



November 2012
AK Position Paper

EU White Paper on Pensions: Brief assessment from the point of view of the Chamber of Labour

About us

The Federal Chamber of Labour is by law representing the interests of about 3.2 million employees and consumers in Austria. It acts for the interests of its members in fields of social-, educational-, economical-, and consumer issues both on the national and on the EU-level in Brussels. Furthermore the Austrian Federal Chamber of Labour is a part of the Austrian social partnership.

The AK EUROPA office in Brussels was established in 1991 to bring forward the interests of all its members directly vis-à-vis the European Institutions.

Organisation and Tasks of the Austrian Federal Chamber of Labour

The Austrian Federal Chamber of Labour is the umbrella organisation of the nine regional Chambers of Labour in Austria, which have together the statutory mandate to represent the interests of their members.

The Chambers of Labour provide their members a broad range of services, including for instance advice on matters of labour law, consumer rights, social insurance and educational matters.

Herbert Tumpel
President

More than three quarters of the 2 million member-consultations carried out each year concern labour-, social insurance- and insolvency law. Furthermore the Austrian Federal Chamber of Labour makes use of its vested right to state its opinion in the legislation process of the European Union and in Austria in order to shape the interests of the employees and consumers towards the legislator.

All Austrian employees are subject to compulsory membership. The member fee is determined by law and is amounting to 0.5% of the members' gross wages or salaries (up to the social security payroll tax cap maximum). 560.000 - amongst others unemployed, persons on maternity (paternity) leave, community and military service - of the 3.2 million members are exempt from subscription payment, but are entitled to all services provided by the Austrian Federal Chambers of Labour.

Werner Muhm
Director

The AK position in detail

On 16.2.2012, the EU Commission published a White Paper on Pensions.

In the White Paper, the EU Commission names developing a pension strategy for “adequate, safe und sustainable pensions” a key target. This shall offer better “support to pension reform efforts in the Member States”.

Legislative activities might occur where direct EU competencies exist (free movement of persons, financial services, etc.). In particular a review of the Pension Funds Directive and the creation of a Pension Portability Directive are addressed.

A) Key statements of the White Paper

“New” analyses

With regard to some issues, the White Paper clearly – and very positively – sets itself apart from earlier publications of the European Commission.

- It has been emphasised repeatedly throughout the document that the labour market and the rise in employment rates in all age groups are of key importance for tackling demographic change and to achieve the pension policy targets.
- Hence, subjects such as a good

education and jobs for the young, reconciliation of work and family life etc. have at last entered the pension debate.

- It has also been emphasised that raising the retirement age can only be successful if the conditions for remaining in work are being improved. It has also been pointed out that extensive measures (age appropriate work organisation, participation in lifelong learning, etc.) are necessary.
- The statement that the labour market opportunities of older workers as well as the (remaining) life expectancy are very different in a wide range of occupational groups is also important.
- It has been made clear that the demography resp. the age ratio (number of people at retirement age relative to the number of people at working age) alone is not very eloquent. In contrast, the White Paper states: “Yet the real issue is the economic dependency ratio, defined as the unemployed and pensioners as a percentage of the employed.”

The statement that focussing on demography does not go far enough has

to be seen as significant progress. In simple words: the higher the employment rate, the lower the economic dependency ratio. How large the potential is to increase employment rates is demonstrated by the fact that currently in the EU ca. a third of the population in the age group 15-64 is out of work.

The key importance of the economic dependency ratio is illustrated in the White Paper by the following example relating to the Dependency Ratio Calculator developed by the Austrian Chamber of Labour: in case of reaching an average EU-wide employment rate at the level of the best EU countries, this rate would only rise from currently 65 % to 79 % between 2010 and 2050, even though the age ratio is almost doubling during this period.

The example shows that the cost explosion, which is often derived from demographic predictions, could be hugely defused by adopting a sensible labour market and employment policy – without drastically increasing the retirement age.

“Old” recommendations

Unfortunately, the “new” findings of the White Paper mentioned have had no influence on the key pension recommendations. As already included in some previous documents (most recently in the “Annual Growth Survey”) the two –

from our point of view ineffective – key recommendations are:

- a) linking retirement age to rising life expectancy and
- b) developing private pension savings.

It is little surprising that reports by the media on the White Paper were most interested in the recommendation to raise the retirement age.

The White Paper first and foremost explains this recommendation with demographic arguments. Reference is made for example to a prognosis, according to which a further increase in life expectancy by 7.9 years (men) and by 6.5 years (women) is expected between 2010 and 2060.

Thereby the key importance of labour markets has not been taken into consideration, although it is repeatedly pointed out in the White Paper that raising the retirement age can only be successful in combination with other measures.

“The success of reforms aimed at increasing pension eligibility ages ... depends, however, on better opportunities for older women and men to stay in the labour market. This includes the adaptation of work places and work organisation, the promotion of lifelong learning, cost-effective policies aiming at

reconciling work, private and family life, measures to support healthy ageing and combating gender inequalities and age discrimination.”

The extension of private savings has been taken as a fact in many Member States and explained by the falling pension level in many public systems.

What is not mentioned, however, is that a shift from public to private systems does not result in any cost savings. The unwavering insistence on extending private capital based pensions suggests that the Commission has learned little from the financial market crisis. But this is not entirely the case: mentioning the negative experiences of the past years, reference is made to the “need to review the regulatory framework and scheme design to improve the safety of private pensions”, and in particular their cost efficiency.

Summary: Even though “old” very problematic messages dominate in the White Paper, the “new” analysis provide a good starting point to reorientate the debate, which until now almost exclusively focused on demography, retirement age and developing private savings.

What is needed is an overall strategy for an economically sensible and socially compatible way to tackle demographic change, whereby the labour market has to play a significant role.

Implementing the demands of trade unions and AK to reduce unemployment, to improve education and training, to increase healthcare, to ensure reconciliation of work and family life, to provide age-appropriate jobs etc. and to engage in job promoting economic and budgetary policies is the best way to secure good pensions - also for those whose entitlements will be far in the future.

B) Brief assessment of the EU Initiatives outlined within the scope of the White Paper on Pensions:

**Ad Item 1 “Balancing time spent in work and retirement”
Initiatives 1 to 8, general remarks**

The aim to achieve resp. to sustain a balanced relationship between time spent in work and retirement is shared in principle. **It should be noted though that the relation between working time and retirement years is not only determined by retirement age but to a large extent also by the number of working years prior to the respective pensionable age.**

Hence, raising the effective retirement / exit age is only one, albeit important determining factor. Other determining factors include all those measures that are necessary to increase the number of working years before retirement, such as

- Qualification measures and improved labour market integration of young people
- Development of social infrastructure to improve reconciliation between work and family life and to relieve the burden on people caring for relatives
- Targeted measures for disadvantaged groups such as persons with low qualifications, migration background or health impairments
- Reduction of invalidity rates by preventive health, occupational health and safety and rehabilitation etc.

A key issue in this context is also an

- effective way of combating the far too high unemployment rate which requires a **European overall strategy to create more jobs and growth.**

Whilst it has been rightly pointed out several times in the analysis part of the White Paper that the main focus is on using employment potentials resp. on increasing the employment rates in all age groups, this key issue has been completely ignored in the listed EU initiatives, which concentrate exclusively on older employees and increasing the retirement age. This limitation, which contradicts the analysis part, is counterproductive and incomprehensible! By no means should the focus be restricted to older people; it has to include all (age) groups, in particular groups disadvantaged on the labour market (people with low qualifications, migra-

tion background or health impairments, women, etc.).

The explanation that a higher effective retirement age and an increase in the employment rates of older people are very much dependent on measures that enable older workers to remain in the labour market for longer, is shared by all. Hence, the all-embracing call preceding the EU Initiatives that the pension systems had to be adjusted, the retirement age had to be raised and the incentives, to work longer, have to be reinforced, is even less comprehensible. Some additional reform measures might be sensible and necessary; however, widespread comprehensive reform measures have already been implemented and/or initiated. Hence, the deficits, which are most urgently in need of action are not to be found in these sectors but are related to the accompanying measures required to enable older people to remain in the labour market for longer. Undifferentiated all-embracing demands do not contribute to finding a solution to the problem; what is really needed are recommendations to tackle still any existing deficits.

On Initiatives 1 to 8 in detail:

1) As has already been done to a large extent in the analysis part of the Pensions White Paper, the Commission should in future pursue a broad and comprehensive approach to meet demographic challenges, rather than con-

centrating its focus exclusively on the retirement age.

The demand for a speedier adjustment of the retirement age for women and men - where this has not yet taken place - overlooks the fact that this is a complex social issue, which can only be assessed in a broader context and not as an isolated measure.

An automatic coupling of the legal retirement ages to rising (further) life expectancy can objectively not be justified and is democratically highly controversial. Raising life expectancy automatically, would mean a complete decoupling from the respective situation on the labour market. Rising unemployment for example could lead to situations that can neither be justified socially nor economically. In democratic terms too it is very problematic to shift key social decisions by elected parliaments to mathematical formulas which have been decided in advance.

It cannot be the aim to raise administrative pensionable ages and to affect for many - based on the lack of real opportunities to work longer - a massive reduction of their pension. It shall rather be the aim to sustainably and effectively increase the labour market participation of all age groups, including that of older people. A consequent increase of the labour market participation in higher age groups is equivalent to an increase of exit and the effective retire-

ment ages. However, this cannot be regulated in form of a measure, but must be developed on the basis of a suitable set of measures.

2, 3, 5 to 7) are generally welcomed (initiative 8 seems only very selectively relevant)

4) Is generally welcomed; however, it is paramount to ensure that suitable framework conditions will indeed provide broad population groups with benefits and opportunities to work longer. Apart from that, not only sensitising the people affected is important; sensitising and changing the attitude towards older employees is of equal importance.

**Ad Item 2 “Developing complementary private retirement savings”
Initiatives 9 to 19, general remarks**

The claim that complementary private retirement savings shall play a larger role in future is based on the assumption that sustaining an adequate level of provision in public systems would not be financeable in the long run.

Without giving any reason the assumption is being made that, what has been rated as not affordable within the scope of public pension schemes, shall be affordable within the scope of private ones. However, experiences made over the past years demonstrate the opposite, namely that private pensions are not more cost effective than public pension

schemes and, that they are subject to significant capital market risks. This is added by the fact that in many cases the spreading of private retirement savings significantly contributes to eroding the financing basis of public systems (e.g. via so-called “deferred compensation systems”).

In our opinion, the erosion of public systems and the diktat to build up private retirement services, which is the consequence of it, should be halted resp. corrected. The “statement” that in future people will have to rely more on a supplementary pension is misleading. Whether this will be the case mainly depends on political decisions. The trend in this direction, which currently can be observed, is neither inevitable nor irreversible! Any further spreading - by subsidies and tax incentives - cannot simply be rated as added value; critical and objective access is clearly urgently required.

In spite of this clarification and in view of the serious deficits of supplementary systems, improvements with regard to transparency, cost-benefit ratio, security, access options etc. are urgently required and efforts aiming to achieve this are in general to be welcomed.

On individual initiatives:

9) Not least against the background of limited budget funds, public subsidies

and tax incentive systems should be subject to a critical review with regard to efficiency and distribution effects.

10, 12, 15, 17) generally to be welcomed

13, 14) generally to be welcomed; however, voluntary codes of conduct and guidelines will not be sufficient; what is also required are normative, binding provisions

19) here, consumer protection provisions, security requirements etc. have to be adequately considered.

Should you have any further questions
please do not hesitate to contact

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