

Draft policy paper to be voted on

TOWARDS SUSTAINABLE AND FAIR PENSIONS

Introduction

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

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

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

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

We advocate changes to pension systems throughout Europe, which follow several common goals. However, pension systems being very different from one country to another, we develop broad principles, which should be translated into specific measures corresponding to national situations.

¹ 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

² 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

40 **Our common goals and principles**

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

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

47 It is of utmost importance to ensure protection in old age for everybody, especially for the most
48 vulnerable, including those outside the labour market and in precarious work. Therefore, we
49 Greens believe that everyone should get at least a minimum pension under a universal public
50 scheme. This entitlement should be guaranteed to all, whether or not they have been active on
51 the labour market, and should be well above the poverty line. We Greens recognise that this
52 guaranteed minimum, whilst necessary, is not sufficient to ensure adequate pensions for all.

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

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

64

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

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

76 We Greens believe that on top of the universal basic pension, people should be able to build up
77 additional pension rights and that the following elements should be taken into account in acquiring
78 these rights.

79 Firstly, we Greens believe that paid work is not the only way to contribute and participate in
80 society; other types of activities should be creditable towards a pension. Voluntary work, care

3 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.

81 work, parental leave as well as training periods fall under this proposition. We also believe that
82 people should not be punished for involuntary periods of inactivity, such as illness, invalidity and
83 unemployment, etc.

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

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

100

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

102 We Greens propose to focus on two types of policies to re-establish the balance between public⁵
103 vs. private and collective vs. individual systems. Over the last decades, there has been a large trend
104 towards capital-based schemes⁶, through the development of private pension funds and other
105 mechanisms encouraging private savings. This is highly problematic for various reasons. Firstly,
106 whilst capital-based schemes can contribute to alleviate the impact of large demographic change,
107 they have proven to be expensive to build up and depend on the development of financial markets,
108 which are risky and volatile. Indeed, pension funds have recently been caught up in the financial
109 crisis, being used for speculation just like any other fund, without transparent information for their
110 customers, leaving many of them with way less return than what they had counted on.

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

4 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.

5 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.

6 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.

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

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

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

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

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

148 In order to address this issue, we Greens propose to broaden the base for financing pensions
149 under public schemes, so as not only to include revenues from social contributions on work but
150 also from revenues coming from taxation on capital and exploitation of natural resources. As
151 explained in the previous section, this includes bringing back subsidies to the public pension budget
152 that are currently given to private schemes in the form of fiscal advantages.

153 A second key step in ensuring the sustainability of the system is to boost employment rates, in
154 particular of older people, yet taking into account specific needs and capacities of older workers in
155 the framework of the life-cycle approach developed above. We Greens propose creating working
156 conditions that enable older workers who choose so, to participate and remain in the labour
157 market, i.e. giving the right to reduced working hours for older workers and to a progressive exit
158 into retirement. These measures should also be combined with knowledge- and experience-
159 sharing with less experienced workers. Meanwhile we strongly condemn in any way of forcing old
160 people to work to supplement their pension because of the threat of poverty.

⁷ 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

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

165

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

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

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

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

179

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

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

189 Beyond this and especially in the framework of the monetary union that draws the Eurozone
190 member states into an ever closer fiscal, economic, financial and political union, we Greens see the
191 need for laying the foundation of a social union. This social union should provide citizens of the
192 Eurozone with a set of common basic social rights, including pension rights. It must be the result
193 of a gradual convergence between the national systems, aiming at the highest practical level of
194 harmonization so as to ensure a community of equal rights and equal responsibilities among
195 citizens.

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⁸ Portability: the possibility to carry one's pension rights from one country's system to the others.