



Draft policy paper to be voted on

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TOWARDS SUSTAINABLE AND FAIR PENSIONS

Introduction

10 We Greens consider pensions as a right, and as a tool for people to reach a healthy and happy
11 balance within and across the various "stages" of their lives¹. Yet, pension systems are under
12 threat in most European countries. Public pension schemes are considered mainly as a burden on
13 public finances, rather than as a key element of the solution to the demographic and economic
14 challenges ahead.

15 Indeed, whilst demographic changes are a reality in Europe, it is remarkable that raising the legal
16 retirement age is consistently seen by the ruling political families as the sole answer to the
17 problem. At a time when the actual retirement age is more often significantly below the legal one,
18 such a measure appears rather as a short-sighted budgetary stop-gap. In our view, there is no
19 silver bullet that will almost by magic resolve what is definitely a complex set of issues, **among**
20 **which the financial sustainability of our pensions.** Life expectancy is determined
21 amongst others by many environmental factors, lifestyle factors, length and intensity of work, etc.
22 which lead to huge demographic differences between gender, professions and socio-economic
23 groups. In addition to demographic changes other issues such as inadequate health systems,
24 poverty in old age, gender discrimination and pension fund volatility have to be taken into account,
25 when designing sustainable pension systems.

26 Moreover, our pension systems do not meet the current challenges of the labour market. So-
27 called "atypical" work-status such as self-employed, part-time or temporary contracts have
28 become the new norm in many places. Yet pension mechanisms are still organised as if most
29 people had a linear career without changing employer, status or workplace during their career.
30 Similarly, little attention is given to people combining various activities, including caring, parenting,
31 volunteering or studying during their life.

32 In this context, we Greens want to put forward our vision for a pension² for the future. We
33 believe there is a clear need to develop systems that are socially just and financially sustainable,
34 taking into account the variety of individual trajectories. A Green vision for pension systems
35 implies a broad understanding of sustainability; a balance should be found between needs for
36 financial sustainability and demand of intergenerational justice. We believe pension entitlements
37 should guarantee human dignity and autonomy for all. By ensuring a decent income for older
38 people, pension systems are an essential element of solidarity in society.

39 We advocate changes to pension systems throughout Europe, which follow several common goals.

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□ EGP policy paper "[The social dimension of the Green New Deal](#)", part IV Towards a sustainable
distribution of working time, adopted at the 16th EGP Council, 11-13 May 2012, Copenhagen

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□ It is understood that we refer only to "old-age pension" when discussing pensions, thus not including
other types such as disability pensions, widows pension, etc

41 However, pension systems being very different from one country to another, we develop broad
42 principles, which should be translated into specific measures corresponding to national situations.

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44 **Our common goals and principles**

45 **I. Building inclusive and fair pension systems**

46 It is unacceptable that pensions do not prevent poverty in old age. We can see big disparities in
47 pension allocations today. Depending on individual situations, the type of career or the type of
48 work, people are discriminated against once they retire. For many people, publicly financed
49 pensions are not enough to stay above the poverty line and they do not have access to private
50 schemes. At the same time, there are cases of excessively high pensions in all countries.

51 It is of utmost importance to ensure protection in old age for everybody, especially for the most
52 vulnerable, including those outside the labour market and in precarious work. Therefore, we
53 Greens aim for a minimum pension under a universal public scheme which we plan to approach
54 step by step in European countries where such a scheme does not yet exist. This entitlement
55 should be guaranteed to all, whether or not they have been active on the labour market, and
56 should be well above the poverty line. We Greens recognise that this guaranteed minimum, whilst
57 necessary, is not sufficient to ensure a good quality of life for all pensioners.

58 It is important that a universal public pension system is combined with sufficiently progressive
59 taxation in order to avoid Matthew effects³ and large inequalities between pensioners' incomes, as
60 well as between pensioners' and working-age people's incomes. This means that wealthy
61 pensioners should also contribute to the system.

62 Women are particularly affected by this general inequality. The average pension income of women
63 is considerably lower than that of men across all European countries, and elderly women are at a
64 high risk of poverty. All pension schemes need to be restructured so as to combat both direct and
65 indirect discrimination of women in relation to old-age pensions. A good poverty-proof universal
66 pension entitlement would also be a core element of protecting women from old-age poverty.
67 This includes mechanisms to account for career breaks, transition periods and changes in family
68 situations. The same applies to migrants.

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70 **2. Adopting a life-cycle approach**

71 Workers of the 21st century are unlikely to work for the same employer for their whole life, but
72 change employers, place of work, working time and status over their career. People with an
73 "atypical career" (self-employed, part-time, temporary work, people moving abroad or changing
74 career between private and public) represent a growing part of the population and our pension
75 systems need to be adapted accordingly. The Green New Deal advocates a good balance between
76 paid work and other activities throughout life (studying, parenting, caring, volunteering, etc.) to
77 improve individual and collective well-being. Our pension systems need to enable this by following
78 a "life-cycle approach", which gives equal value to individual life choices and ensures decent living
79 standards for all. A life-cycle approach allows career interruptions and changes; it does not punish
80 "atypical" working life in the building of social rights, including pension entitlements.

81 We Greens believe that on top of the universal basic pension, people should be able to build up

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Deleted: adequate pensions for all.

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□ A Matthew effect is the phenomenon where the rich get richer and the poor get poorer. It's a sociological term from the Gospel of Matthew: "For everyone who has will be given more, and he will have an abundance. Whoever does not have, even what he has will be taken from him." It is used to describe situations in which initial advantage tends to beget further advantage, and disadvantage further disadvantage, among individuals and groups through time, creating widening gaps between those who have more and those who have less.

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86 additional pension rights and that the following elements should be taken into account in acquiring
87 these rights.

88 Firstly, we Greens believe that paid work is not the only way to contribute and participate in
89 society; other types of activities should be creditable towards a pension. Voluntary work, care
90 work, parental leave as well as training periods fall under this proposition. **This may be achieved
91 for example by offering people without a job the possibility to build up social rights by getting paid,
92 or paying, social contributions.** We also believe that people should not be punished for involuntary
93 periods of inactivity, such as illness, invalidity and unemployment, etc.

94 Secondly, in most European countries, the current political debate about pension age is linked to
95 life expectancy. This vision is often only based on statistical averages and is primarily financially
96 motivated. However we Greens believe that more complex factors such as actual retirement age,
97 healthy life expectancy and differences in life expectancy between socio-economic groups must
98 also be taken into account to determine the principles of pensionable age. Moreover, applying a
99 life-cycle approach means that the total number of years worked and assimilated periods, as well
100 as the physical and psychological hardness of work, are added to the equation. Our approach is
101 more flexible but also fairer than the current system since it gives advantage to people in longer or
102 harder careers i.e. those starting to work earlier, with less education, usually lower salaries. It also
103 favours life-balance choices that are currently penalised, such as parenting or caring.

104 Third, all workers, regardless of their statute, status or of their careers changes, should have
105 access to similar pension entitlements and equal rights. In many countries, a big challenge in this
106 regard is to make occupational pensions schemes⁴ available in more firms and sectors, and for
107 those having unconventional career paths. Generally speaking, simplification, transparency and
108 harmonisation of existing pension systems would help decreasing discrimination against more
109 vulnerable workers.

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111 **3. Reinvesting in public and collective schemes**

112 We Greens propose to focus on two types of policies to re-establish the balance between public⁵
113 vs. private and collective vs. individual systems. Over the last decades, there has been a large trend
114 towards capital-based schemes⁶, through the development of private pension funds and other
115 mechanisms encouraging private savings. This is highly problematic for various reasons. Firstly,
116 whilst capital-based schemes can contribute to alleviate the impact of large demographic change,
117 they have proven to be expensive to build up and depend on the development of financial markets,
118 which are risky and volatile. Indeed, pension funds have recently been caught up in the financial
119 crisis, being used for speculation just like any other fund, without transparent information for their

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Occupational pensions are pensions created by an employer for the benefit of their employees. They are a form of deferred compensation, usually advantageous to employee and employer for tax reasons. They are part of the so-called "second pillar" of pensions.

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One talks about *private* pensions system when the organisation controlling the financial stream is private (e.g. insurance company). In a *public* system, it is the government who is responsible for the pension provision although the administration of the system can be outsourced to another, including private, organisation.

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A capital-based scheme is a pension scheme, in which people save for their pension. Contributions are valorised as savings and invested by the pension fund. These contributions can be paid by the employee and/or the employer. After retirement, the individual withdraws annuities (or sometimes a lump sum) from this fund. This system is usually opposed to a contribution-based scheme (or "repartition" system), where current pension benefits are financed by current contributions of the active population. It involves a financial transfer from the active population to the older inactive population.

120 customers, leaving many of them with way less return than what they had counted on. Therefore
121 they must be strongly regulated. However, we acknowledge that capital-based occupational
122 pensions can also be collective, contain solidarity and have a public character. An advantage of
123 such schemes is that participants build up personal pension rights which they can claim after
124 retiring.

125 Second, the rising importance of the individual private pension schemes has undermined the
126 solidarity spirit of pensions. Usually the poorest and the most vulnerable do not have the means to
127 save for their pensions on an individual basis, and often do not have access to occupational
128 pensions, as these are only available to those active in the regular labour market. Moreover, most
129 countries in Europe give tax advantages or other forms of support to citizens who invest in private
130 pensions whilst not investing in public schemes. Yet, these subsidies tend to lead to an upside-
131 down-distribution effect, i.e. to money transfers from the poor to the rich.

132 Public schemes must remain the centre of our pension systems: they tend to be more inclusive,
133 the most fair in redistribution, in reducing the gender revenue gap, and even the most cost-
134 efficient in combating old-age poverty. Such contribution-based schemes are more reliable for
135 citizens since they are indexed on wages and production and not on financial markets.

136 Since they do not enjoy these characteristics, individual private pension schemes should not be
137 seen by governments as essential elements of the public policy equation. Obviously, we do not
138 intend to prevent people from individually subscribing to such schemes, but these are *ultimately*
139 only private savings. There should therefore be neither public subsidies nor fiscal advantages to
140 individual private schemes. All current tax benefits to private schemes should be gradually
141 redirected to public schemes so that they can provide a reasonable standard of living and not only
142 minimum poverty-proof revenue for all.

143 It is however the responsibility of governments to ensure that the private pension funds and group
144 insurances be strictly regulated in order to protect pensioners who would subscribe to them. First
145 of all, the sale of such instruments to the general public must adhere to the highest transparency
146 and consumer protection standards, enabling subscribers to understand the nature and riskiness of
147 the financial product they buy; financial incentives for intermediaries should be passed on to the
148 end-customer or simply banned. Second, prudential regulation⁷ must ensure proper risk
149 management, commensurate with the long-term nature of the insurance provided; speculative
150 investments should be forbidden and the management should be held responsible in case of
151 trouble. Third, pension funds and group insurances must be submitted to binding ethical standards
152 and encouraged to invest in long-term projects that enhance the social and environmental
153 sustainability of society. Fourth, the governance of those funds must be enhanced e.g. by including
154 representatives of all stakeholders in their boards.

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156 **4. Financing the system through innovative measures**

157 The demographic evolution of the last decades is putting our pension systems under strain. We
158 need to find solutions to finance decent pensions for all, without threatening the sustainability of
159 public finances. In this context, it is important to recall that pensions are not a cost on public
160 finance but rather an investment in social security and poverty prevention, an essential component
161 of solidarity, one of the main pillar of the European welfare state.

162 In order to address this issue, we Greens propose to broaden the base for financing pensions
163 under public schemes, so as not only to include revenues from social contributions on work but

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□ Prudential regulation aims at providing the rules that financial institutions must adhere to in order to properly manage risk, avoiding moral hazard i.e. capturing profits while transferring the potential cost of failure to other players or society at large

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164 also from revenues coming from taxation on capital and exploitation of natural resources. As
165 explained in the previous section, this includes bringing back subsidies to the public pension budget
166 that are currently given to private schemes in the form of fiscal advantages.

167 A second key step in ensuring the sustainability of the system is to boost employment rates, in
168 particular of older people, yet taking into account specific needs and capacities of older workers in
169 the framework of the life-cycle approach developed above. We Greens propose creating working
170 conditions that enable older workers who choose so, to participate and remain in the labour
171 market, i.e. giving the right to reduced working hours for older workers and to a progressive exit
172 into retirement. These measures should also be combined with knowledge- and experience-
173 sharing with less experienced workers. **At the same time, the combination of income from public
174 pension and work income should be limited to an adequate maximum.** Meanwhile we strongly
175 condemn in any way of forcing old people to work to supplement their pension because of the
176 threat of poverty.

177 Additionally, not only a decent minimum pension, but also elements like better work distribution,
178 the provisions of services outside the market through voluntary work and “commons”
179 organisations, as well as the reinforcement of public services, should help keep old people out of
180 poverty whilst decreasing the burden on public finances.

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182 **5. Ensuring transparency and simplicity of the systems**

183 Complexity is a common feature of our current pension systems. It is very difficult for most
184 people to know what their future is going to be - how much they are going to get and when they
185 are going to retire. It is essential that individuals have better information and transparency
186 throughout their career about their pension rights. This is even more needed in a world where
187 "atypical" careers are the new norm.

188 Contrary to what happens in many countries, pension reforms should be gradual and not sudden.
189 They should be debated with all social partners and stakeholders, and better communicated to
190 citizens.

191 Simplifying our systems would also make them more efficient. The complexity of the current
192 system has economic costs: any change of career (between private and public sectors, waged and
193 self-employed positions, working at home and abroad) is currently penalised by decreased
194 transparency.

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196 **6. Towards an EU approach to pensions**

197 The differences between the social security rights and systems across the European Union are *de*
198 *facto* an obstacle to the freedom of movement within the Union. On top of that, such differences
199 fuel feelings of incomprehension, of inequality and of unfair competition among European citizens.
200 This is an obstacle that we Greens intend to lower. This requires at the very least organising the
201 portability⁸ of pension rights across national systems for every worker in Europe. This would of
202 course be helped if the compatibility of pension systems with one another would be enhanced.
203 Similarly, the EU should seek similar bilateral and reciprocal agreements with third countries in
204 order to enhance the rights of migrant workers.

205 Beyond this and especially in the framework of the monetary union that draws the Eurozone
206 member states into an ever closer fiscal, economic, financial and political union, we Greens see the

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□ Portability: the possibility to carry one's pension rights from one country's system to the others.

207 need for laying the foundation of a social union. This social union should provide citizens of the
208 Eurozone with a set of common basic social rights, including pension rights. It must be the result
209 of a gradual convergence between the national systems, aiming at the highest practical level of
210 harmonization so as to ensure a community of equal rights and equal responsibilities among
211 citizens.

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