lie elsewhere and are in fact structural.
Endeavouring to keep older workers, without differentiation, working longer ignores the fact that even now, some of them started working at a very young age and have therefore amply contributed to the solidarity of funding social protection and pension systems in particular.
It likewise overlooks another reality, namely that depending on the type and **onerous nature of the work** performed during their working life, not all workers have the same life expectancy when they reach retirement age.
This life expectancy (which does not take into account another element, namely the expectancy of life in “good health” upon retirement) varies depending on the socio-professional categories or the type of work performed, ranging seven years on average among the most extreme cases, namely between the most and the least onerous occupations. ETUC therefore sees a need to implement differentiated measures for entitlement to pension that take this reality into account.

Wishing to prolong the time during which workers keep working presupposes that the work exists and that the workers are fit to do it. This refers to:

- The employment development strategies and therefore the investments made by companies;
- The investments in lifelong training for workers so that they can adjust to occupational changes or retrain; but also to:
- Their working conditions, and
- Implementing active strategies (training, qualification, guaranteed income, etc) to help those who have lost their jobs to get back to work.

This question likewise concerns the development of a daring and concerted European employment policy.

Furthermore, focusing on active ageing as the Commission does means overlooking the dramatic situation in youth employment today. The difficulties young people have in breaking into the world of work constitute a recurrent phenomenon. Contrary to what the Commission maintains, young people join the world of work late not only because they extend their studies (as not all young people undertake lengthy degree programmes), but especially and above all because companies are not hiring young people, and when they do they offer positions without job security. For what are they offered most often when they graduate? Practical training schemes, fixed-term contracts, temporary or part-time employment.

A pertinent response can therefore not be reduced to **simply proposing** to raise the legal pension age, an option which, if it were generalised, would be untimely today. The “effective” age of retirement from the labour market must coincide with the “legal” pension age. ETUC rejects firmly any recommendation aimed at introducing an automatic mechanism to raise the legal pension age or any other uniform solution that would apply to all the Member States.

3) Future reductions in pensions are not necessarily inevitable

The Commission seems to postulate that public pensions will inevitably have to be reduced in future. For ETUC, such a reduction is not fated to occur, provided that priority be given at European level and in the Member States to four directions.

- The development of employment, the quality of employment, and wages;
- The development of quality social services;
- The perpetuity of the means to finance social protection systems;
- The reconsideration of the priority given in certain Member States under the impetus of the Commission to developing private pension systems, in particular defined contribution pension schemes.

All of the foregoing in accordance with the social objectives set at European level both in the Treaty on the Functioning of the European Union, the Charter of Fundamental Social Rights or Strategy 2020, including the objective to reduce poverty.

3.1. For ETUC, guaranteeing pensions and their level means guaranteeing the quality of employment and wages

For ETUC, the quality of jobs and wages is the major response needed to ensure "adequate, sustainable and safe European pension systems."
Even before the crisis, when the Commission was able to boast of the increase in the number of jobs in the Union, the fact remained that these jobs were precarious, jobs under fixed-term contract, "not chosen" part-time jobs, temporary employment jobs, or even poorly paid or unpaid practical training schemes. Such precariousness has a particularly pronounced impact on young people and women, with damaging consequences on the amount of their future pensions.

This trend was exacerbated by the crisis which caused severe job losses, with exploding unemployment rates, as the Commission itself acknowledges: "*The crisis will also have a serious impact on future pensions as many workers will have lost their jobs and have been unemployed for a certain period and others might have had to accept lower earnings or shorter working hours.*"
Whence the mobilisation of ETUC and its organisations in favour of quality jobs with decent pay to guarantee the pension rights of these future retirees, but also the current retirees. Such as they are, the financing arrangements for public pension schemes, based on distribution, to which ETUC and its organisations are deeply attached, are based essentially on wages and earnings from work. Precarious employment or low wages are tantamount to "loss of earnings" for social protection – and particularly pension – systems, but also affect the rights of future retirees. For a poor worker will inevitably become a poor pensioner.
For ETUC, this also demands that the Member States and the social partners must take the necessary measures to validate and guarantee rights for these periods of inoccupation or unemployment, including short-time work, what we refer to as "securing/guaranteeing the periods of transition." Similarly, measures must be taken to cover periods devoted to looking after family and/or children.

3.2 Investments in quality social services are also needed in view of the ageing of the population

The Commission actually notes that *"formal care is increasingly replacing informal care"* for dependent elderly people, but does so in order to deplore *"further pressure for spending on care."*
ETUC's approach is completely different. Such "formal" care in the form of services of care facilities, which is the same for care for children:

- Is a source of (qualified) employment, and thus contributes to social financing through the contributions generated, as well as to the development of the economy, in the same way as other types of employment; and
- Its development enables parents, and women in particular, who are still the ones most concerned today, to reconcile their private/family and professional life, and to join the labour market, if so they wish, and in so doing improve the employment rate in the European Union.

3.3) It also means guaranteeing and improving the financing of social protection systems

For ETUC, investing in social protection is not an expense, but a "productive investment," as the Commission acknowledged some years ago, well before the crisis. Whence the necessity of preserving its financing. Rather than try to reduce social protection and its means, the real mobilisation and efforts made must be geared to enhancing it and giving it the means to perform its missions. It is therefore the task of the public authorities to take measures, in particular for financing and support for the economy.
The Union and the Member States concur that they have done better in coping with the crisis than other regions of the world, thanks to the efficiency of their existing social protection systems. Nevertheless, paradoxical and contradictory chatter and behaviour are emerging at this time. And the first measures being implemented consist of drastic cuts in budgets and/or social services – all in the name of budgetary rectitude which deprives them of the means of action.
ETUC cannot therefore accept the Commission's approach as spelled out in the Green Paper, which consists of implementing reforms in the pension system geared mainly to the *"sustainability of public finances,"* i.e. making the amount and quality of pensions contingent upon the financial capacities of the States. That would be "putting the cart before the horse," and reversing the terms of the "social equation." ETUC's approach, on the other hand, is to guarantee decent/adequate pensions by looking for and implementing social measures capable of meeting this objective.
Ensuring financing means first of all going over all the fiscal and/or social exemption practices implemented by the Member States which concern employment first, as they are purportedly intended to remove obstacles to employment. Yet these exemptions are granted without tangible return, and therefore commitment, on the part of companies to maintain and/or to develop employment. The upshot is windfalls for companies and a reduction in resources for the social protection systems.

As ETUC recommends, other sources of financing must also be found that impose less of a penalty on employment and companies that employ workers, whilst getting those who, in spite of their means, now manage to evade the solidarity procedures to contribute accordingly. Such new resources must, however, be allocated to social budgets in an effective and sustainable manner.
Without wishing to question existing national practices regarding tax exemptions, ETUC is not in favour of extending those practices to encourage affiliation with non-solidarity, private pension schemes. These practices are socially unfair, as most of the time they only benefit those who can afford this type of pension, whilst penalising the entire community through the lack of earnings that they represent. Furthermore, as the Commission itself acknowledges, such exemption practices can have "*considerable*" negative consequences on public finances.

3.4) Boosting public pension schemes based on distribution, in other words on inter- and intra-generational solidarity, and reducing and controlling the development of individual pension systems run by the financial institutions

The impact of the ageing of the population affects all pension systems, only in a different way, but when it comes to private schemes, as the Commission puts it, "*Such potentially lower returns on pension fund investments may lead to higher contributions, lower retirement benefits, increased capital outflows or greater risk taking",* which today is no longer merely an eventuality, but a reality. And this reality is not solely the result of demographic ageing either, even if this phenomenon is not neutral.
For ETUC, the weakness of private pension schemes (in particular defined contribution – which are in fact savings schemes for retirement), lies in the very nature of those schemes, because they are primarily "financial" systems, which makes them directly dependent on developments on these markets. And even if, as the Commission proposes in its paper, an attempt must be made to reduce "*the investment risk taken by scheme members as they approach retirement,"* – with which ETUC agrees – it does not protect nor immunise them against the risk. And any crisis that occurs on this front has direct negative consequences on these schemes and on the income of the pensioners. Hence the ETUC strategy, which has always favoured pension schemes based on solidarity and not on the performances of the financial markets, and namely those based on collective agreements between social partners.
The implementation of these private systems based on the financial markets entails another risk, i.e. that of not being able to keep the promises made, in which case the disappointed beneficiaries will have to turn to the public authorities.

One way to reduce these risks would be to introduce relevant solvency rules, i.e. rules suited to the coverage of such risks. However, ETUC is opposed to having the "solvency" rules which are applied to insurance companies applied in the same way to private solidarity pensions, because they would entail financing constraints for them that are not justified because the risk is covered for a very long period and the rules would entail a sizeable increase in contributions, which would dissuade affiliation to these schemes.
Still in the framework of risk reduction, ETUC demands a significant, decisive role for the representatives of workers and retirees in the supervisory bodies as well as those bodies in charge of defining investment policies and strategies for private pension

schemes so as to promote socially responsible investments in the interest of the contributors and the beneficiaries.

4) Yes to the perpetuity and sustainability of the pension systems

ETUC agrees with the Commission's proposals to:

- Improve information for the users,
- Strengthen the regulations concerning the transparency of private pension schemes, their investment strategies and solvency,
- Remove obstacles to mobility in supplementary pensions.

ETUC would likewise be in favour of a new initiative concerning the portability of occupational pension rights, on the sole condition that it has no negative effect on the national systems.
But mobilising for "adequate, sustainable and safe European pension systems" is not reduced to implementing "technical adjustment" measures – all the more so since, when analysed, the proposed measures turn out not to be neutral and at the very least tend to confirm/reinforce underlying policy orientations already implemented in certain countries.
Past experience has always shown that successful reforms in this field require compliance with certain fundamental rules:

- The reforms undertaken must be based on shared observations and diagnoses. This entails exchanges, dialogue and consultation;
- They must involve all the stakeholders. They may not therefore stem exclusively from politicians, but must involve the trade unions in particular;
- They must be equitable and fair and concern everybody, and not just one category of people;
- They must take place over a period of time, if they are to be "socially acceptable;"
- They must be assessed periodically, and here once again, there must be consensus as to whether they are pertinent or useful or whether they are to be maintained;
- They must take into account the diversity of jobs and professional careers.

A real mobilisation in favour of quality, sustainable pension systems must first of all be pursued upstream, i.e. by tackling the quality of work and pay which, in social insurance systems in particular, has a direct bearing on the amount of the future pension. And this quality of employment and pay in turn ensures financing and sustainability for all systems, be they insurance or universal schemes. No pension reform may therefore be exempt from an active and daring employment policy, all the more so in a context of rising unemployment among young people and an explosion in job insecurity.

The involvement of trade unions, which represent the interests of contributors and retired people, must be permanent and effective at all decision-making and supervisory levels. They must also be consulted and involved in the implementation of the reforms projected and/or undertaken and in their assessment.

This discussion of the type of pension systems to be implemented or encouraged/developed in the European Union is underpinned by the discussion on the values and type of society to be promoted in Europe.
Are the pension systems thus advocated intended to build a European Union based on the market and the free movement of capital?
Or do we wish to build and to promote a social Europe, based on the values of solidarity and collective responsibility that can guarantee an adequate income for all at retirement age? That is ETUC's choice, which is of the utmost pertinence in 2010, the "European Year for Combating Poverty and Social Exclusion."