



## RESOLUTION:

### **Reforming the nature of pension financing and participation**

*Adopted at the YEPP Congress in Dubrovnik on 29th April 2017*

#### **Recognizing that:**

- Europe is facing a double-edged demographic challenge; an ageing population and population decline in light of three trends - the ageing of the baby boomer generation, lowering fertility rates and an increase in life expectancy.<sup>1</sup>
- This is a crisis that will eventually lead to the current old age dependency ratio of 1:4 decreasing to 1:2 by 2060, i.e. for every citizens aged 65 or over, there are currently 4 people aged between 15 and 64. Therefore by 2060 there will be 2 citizens aged 15-64 year olds for every over 65 year old.<sup>2</sup>
- This shift will put enormous pressure on the pace of future economic growth, the operation and financial integrity of health care systems, the well-being of the elderly and critically for the both the older and younger generations, the functionality of pension systems.<sup>3</sup>
- The trend of putting retirement risks and responsibilities in the hands of individuals as defined contribution plans has become more prevalent than defined benefit plans, where defined contribution plans are focusing increasingly on the value of the funds, the returns on investment they deliver, and how volatile those returns are.<sup>4</sup>

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<sup>1</sup> <http://www.martenscentre.eu/sites/default/files/publication-files/europe-pension-crisis-demographic-change.pdf>

<sup>2</sup> [http://ec.europa.eu/eurostat/statistics-explained/index.php/Population\\_structure\\_and\\_ageing](http://ec.europa.eu/eurostat/statistics-explained/index.php/Population_structure_and_ageing)

<sup>3</sup> [https://www.hsph.harvard.edu/program-on-the-global-demography-of-aging/WorkingPapers/2011/PGDA\\_WP\\_71.pdf](https://www.hsph.harvard.edu/program-on-the-global-demography-of-aging/WorkingPapers/2011/PGDA_WP_71.pdf)

<sup>4</sup> <https://pwc.myhbp.org/leadingedge/asset/view/R1407B-PDF-ENG>

## Acknowledging that:

- The YEPP position on pensions from Bucharest Council 2016; that is. linking pensionable age to life expectancy and specifically that pension systems are a national competency that become a European issue when Member States run into significant public deficit and debt.<sup>5</sup>
- The Pay As You Go (PAYG) pillar of many national pension systems is not sustainable. What is paid into pension pots by today's workforce supports the pensioners of today. In the future, when there are 50% less members of the labour force compared to pensioners, this system will be obsolete or result in crippling taxation of future generations.
- The participation of Europeans in occupational pensions and private systems which operate on a capital contribution basis are pivotal to the adequacy of pension provision.<sup>6</sup>
- Effective reform of the pension system requires broad social acceptance across generations in order to avoid a situation where the cost of pension provision is too burdensome through taxation for younger generations.
- Considering defined contribution plans as investment assets and looking at their volatility is a poor measurement standard considering the objectives of a pension plan are to provide a guaranteed level of income later in life. Under conventional investment metrics, this annuity would be viewed as "risky" as it is subject to interest rate fluctuations. In 2012 for instance, the US experienced a 12-month period where there was a range of 30% in the highest and lowest market value of such an annuity. However, the income that the same annuity will provide in retirement has not changed at all.
- This flawed measurement is being considered in EU legislation whereby minimum rates of returns on portfolios would be enforced.
- Such reporting can also lead to misleading the public and generating too much focus on pension fund's quarterly returns resulting in investment strategies that would be naturally fitting for large long-horizon investments being rejected. This failure to select an appropriate investment strategy because occasionally results would generate adverse reaction in media and political circles was found to be the case in the Norwegian Government Pension Fund.<sup>7</sup>
- Making automatic enrolment the default option in pension planning can overcome the bias that citizens with little experience or expertise in financial planning will disengage from the pension system.
- An increasing amount of EU citizens is working in several Member States during their career.<sup>8</sup>

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<sup>5</sup><http://youthpep.eu/sites/default/files/library/Sustainable%20pension%20systems%20through%20connecting%20retirement%20age%20to%20life%20expectancy.pdf>

<sup>6</sup> <http://ec.europa.eu/social/BlobServlet?docId=4853&langId=en>

<sup>7</sup> [https://www.regjeringen.no/globalassets/upload/fin/statens-pensjonsfond/sr\\_final\\_gpfg\\_25nov.pdf](https://www.regjeringen.no/globalassets/upload/fin/statens-pensjonsfond/sr_final_gpfg_25nov.pdf)

<sup>8</sup> [http://europa.eu/youreurope/citizens/work/work-abroad/index\\_en.htm](http://europa.eu/youreurope/citizens/work/work-abroad/index_en.htm)

**YEPP calls on:**

- Member States to run campaigns informing the public of the severity of the oncoming demographic challenges as an informed population is more likely to be supportive of reform measures to pension financing and earlier in life participation in private savings and pension schemes.
- Member States to actively promote participation in occupational and private pension systems and, where appropriate, automatically enrol citizens in occupational pension schemes that they may then chose to opt out of, reducing dependence on PAYG systems.
- Member States to conduct studies into the treatment of defined contribution plans and act accordingly should they find that income annuities are being falsely measured as investment assets to the detriment of the consumer.
- The European Union to continue to promote a more inclusive labour market which specifically seeks to support the participation of those with fewer qualifications/skills, as the revenue of PAYG schemes is directly linked to the performance of the labour market.
- The EU to continue to support national reform strategies by monitoring public pensions systems and to report in a manner of an early warning mechanism as opposed to reporting in a post evaluation fashion.
- The European Union Member States to cooperate and to pay special attention to ensuring the sustainable pension financing for those citizens working in several Member States during their career.