Establishing a reliable long-term pensions system in Europe

Resolution of the Economic and Social Commission (Brussels - 16 November 2000)
adopted by the Brussels Central Council (10 December 2000)

Demographic observations and economic studies in several EU Member States are predicting a serious imbalance between the size of the working population and the number of pensioners within ten to forty years; systems based solely on the distribution of annual compulsory contributions will not be capable of maintaining current pension levels indefinitely. To remedy this situation without further raising annual levies, one would have to increase the size of the working population considerably, increase productivity and/or drastically reduce the rights of pensioners (retirement age, benefits payable).

The Economic and Social Commission thinks that Member States should start to examine possible responses to this situation at once, particularly since current high growth rates will make it possible to soften the hard choices which must be made in any case.

1. Allowing in a pragmatic way for the coexistence of a socially cohesive system based on distribution on the one hand, and of a system of capitalisation based on savings on the other hand, would leave enough flexibility to take account of particular national circumstances.

For example:

- in the so-called "1st pillar", compulsory systems based on distribution could be supplemented by cyclical "shock absorbers" via guarantee funds invested in high-return securities and professionally managed
- in the "2nd pillar", complementary regimes should strengthen their reserves according to their demographic structure and be encouraged to invest part of their assets in regional and international securities
- in the "3rd pillar", optional schemes should be promoted and make better use of their financial investments by extending them to small and medium enterprises and to a wider range of sectors.

Indeed, the European savings thus collected could in a natural way be invested worldwide in the most productive sectors and thus diversify our future risks by becoming involved in world growth.

2. In order to succeed, such policies need to make allowances for the fact that European citizens would not accept that the present situation of pensioners, which is considered as resulting from a contract (individual, social or moral), could be threatened by measures which would sap confidence or provoke an intergenerational crisis.

The extent of possible action thus lies in the choice between indexing pensions on wages (which will in time imply a considerable increase in the contributions paid by wage-earners) and indexing merely on price increases, which secures the pensioners' purchasing power, but does not allow them to benefit from the fruits of growth.

3. Conversely, the growing awareness of future constraints by the new working generations will make it possible to offer them a new type of commitment toward their future social protection, with adjustments in the duration or amounts of contributions needed to take account of increased life expectancy. For example, to base pension payments on a certain quantum contribution (annuities, total sums) should make the current criterion of a legal retirement age less relevant.

In the short run, measures could already be taken to push back age barriers to the labour market, possibly including the removal of compulsory retirement at a given age, for example through:

1. allowing for significantly greater flexibility in the regulations which prohibit combining pension rights with paid work
2. encouraging enterprises to keep elderly workers at work on a part time basis
3. cutting the red tape and lowering the financial changes and administrative requirements in order to bring into the economic sphere the many activities, which are useful but hidden.

Such measures will raise awareness that the incomes and the activities of the oldest age groups are useful to the economy, since additional wealth creation by a population, which remains active longer than today will in any event increase the margins which are available for redistribution and the contributions to the various pillars of the pension systems.

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