



DV 16/12 – Department for International Affairs  
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## **Deutscher Verein's Opinion on the European Commission's White Paper "An Agenda for Adequate, Safe and Sustainable Pensions"<sup>1</sup>**

### **1. Preliminary remarks**

Deutscher Verein's Opinion is addressed to the European Commission and the Government of the Federal Republic of Germany. It refers to the European Commission's White Paper "An Agenda for Adequate, Safe and Sustainable Pensions", COM(2012) 55 final, dated February 16, 2012. In September 2010, Deutscher Verein participated in the consultation on the Green Paper "Towards Adequate, Safe and Sustainable Pension System" by issuing an opinion.<sup>2</sup> In the present opinion, it follows up upon its positions set forth therein and expounds upon them if the White Paper deviates from the European Commission's previous demands.

### **2. General assessments**

The European Commission emphasises how important pension systems and their reforms in the Member States are. It also stresses the objectives laid down in the Europe 2020 Strategy, in particular raising the employment rate to 75 % and reducing the number of people at risk of poverty by at least 20mn. Deutscher Verein underscores that the objective of pension policies in Germany is to maintain older people's living standards. While the impact of shaping the pension systems upon employment and distribution policies has to be taken into account, statutory pension insurance certainly has no primary role to play in the generation of growth.

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<sup>1</sup> Deutscher Verein's competent policy officer is Johannes Eisenbarth. The opinion was discussed with the "Internationale Zusammenarbeit und europäische Integration" expert committee and adopted by Deutscher Verein's steering committee on June 25, 2012.

<sup>2</sup> Cf. NDV 12/2010, 537 ff.

However, Deutscher Verein welcomes the fact that the European Commission acknowledges pension systems' role as "automatic stabilisers".

### **3. Pension systems' adequacy**

In the European Commission's view, the latest pension reforms had the objective of providing better protection against poverty. The basic purpose of pension systems was to deliver adequate retirement incomes and to allow older people to enjoy decent living standards. However, the European Commission ascertains that most pension reforms will lead to a lower replacement rate. According to EU-SILC data, "about 22 % of women over the age of 75 fall below the at-risk-of-poverty threshold"<sup>3</sup>. In its opinion on the aforementioned Green Paper, Deutscher Verein stressed the fact that old-age poverty requires much more attention. In this context, it now regrets that in its White Paper the European Commission has no further proposals to make on this, although it acknowledges the role played by pension systems for the Europe 2020 Strategy's fight against poverty. The European Commission's reference to capital-funded, private supplementary schemes does not suffice. The Commission does itself refer to the risk entailed by capital-funded schemes, as recently manifested by the financial crisis. In Deutscher Verein's view, private, capital-funded pension schemes are no adequate substitute for pay-as-you-go, statutory pension schemes. Even a partial substitution of declining replacement rates may lead to new distortions. People who are at risk of poverty will find it particularly hard to take out a private pension insurance policy.<sup>4</sup> The statutory pension insurance is the most important pillar when it comes to maintaining adequate retirement incomes. For many people, it is their only source of income in old age. Since it embodies inter-generation solidarity and fairness, it has to remain the most important pillar of pension systems.

From Deutscher Verein's point of view, employment aspects are of major importance when it comes to preventing old-age poverty. Any adequate pension system is predicated upon adequate wages and salaries. In its consultation paper on the Green Paper, Deutscher Verein stressed that a life-cycle-orientated human resources policy, in conjunction with an expansion of the infrastructure needed for a professional support for

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<sup>3</sup> COM (2012) 55, p. 5.

<sup>4</sup> The "Riester" pension is not widely used among low-wage workers. According to the "Sozioökonomisches Panel", in the bottom income quantile the share of "Riester savers" in 2010 stood at only 22.1 %. Cf. Geyer, J: Riester-Rente: Rezept gegen Altersarmut, in DIW Wochenbericht 45, Berlin 2011, p. 16 ff.

family and care obligations can indeed help to avoid people's permanent suspension of their gainful employment.<sup>5</sup> Deutscher Verein therefore welcomes the fact that the European Commission refers to these aspects under the heading "pensions gap between men and women"<sup>6</sup> and emphasises the importance of measures to reconcile work and private life. Income gaps and different career paths caused by part-time work, care work or interrupted careers have an impact upon the respective people's entitlements under pension scheme. A closing of the pensions gaps between men and women requires an interplay of pension, labour-market and family policies. In Deutscher Verein's view, closing the income gap between men and women is as much required as is a better reconciliation of work and private life and making (child) care periods pensionable periods. It also acknowledges that regarding the last point steps in the right direction have already been taken.

Unemployment should not mean a forfeiture of entitlements. This requires either making periods of unemployment pensionable or that the pertinent contributions are transferred by the competent unemployment insurance agency. Generally speaking, measures to prevent unemployment should take precedence over pertinent pension equalisation measures.

Deutscher Verein emphasises that the responsibility for the fight against old-age poverty lies with the Member States. There is still much need for action - in Germany, too.<sup>7</sup>

#### **4. Sustainable and safe pension systems**

In order to foster the European pension systems' sustainability, the European Commission wants to balance people's time spent in work and in retirement. It proposes an increase in the effective retirement age or linking it to gains in life expectancy. In the Commission's view, an automatic adjustment of the retirement age to future gains in life expectancy would make for a much better long-term fundability.<sup>8</sup> Deutscher Verein opposes such an automatic adjustment. Any decision on the retirement age is of a genuinely political nature. It should be the result of a political decision-making process made by the legislature. A technocratic, seemingly unbiased adjustment mechanism will

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<sup>5</sup> NDV 2010, 539.

<sup>6</sup> Cf. COM (2012) 55, p. 13 f.

<sup>7</sup> Cf. "Stellungnahme des Deutschen Vereins zum Entwurf eines Gesetzes zur Anerkennung des Lebensleistung in der Rentenversicherung – Referentenentwurf" dated March 22, 2012, DV 13/12.

<sup>8</sup> Cf. COM (2012) 55, n. 9.

neither lead to more transparency nor to a better acceptance. The German statutory pension insurance has already added a sustainability factor to its pension adjustment formula which not only considers demographic changes, but also relevant trends in the labour market and the actual retirement behaviour.

Deutscher Verein welcomes the fact that in its White Paper the European Commission considers the economic dependency ratio to be the real issue, rather than the old-age dependency ratio.<sup>9</sup> The former is defined as the unemployed and pensioners as a percentage of the employed and thereby links the demographic challenges with the conditions obtaining in the labour market and an increase of the employment rate among all groups of people. This leaves a wide political scope when sustainably tackling the challenges posed by an ageing society and its impact upon the pension systems.

In its opinion on the Green Paper, Deutscher Verein pointed out that it requires a number of support measures if one wants to integrate older employees in the labour market in any successful manner. In-house health promotion aside, these have to include an elderly and generation friendly work organisation and also qualification measures. The Commission does not really follow up on these aspects, especially if we consider the active debate within the framework of the European Year 2012 for Active Ageing and Solidarity between the Generations. Deutscher Verein therefore reaffirms its demand for an intensive exchange at the European level regarding good-practice work organisation schemes, intensive advanced training and qualification measures at all career stages and their potential contribution to permanently stable pension systems.

The European Commission rightly refers to the fact “that the ability to work – and to find employment – differs widely between individuals, and that life expectancy and health status at age 60 or age 65 tends to be lower for manual workers who started working at a young age.”<sup>10</sup> Lower employment rates among older employees are, in part, also to be put down to a greater risk of getting ill. Physical and increasingly also emotional stress often lead to reduced employment and early retirement. Against this backdrop, the objective of maintaining employability for as long as it is reasonably possible has to take precedence. Prevention and rehabilitation are very important here. Deutscher Verein reaffirms its demand that incentives not to take early retirement in connection with those

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<sup>9</sup> Cf. COM (2012) 55, p. 7.

<sup>10</sup> COM(2012) 55, p. 8.

to make people work to a higher age must not lead to disproportionate hardships for people who for health reasons can no longer partake in the labour market. For at-risk groups of people, a general increase of the retirement age would be tantamount to a pension cut.

Deutscher Verein thinks that raising the retirement age must go-hand-in-hand with effective political measures to improve the medical and employment situation of older people to an appreciable extent. And these people's economic and social situation has also to be taken into account.

The efforts to increase employment, of older people and women in particular, have to be continued – at the European level as well – and the quality of this employment should receive more attention. In its previous opinion, Deutscher Verein emphasised that achieving a better participation in the labour market through precarious employment relationships runs counter to the social security objective.<sup>11</sup> If we want to see sustainable pension systems, “good work” cannot only be characterised by health-promoting measures and an elderly and generation friendly organisation of that work. Deutscher Verein shares the European Commission's view that an access to advanced training and qualification, a real protection against unfair dismissal and adequate and regularly increasing wages and salaries are important characteristics of “good work”. It supports the Commission's intention to promote humane and sustainable (minimum) pay and to counteract the segmentation of the labour market, worsened by temporary and atypical employment relationships.<sup>12</sup>

Deutsche Verein basically agrees with the European Commission that citizens should get specified information on their entitlements accrued in the statutory and company pension system. In Deutscher Verein's view, this does not only apply to entitlements that have been accrued on a cross-border basis. Given the huge complexity and heterogeneity of the Member States' systems, an EU-wide pension record service does not seem feasible. The subsidiarity principle in particular speaks for a service established at the level of the Member States.<sup>13</sup> In Germany, it is the statutory pension insurance that informs the insured about personal entitlements in a regular and comprehensive fashion.

A cross-border information of insurance funds in other EU Member States is also possible. In so far, Deutscher Verein does not see any real need for more harmonisation here.

<sup>11</sup> Cf. NDV 2010, 540.

<sup>12</sup> Cf. Communication from the Commission “Towards a job-rich recovery”, COM(2012) 173, p. 11 and 13.

<sup>13</sup> Cf. NDV 2010, 541.

## 5. The European Union's role

It does not become clear in the pertinent Communication what role, in terms of pension system policies, the European Commission envisages for the European Union. While it does indeed stress the Member States' primary responsibility for shaping the pension systems, it also, and at an increasing rate, seems to view pension systems as a tool that is important for a successful economic and monetary union, something in which the Member States have a shared interest and that is therefore to be reviewed within the framework of the Europe 2020 Strategy and the European Semester. In Deutscher Verein's view, one should avoid the impression that the Member States' competences were stealthily being transferred to the European level.

In terms of competences, Deutscher Verein does once again point to the narrow legal confines imposed upon the EU regarding a support and complementation of member States' social security modernisation activities.<sup>14</sup> In a pension context, a European value-added is primarily generated in the fields of preventing old-age poverty and social exclusion, active ageing, a coordination of pension insurance systems and a promotion of mutual learning. A generally suitable tool for the EU's activities is the Open Method of Coordination (OMC). Deutscher Verein has already outlined its position regarding the OMC's design and further development.<sup>15</sup> It regrets that the European Commission does not submit any proposal for a further OMC development in terms of pensions. Instead, it refers to a better coordination through the Europe 2020 Strategy and the European Semester. The OMC being replaced by a general consideration of the pension issue within the economic control framework means less transparency and less opportunities for experts from the Member States and science to co-shape it.

And the above-commented issue of private supplementary pension insurance does also require a detailed look at competences and all the attendant legal implications. Generally speaking, the European Union should act cautiously here. After all, the supplementary insurance systems, though heterogeneously designed, usually are voluntary arrangements.

<sup>14</sup> Cf. Art. 153 TFEU.

<sup>15</sup> Cf. NDV 2011, 154 f.

*Deutscher Verein für öffentliche und private Fürsorge e.V.* (German Association for Public and Private Welfare) is the central social work and social policy forum of and for the German municipalities and voluntary welfare agencies, the *Länder* (German regions) and scientists. Its expertise and experience help to shape and support children, youth and family policies, welfare and geriatric care, SGIs, LTC and rehabilitation.