



THE EUROPEAN UNION AND PENSIONS

An information sheet by Jean Lambert, Green Party MEP for London

PENSIONS: THE EU DEBATE

In recent years the European Union (EU) has recognised the fact that demographic changes – the ageing population – are placing new pressures on the EU's social welfare systems. The EU is therefore evolving a strategy aiming to modernise systems of social protection in Europe, which include pensions, tax and benefits, social inclusion strategies and health care.

Four key aspects to reform of social protection have been laid out:

- Making pensions secure and sustainable
- Reforming tax and benefit systems
- Promoting social inclusion
- Ensuring high-quality and sustainable health-care

WILL THE EU BE MAKING ALL THE DECISIONS REGARDING PENSIONS?

No. Member States will have the responsibility for drawing up and implementing their own pensions policies, including setting the level of pensions payments. The EU will set broad guidelines and objectives which each country must incorporate into their own national strategies and legislation. Pensions will also be subject to what is known as the 'open coordination method' which means that national governments will share knowledge and experience in the field of pensions policy. Periodically, Member States must submit 'National Strategy Reports' on what they intend in this area; the UK submitted its first

National Strategy Report in September 2002. Member States are supposed to consult widely on their reports. However, there is no clear role for national parliaments or the European Parliament in this process.

MAKING PENSIONS SECURE AND SUSTAINABLE

The European Council (the heads of government) has set out three broad objectives as part of this goal:

- 1 Adequacy of pensions to meet their social objectives** – including making sure that older people are not at risk of poverty; ensuring all have access to adequate pension arrangements; promoting solidarity between generations.
- 2 Financial sustainability of pensions** – including increasing employment levels, increasing statutory pension age and encouraging people to work longer; reforming pension systems; fair burden between the waged and retired; ensuring private and state funded schemes can provide pensions efficiently, affordability, portability and security.
- 3 Meeting the changing needs of the economy, society and individuals** – including ensuring that pensions systems are compatible with the requirements of flexibility and security on the labour markets; that there is equal treatment between women and men in pension systems; and that pension schemes are flexible enough to adapt to changing circumstances.



THE EUROPEAN SOCIAL MODEL

Social protection is a key element or 'pillar' of what is known of as the European Social Model. The European Union has stated that this unique social model is one which aims to combine economic competitiveness with social justice, and all its strategies and legislation in the social field aim to find a balance between these two elements. Reform of social protection systems is necessary in order to sustain this model into the future.

THE SINGLE MARKET IN PENSION FUNDS

The EU is also concerned to achieve a genuine single market in pension funds through removing barriers to the free choice of a pension fund, the free movement of persons and the free provision of services.

WHAT IS THE EUROPEAN PARLIAMENT'S VIEW?

The Parliament adopted a resolution on the national strategies for safe and sustainable pensions in 2002. In it, MEPs identified a number of important points.

DIFFERENT KINDS OF PENSION

The EU works on the basis of three types or 'pillars' of pension provision:

- 1 State-funded pension
- 2 Employment-based pension
- 3 Private pension

The Greens believe that the first type must be the cornerstone of pension provision, which can be topped up by the other two. This is the best way of providing pensions which are fair and avoid many of the risks associated with types two and three.

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THE GREEN PARTY PENSIONS POLICY EXPLAINED

The Green Party would immediately introduce a Citizen's Pension to replace the current basic state pension and any additional top-up benefits. The Citizen's Pension will be initially set at a level no lower than the current minimum level of income then guaranteed by the government for pensioners, so that nobody will be in a position that they receive less. By abolishing the tax relief that is currently given for contributions to private pension schemes, Green Party proposals may give up to an additional to £13 billion and would encourage a greater take up of a more secure voluntary state scheme, rather than risky gambles on the stock market.



For further information on the work of Jean Lambert MEP please contact:

Tel: (020) 7407 6269 or email jeanlambert@greenmeps.org.uk

www.jeanlambertmep.org.uk

Jean Lambert is the Green Party Member of the European Parliament for London.

- Parliament and civil society should be fully involved in developing a pensions strategy and must be consulted on the question of raising the retirement age.
- The equality angle in pensions is crucial. For example, pension rights for women who work part-time or have no income must be guaranteed. Different kinds of pension funds should be studied in the light of criteria of a fair balance of risk, equality for women, solidarity and equal distribution of incomes, as well as the possible effects of the volatility of financial markets on pension systems.
- Member States must shoulder their responsibility to guarantee adequate pensions to every pensioner.

THE GREEN PERSPECTIVE ON PENSIONS POLICIES

The Greens believe that every individual in society has the right to a decent standard of living. Social protection policies must be based on the principle of solidarity and risk-sharing, by which disadvantaged members of society are not left to fend for themselves. This right has to be taken into account in pensions policies. Those who earn less or have periods without an income, for whatever reason, must not be penalised due to their inability to contribute to pensions schemes.

While the EU's broad objectives include the goal of adequacy of pensions for all, discussions are tending to focus more on the goal of budgetary sustainability rather than equity. The trend is as a result towards a greater emphasis on private pension schemes to relieve the supposed burden on state budgets.

However, private pension provision can never on its own fulfil the stated EU objectives of preventing poverty among older people or ensuring that all have access to secure pension arrangements. It does not provide for

those who cannot contribute to its schemes, and leaves fund-owners vulnerable to potentially disastrous market fluctuations. Experience of cases like the Equitable Life in the UK has already shown that the markets cannot necessarily be trusted. The state must therefore guarantee adequate publicly-funded pensions for every citizen – private pensions must be the icing on the cake, not the cake itself.

The Greens are against obliging people to rely on private pension provision as this can mean that in order to get sufficient returns on their money, investors have to place their money in large companies with less than satisfactory environmental and social policies

PENSIONS AND FLEXIBILITY

For Jean Lambert and the Greens, another key issue is that of flexibility of pensions. Increasingly, working patterns no longer follow the path of a 'job-for-life' followed by a clear break between employment and retirement.

As new working patterns become more common, we need to ensure that pension provision is guaranteed for both men and women in these different working and home environments. The Greens therefore support an unconditional, non-means tested state scheme, which includes workers who spend time caring for dependents. This also includes portability of pensions – i.e. being able to carry over pension entitlements between different countries without losing out. Jean has addressed this problem in her Report on social security. Jean will continue to support fair pensions policy in her role as Co-President of the Inter-group on Ageing.

Useful Web Link

European Commission documents on Pensions and UK National Strategy Report www.europa.eu.int/comm/employment_social/soc-prot/pensions/index_en.htm