



International Association for the  
Study of Insurance Economics

# Études et Dossiers

---

Extract from

## Études et Dossiers No. 335

**The New Welfare: The Counter-Ageing Society**

**“Lengthening of Life-cycle, Employment,  
Pensions and Health”**

8 October 2007  
Turin

November 2007

**Working Paper Series of  
The Geneva Association**

© Association Internationale pour l'Etude de l'Economie de l'Assurance

The Geneva Association Working Paper Series “Études et Dossiers” appear at irregular intervals about 10 - 12 times per year. Distribution is limited.

The “Études et Dossiers” are the working paper series of The Geneva Association. These documents present intermediary or final results of conference proceedings, special reports and research done by The Geneva Association. As they contain work in progress or summaries of conference presentations, the material must not be cited without the express consent of the author in question.

Layout & Distribution: Valéria Kozakova

# Active Ageing and Pension Policies in the Context of the European Employment Strategy

Martin Hutsebaut\*

## I. INTRODUCTION

### 1. Europe is ageing and the European workforce is ageing too.

Between 1950 and 2000 the percentage of people over 65 years of age in EU-25 increased from 9.1 % to 15.7 %. By 2025 this group will represent 22.7 % of the entire population.

Between 2010 and 2030 the EC expects in EU-25 a **drop** in the number of:

- children (0 – 14): by 8.9 %
- young people (15 – 24): by 12.3 %
- young adults: (25 – 39): by 16 %
- adults (40 – 54): by 10 %

and an **increase** in the number of

- older workers (55 – 64): by 15.5 %
- elderly people (65 – 79): by 37.4 %

Source: Demographic Green Paper of the EC of 2005

---

\* Secretary to the Directors' Committee of the ETUI-REHS, Brussels

2. The **reasons** for these **demographic shifts** are known:

(1) continuing low birth rates

- according to the Demographic Green Paper of the EC of 2005 the low fertility rate in the EU is the result of: late access to employment, job instability, expensive housing and lack of incentives (family benefits, parental leave, child care, equal pay).

(2) continuing increase in longevity;

- important gains in life expectancy have been realised in the EU between 1960 and 2002: life expectancy for males at the age of 60 increased from around 16 to around 19 years; for females from around 18 to around 24 years.

The most recent Eurostat projections see life expectancy in the EU-25 at 65 to increase by another four years from 2004 to 2050 (4.4 years for men and 3.9 years for women).

Evolution of life expectancy at birth in some EU-countries

Country	Average 1995-2000		2030		2050	
	Male	Female	Male	Female	Male	Female
Germany	75.1	81.0	79.2	84.2	80.0	85.0
France	75.2	82.7	79.3	86.3	80.0	87.0
Italy	76.2	82.6	80.1	85.3	81.0	86.0
The Netherlands	75.3	80.6	78.6	84.1	80.0	85.0
U.K.	74.0	79.8	79.3	84.1	80.0	85.0
Sweden	77.4	82.0	81.4	84.3	82.0	86.0

Source: Eurostat

3. While these demographic shifts were taking place, we noted **a fall in the average effective retirement age** in the EU in the 1970s and 1980s, a trend which ran contrary to the significant rise in life expectancy for the same period.

4. This drop in effective retirement age was mainly due to the development of pre- and early retirement systems in an effort to combat youth unemployment – a strategy that did not subsequently prove effective. In this way the number of contribution years decreased while the number of years in receipt of pension benefits was growing. This of course created a huge pressure on the pension systems and made reforms unavoidable.

Average exit age from the labour force

Country	1950		1995		2001	2005
	Male	Female	Male	Female	Total	Total
Belgium	64.8	64.7	57.6	56.5	56.8	60.6
Germany	65.7	62.7	60.5	58.4	60.6	61.3 <sup>1</sup>
Denmark	67.1	63.0	60.7	59.4	61.6	60.9
Spain	68.1	68.9	61.4	58.9	60.3	62.4
France	66.1	69.0	59.2	58.3	58.1	58.8
Switzerland	67.7	67.2	64.6	60.6	63.9	62.5
Italy	66.9	64.0	60.6	57.2	59.8	59.7
The Netherlands	66.4	64.1	58.8	55.3	60.9	61.5
Norway	67.6	69.0	63.8	62.0	63.3	63.1
Sweden	66.8	65.4	63.3	62.1	61.8	63.7
UK	67.2	63.9	62.7	59.7	62.0	62.6
EU 25	-	-	-	-	59.9	60.9

Source: Eurostat, European Commission, OECD

The pension age: between dream and reality

Country	Desired pension age (active workers)	Expected pension age (active workers)
China	53	55
France	55	61
Spain	56	63
UK	56	62
Australia	56	62
United States	56	64
Italy	57	62
Belgium	57	61
Germany	59	63
The Netherlands	59	63
Japan	60	61

Source: AXA

<sup>1</sup> 2004

Table 3-23

Support ratio: Number of contributors relative to the number of pensioners in public pension schemes

	Public pensions, number of contributors / 100 pensioners								Change 2004-30	Change 2030-50	Change 2004-50
	2004	2010	2015	2020	2025	2030	2040	2050			
BE	170	170	161	147	132	119	107	106	- 51	- 13	- 64
CZ	181	175	170	160	150	140	116	104	- 41	- 36	- 78
DK											
DE	135	134	133	125	114	102	91	86	- 33	- 16	- 50
EE	159	170	175	171	162	157	147	130	- 2	- 26	- 28
EL											
ES											
FR	191	187	175	161	151	142	130	128	- 49	- 14	- 63
IE (²)	439	416	390	362	333	305	251	205	- 134	- 99	- 234
IT	146	155	154	148	137	122	103	101	- 24	- 22	- 45
CY	387	359	317	273	235	211	193	156	- 176	- 55	- 232
LV	182	222	220	204	186	176	164	143	- 6	- 33	- 39
LT	108	112	113	108	100	95	88	79	- 13	- 15	- 29
LU	240	242	230	212	195	179	163	162	- 60	- 18	- 78
HU	131	131	129	124	121	118	103	97	- 13	- 21	- 35
MT	264	233	206	186	173	168	163	158	- 95	- 11	- 106
NL	364	363	336	317	298	279	258	266	- 85	- 13	- 98
AT	151	155	153	148	136	125	116	117	- 25	- 9	- 34
PL	140	170	182	178	172	164	142	120	24	- 44	- 20
PT	141	134	122	108	98	87	72	64	- 53	- 24	- 77
SI	154	153	144	133	121	111	95	88	- 43	- 23	- 66
SK	185	189	189	177	164	149	121	99	- 36	- 50	- 86
FI	180	167	154	143	134	128	128	128	- 52	- 1	- 53
SE											
UK											
EU-15 (¹)	141	141	136	128	118	107	95	92	- 33	- 16	- 49
EU-10	148	164	168	162	155	147	127	111	- 2	- 36	- 38
EU-12 (¹)	147	147	143	134	123	112	99	96	- 35	- 17	- 51
EU-25 (¹)	142	145	142	134	124	114	100	95	- 28	- 19	- 47

(¹) Excluding countries which have not provided data.

(²) IE: only the number of contributors to the social security scheme.

Source: E.C., **European Economy**, Special Report n°1/2006, **The impact of ageing on public expenditure. Projections for EU-25 Member States on pensions and health care.**

5. The ETUC believes that the challenges resulting from these demographic changes must be taken seriously because they could cause a dramatic fall in annual economic growth rates in Europe from 2 - 2.25% today to 1.25% in 2040. This reduction in economic growth could affect the sustainability of our social systems in general and of the pension and health systems in particular.

Since the 1990s EU governments have followed a two-track approach: reforms of the pension systems went hand-in-hand with policies intended to push up the employment rates of older workers (55-64 years). These two policy fields are strongly interlinked.

The **Lisbon Strategy**, based on **four pillars** - growth, employment, social cohesion and sustainable development -, is highly relevant and extremely useful in the discussion on demographic change because it gives responses to these challenges.

## II. REFORM OF THE PENSION SYSTEMS<sup>2</sup>

6. In 1999 the European Commission presented its **Communication on a Concerted Strategy for Modernising Social Protection**.

This communication, which focused on four key objectives – including “to make pension systems sustainable” – was the start of a long-term Europe-wide reform process in the area of pensions.

7. **The Laeken European Council of December 2001 decided that Member States** should cooperate on the question of reform of the pension system by seeking to achieve common objectives, namely, the adequacy of pensions, the financial sustainability of pension systems and the adaptability of pension systems (modernisation).

The method to be used was the open method of coordination (OMC).

8. **There has been substantial progress in reforming pension systems since 2003.**

Disincentives to work longer have been reduced and incentives strengthened; links between contributions and benefits have been tightened; and life expectancy has been further taken into account in pension systems. Moreover, the provision of supplementary pensions has been promoted and legislative frameworks have been improved. Furthermore, some Member States have also tackled old-age poverty by increasing the levels of guaranteed minimum pensions.

9. Some Member States have introduced **major reform packages**. Germany, in addition to 2001 reforms (which led to a lower increase in first-pillar pension levels and the creation of State-supported, funded, voluntary, second- and third-pillar pensions), undertook, through the Sustainability Act of 2004, measures aimed at bringing levels of contribution rates into line with levels of benefits paid out. It also introduced a sustainability factor into the pension indexation formula, requiring additional adjustments if the ratio between contributors and beneficiaries worsens. In France, the 2003 reform improved long-term sustainability via an increase in the number of contribution years required for a full pension (this will be further increased in line with future increases in life expectancy), as well as via strengthened incentives to work longer. Members of the public and private schemes are now also treated more equitably. In Austria, the 2004 and 2005 reforms make a major step towards a more sustainable pension scheme through a stronger link between contributions and benefits as well as an increase in the number of contribution years needed for a full pension. Incentives to work longer were also increased and incentives to take up early pensions decreased through a so-called bonus/malus system. This reform also introduces a much more uniform pension system across the public and the private sector and introduces the indexation of pensions to prices as of 2006. The Finnish pension reform, implemented mainly in 2003-2005, increased incentives to work by providing a higher accrual of pension rights for older workers and overhauling early retirement arrangements. It will also introduce a “life-time coefficient” with the affect of adjusting future pensions to increases in life expectancy. Lithuania (in 2004) and Slovakia (in 2005) introduced a funded tier to their social security pension system, which will strengthen the sustainability of the statutory pay-as-you-go old-age pension scheme in the long run.

---

<sup>2</sup> This chapter draws upon the EC report Adequate and sustainable pensions – synthesis report 2006

Concerning occupational and private pension schemes, the legislative framework was improved notably by the Netherlands and the United Kingdom. In the Netherlands, the principles for a new Financial Assessment Framework for supplementary pensions were established in 2004. These set tighter requirements, in particular for the size of reserves for collective private pension arrangements.

10. The Member States have continued **adapting their existing systems**. For example, Spain, Portugal, Belgium and Ireland have increased the levels of their guaranteed minimum pensions beyond the statutory index adjustments, while the United Kingdom has implemented Pension Credits. Portugal has strengthened incentives to work longer and fostered more equitable treatment of members of different schemes. Incentives to work longer have also been developed in a number of Member States including Luxembourg, the Netherlands (favourable tax conditions for the take-up of early pensions have been reduced and an innovative life-course arrangement, replacing early retirement arrangements, was introduced in 2006) and Italy (the 2004 reform plans a gradual increase of the age requirements for seniority pensions).

Some pension laws provide for periodic reviews as a basis for next steps in the reform process. For example, Spain renewed the Toledo Pact, thereby underlining the importance of dialogue with the social and economic players involved when it comes to monitoring present and future reform measures. The Parliament is reviewing progress and future reform measures every five years.

As a response to future increases in life expectancy, a number of reforms are designed to stabilise pension systems through automatic adjustment mechanisms (as in SE, FI, PL, LV or DE) or periodically required reviews and adjustments (in AT, IT or FR). These adjustments will also promote a life-cycle approach.

11. A number of recent reforms have **strengthened the benefit/contribution link of pension systems**. Funded and national defined contribution schemes establish a strong link and links have been strengthened also in many defined-benefit schemes. This has occurred, firstly, through the introduction of longer contribution periods required for a full pension; secondly, by calculating full pensions on the basis of life-time earnings instead of final salary, thus reflecting more accurately contributions over an entire career, rather than just wage progression in later years; thirdly, by applying actuarial reductions/increases for early/deferred retirement, thereby contributing to a culture in which early retirement becomes less prevalent (this has occurred in a number of Member States, like AT, FR, FI, ES, PT, NL or IT), this link having been already strengthened by previous reforms in many Member States, such as DE, BE or LU, HU, EE, LV, LT, PL, SK, SI or SE).

However, reinforcing the link between contributions and benefits has to be combined with a careful monitoring of the accrual of pensions rights during breaks in careers – such as for childcare, other caring responsibilities, or on account of unemployment, sickness or for educational purposes – to ensure both adequacy and equity in retirement.

12. **More and more people do not follow the standard career of full-time, lifelong employment**. Career breaks and part-time work are becoming more frequent.

Member States have started to review pension provision for workers with atypical careers, with a view to easing access to statutory and supplementary pension schemes. For example, some Member States, in particular where the link between contributions

and benefits has been strengthened, allow people to acquire pension credits for periods of short-term contracts, part-time and voluntary work as well as for some types of break in the working career such as child and old-age care, education and unemployment.

Most of the Member States are gradually phasing out differences in legal retirement ages between men and women.

Generally, workers who change employer frequently are better served by statutory schemes, and many statutory schemes have moved towards accommodating short-term contracts, while supplementary pension schemes (notably those which are linked to an individual employer), can disadvantage mobile workers.

Given the rising importance of supplementary schemes, some Member States (DK, DE, NL, UK) have improved the portability of supplementary pension rights which pose obstacles to workers' mobility.

13. More and more countries have **switched to price, or close to price, indexation** both for earnings-related schemes and for minimum pension schemes.
14. Several countries see a role for **private pension provision as part of the total pension provision**. This has traditionally been the case in Member States (like DK, NL and UK). Moreover, the importance of private pension provision has essentially been increased by the introduction of a funded tier of statutory schemes in a number of Member States including SE, PL, HU, EE, LV, LT and SK. Furthermore, a great number of countries have increased provisions for occupational or private schemes that complement public pensions (DE, IT, AT).

In all but a few Member States the public pay-as-you-go pension schemes are expected to remain the principal source of income for pensioners. This will allow Member States to maintain a degree of redistribution and solidarity that is necessary to provide fair incomes to all older people.

Privately managed schemes, as well as reserve funds of pay-as-you-go schemes, have to operate at a sufficiently high level of security and efficiency. Rules on acceptable investment risks and prudent assumptions about future returns are important safeguards if their implementation is well enforced and monitored, while efficiency also means ensuring that administrative charges are kept low.

Table 2.3. – Evolution of theoretical replacement rates from 2005 to 2050

	Change in theoretical replacement rate in percentage points (2005-50)				Assumptions and background information				Decline in the net replacement rate, 10 years after retirement [in percentage points] (*)
	Net (Total)	Gross replacement rate			Statutory pensions		Occupational and voluntary pensions		
		Total	Statutory pensions	Occupational and voluntary pensions	Coverage rate (%)	Contribution rate (%)	Coverage rate (%)	Contribution rate (%)	
BE	7	4	-2	6	68	46.3a	40-45	4.25	-4
CZ	-9	-8	-8	:	100	28	:	:	-13
DK	5	15	-6	21	100	0.9 b	78	12.7	-3
DE	4	5	-9	15	Na	19.5	70	4	0
EE	2	3	3	:	100	22	:	:	-2
EL	-9	-11	-11	:	Na	20	:	:	-16
ES	-5	-6	-6	:	89	28.3	:	:	-15
FR	-17	-17	-17	:	Na	20	:	:	-12
IE	0	0	3	-3	100	9.5	52	20.5	-1
IT	4	1	-15	16	100	32.7	11.4	6.91	Nd
CY	18	11	11	:	Na	16.6	:	:	-7
LV	-7	-7	-7	:	100	20	:	:	-7
LT	-4	2	2	:	83	26	:	:	-6
LU	1	0	0	:	92	24	:	:	1
HU	-1	12	13	:	100	26.5	:	:	-13
MT	-27	-19	-19	:	:	20	:	:	:
NL	-2	-2	0	-2	100	7	91	14-15	-10
AT	14	5	5	:	100	22.8	:	:	-10
PL	-34	-27	-27	:	77	36.9	:	:	-26
PT	1	-5	-5	:	82	32.6	:	:	-10
SI	-22	-25	-25	:	100	24.35	92	0-5.8	:
SK	1	1	1	:	Na	Na	:	:	:
FI	-1	-5	-5	:	100	21.6	:	:	-8
SE	-14	-12	-13	0	100	17.2	90	13.7	-10
UK	3	3	2	0	100	14.75 – 10.9	56	23.7	-6

Note: Source see box 2.1. (:) stands for not applicable or not available. Coverage rates refer to the coverage of the labour force and contribution rates to overall contribution rates as a share of gross wages (from employees and employers) used as assumptions for the calculation of theoretical replacement rates (coverage rates may differ from currently observed figures displayed in table 2.4; contribution rates may also differ from current levels reflecting for instance projected increases in contribution rates). (a) For Belgium, this refers to the overall Social Security contribution rate, due to its global management (b), for Denmark this does not include transfers from the general budget. The column referring to statutory pensions includes for some Member States (Estonia, Latvia, Lithuania, Hungary, Poland, Slovakia and Sweden) the mandatory funded tier, which is a defined contribution scheme. The column referring to occupational or voluntary schemes generally refers to defined contribution schemes, with the exception of Ireland, the Netherlands, Sweden and the United Kingdom, where defined benefit schemes have been considered.

Source: E.C., **Adequate and sustainable pensions - Synthesis Report 2006**, Luxembourg, 2006

Pension fund assets as a percentage of GPN

	1990	1995	2000	2003	2004 Forecast
Germany	7.0 %	5.6 %	6.5 %	7.8 %	8.7 %
Austria	0.8 %	2.0 %	3.2 %	4.4 %	5.2 %
Belgium	3.0 %	3.6 %	6.1 %	4.0 %	4.6 %
Denmark	29.0 %	23.2 %	24.5 %	24.2 %	25.5 %
Spain	1.0 %	2.9 %	6.2 %	7.5 %	7.9 %
Finland	-	9.7 %	9.1 %	8.4 %	8.9 %
France	2.0 %	4.7 %	4.2 %	3.5 %	3.9 %
Netherlands	78.3 %	80.0 %	111.4 %	111.9 %	121.4 %
Ireland	-	-	43.9 %	39.3 %	43.2 %
Italy	0.6 %	1.7 %	2.5 %	2.8 %	2.8 %
Portugal	-	-	11.2 %	12.5 %	13.9 %
UK	58.9 %	76.2 %	79.5 %	64.4 %	67.4 %
Sweden	31.1 %	33.8 %	28.9 %	48.3 %	53.2 %
Norway	4.8 %	6.1 %	7.1 %	7.0 %	7.3 %
Switzerland	74.1 %	88.8 %	133.8 %	115.8 %	129.7 %

Source: INVERCO-EFRP- GDP data – Eurostat, quoted in ETUI-REHS, Education, 2007, Social Protection in Europe. Guide for Eurotrainers, p. 99

### III. EUROPEAN PENSION REGULATIONS AND DIRECTIVES

**15. Regulation n° 1408/71 of 14 June 1971<sup>3</sup>** on the application of social security schemes to employed persons, to self-employed persons and to the members of their families moving within the Community, amended by Council Regulation n° 1606/98 of 29 June 1998 extending the field of application of Regulation 1408 to the special regimes of civil servants, guarantees:

- the aggregation of insurance or residence periods within the general schemes and the special schemes for civil servants in view of the acquisition of the right to benefits.
- equal revalorization of benefits for migrant workers and for nationals;
- aggregated pensions payable in the state of residence.

**16. Regulation 859/2003** extends the field of application of Regulation 1408/71 to workers from third countries who are legally employed in the EU.

<sup>3</sup> This Regulation will be replaced by Regulation 883/2004 as soon as the implementation Regulation will be adopted (in 2009)

- 17. Directive 86/378/EEC of 24 July 1986** (amended by Directive 96/97/EC of 20 December 1996) on the implementation of the principle of equal treatment for men and women requires equal treatment with regard to occupational schemes which are regarded as pay.
- 18. Directive 98/49/EC of 29 June 1998** on safeguarding the supplementary pension rights of employed and self-employed persons moving within the Community guarantees:
- equality of treatment of migrant workers and national job changers as regards the preservation of vested pension rights: Member States must ensure the preservation of vested pension rights for members of a supplementary pension scheme in respect of whom contributions are no longer being made to that scheme as a consequence of their moving from one Member State to another, to the same extent as for members in respect of whom contributions are no longer being made but who remain within the same Member State;
  - cross-border payments of supplementary pension benefits, net of any taxes and transaction charges which may be applicable;
  - as far as posted workers are concerned, Member States must enable contributions to continue to be made to a supplementary pension scheme established in a Member State by or on behalf of a posted worker who is a member of such a scheme during the period of his or her posting in another Member State. Where contributions continue to be made to a supplementary pension scheme in one Member State, the posted worker and his employer shall be exempted from any obligation to make contributions to a supplementary pension scheme in another Member State.
- 19. Communication COM (2001) 214 final of 19 April 2001 from the Commission** on the elimination of tax obstacles to the cross-border provision of occupational pensions, supplements the Pension Fund Directive of 2003 and calls for the elimination of unduly restrictive or discriminatory tax rules that can act as a major disincentive to individuals wishing to contribute to pension schemes outside their home Member State and pensions institutions that wish to provide pensions across borders (pan-European pension institution). Member States must ensure that they grant the same tax deduction for contributions to domestic pension institutions and those established in other Member States. Equal treatment must similarly be granted in relation to the tax treatment of benefits. Under nearly all tax treaties between Member States pension benefits are taxable in the State of residence of the pensioner.
- 20. Directive 2003/41/EC of 3 June 2003** on the activities and supervision of institutions for occupational retirement provision aims at:
- establishing minimum prudential standards in order to ensure a high level of protection for the rights of future pensioners;
  - ensuring that the institutions enjoy sufficient freedom to develop an effective investment policy;
  - enabling a pension institution in one Member State (the home Member State) to manage company pension schemes in other Member States (the host Member States) by allowing cross-border management of occupational pension schemes while maintaining full compliance with the social and labour law of the host Member State.

## **21. Proposal for a Directive on improving the portability of supplementary pension rights, COM (2005) 507 final of 20 October 2005**

In 2005 the European Commission proposed a draft directive on the portability of supplementary pension. The original objective of the proposal was to reduce the obstacles to workers' mobility which stem from these schemes by improving the rights of workers moving within the Union and within the same Member State.

The proposal met with strong opposition in the Council. A breakthrough was achieved on the basis of a compromise proposal of the Finnish Presidency in November 2006.

On 20 June 2007 the European Parliament voted (under the co-decision procedure in first reading) a legislative resolution on this proposal which took over most of the amendments proposed by the Finnish Presidency. The ETUC has regretted the minimalist approach adopted by the European Parliament in this matter and stressed that the Parliament has missed an opportunity to substantially improve the social rights of workers moving either within a Member State or within the Union and to significantly diminish the obstacles to their mobility. Not only has the provision in favour of employees moving from one company to another allowing them to transfer their "acquired rights" been deleted from the text, but also the vesting period has been increased from two to five years!

A further matter that remains unresolved after the first reading in Parliament is the tax treatment of supplementary pensions: this important issue is not even raised, let alone resolved, by this initiative.

## **IV. A EUROPEAN TRADE UNION VIEW ON THE FUTURE OF SOCIAL PROTECTION IN GENERAL AND OF PENSION SYSTEMS IN PARTICULAR**

### **22. The defence of the statutory social protection systems**

In the view of the European trade union movement, the statutory systems of social protection should remain the core of the European welfare state. These systems guarantee, better than any other, social welfare, social cohesion and social justice. They are also highly efficient in terms of poverty prevention and cost-effectiveness through their low administrative costs and non-profit-making status. In order to maintain and to increase their efficiency, the statutory social protection systems need to adapt both to the major changes in the labour market and new forms of work, and to the profound societal changes such as ageing, changes in family structures and the individualisation of our societies.

Apart from the fact that our social protection systems should respond to the growing need for active policies in favour of the millions of unemployed workers in the EU and the millions of job-seekers outside the EU, our systems should fully integrate the growing number of non-standard workers and of so-called "self-employed", offering them equal rights and contribution obligations (see, in this context, the Preamble to the two framework agreements on atypical employment signed by the European social partners, in 1997 on part time work and in 1999 on fixed-term work). Greater flexibility in the labour market means higher economic insecurity and should go hand in hand with greater social security. In order to reconcile professional and family life, it is important

that the social protection systems provide for the maintenance of social security entitlements during periods of parental leave and other types of career break (see, in this context, the *European Framework Agreement on Parental Leave* signed by the European social partners in 1996).

### **23. The development of occupational pension schemes**

Besides the public social protection systems, supplementary insurance schemes, mainly of a contractual nature, are developing in Europe. This is particularly the case in the fields of pension insurance (occupational pension funds, group insurance schemes) and health insurance.

The European trade union movement continues to give absolute priority to the public pension schemes based on solidarity between generations and financed on a “pay-as-you-go” basis, and to statutory health insurance. Provisions for the development of second-pillar pension or health-care schemes are welcomed in so far as they do not infringe on the statutory systems, are not considered as alternatives to these systems, result from collective agreements and guarantee real rights to their members.

Occupational pension funds should be organised on a collective basis, provide for compulsory membership and be accessible to non-standard workers. Mobile workers should be able to take full advantage of these supplementary schemes. The EU should (and has partially done so) set the legal framework for occupational pension schemes: guaranteeing workers’ rights and financial interests, equal rights for men and women, and portability rights; recognising the place and the role of the trade unions in the implementation, the monitoring and the investment policies of the supplementary schemes; and defining the prudential, transparency and taxation rules. The management of these funds should ensure a proper return on their investments as well as respect for social and ethical standards in their investment policies and choices. In this way, complementary pension funds can become an important instrument for the promotion of employment, decent labour standards and the protection of the environment.

### **24. Towards progressive and flexible retirement**

The European trade union movement is also very concerned about the growing number of older workers leaving the labour force far before the statutory retirement age: while statutory retirement ages are reviewed in an upward direction, more and more older workers are confronted with an early exit from the labour market. The employment rates for older workers decrease sharply after the age of 55. The European trade union movement cannot accept HR policies that involve systemically removing older workers from employment. In specific circumstances (high levels of unemployment, industrial restructuring, hard or stressful labour, long employment and contribution record) full time early retirement schemes are justified. Preference should be given to a system of progressive and gradual retirement, whereby reduced working time is combined in a flexible manner with partial retirement. An employment and social protection policy which seeks to take full account of the interests of older workers is committed to investing in lifelong training and learning and, in so doing, contributes to the sustainability of our social protection schemes. Such a policy should be an integral part of a strategy aimed at reorganising working time over the life span.

### **25. Towards the individualisation of social protection rights**

The European trade union movement is also in favour of an individualisation of social protection rights in order to allow each adult, irrespective of matrimonial or labour market

status, to benefit from his or her own rights (as opposed to the system of derived rights) on the basis of own contributions. If it is to be successful, such a policy shift requires a social protection model based on universal rights complemented by insurance rights (based on professional activities and on social contributions), care services and facilities for dependent persons and for young children, career-break provisions for the same purposes, a new division of family tasks between partners and, finally, an adequate transitional period to move from derived rights to individual rights.

## **26. Safeguarding the future financing of social protection**

Safeguarding the financial viability of the social security systems in the long run is a basic concern of the European trade union movement. Governments should guarantee that the financial resources of the social protection systems grow in line with current and future needs. The best way to achieve this objective is through the promotion of sustainable economic growth and the expansion of employment. In this context it should be stressed that the European trade union movement has strong reservations about many of the arguments put forward in favour of a reduction of non-wage labour costs: any proposal in this direction should be linked to job creation and address the question of alternative financing. To help promote employment, the long-term trend toward higher taxes on labour should be reversed by shifting the tax burden towards other factors of production and by broadening the financial base of social protection.

The erosion of the traditional tax base has to be reversed by increased efforts on the part of the EU towards tax co-ordination and convergence. Broadening the financial base of social protection presupposes that all forms of income, and not only income from labour, and all kinds of labour, and not just employed labour, should contribute equally to the financing of social welfare. Governments should therefore examine critically all existing tax exemptions, as well as all tax expenditures, especially those in favour of third-pillar provision (private pensions, life insurance policies, etc).

The full potential of the European single market and of the EMU in the areas of economic growth and job creation should be used not only for budgetary consolidation, but also for the consolidation of the social protection systems in the light of the ageing of our populations, and this must take place without weakening the redistribution effect and the solidarity principles which characterise the systems. The establishment of demographic reserve funds for public retirement pensions based on the increasing margins in the state budgets under EMU conditions (as has been done in the Netherlands, France, Belgium, Spain and Ireland) is an excellent example of such a policy.

Governments should also guarantee the financing, on the basis of general tax revenues, of all non-contributory solidarity measures introduced into the social security systems.

## **V. HIGHER EMPLOYMENT RATES FOR OLDER WORKERS**

**27. The Lisbon European Council of 2000** adopted an ambitious plan for the future of Europe: by 2010 the EU should become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion. It specifically stated that the overall aim of employment and economic policies should be to raise the employment rate to as close as possible to 70% by 2010 and to increase the employment rate for women to more

than 60% by the same year, not least in order to reinforce the sustainability of social protection systems.

In addition to the 2010 Lisbon targets, the **Stockholm European Council of 2001** set a new target of raising the average EU employment rate for older men and women (aged 55 to 64) to 50% by 2010.

Another target relating to older workers was set by the **Barcelona European Council in 2002**. It focuses on the average labour market withdrawal age which is to rise by 5 years by 2010.

Recognising the limited progress achieved so far towards these targets, the European Council decided in 2005 to re-launch the Lisbon Strategy and refocus priorities on economic growth and employment. As part of this, a new set of employment guidelines for the period 2005 to 2008 was adopted and these form part of the "Integrated Guidelines" package also adopted in 2005, which lays out a comprehensive strategy of macroeconomic, microeconomic and employment policies to redress Europe's weak growth performance and insufficient job creation.

The employment guidelines continue to reflect the EU's overall goal of achieving full employment, quality and productivity at work, and social and territorial cohesion, and advocate a **lifecyle approach to work** that tackles the problems faced by all age groups. Three broad areas for action were defined:

- Attract and retain more people in employment, increase labour supply and modernise social protection systems;
- Improve adaptability of workers and enterprises;
- Increase investment in human capital through better education and skills.

(EC, **Employment in Europe 2006**, p. 28)

## 28. Where are we in 2007?

As can be seen from Table 5 of the Employment report 2006 of the European Commission, the EU is far away from the original objectives set in Lisbon, Stockholm and Barcelona. In 2005 the overall employment rate in EU-25 was 63.8%; the female employment rate was 56.3%, while the employment rate among older members of the working-age population was 42.5%. Compared to the year 2000, the overall employment rate had increased by only 1.4 % points, the female employment rate by 2.7 % points and the older workers' rate by 5.9 % points.

Looking at the figures **per country, remarkable differences** in employment rates are observed: several countries have already reached the **general employment target**. These include Denmark (75.9%), The Netherlands (73.2%), Sweden (72.5%) and the UK (71.7%). Other countries are still far behind the target: Italy (57.6%), Poland (52.8%), Belgium (61.1%) and France (63.1%). Only Denmark, Sweden and the UK have achieved the **three employment targets** set in Lisbon and Stockholm.

Table 5 – Employment Rates In EU Member States In 2005 and progress towards the Lisbon and Stockholm targets for 2010												
	Total employment rate				Female employment rate				Older People's employment rate			
	2005	Change 2002-2005	Change 2000-2005	Gap below 2010 target	2005	Change 2002-2005	Change 2000-2005	Gap below 2010 target	2005	Change 2002-2005	Change 2000-2005	Gap below 2010 target
BE	61.1	0.8	0.6	8.9	53.8	1.2	2.3	6.2	31.8	1.8	5.5	18.2
CZ	64.8	0.6	-0.2	5.2	56.3	0.3	-0.6	3.7	44.5	1.8	8.2	5.5
DK	75.9	0.2	-0.4	>	71.9	0.3	0.3	>	59.5	-0.8	3.8	>
DE	65.4	0.4	-0.2	4.6	59.6	0.4	1.5	0.4	45.4	3.6	7.8	4.6
EE	64.4	1.4	4.0	5.6	62.1	2.1	5.2	>	56.1	3.7	9.8	>
EL	60.1	0.7	3.6	9.9	46.1	0.9	4.4	13.9	41.6	2.2	2.6	8.4
ES	63.3	2.2	7.0	6.7	51.2	2.9	9.9	8.8	43.1	1.8	6.1	6.9
FR	63.1	0.0	1.0	6.9	57.6	0.2	2.4	2.4	37.9	0.6	8.0	12.1
IE	67.6	1.3	2.4	2.4	58.3	1.8	4.4	1.7	51.6	2.1	6.3	>
IT	57.6	0.0	3.9	12.4	45.3	0.1	5.7	14.7	31.4	0.9	3.7	18.6
CY	68.5	-0.4	2.8	1.5	58.4	-0.3	4.9	1.6	50.6	0.7	1.2	>
LV	63.3	1.0	5.8	6.7	59.3	0.8	5.5	0.7	49.5	1.6	13.5	0.5
LT	62.6	1.4	3.5	7.4	59.4	1.6	1.7	0.6	49.2	2.1	8.8	0.8
LU	63.6	1.1	0.9	6.4	53.7	1.8	3.6	6.3	31.7	1.3	5.0	18.3
HU	56.9	0.1	0.6	13.1	51.0	0.3	1.3	9.0	33.0	1.9	10.8	17.0
MT	53.9	-0.1	-0.3	16.1	33.7	1.0	0.6	26.3	30.8	-0.7	2.3	19.2
NL	73.2	0.1	0.3	>	66.4	0.6	2.9	>	46.1	0.9	7.9	3.9
AT	68.6	0.8	0.1	1.4	62.0	1.3	2.4	>	31.8	3.0	3.0	18.2
PL	52.8	1.1	-2.2	17.2	46.8	0.6	-2.1	13.2	27.2	1.0	-1.2	22.8
PT	67.5	-0.3	-0.9	2.5	61.7	0.0	1.2	>	50.5	0.2	-0.2	>
SI	66.0	0.7	3.2	4.0	61.3	0.8	2.9	>	30.7	1.7	8.0	19.3
SK	57.7	0.7	0.9	12.3	50.9	0.0	-0.6	9.1	30.3	3.5	9.0	19.7
FI	68.4	0.8	1.2	1.6	66.5	0.9	2.3	>	52.7	1.8	11.1	>
SE	72.5	0.4	-0.5	>	70.4	-0.1	-0.5	>	69.4	0.3	4.5	>
UK	71.7	0.1	0.5	>	65.9	0.3	1.2	>	56.9	0.7	6.2	>
EU-15	65.2	0.5	1.8	4.8	57.4	0.6	3.3	2.6	44.1	1.6	6.3	5.9
EU-25	63.8	0.5	1.4	6.2	56.3	0.6	2.7	3.7	42.5	1.5	5.9	7.5
2010 target			70%				More than 60%				50%	

Source: Eurostat, OLFD.

Note: The column "Gap below 2010 target" is for illustrative purposes only since the 2010 target is a collective target for the EU and not of individual Member States. The symbol ">" indicates that the respective target has already been exceeded by the Member States concerned.

Source: E.C., Employment in Europe 2006, Luxembourg, 2006

As to the employment rate of **older workers**, remarkable progress has been made over the period 2000-2005 in Latvia (+13.5 % points), Finland (+11.1 % points) and Hungary (+10.8 % points).

As to the **average exit age** from the labour force, progress towards the Barcelona objective (to increase the average by 5 years) is very limited in the EU-25 area: from 60.4 years in 2002 the figure in 2005 was 60.9 years. This means only half a year of progress over 3 years! It is important here to observe the **huge differences** between European countries as to the effective exit age from the labour market: between e.g. France (58.8 years) and Sweden (63.7 years) there is a difference of almost 5 years!

All these figures prove that **progress towards** the quantitative objectives of the European Employment Strategy is **difficult but possible**.

## VI. WHAT TO DO IN ORDER TO REACH THE EMPLOYMENT TARGET OF 50% FOR OLDER WORKERS THROUGHOUT THE EU?

29. A prerequisite to increase the employment rate of workers in general and of older workers in particular is a **high and sustained economic growth** of our European economies and the creation of more quality employment. Therefore Europe needs to develop a new macroeconomic policy: the European Central Bank must become the guardian of price stability and growth and start to fulfil its double mandate.
30. The ETUC believes that in order to achieve active ageing an integrated approach is required involving a **range of policies, instruments and players** (including the social partners and the governments). Policies and partners should all work in the same direction.
31. The so-called **substitution effect** between older and younger workers is not that obvious: countries that were the most successful in increasing the employment rate of older workers (e.g. Finland) were also successful in increasing youth employment. "Old people will not damage job opportunities for the young" (V. Spidla, 2006).
32. A **life-cycle approach** is necessary: many of the measures and policies needed for active ageing should apply to all workers **throughout their careers** in order to be fully effective.
33. **Incentives and disincentives** deriving from the social security and taxation system are crucial for the success of active ageing. The main challenge for EU countries is to redesign their social security and taxation systems in such a way as to encourage older workers to remain in or to re-enter the labour market. Substantial tax and pension incentives can be convincing. "Carrot" reforms seem to be more successful than "stick"-based reforms. Increasing the statutory retirement age does not seem to be the best way forward in tackling this problem: this measure could lead to "inactive" ageing instead of "active" ageing, especially if other pathways out of work are available. Older workers must be given the chance to opt for flexible and gradual retirement. For example, part-time retirement regimes, allowing for a combination of retirement and employment, are to be favoured.
34. Policies should be directed towards **keeping workers "employable"** at all ages and preventing workers from getting "old". Lifelong learning and vocational training are essential to keep up the employability of older workers. Skills need to be upgraded throughout the life course: starting training at age 50 will never compensate for the lack of training during the earlier years. Collective agreements have to make provisions for and invest in lifelong training for all workers.
35. **Active labour market policies** are of crucial importance too, especially in cases of restructuring and redundancies: instead of offering only passive financial support to unemployed people, part of the available budget should be used for active measures such as re-training, personal guidance and job creation schemes (e.g. in the social economy or through public employment programmes). Nor should the opportunities offered by the external labour market be overlooked.

- 36. Negative attitudes of employers** towards older workers are often based on myths but can have far reaching consequences for older workers. M. Leibold and S. Voelpel, (*Managing the Ageing Workforce. Challenges and Solutions*, Wiley, 2006) analysed the myths and realities about older workers and found out that very often they do not correspond to the reality.

A recent worldwide research project of the service group Manpower, conducted in 25 countries and involving 28,000 companies, found that only 14 % of the companies surveyed have a specific recruitment policy for workers of over 50 years of age: for Germany and the United States this figure is 18 %; for France only 6 %.

Manpower also found that only 21 % of the surveyed companies have a retention policy for older workers: the figure for Japan is 83 % against only 8 % for France.

- 37. Good working conditions** and **flexible work organisation** also contribute to keep older workers longer at work. Ergonomic measures and health and safety policies are important; greater autonomy in work (organisation) combined with a reduction in working hours are also important in order to persuade workers to stay on board.
- 38. Policies to reconcile work and family life** are relevant for all age groups. Different life-cycle leave arrangements such as sabbaticals, career breaks, parental leave, time credits, educational leave and care leave are important instruments which can contribute to keep workers longer in employment.
- 39.** What is often overlooked in this debate is the importance of available and affordable **care provisions for children and elderly**. The “sandwich” generation with grandchildren and older parents, both in need of care, is often confronted with the dilemma: to withdraw from or to stay in the labour market. The question for them is how to respond to the personal desire to continue work while providing the grandchildren or the parents at the same time with the necessary support. Formal care services or infrastructures can help to facilitate the choices facing this generation.

(See Jepsen, M., Foden, D. and Hutsebaut, M. (eds) (2003), *A lifelong strategy for active ageing*, Brussels: ETUI)

Brussels, 10/09/2007, (H:\Veerle\Martin\Turin)