

■ POSITION PAPER

DATE: 6 May 2021

Observations on the agenda of the Porto Summit

The Dutch Federation of Pension Funds fully supports the aim of the Social Summit to be held in Porto on 7 May 2021: to strengthen Europe's social dimension to meet the challenges of climate change and the digital transition, in order to ensure equal opportunities for all and that no one is left behind (see: [Social Summit in Porto \(europa.eu\)](https://europa.eu)).

Pension funds can be important partners to achieve a Social and Sustainable Europe. We therefore make the following recommendations:

- We support the three key indicators the Commission proposes for 2030; however:
 - o We are of the opinion that a longer timeframe until 2050 has to be considered as well, in particular with a view to take account of demographic developments in designing optimal social protection schemes.
 - o We call upon the EU institutions to include pension systems in further work, especially within the High Level Expert Group that the Commission will set up.
- Workstreams on pensions stemming from the Commission's [Action Plan on CMU](#) can contribute to strengthening the European Pillar of Social Rights and in particular to principle 15:
 - o financial education;
 - o pension tracking systems;
 - o pension dashboard;
 - o research into instruments to increase participation in occupational pensions.
- High labour participation is key to building a social and sustainable Europe, counted not only in numbers of workers, but also in hours worked, for longer careers:
 - o Elderly workers should be enabled to work longer, and retire later.
 - o Women should be enabled to participate on an equal basis to men, which also implies that non-paid care tasks have to be divided on a fairer basis within households.
 - o New types of work relations, non-standard work, platform workers and self-employed should be taken into account in designing social protection schemes, including pension systems.
 - o Training and education not only with a particular profession, but also to transition to new professions will have to be facilitated.
 - o Safety at work, and health and care policies have to help people to remain fit longer.

- We believe that well-designed funded pension systems can contribute to several of the aims listed above, just as appropriate social policies will help to keep good pension systems sustainable by enabling a balance between active workers and those that will have retired.

To strengthen the social dimension of Europe, the Action Plan for the implementation of the Social Pillar is crucial. We fully embrace the three key indicators put forward in the Action Plan, to focus policy towards 2030, but we call on European leaders to look beyond 2030 as well. When we look at the challenges that climate change and demographic developments pose, we really need to look at solutions from a **long term perspective**. How can we make sure that we invest in a strengthened Social Europe by 2050?

We believe that we need to (keep) invest(ing) in a future proof social and sustainable Europe: invest in human capital, in social security schemes, in good and accessible health care and facilities, in strong and widely accessible (digital) infrastructure. In the context of ageing, well described in the Commission's [green paper](#), good pension systems need urgent attention as well, in particular because it takes time to develop funded pensions.

- **Equal access and opportunities**

In order to modernize social security systems, it is crucial that schemes are inclusive and all citizens have an equal opportunity to access these systems and that no one is left behind. In the Dutch context, we need to look more closely to women and non-standard workers and self-employed workers.

Within pension systems and other social protection schemes, it is important to look at gender differences. A root cause for the relatively high differences in the Netherlands for additional occupational pensions, is the fact that Dutch women work much more often part time than Dutch men. **The Dutch labour market is characterized by a high number of parttime workers, and working parttime is particularly high for women** (see: the OECD ([link](#)) and the Dutch government ([link](#)). If women were to increase their labour market participation, they do not only gain economic independence, but also increase their access to social security systems. In the Netherlands, most social security schemes, including second pillar funded pension schemes, are work and income-related. When people increase their working hours and salaries, they also increase their benefits if they lose their job or become incapacitated. In addition, they increase their retirement income. Changing this pattern of women working parttime could help significantly. However, there are barriers to increase participation by women in the Netherlands. This is largely explained by cultural reasons. **Redistribution of unpaid care and paid work within households will be needed to stimulate labour market participation of women.** To some degree unpaid care could also be changed into professional, and therefore paid jobs.

At the same time it should not go unmentioned that the public 1st pillar pay-as-you-go pension in the Netherlands, is available to everybody independent from career history. The number of elderly people at risk of poverty and/or social exclusion is very low in the Netherlands. Therefore the second part of principle 15 of the European Pillar of Social Rights, “everyone in old age has the right to resources that ensure living in dignity”, is well established in the Netherlands.

When looking at access to social protection schemes, not only women, but also self-employed workers and non-standard workers need special attention. Voluntary participation in the second pillar by the self-employed is,

- unfortunately, quite low. In the Netherlands the number of self-employed, is high compared to other Member States, and rising faster than elsewhere.

At the same time it must be said that in some cases people may be deemed to be self-employed, while this in fact is a misnomer for people that are involuntarily in non-traditional forms of work and lacking adequate social protection. The recent first phase consultation of the Commission of social partners on improving conditions of platform workers, is very important for pension consequences as well. Better contracts for these workers that are more comparable to normal work contracts, will imply participation in pension schemes as well. **In as far as mandatory schemes remain out of scope, solutions could be found on the basis of auto-enrolment.**

Since principle 15 of the European pillar of social rights explicitly refers to 'commensurate to their contributions', the gender difference in pension outcomes and the low participation in second pillars by the self-employed may not infringe upon principle 15, but nevertheless it would be better to address these issues. In the Netherlands modernising the labour market would be most helpful.

Europe faces an ageing society. In 2020, the number of people in retirement in the Netherlands is almost 30% of the number of people of working age. This number is expected to rise to 37% by 2050 ([link](#)). This figure already includes the gradual rise of the statutory pensionable age in the Netherlands. This reinforces the case for enabling and encouraging women to increase their labour participation.

In some Member States the statutory pensionable age is not yet linked to life expectancy. A very few have even reversed earlier steps in the right direction and have lowered the statutory pensionable age again, thereby creating a big ageing burden on the future.

Sustainable protection schemes

Never before have so many Europeans enjoyed such long lives as in the last decades. Life expectancy at birth has increased by about ten years for both women and men (see Green Paper). However, the increased life expectancy (and the decreasing birth rate) pose(s) questions on affordability of our

- welfare systems and social protection schemes. **How do we ensure that we can uphold decent standards of living in an ageing society?**

As aforementioned, it is crucial to increase the labour participation of all citizens. In doing so, we should uphold a good work–life balance and should therefore work towards an equal distribution of paid work and unpaid care within households.

When longer working lives are necessary, it is important that people on an individual level also can comprehend what it means for them. And additionally how they can adjust their working lives to effectively handle changes and challenges along the way. The establishment of national pension tracking systems and the collaboration of these national systems in a European Tracking System can be very beneficial in this regard. Such web–based devices should allow individual citizens to get a fair insight into what pensions they may expect during their retirement, **which would empower them to take individual saving measures to supplement pensions they may deem insufficient.**

Also, it might be beneficial **to look at more flexible work and retirement arrangements in the later stage of people’s careers** and to align this with issues of reduced re–hiring chances for elderly workers (ageism) as well as the discussion of particularly demanding jobs, in which many employees suffer job–related health problems even before retirement. This is an issue with which also other Member States struggle. **Comparison of best practices between Member States may be of great use.** Demotion and reduction of working hours may be helpful in the last years of a career. In order to maintain decent living standards, a restricted and/or limited access to parttime retirement may be called for, while avoiding to introduce too general possibilities for early retirement. If well calibrated, such an approach may help more workers to continue until a pensionable age that will and should be raised, and thereby raise participation on the labour market. Dutch social partners and pension funds have experience in facilitating *part time* retirement arrangements, especially aiming at maintaining people happy and fit in their jobs and avoiding outflow due to health issues and incapacitation.

Of course, Member States play a big role (and have a great interest) in ensuring sustainable social protection schemes. When looking at pensions in

- particular, the 2nd Action Plan on the Capital Markets Union of 2020 contains an initiative to develop a ‘pension dashboard’ that should allow for comparison of pension systems across Member States both with regard to adequacy as well as (financial) sustainability for the longer term. This ‘dashboard’ should at the minimum address both public and occupational pensions. Occupational pensions should be understood in the broadest sense. For example, in some Member States book-reserves are used to save for pensions. These should preferably also be considered. An agreed dashboard, will facilitate a transparent and honest discussion both at the national and the European level, about what kind of pension is promised to citizens. This dashboard should preferably also contain an indicator that could feed into the Social Scoreboard and the European Semester.

Long term perspective: investing in a Social and Sustainable Europe

Quote from the announcement of the Porto summit: The green and digital transitions are changing how we live and work, and we must adapt to these changes. To emerge from the crisis triggered by the COVID-19 pandemic, we must have a recovery that is inclusive, sustainable and resilient. This requires equal focus on the social aspects as the economic, and for all partners to work together.

Several Member States operate multi-pillar pension systems that include **funded occupational 2nd pillar pensions**, and score very high on most rankings of pension systems, in terms of adequacy and sustainability. 1st pillar public pensions are vulnerable for ageing, but depend less on financial markets, while this works the other way around for funded pensions.

Participation in funded occupational pension schemes is compulsory for most workers in the Netherlands, which therefore leads to the highest participation rates. Short of an obligation, experience in several countries with auto-enrolment indicates that such schemes may be quite successful as well. It is therefore very positive that the Commission (DG-FISMA) has commissioned research into auto-enrolment and other measures to boost participation.

Funded pensions lead to considerable collective savings and collective investments, also in investment categories that are not easily attainable for individual investors, as well as investments across borders. Because of the

- very long timeframe of pension liabilities of pension funds, they can afford to invest for the long term as well. The large majority of pension funds in the Netherlands has entered into a voluntary agreement with the Dutch government to commit to ambitious targets for sustainable investment, usually defined in terms of Sustainable Development Goals and therefore encompassing social aims as well and not just climate. The biggest Dutch pension services providers participated in SURE bonds issuance. Almost all bigger Dutch pension funds have signed up to a [voluntary agreement](#) with the Dutch government, the trade unions and a series of NGO's on International Socially Responsible Investment by Pension Funds. The biggest of them have agreed to an even more intensive cooperation to develop better standards for including social aspects, based on discussing specific real cases and lessons that can be learned from these cases.

The EU sustainable finance taxonomy is now defining sustainable economic activities from a climate perspective. We support the intention of the Commission to add to these social indicators as well, which will facilitate to demonstrate the social impact of investments made by pension institutions.

Occupational pensions in the Netherlands and in other Member States are based on agreements between social partners, and thereby help structure social dialogue.

In the future successful careers will be longer and involve more change. First of all, change within a profession, but also changing to other trades or professions. Transitions may involve training even beyond what the Commission is now proposing as a target for all workers. Remuneration may not be a linear increase with age anymore. During the Covid lockdowns, many people were forced to work from home. In many cases adaptation to this new reality was quite successful. Digital tools helped considerably. It also meant that the separation of work and private life became much less clear. Finally, it meant that for the first time for larger groups of workers location became less important.

- The European economic model is characterized by social protection schemes that should help people mitigate risks, without taking away incentives to make use of chances. Social protection schemes that cover risks like unemployment, disabilities, illness and premature death, will remain as important as ever. The same goes for pension systems. A new

- element will be support for people that voluntarily transition from one career or profession to another career or profession. If substantial time and/or training is needed, this is, at least in the Netherlands, only covered after one loses one's job involuntarily.
- An innovative option might be to develop possibilities to make use of savings in pension schemes. Another line of thinking could be to look into possibilities for a sabbatical spent on clearly identified training, with a part continuation of both salary and premiums paid to pension schemes. However employers should accept this could also be geared towards career-change. It is certain that more flexible arrangements will be needed.

Social protection schemes in the Member States differ considerably, not only in which risks are covered, but also in how these risks are distributed over different protection schemes, and how these schemes are financed.

In the Netherlands, pension funds also provide pensions for spouses and dependent children in case of death of the participant, as well as protection against the risk of inability to work due to health problems. Health insurance is provided by private companies within a quite regulated structure. The health insurance companies prefer to offer “in natura” policies, which allows them to choose some hospitals or doctors over others, based on their insights in quality and costs. Long-term care is publicly financed in the Netherlands, but those who need this pay an individual contribution as well that is related to someone's income and wealth. It is quite possible that the same risks are distributed differently over social protection schemes in other Member States. This may provide an opportunity to compare which schemes deal most effectively with specific types of risk, and whether public or private financing delivers better results. Conceptually one could for instance organize long-term care for the elderly, as something that could be included in 2nd pillar pension schemes as ‘in natura’ pension payments. It could also be covered under health insurance, or it could be provided based on public financing, with or without an income dependent own contribution from the people who need care.

We understand that the Commission intends to set up a High Level Expert Group to advice on systems for Social Protection. Finding the best mandate

- for such a group will be very important. A few considerations we would like to share are the following:
 - The timeline for setting appropriate aims for structural change to social protection systems should stretch until 2050; the key question is, what kind of systems will we need in the long term.
 - Demographic information – preferably with different scenarios – should be key.
 - Ageing makes it very important to include pensions as well as long term care.
 - Given the differences between existing social protection systems an approach could be based on considering:
 - which risks should be covered?
 - should delivery be public, private or semi-private?
 - how to find new approaches to empower citizens, also to take timely actions themselves? In particular to help workers navigate much longer careers.

We also think it would be necessary to set a context to such an exercise on social protection systems. Substantial parts of public health and education policies fall outside the scope of social protection systems, but may have even more effect in terms of outcomes.

The traditional example is that the introduction of water management and the building of good modern sewage systems at the end of the 19th century probably did more for longevity than progress in medicine. Substantial present day health and care costs are related to problems like the use of alcohol and tobacco¹, as well as the growing percentage of European citizens that suffer from obesity. Addressing these problems may be amongst the most effective measures one can take, but they fall outside social protection systems.

¹ Several Dutch pension schemes exclude for this reason investments in the tobacco industry.