



Presentation on Best Practices in EU.
Sustainability of pension systems.
Madrid
June 22, 2016

Structure of my intervention

- You already had a **training session 5**: „Pension systems reforms in the EU.Best practices. Discussion.“
- There are **overlaps** but I will add the following elements:
- A) **integration** of Member States: EU, but also Eurozone.
- B) change of **method of policy coordination**: from OMC/best practices to benchmarking
- C) Own **analytical basis**: the ageing report.
- D) Not so much examples for pension reforms, but **principles**.
- E) View of **Finance Ministers**: huge pension block with no direct influence.

Federal Ministry of Finance



Building blocks of my intervention

- **Key words:** Best practices (more binding methods in EU-deepening). EU (also Eurozone). Sustainability (Ageing Report). Pension systems (Principles for a pension policy).
- **First block:** Method of policy coordination and EU/Eurozone dimension (state of the art).
- **Second block:** Sustainability - theory and analysis: Ageing Report.
- **Third Block:** Policy Options for pension reforms of the Ageing Report and principles of the Eurogroup.
- **Summary:** Referring to the last EG principle: political obstacles (reforms are unpopular, you can lose power, also hesitance to make the method more binding).

First Block: Method of policy coordination and EU/Eurozone (state of the art)

- Pension systems can be addressed in an **EU or in a Eurozone context**, where you need more ambition.
- This makes a difference, in particular with regard to the **level of policy coordination**.
- At EU-level the weakest form is the **Open Method of Coordination (OMC)**, created during the Lisbon Strategy. This is a very light exchange of view about policy options.
- Stronger is the instrument „**best practices**“, where you have a certain anchor, which one can follow.
- But even this is not enough for a Eurozone context. The target should be higher, e.g. by using a „**benchmarking concept**“.



Second Block: Sustainability of pensions: the 2015 Ageing Report as basic underpinning.

- The respective joint Member States (EPC)/European Commission Ageing Report is under certain aspects now a „**bible**“ (15 years of experience).
- It tries to approach the issue of „sustainability“ (**S1/S2-indicator**).
- It has the aim to cover **different public expenditures** which will be affected by ageing, not only pensions.
- It benefits from **similar methodological approaches** which will be regularly reviewed.
- You have a good **comparison among all member states**.
Report forms solid analytical basis to assess reform progress.



Joint Commission (ECFIN)-EPC (AWG) long-term projection exercise – 2015 Ageing Report

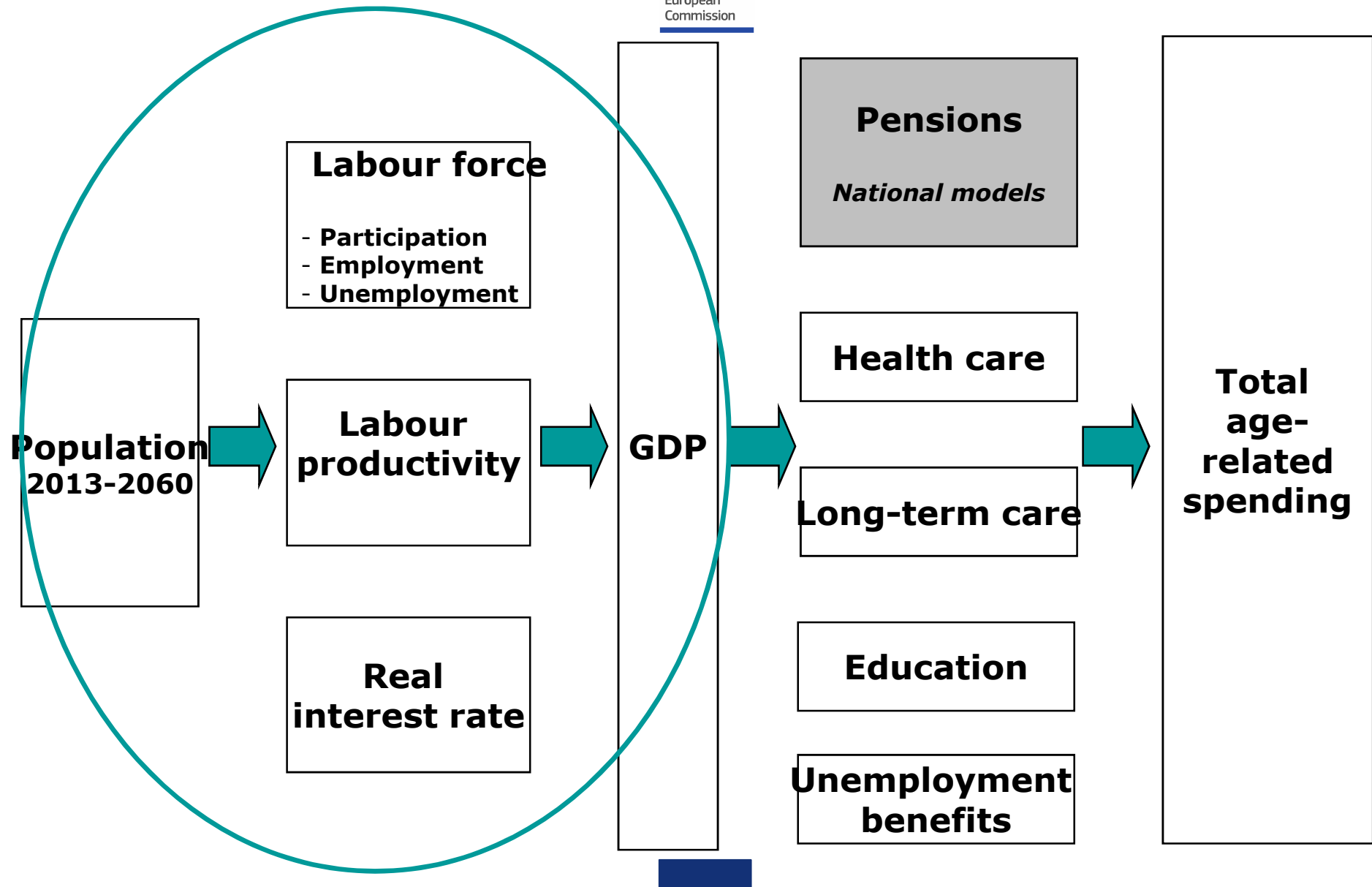
- Fifth update of the joint EPC-Commission long-term projections (previous 2001, 2006, 2009 and 2012).
- Mandate of the ECOFIN Council (May 2012)
"The Council INVITES the Economic Policy Committee to update, on the basis of new population projections to be provided by Eurostat, its analysis of the economic and budgetary implications of ageing by the autumn of 2015"

2015 Ageing Report

- ***2015 Ageing Report: Economic and budgetary projections for the 28 EU Member States (2013-2060)***
- ***Published on 12 May 2015***
- ***Available on DG ECFINs web-site***
- ***Council (ECOFIN) conclusions adopted on the same day***



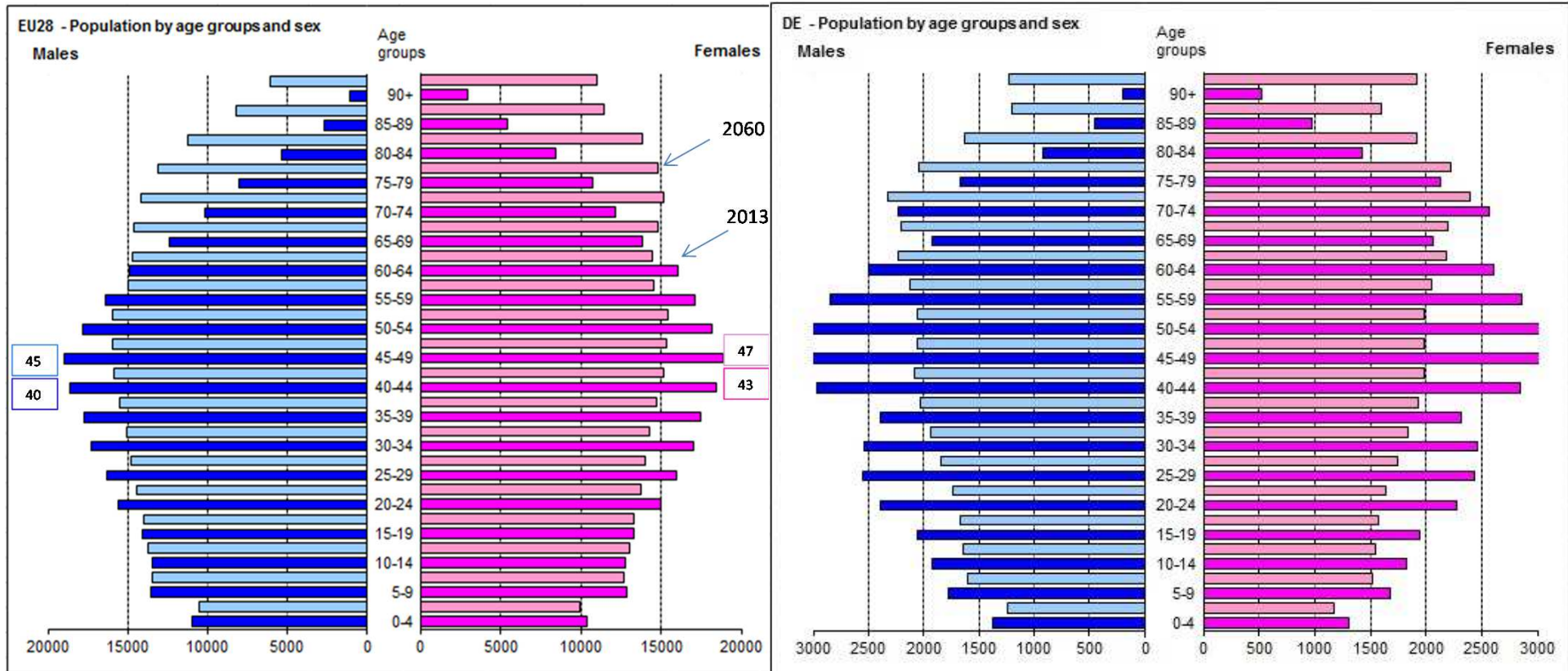
The details: the 2015 Ageing Report projection exercise



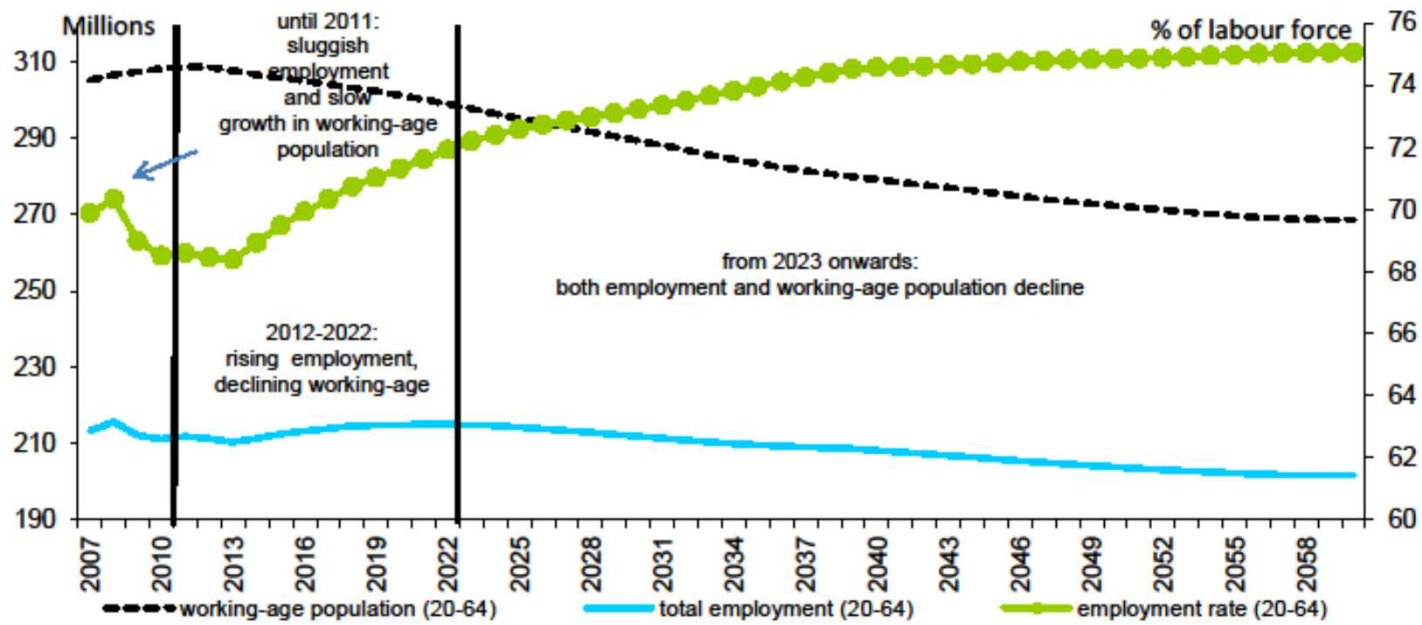
Demography (4)



Size and composition of the population



The consequences of ageing populations on employment - EU



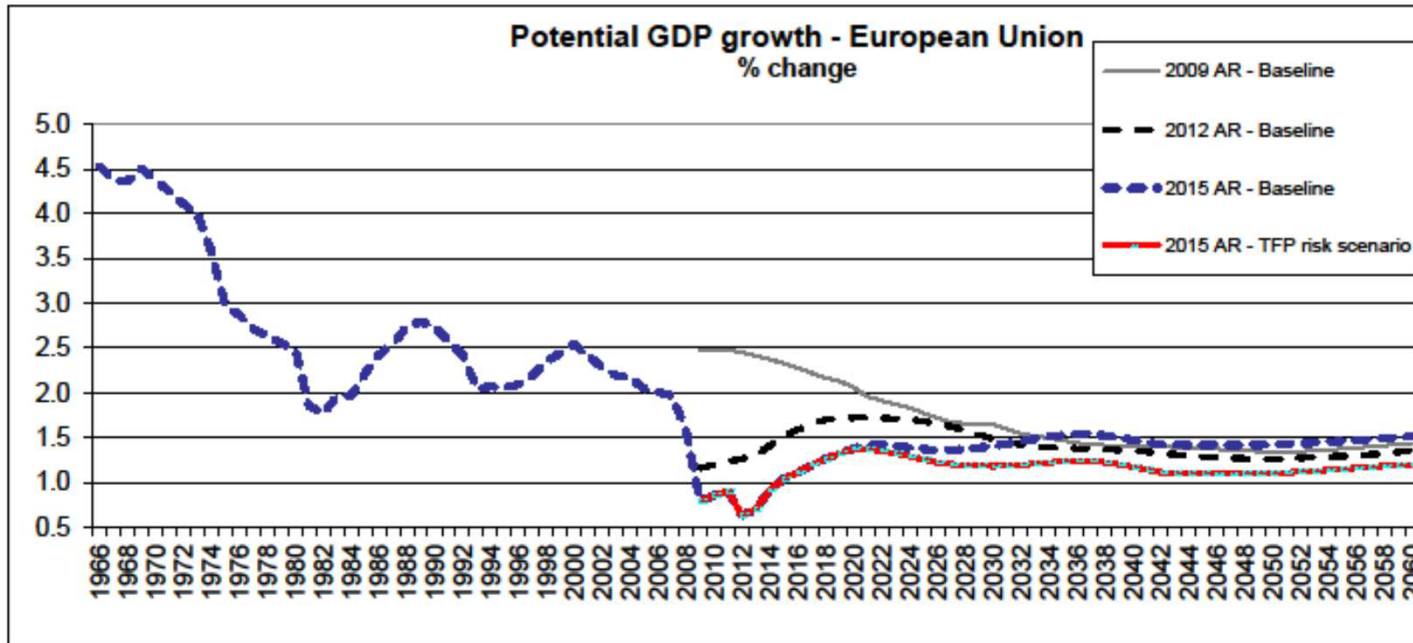
- Phase 1 :** sluggish employment and slow growth in working-age population.
- Phase 2 :** rising employment, declining working-age population
- Phase 3 :** both employment and working-age population decline

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Potential growth rates in perspective



Sustained low growth unless policies change



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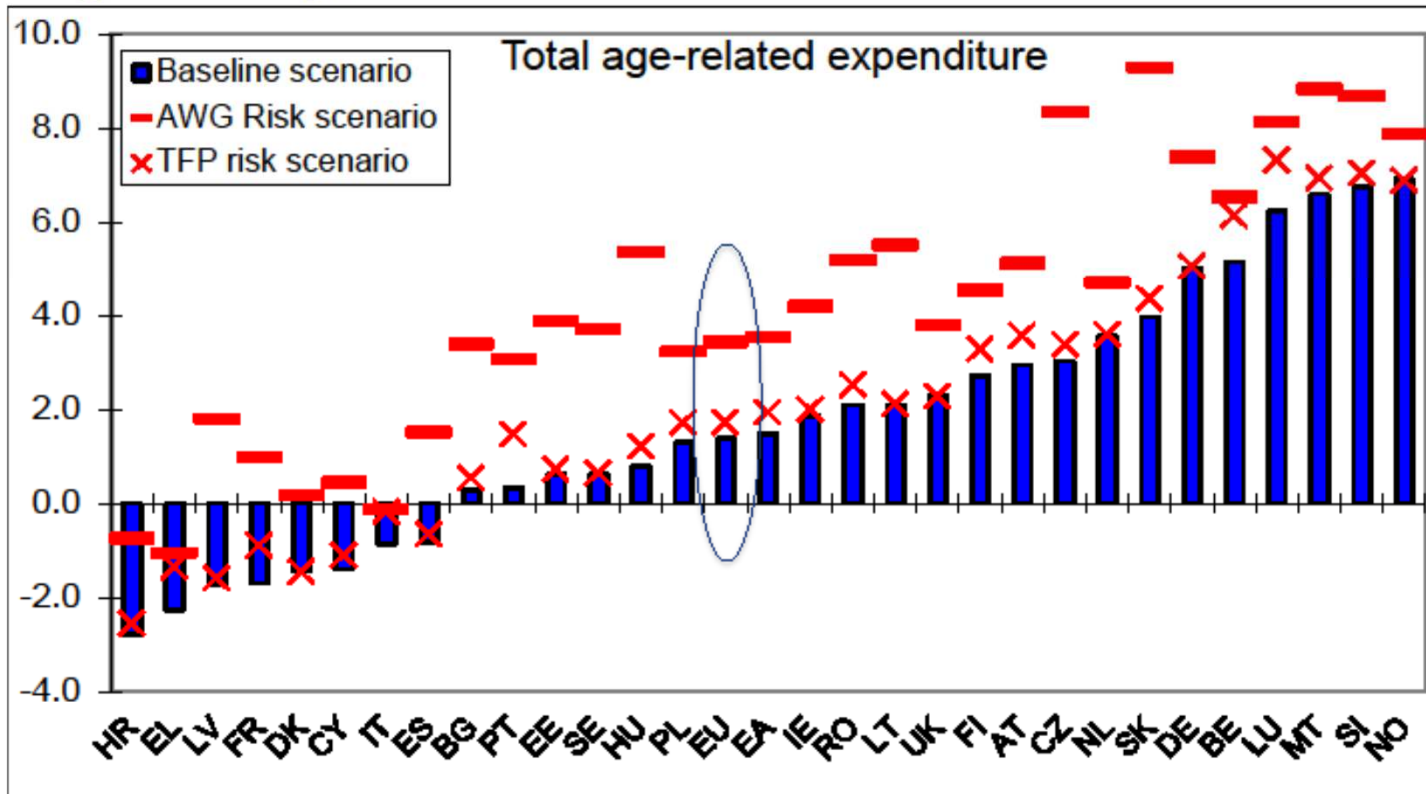
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Population ageing put upward pressure on public spending in the EU



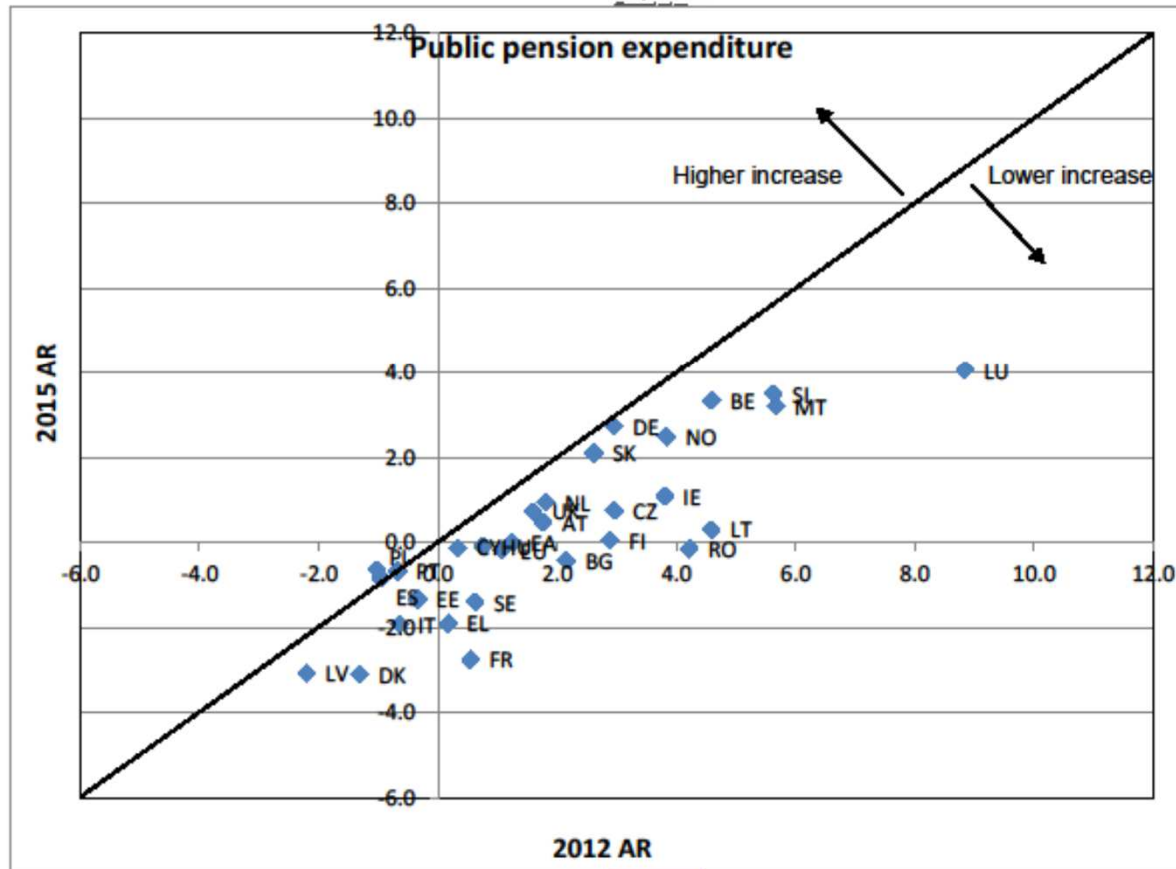
With large differences across Member States

pp. of GDP change, 2013-2060



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But lower projected increase in pension spending than three years ago



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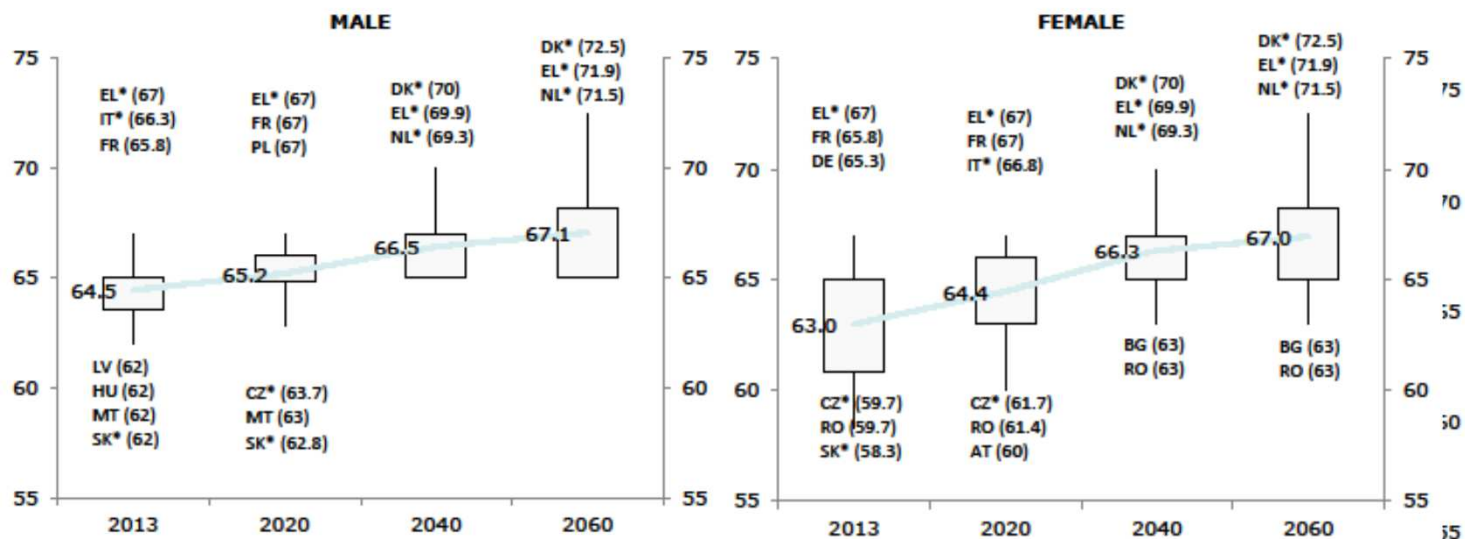
Third Block: Policy Options for pension reforms of the Ageing Report and principles of the EG

- **Policy options** of the Ageing Report:
- A) **Automatic balancing mechanisms** to reinforce resilience.
- B) **Sustainability factor** (benefit link to life expectancy).
- C) **Retirement age** linked to life expectancy.
- D) **Flanking policies** to ensure sustainability while maintaining social adequacy.
- E) **Supporting sustainability** through labour market and growth-enhancing measures.



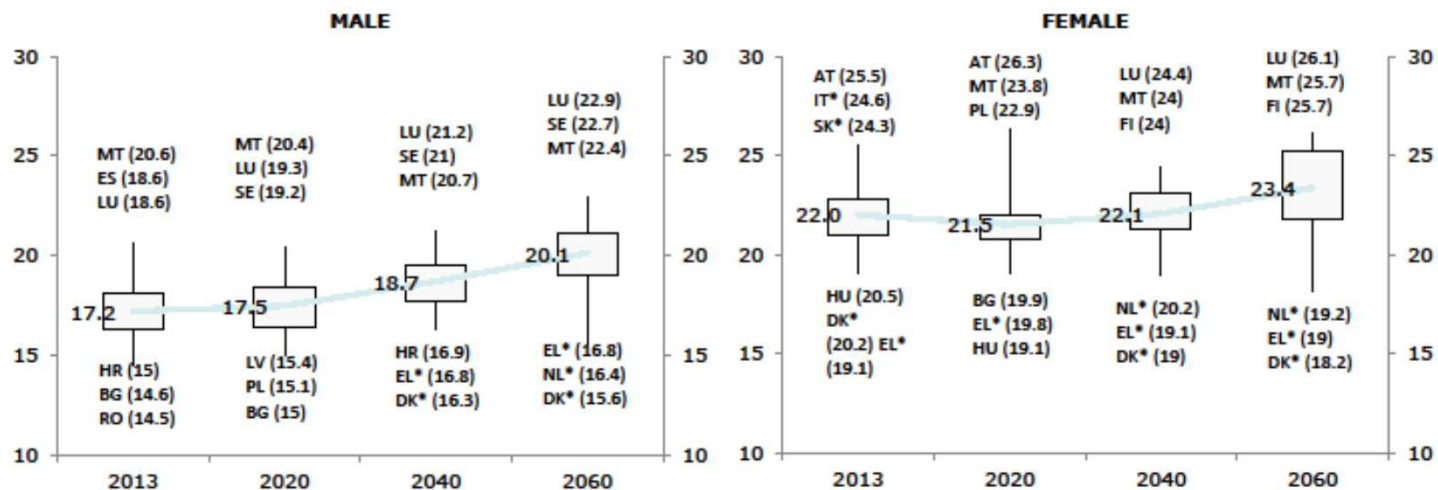
Policy responses (1)

Statutory retirement ages rising...



Policy responses (2)

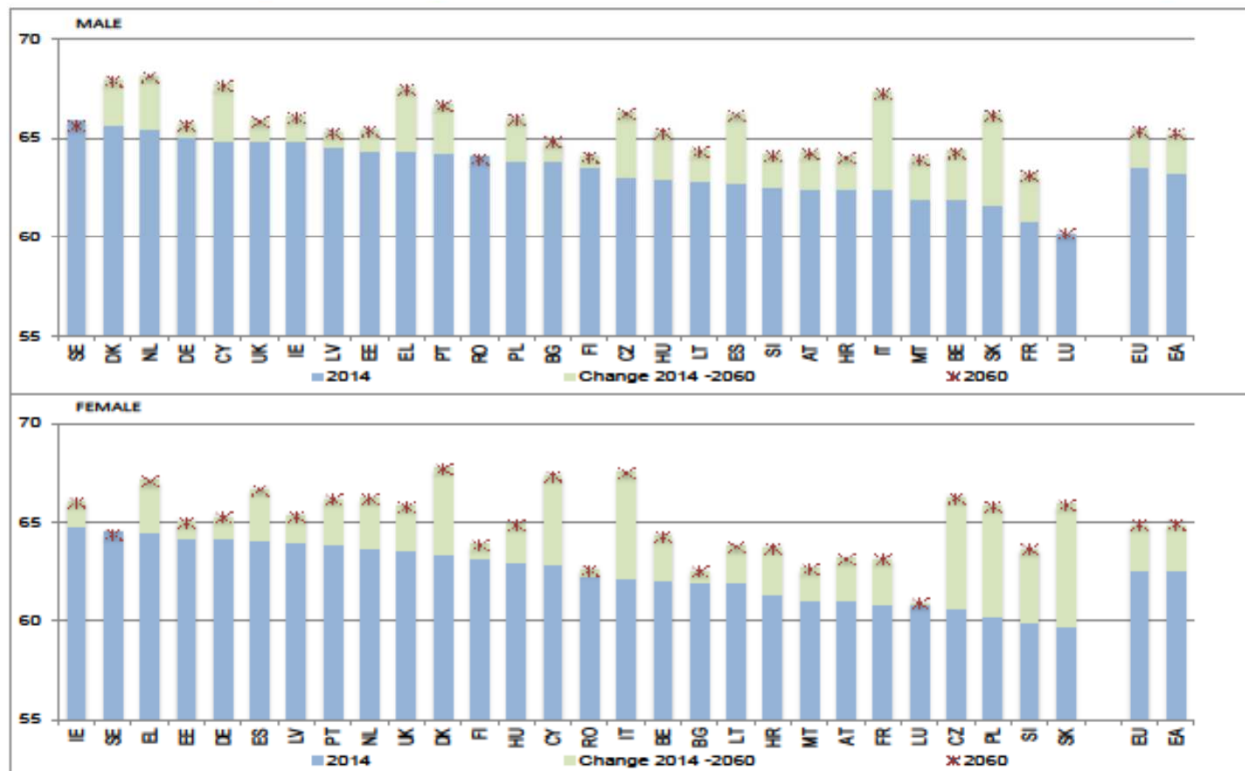
...and the duration of retirement rising too, but less...
(remaining life expectancy at SRA)





European
Commission

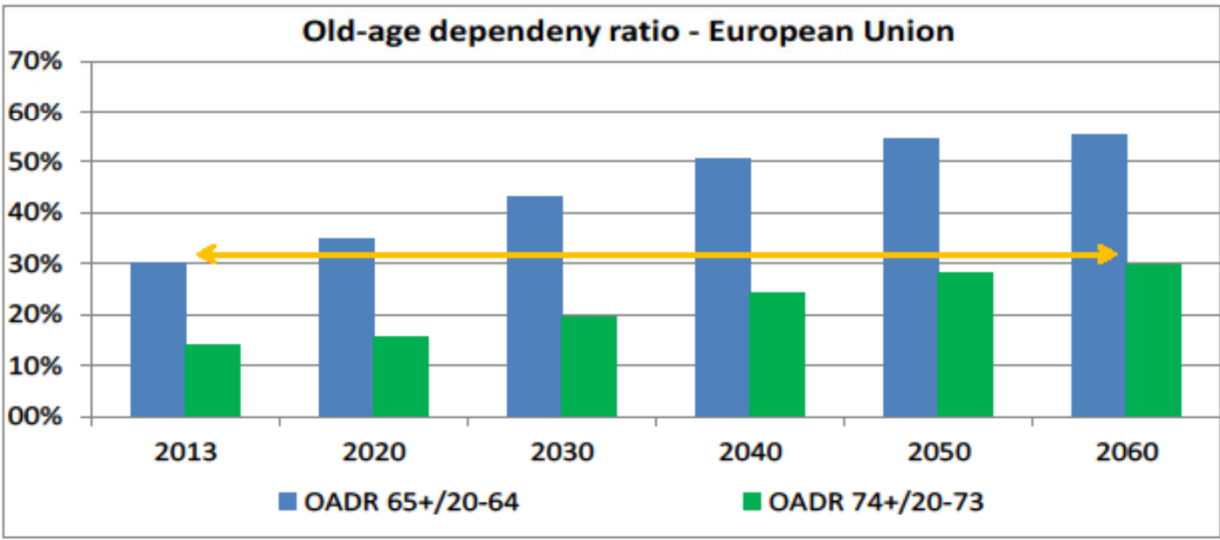
Policy responses (3) ...leading to higher effective retirement ages



A key challenge is to change public perception of what 'old' is



the new 65 is ... 74





- **Future changes in demographic structure increasingly incorporated in pension policies in EU Member States**

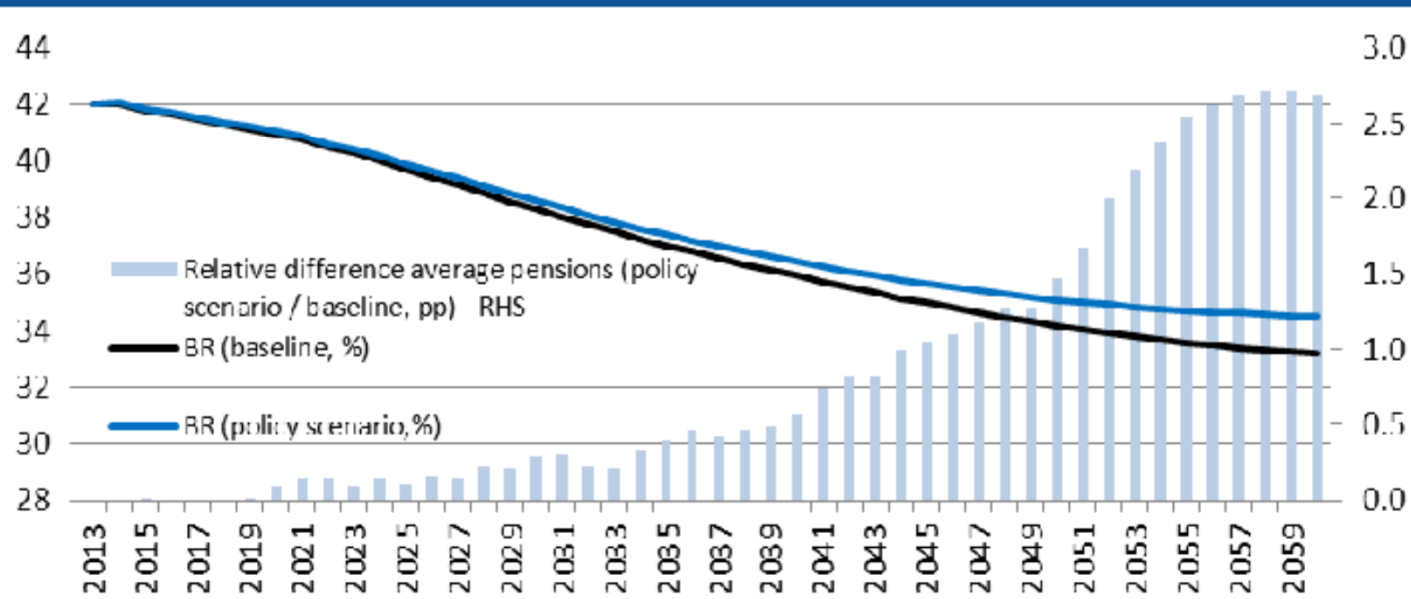
Country	Automatic balancing mechanism	Sustainability factor (benefit link to life expectancy)	Retirement age linked to life expectancy
Germany	X		
Finland		X	
Spain	X	X	
Italy		X	X
France*		X	
Latvia		X	
Poland		X	
Portugal		X	X
Sweden	X	X	
Norway		X	
Cyprus			X
Denmark**			X
Greece			X
Netherlands			X
Slovak Republic			X

Finland adopted a pension reform, introducing a link between the retirement age and life expectancy, in November 2015

Policy scenario: linking the retirement age to life expectancy



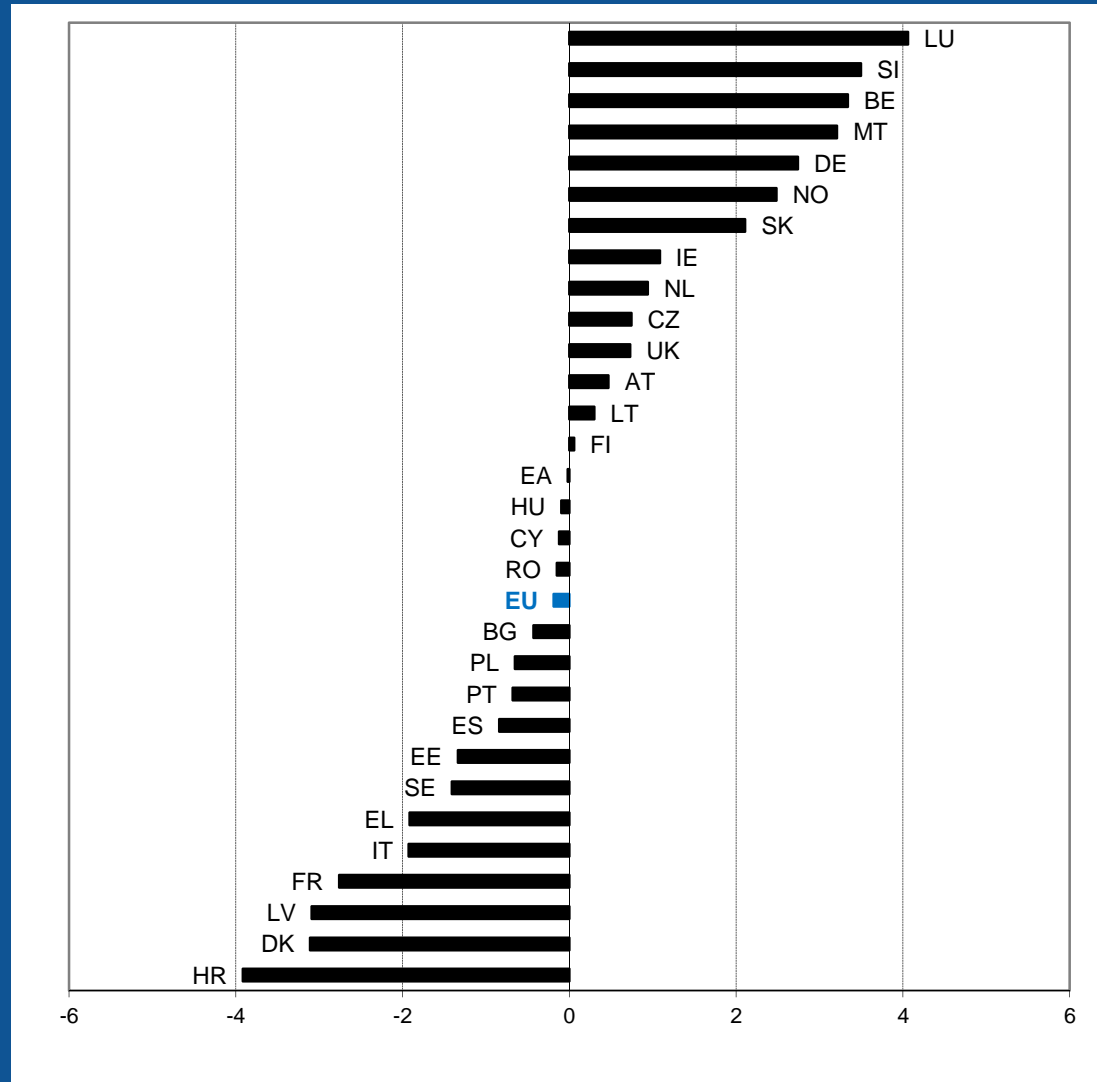
Benefit ratio and average pensions in the policy scenario compared to the baseline at the EU aggregate level



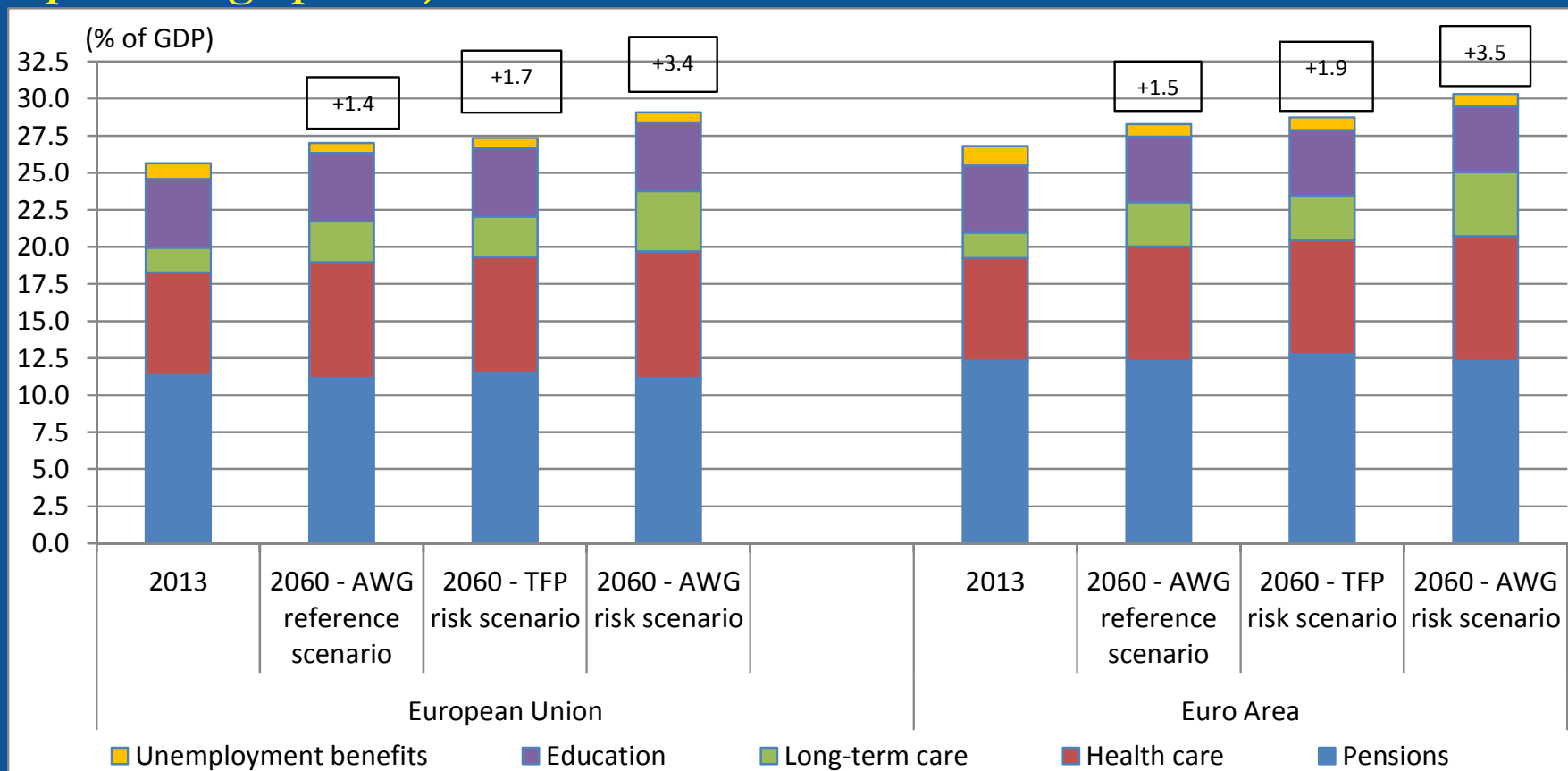
**Progress with
pension reforms:
public spending
(change 2013-2060 in
percentage points of GDP)**

**Projection reveal
that pension
spending will not be
higher in 2060**

**Large differences
across Member
States**



The Cost of Ageing in the EU, considerable increases despite recent reforms (change in percentage points)

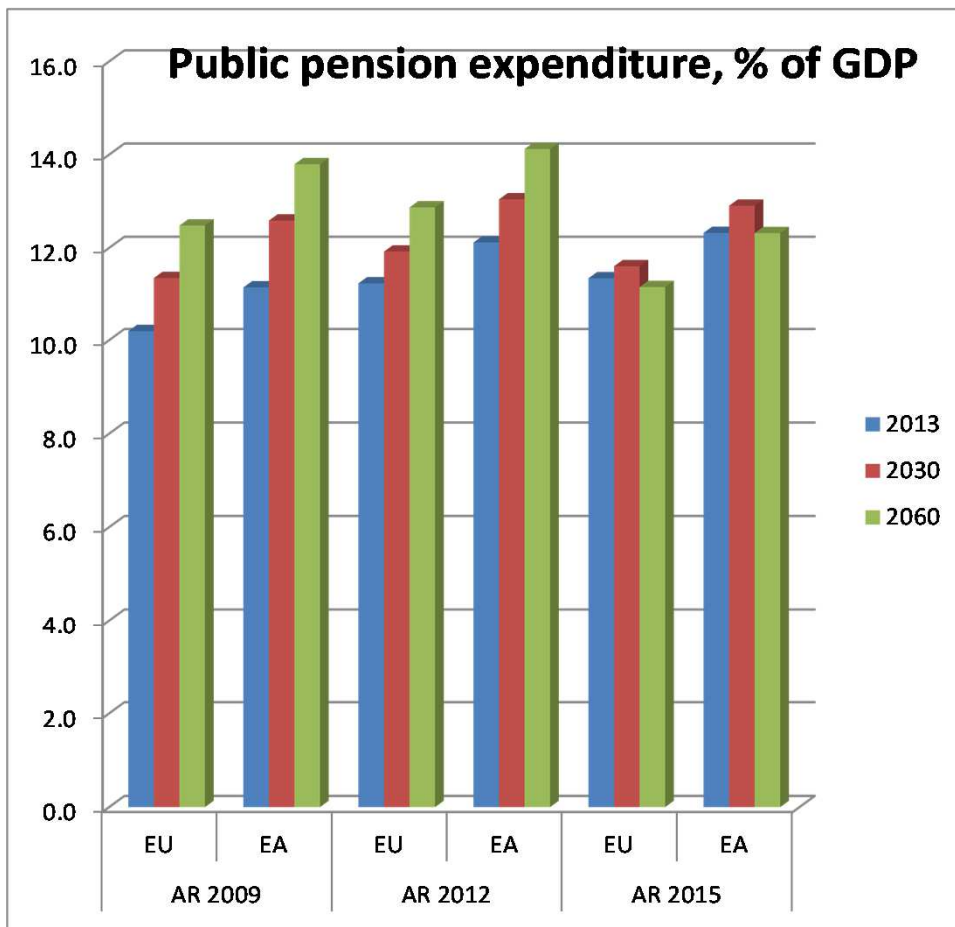


Successive waves of pension spending projections

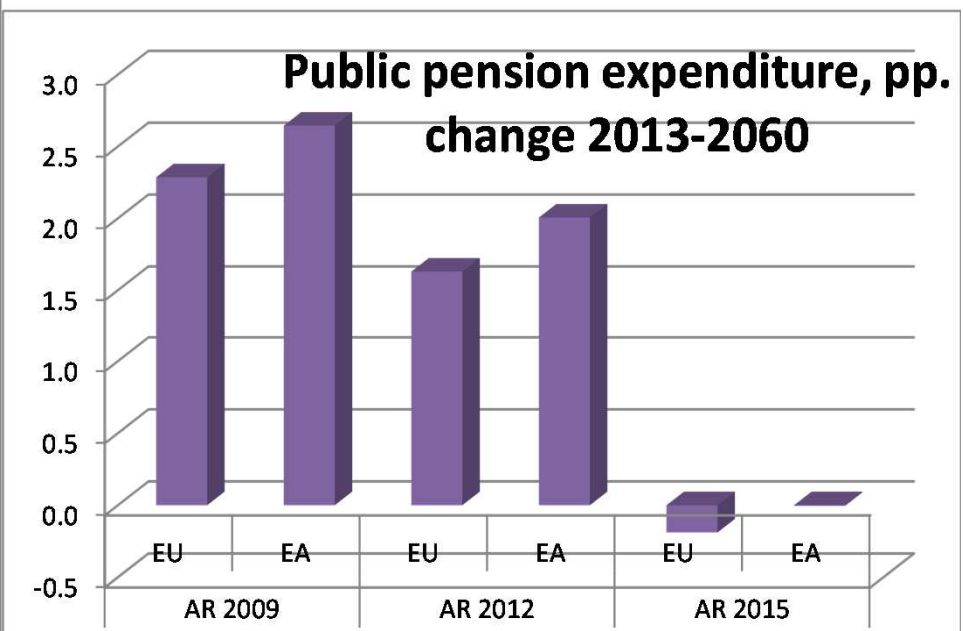


Overall progress with pension reforms in the EU, but, regular checks remain necessary...

Next update: 2018 Ageing Report



		Public pension expenditure as % of GDP			
		2013	2030	2060	2013-2060
AR 2009	EU	10.2	11.4	12.5	2.3
	EA	11.2	12.6	13.8	2.6
AR 2012	EU	11.2	11.9	12.9	1.6
	EA	12.1	13.0	14.1	2.0
AR 2015	EU	11.3	11.6	11.2	-0.2
	EA	12.3	12.9	12.3	0.0



Fiscal sustainability - challenges across different dimensions



European Commission

	S0 Short-term fiscal sustainability challenge			S1 Medium-term fiscal sustainability challenge	S2 Long-term fiscal sustainability challenge	Overall risk assessment	
	S0	Fiscal subindex	Financial-competitiveness subindex				
BE	0.11	0.20	0.07	4.7	4.3	HIGH	BE
BG	0.26	0.17	0.29	-1.3	2.3	MEDIUM	BG
CZ	0.09	0.11	0.08	0.0	3.5	MEDIUM	CZ
DK	0.21	0.00	0.29	-2.6	1.4	LOW	DK
DE	0.00	0.00	0.01	-0.9	1.5	LOW	DE
EE	0.12	0.00	0.17	-2.9	1.3	LOW	EE
IE	0.30	0.36	0.28	5.1	2.5	HIGH	IE
ES	0.20	0.28	0.16	1.5	-0.3	MEDIUM	ES
FR	0.16	0.18	0.14	3.4	0.0	HIGH	FR
HR	0.20	0.30	0.16	5.1	-0.1	HIGH	HR
IT	0.19	0.28	0.15	2.5	-2.1	MEDIUM	IT
LV	0.28	0.10	0.35	-0.5	1.4	LOW	LV
LT	0.12	0.00	0.17	0.3	3.2	MEDIUM	LT
LU	0.13	0.00	0.18	-3.2	5.0	MEDIUM	LU
HU	0.14	0.08	0.17	-0.8	1.1	LOW	HU
MT	0.16	0.00	0.23	0.1	4.6	MEDIUM	MT
NL	0.17	0.10	0.20	-1.0	3.3	MEDIUM	NL
AT	0.08	0.10	0.08	1.6	2.8	MEDIUM	AT
PL	0.20	0.10	0.25	-0.3	2.7	MEDIUM	PL
PT	0.30	0.26	0.32	3.8	0.4	HIGH	PT
RO	0.27	0.00	0.39	1.1	3.9	MEDIUM	RO
SI	0.16	0.35	0.08	2.8	6.5	HIGH	SI
SK	0.20	0.11	0.23	-1.0	3.2	MEDIUM	SK
FI	0.23	0.10	0.29	3.4	5.0	HIGH	FI
SE	0.13	0.10	0.14	-1.4	2.3	MEDIUM	SE
UK	0.38	0.34	0.40	4.7	4.2	HIGH	UK
EU	:	:	:	1.8	1.7	:	EU
EA	:	:	:	1.6	0.8	:	EA

Third Block: Policy Options for pension reforms of the Aeing Report and principles of the EG

- **Ongoing debate in the Eurozone on structural reforms** in a broad sense and on issues which affect the public budget.
- Method triggered via **EMU-deepening**.
- Last EG (June 16th) postulated **four principles**:

Principles of Pension Reforms of the Eurogroup

- 1) **Safeguard** against demographic and macroeconomic risks (f.e. via automatic balancing mechanisms)
- 2) **Flanking policies** (reforms to extend working lives, boost retirement incomes, increase older people's employability, etc.)
- 3) **Broader reforms** to strengthen growth and employment (adapt work places to changing demographics, etc.)
- 4) **Anchoring political and societal support** (develop common understanding, constructive dialogue with stakeholders)

Principles of Pension Reforms of the Eurogroup

- These principles should be **regularly monitored**.
- Member State and Commission are invited to develop **appropriate benchmarks**.
- **Report back** to the Eurogroup in the first half of 2017.

Summary

- **Sustainability of pension systems:** a complex and political sensitive issue with an EU- and an Eurozonedimension.
- **Theory and Analysis:** Aeging Report (sustainability indicators; expenditure categories; good comparison).
- **Policy options:** automatic; sustainability factor; retirement age; flanking policies; supporting measures.
- **EG principals:** most delicate **number 4:** hard to implement such reforms as pensions despite a very expansive monetary stance. **You can loose your political power.**

**Thank you very much
for your attention!**