THE NEED FOR PENSION REFORMS

The challenge for pension policies is to put in place a system that is financially sustainable so that the basic purpose of pension systems, namely to deliver adequate retirement incomes and to allow older people to enjoy decent living standards and economic independence, can be achieved.

The Commission's Annual Growth Surveys highlighted key orientations for pension reforms which contribute to growth-friendly fiscal consolidation and will ensure adequate and sustainable pensions. To achieve these objectives, the AGS emphasised the relevance of securing a better balance between years spent working and years in retirement and of promoting complementary retirement savings. More specifically the Commission recommended to:

a) link the retirement age with increases in life expectancy;
b) restrict access to early retirement schemes and other early exit pathways;
c) support longer working lives by providing better access to life-long learning, adapting work places to a more diverse workforce, developing employment opportunities for older workers and supporting active and healthy ageing;
d) equalise the pensionable age between men and women; and,
e) support the development of complementary retirement savings to enhance retirement incomes.

Successfully implementing pension reforms along these lines will contribute to putting the pension systems on a more sustainable path and thereby help Member States to offer their citizens adequate incomes in old age even in a much less favourable demographic context.

The country-specific recommendations on pensions adopted focus strongly on the need to keep older workers longer on the labour market, notably by raising the pensionable age and linking it to gains in life expectancy. In the first instance, increasing effective retirement ages would compensate to some extent for the earlier longevity growth which has not been factored into pension calculations. Linking the pensionable age to life expectancy could then help stabilise the balance between working years and years in retirement. This is of key importance for future sustainability.

Some Member States try to achieve later retirement by increasing the number of contribution years required to obtain a full pension or by linking it to gains in life expectancy (e.g. Czech Republic, Greece, France or Italy). Others link the level of pension benefits to life expectancy gains (e.g. Portugal), while a few tie benefit levels to the financial balance of the pension scheme (e.g. Germany), which will be affected by demographic change and rising life expectancy. Most Member States offer some opportunities to earn a higher pension by working longer, allowing them to compensate for the declining value of pensions at a given retirement age, thereby preserving the adequacy of their pensions.

Raising the effective retirement age will not be about pitching the interests of the young against those of the old but finding the right balance between them. Staying active during some of the extra life years gained does not mean that older people are being deprived of their well-deserved retirement for the benefit of the young. Neither does it mean that older workers will keep jobs that would otherwise be available to younger workers. Indeed, those Member States with the highest employment rates for older workers also have some of the lowest youth unemployment rates. Over the longer run, the number of jobs is not fixed, but depends notably on the supply of qualified workers, which is a key driver of economic growth. The increased availability of experienced older workers will enhance Europe's growth potential and thus create more opportunities and better living conditions for the young and the old.

Pension reforms aimed at keeping people longer on the labour market also need to focus on removing unwarranted early retirement options which may apply to all employees or to specific professions. In some Member States, the statutory pension system allows people with full contributory periods to retire before the standard pensionable age. Thus, pension reforms should not focus only on increases in pensionable ages, but also, where relevant, on the length of contributory periods, which also need to reflect increasing life expectancy. Taking into account contributory periods (even if the required length rises in line with life expectancy) allows pension systems to offer fairness to people who started their careers early (usually unskilled workers who will often have a lower life expectancy and worse health). Member States reform their early retirement schemes in different ways. Employers may be required to bear all or at least a significant share of the costs of early retirement benefits. Workers in particularly arduous or hazardous jobs can be offered alternatives to early retirement, such as job mobility. In some Member States, eligibility rules are being tightened (for instance by increasing the eligibility age). Some countries are also either reducing the levels of benefits provided by special schemes or closing these schemes. Whenever early retirement options are eliminated, it is important to ensure that the individuals concerned are enabled to work longer or, if this is not possible, can enjoy adequate income security.