balancing between funded and unfunded pensions in CEE

&

the OMC in Europe

Monday 9 March 2009
Zagreb

Prof. dr. Yves Stevens
Katholieke Universiteit Leuven

Foreword

After a period of rapid growth in assets and high investment returns, the sub-prime crisis that started in the United States in 2007 triggered a financial crash that was more brutal and more widespread than even the "perfect storm" of the early 2000s. With asset values dropping by 20% on average in the OECD countries between January and October 2008, the financial crisis could severely affect the retirement savings of millions of individuals around the world. Workers are rightly worried about the security of their retirement savings and there is concern in the financial markets about the viability of some pension funds.

While governments have extended blanket guarantees to cover bank deposits, private pension systems are largely on their own. In particular, systems based on individual accounts – also known as defined contribution arrangements – experienced major declines in account balances in 2008. These systems pay pension benefits whose level is determined only at retirement, depending on the level of contributions, investment returns and prevailing annuity rates at the time of purchase. Hence, low investment returns over the long term translate into lower pension benefits.

The equity market crash of 2007-08 is of greatest concern for workers close to retirement who intend (or are required) to buy products such as annuities that effectively lock in these price declines, severely reducing their retirement income. For younger people, the risk is that they are panicked into selling their equity holdings now to "cut their losses", thereby not only making a loss on their investment, but missing out on the market recovery that experience shows is bound to take place over the longer term.

OECD, "Private pension outlook 2008", OECD, Paris, 2009, 3.

balancing between funded and unfunded pensions in CEE
&
the OMC in Europe

Monday 9 March 2009
Zagreb

Prof. dr. Yves Stevens

President Belgian Occupational Pension Commission

I.

balancing between funded and unfunded pensions in CEE

the withdrawal of privatization

Privatizing pensions

- Like 30 other countries around the world, some CEE countries have known an increased privatized pension reform
- A substantial role was played by the WORLDBANK and USAID
- These reforms have had a major impact on
  - Economic growth
  - Wages
  - Redistribution
  - The economy as a whole

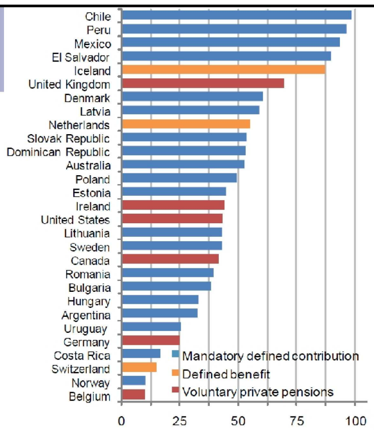
  Because pensions represent approximately 10 to 15% of the GDP in the CEE countries

3

What is pension privatization? A neoliberal pension idea

- Reliance on private markets over public management
- Mandatory systems of private individual savings accounts based on funding rather than PAYG
  - Mostly DC and thus return on investment and thus conversion risk
  - Social security mostly DB with State safety net
- Reasons for its success
  - Allows governments not to increase social security contributions due to demographics and hence reduce state budgetary expenditure
  - Supposed advantage of financing internal economic growth (domestic view):increased overall savings are invested in productive investments
  - Supposed advantage of lowering the cost on the state budget due to demographic reasons
  - Lack of believe in a corrupt regime with poor administration for running decent social security schemes (the private sector looks transparent and fair)

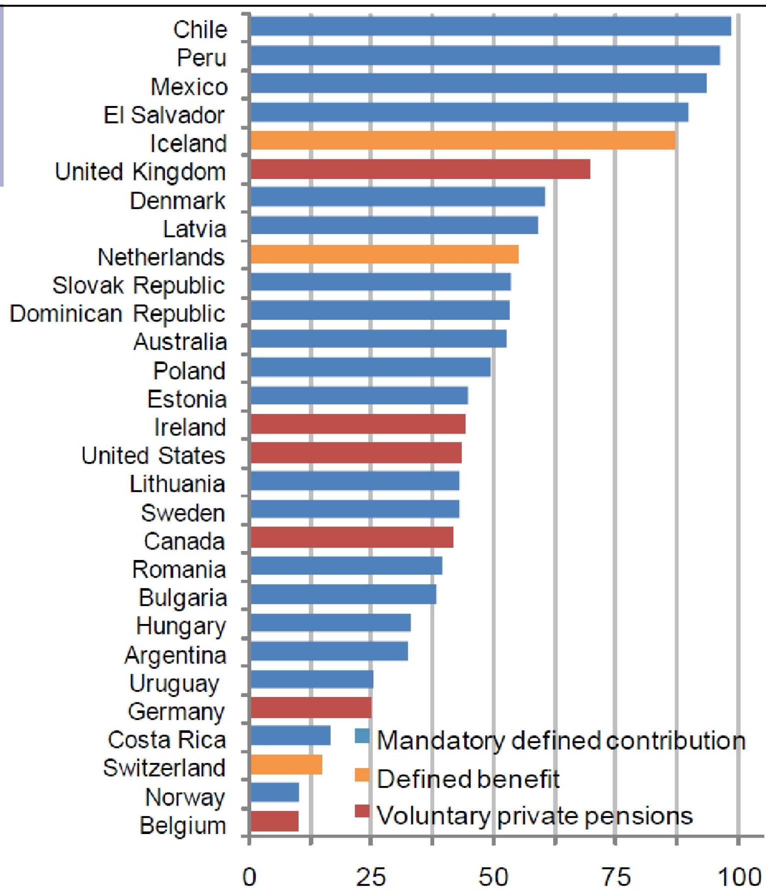
The role and success of private pensions



Three forms of privatization

- Substitutive
  - Phase out social security
  - Replacement with private individual accounts
- Mixed
  - Reduction of social security
  - Adding private individual accounts
- Parallel
  - Introduction of private individual accounts
  - Choice between the social security and the accounts

› The role and success of private pensions



KATHOLIEKE UNIVERSITEIT LEUVEN

Three forms of privatized pensions

Types of Pension Privatization

Substitutive	Mixed	Parallel
Chile 1981	Sweden 1994	UK 1986
Bolivia 1997	China 1997ª	Peru 1993
Mexico 1997	Hungary 1998	Argentina 1994
El Salvador 1998	Poland 1999	Colombia 1994
Kazakhstan 1998	Costa Rica 2001	Uruguay 1996
Dom. Rep. 2001	Latvia 2001	Estonia 2001
Nicaragua 2001	Bulgaria 2002	Lithuania 2002
Kosovo 2001	Croatia 2002	
Nigeria 2004	Macedonia 2002	
Taiwan 2004	Russia 2002	
	Slovakia 2003	
	Romania 2004	
	Uzbekistan 2004	

© Orenstein, 2008.

What is pension privatization? A neoliberal pension idea

- Is controversial because:
  - Shifts the distributive effects in a society
    - Less poverty relief
    - Less risk pooling
  - More individual income related
  - Higher administrative costs
  - More inequality between people
  - More individual responsibility
    - eg. financial illiteracy

More individual responsibility … however Financial illiteracy

- No rational individual decisions
  - No efficiency for the overall plan
  - Too little savings
  - Too late savings
  - When investment choices
    - No balancing between sorts of investment
    - Insufficient change from risk bearing to risk averse
  - Too much choice leads to the "first" choice because of the abundance of information even if easily accessible (Sweden)
- Too early withdrawal by low income plan members for other reasons than pension

= Behavioral financial literature

Prof. dr. Yves Stevens

Three forms of privatized pensions

Types of Pension Privatization

Substitutive	*Mixed*	*Parallel*
Chile 1981	Sweden 1994	UK 1986
Bolivia 1997	China 1997[a]	Peru 1993
Mexico 1997	Hungary 1998	Argentina 1994
El Salvador 1998	Poland 1999	Colombia 1994
Kazakhstan 1998	Costa Rica 2001	Uruguay 1996
Dom. Rep. 2001	Latvia 2001	Estonia 2001
Nicaragua 2001	Bulgaria 2002	Lithuania 2002
Kosovo 2001	Croatia 2002	
Nigeria 2004	Macedonia 2002	
Taiwan 2004	Russia 2002	
	Slovakia 2003	
	Romania 2004	
	Uzbekistan 2004	

PENSION PRIVATIZATION IS CONTROVERSIAL

The success of the privatization is a highly contextual judgment !

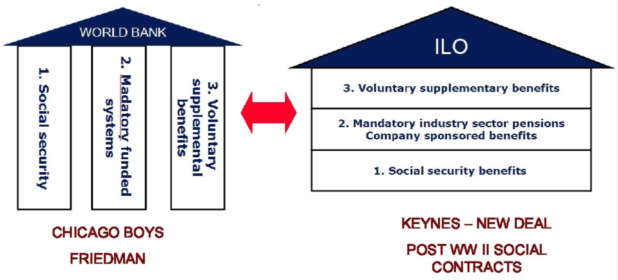
Is logical because …. unfortunately

- … surprisingly little is really know about the economic pareto optimum of pension systems
- … economic models do not reflect the real world sufficiently
- … the optimal level of division between funded and unfunded pensions is contextually linked to national influences

11

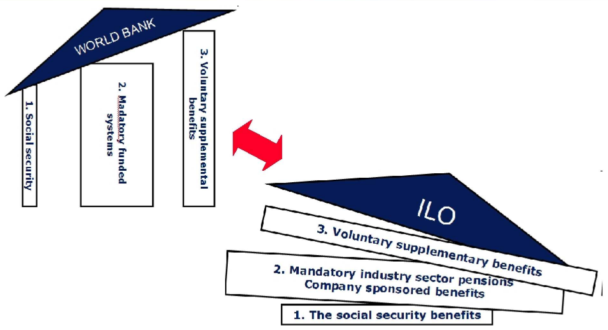
HENCE THE "SUCCES" OF PENSION PRIVATIZATION IS IDEOLOGICAL

›Success is ideology



13

›Success is ideology



14

›The ideological fight in times of economic crisis

RECENT NEWSPAPERS on Pensions in the CEE

- *"Taking a beating …"*
- *"Colossal losses with equity oriented funds …"*
- *"By mid October CEE equity markets had lost 60% of their value since the beginning of the year …"*
- *"Worst asset evolution is in Serbia and best asset evolution in Slovakia in the CEE …"*
- *"Prices are still going down in the CEE …"*
- *"Companies are now trading below their historical or expected fundamentals …"*
- *"The financial crisis hits the third voluntary pillar more severely than the mandatory second pillar in the CEE countries …"*
- *"Lithuania's new government intends to cut contributions to the second pillar pension system as part of an economic crisis plan to tackle a 2009 budget deficit of 4% of GDP"*

15

Real pension-fund returns over a year

per cent	Portfolio		
	Risky	Balanced	Conservative
Australia		-27.0	
Chile	-46.1	-23.1	0.0
Estonia	-30.5	-20.9	-9.7
Hungary	-35.0		-18.0
Iceland		-25.0	
Israel		-8.0	
Mexico	-8.3	-6.0	-0.5
Poland		-17.4	
Slovak Republic	-12.4	-10.3	-2.0
Sweden		-17.0	
Switzerland		-14.0	

16

Major stock market performance

Source: Thomson Financial Datastream.

By October 2008, the total assets of all pension funds in the OECD had declined by about USD 3.3 trillion, or nearly 20% relative to December 2007. Including other private pension assets, such as those held under personal plans in the United States (individual retirement accounts – IRAs) and in other countries, brings the loss to about USD 5 trillion.

The ideological fight in times of economic crisis

- Some examples
  - Argentinia
  - Slovakia
  - Italy
  - Lithuania

18

Major stock market performance

Source: Thomson Financial Datastream.

By October 2008, the total assets of all pension funds in the OECD had declined by about USD 3.3 trillion, or nearly 20% relative to December 2007. Including other private pension assets, such as those held under personal plans in the United States (individual retirement accounts – IRAs) and in other countries, brings the loss to about USD 5 trillion.

Argentina & Slovakia

Argentina

The Argentine Congress passed a law on November 21, 2008, that eliminates the current system of individual retirement accounts and transfers the assets to a new pay-as-you-go (PAYG) Integrated Argentine Social Security System—Sistema Integrado Previsional Argentino (SIPA). SIPA also incorporates the existing PAYG earnings-related program. Since 1994, workers have been allowed to choose between the PAYG earnings-related program and an individual retirement account managed by a pension fund management company (AFJP).

The new law affects some 9.5 million individuals in the AFJP system, approximately half of whom are retirees. About 74 billion pesos (US$22 billion) in assets will be transferred.

October's nationalisation by Argentina's President Cristina Fernández de Kirchner of the country's 10 private pension funds, with some $30bn (€23bn) in investments, has underlined that governments can be as unpredictable and quixotic as markets. Fernández said her grab was intended to protect the pension assets from the global market turmoil, although analysts claim the real motive was to assist with this year's $21bn debt servicing requirements.

However, while Argentina has a tradition of financial imprudence and Fernández had long shown an ideological hostility to private pensions, surely such a thing could not happen in Europe.

Well no funds have yet been seized. But Slovakia's populist premier Robert Fico has made no secret of his antipathy to the country's pension reform that, following the World Bank model similar to that adopted in Argentina, introduced a funded second pillar. And since taking office in 2006 he has launched a number of initiatives that taken together look very much like a concerted attempt to undermine the system.

Italian Pensions Sapped by Private Funds Bush Backed (Update1)

Email | Print | A A A

By Andrew Davis and Alessandra Migliaccio

Jan. 5 (Bloomberg) -- Italy did for retirement financing what President **George W. Bush** couldn't do in the U.S.: It privatized part of its social security system. The timing couldn't have been worse.

The global market meltdown has created losses for those who agreed to shift their contributions from a government severance payment plan to private funds meant to yield higher returns. Anger is rising both at the state, which promoted the change, and money managers such as UniCredit SpA and Arca Previdenza, which stood to profit.

Prime Minister **Silvio Berlusconi's** administration is now considering ways to compensate as many as 1.2 million people who made the switch, giving up a fixed return for private plans linked to financial markets. It's also letting people delay redemptions on retirement funds to avoid losses after Italy's **benchmark** stock index fell 50 percent in 2008, destroying 300 billion euros ($423 billion) in wealth.

Lithuania

- Lithuania's new government intends to cut contributions to the second pillar pension system as part of an economic crisis plan to tackle a 2009 budget deficit of 4% of GDP.

All examples show the same:
Governments are able to spread risk and provide guarantees over more than one generation.
The state budget can be used as a temporary buffer.

Argentina & Slovakia

Argentina

The Argentine Congress passed a law on November 21, 2008, that eliminates the current system of individual retirement accounts and transfers the assets to a new pay-as-you-go (PAYG) Integrated Argentine Social Security System—Sistema Integrado Previsional Argentino (SIPA). SIPA also incorporates the existing PAYG earnings-related program. Since 1994, workers have been allowed to choose between the PAYG earnings-related program and an individual retirement account managed by a pension fund management company (AFJP).

The new law affects some 9.5 million individuals in the AFJP system, approximately half of whom are retirees. About 74 billion pesos (US$22 billion) in assets will be transferred.

October's nationalisation by Argentina's President Cristina Fernández de Kirchner of the country's 10 private pension funds, with some $30bn (€23bn) in investments, has underlined that governments can be as unpredictable and quixotic as markets. Fernández said her grab was intended to protect the pension assets from the global market turmoil, although analysts claim the real motive was to assist with this year's $21bn debt servicing requirements.

However, while Argentina has a tradition of financial imprudence and Fernández had long shown an ideological hostility to private pensions, surely such a thing could not happen in Europe.

Well no funds have yet been seized. But Slovakia's populist premier Robert Fico has made no secret of his antipathy to the country's pension reform that, following the World Bank model similar to that adopted in Argentina, introduced a funded second pillar. And since taking office in 2006 he has launched a number of initiatives that taken together look very much like a concerted attempt to undermine the system.

Italian Pensions Sapped by Private Funds Bush Backed (Update1)

Email | Print | A A A

By Andrew Davis and Alessandra Migliaccio

Jan. 5 (Bloomberg) -- Italy did for retirement financing what President **George W. Bush** couldn't do in the U.S.: It privatized part of its social security system. The timing couldn't have been worse.

The global market meltdown has created losses for those who agreed to shift their contributions from a government severance payment plan to private funds meant to yield higher returns. Anger is rising both at the state, which promoted the change, and money managers such as UniCredit SpA and Arca Previdenza, which stood to profit.

Prime Minister **Silvio Berlusconi's** administration is now considering ways to compensate as many as 1.2 million people who made the switch, giving up a fixed return for private plans linked to financial markets. It's also letting people delay redemptions on retirement funds to avoid losses after Italy's **benchmark** stock index fell 50 percent in 2008, destroying 300 billion euros ($423 billion) in wealth.

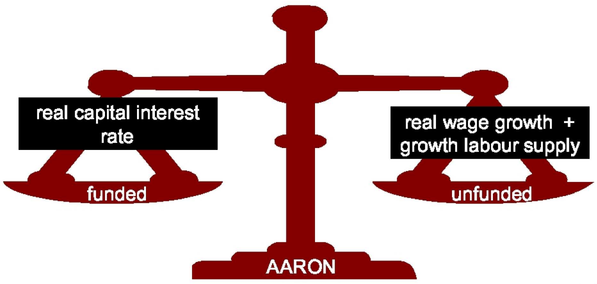
KATHOLIEKE UNIVERSITEIT LEUVEN

However …
An economic crisis hits both funded and unfunded schemes at the same time

- Pillars are no communicating barrels
- All pensions are influenced by economic pressure
  - Difference lies in the state budget
  - There is a long term vision required both in funded and unfunded schemes but for separate reasons
- In the end the solution is easy: the current generations will indeed have to pay twice

How will the current generations pay twice ?

- Funded ? Unfunded ? An ideological debate !



PENSIONS IS ABOUT
Creating a security for people that is socially acceptable

- Pension history is a perpetuum mobile

individual	state
funded	PAYG
DC	DB
private	public
complementary	basic

II.

the OMC in Europe

What is OMC ?

- a mutual learning process
- a method of spreading best practices which aims at achieving greater convergence towards set goals, while respecting national diversity
- legal point of view: old wine in new bottles

26

European Commission > Employment and Social Affairs > Social Protection Social Inclusion > Process

A more cohesive society for a stronger Europe

- Demography and social situation in the EU
- Social inclusion
- Social protection
- The process: the Open Method of Coordination
  - Common objectives
  - Common indicators
  - Joint reports
  - National Strategic Reports
  - The Social Protection Committee
- Activities
- Enlargement
- Publications
- Media

Print this page

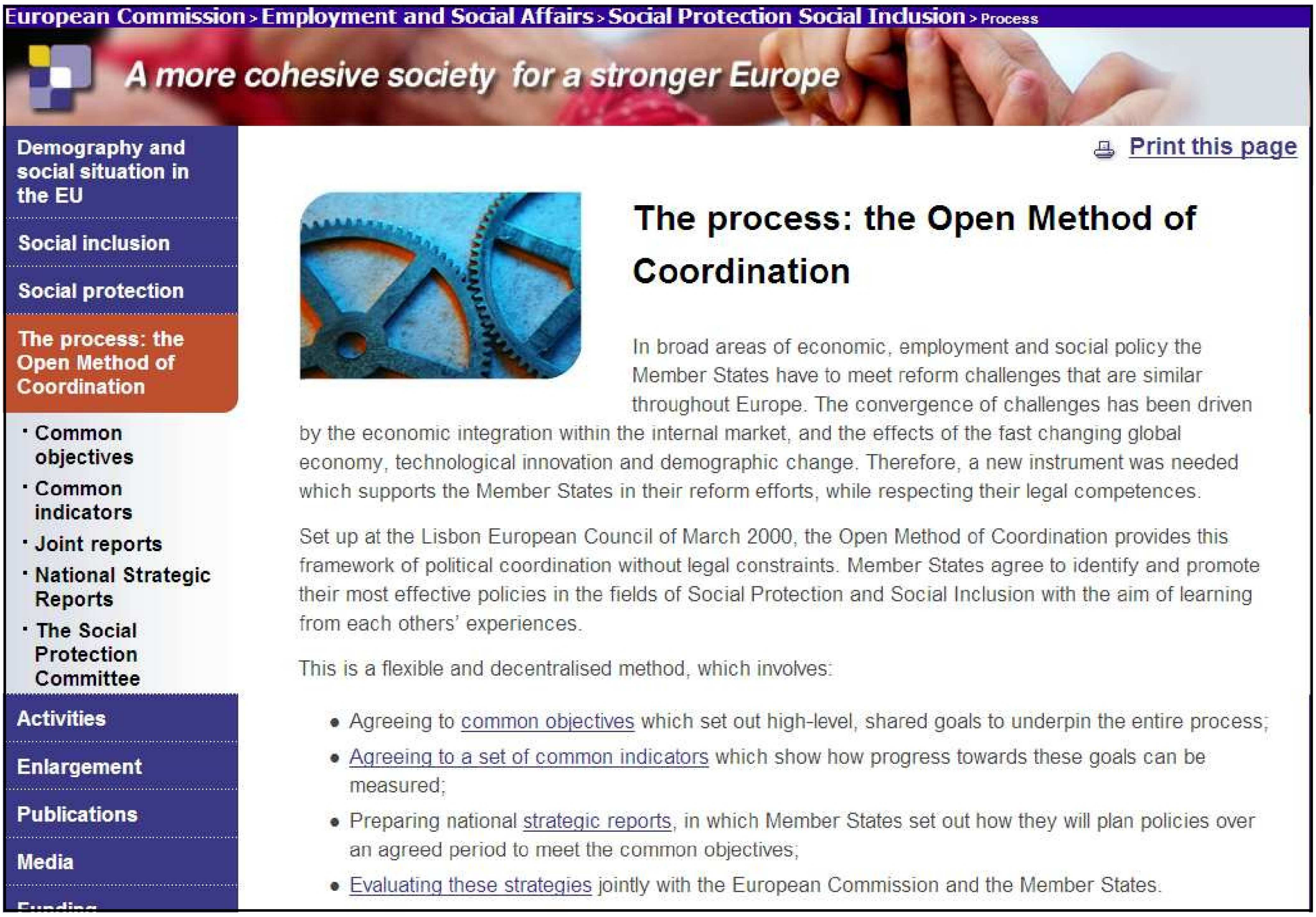
The process: the Open Method of Coordination

In broad areas of economic, employment and social policy the Member States have to meet reform challenges that are similar throughout Europe. The convergence of challenges has been driven by the economic integration within the internal market, and the effects of the fast changing global economy, technological innovation and demographic change. Therefore, a new instrument was needed which supports the Member States in their reform efforts, while respecting their legal competences.

Set up at the Lisbon European Council of March 2000, the Open Method of Coordination provides this framework of political coordination without legal constraints. Member States agree to identify and promote their most effective policies in the fields of Social Protection and Social Inclusion with the aim of learning from each others' experiences.

This is a flexible and decentralised method, which involves:

- Agreeing to common objectives which set out high-level, shared goals to underpin the entire process;
- Agreeing to a set of common indicators which show how progress towards these goals can be measured;
- Preparing national strategic reports, in which Member States set out how they will plan policies over an agreed period to meet the common objectives;
- Evaluating these strategies jointly with the European Commission and the Member States.



European Commission > Employment and Social Affairs > Social Protection Social Inclusion > Process

A more cohesive society for a stronger Europe

- Demography and social situation in the EU
- Social inclusion
- Social protection
- The process: the Open Method of Coordination
  - Common objectives
  - Common indicators
  - Joint reports
  - National Strategic Reports
  - The Social Protection Committee
- Activities
- Enlargement
- Publications
- Media

Print this page

The process: the Open Method of Coordination

In broad areas of economic, employment and social policy the Member States have to meet reform challenges that are similar throughout Europe. The convergence of challenges has been driven by the economic integration within the internal market, and the effects of the fast changing global economy, technological innovation and demographic change. Therefore, a new instrument was needed which supports the Member States in their reform efforts, while respecting their legal competences.

Set up at the Lisbon European Council of March 2000, the Open Method of Coordination provides this framework of political coordination without legal constraints. Member States agree to identify and promote their most effective policies in the fields of Social Protection and Social Inclusion with the aim of learning from each others' experiences.

This is a flexible and decentralised method, which involves:

- Agreeing to common objectives which set out high-level, shared goals to underpin the entire process;
- Agreeing to a set of common indicators which show how progress towards these goals can be measured;
- Preparing national strategic reports, in which Member States set out how they will plan policies over an agreed period to meet the common objectives;
- Evaluating these strategies jointly with the European Commission and the Member States.

KATHOLIEKE UNIVERSITEIT LEUVEN

OMC

FOUR STEPS
1. Common objectives
2. Common indicators
3. National strategic Reports
4. Joint reports

28

1) Common objectives since 2006

- On basis of the Commission Communication "Working together, working better: A new framework for the open coordination of social protection and inclusion policies in the European Union" (see below), the European Council adopted in March 2006 a new framework for the social protection and social inclusion process.
- The existing open methods of coordination in the fields of social inclusion and pensions, and the current process of co-operation in the field of health and long-term care, are brought together under common objectives and simplified reporting procedures.
- The overarching objectives of the Open Method of co-ordination for social protection and social inclusion are to promote:
- social cohesion, equality between men and women and equal opportunities for all through adequate, accessible, financially sustainable, adaptable and efficient social protection systems and social inclusion policies;
- effective and mutual interaction between the Lisbon objectives of greater economic growth, more and better jobs and greater social cohesion, and with the EU's Sustainable Development Strategy;
- good governance, transparency and the involvement of stakeholders in the design, implementation and monitoring of policy.

29

1) Three (new) common objectives for pensions

Adequate and sustainable pensions by ensuring:
1. adequate retirement incomes for all and access to pensions which allow people to maintain, to a reasonable degree, their living standard after retirement, in the spirit of solidarity and fairness between and within generations;
2. the financial sustainability of public and private pension schemes, bearing in mind pressures on public finances and the ageing of populations, and in the context of the three-pronged strategy for tackling the budgetary implications of ageing, notably by: supporting longer working lives and active ageing; by balancing contributions and benefits in an appropriate and socially fair manner; and by promoting the affordability and the security of funded and private schemes;
3. that pension systems are transparent, well adapted to the needs and aspirations of women and men and the requirements of modern societies, demographic ageing and structural change; that people receive the information they need to plan their retirement and that reforms are conducted on the basis of the broadest possible consensus.

30

KATHOLIEKE UNIVERSITEIT
LEUVEN

Previously: eleven objectives in three chapters

Adequacy
(1) prevent social exclusion in old age;
(2) allow people to maintain their living standard
(3) promote solidarity between and within generations.

Financial sustainability of pension systems
(4) raise employment levels
(5) extend working lives
(6) ensure sustainable pensions in a context of sound public finances
(7) adjust benefits and contributions so as to share the financial consequences of ageing in a balanced way between the generations
(8) ensure that private pension provision is adequate and financially sound.

Respond to changing needs: Pensions should therefore
(9) adapt to more flexible employment and career patterns
(10) meet the aspirations for greater equality of women and men and
(11) make pension systems more transparent and demonstrate their ability to meet the challenges.

2) Common indicators

- Common points of reference
- New framework since January 2009
  - More than 80 different parameters
  - Unified
- http://ec.europa.eu/employment_social/spsi/docs/social_inclusion/data_pensions_en.xls

Example January 2009

	Change in Theoretical replacement rates in percentage points (2006-2046)						Assumptions					
	NET	GROSS Replacement Rate					Coverage rate (%)		Contribution rates			
	Total	Total	Statutory pension	Type of Statutory Schema (DB, NDC or DC)	Occupational and voluntary pensions	Type of Supplementary Schema (DB or DC)	Statutory pensions	Occupational and Voluntary persions	Statutory pensions (or in some cases Social Security)	Occupational and voluntary pensions: Estimate of current	Occupational and voluntary pensions: Assumption	Evolution of statutory pensions expenditures between 2004 and 2050 (source EPC/AWG)
BE	4	5	0	DB	5	DC	100	55	16.36	NA	4.25	5,1
BG	15	15	15	DB and DC	/		NA	/	NA	/		NA
CZ	-21	-16	-16	DB	/		100	/	28	/		5,6
DK	7	20	-10	DB	30	DC	100	78	0.9	8.8	12.7	3,0
DE	1	2	-9	DB	11	DC	NA	70	19.5	NA	4	1,7
EE	11	9	9	DB and DC	/		100	/	22	/		-0,1
EL	-7	-12	-12	DB	/		NA	/	20	/		-
ES	-12	-9	-9	DB	/		89	/	28.3	/		7,1
FR	-18	-16	-16	DB	/		100	/	20	/		2.0
IE	-11	-10	-2	DB	-9	DC	100	55	9.5	10-15	10	6,4
IT	3	-3	-17	DD and DC	14	DC	100	11.4	33	5.7	6.91	0,4
CY	16	14	14	DB	/		86	/	16.6	/		12,9
LV	-12	-11	-11	NDC and DC	/		100	/	20	/		1,5
LT	3	1	1	DB and DC	/		89	/	26	/		3,7
LU	0	-1	-1	DB	/		92	/	24	/		7,4
HU	5	13	13	DB and DC	/		100	/	26.5	/		6,4
MT	-21	-17	-17	DB	/		100	/	30	/		-0,4
NL	8	5	2	DB	4	DB	100	91	7	9.8	11.5 -12.5	3,5
AT	5	1	1	DB	/		100	/	22.8	/		-1,2
PL	-19	-16	-16	NDC and DC	/		77	/	36.9	/		-4,6
PT	-20	-20	-20	DB	/		81	/	33	/		5,5
RO	52	39	39	DB and DC	/		NA	/	29	/		NA
SI	2	-4	-4	DB	/		100	/	24.35	/		8,3
SK	2	1	1	DB and DC	/		100	/	28.75	/		4,1
FI	-11	-13	-12	DB	/		100	/	21.6	/		3,1
SE	-13	-13	-11	NDC and DC	-2	DB	100	90	17.2	13.7	13.7	0,6
UK	-4	-2	-3	DB	1	DC	100	53 (M)/56(F)	19.85% (17.25%)	9	8	2,0

Example January 2009

	Change in Theoretical replacement rates in percentage points (2006-2046)						Assumptions					
	NET	GROSS Replacement Rate					Coverage rate (%)		Contribution rates			
	Total	Total	Statutory pension	Type of Statutory Scheme (DB, NDC or DC)	Occupational and voluntary pensions	Type of Supplementary Scheme (DB or DC)	Statutory pensions	Occupational and Voluntary pensions	Statutory pensions (or in some cases Social Security)	Occupational and voluntary pensions: Estimate of current	Occupational and voluntary pensions: Assumption	Evolution of statutory pensions expenditures between 2004 and 2050 (source EPC/AWG)
BE	4	5	0	DB	5	DC	100	55	16.36	NA	4.25	5,1
BG	15	15	15	DB and DC	/		NA	/	NA	/		NA
CZ	-21	-16	-16	DB	/		100	/	28	/		5,6
DK	7	20	-10	DB	30	DC	100	78	0.9	8.8	12.7	3,0
DE	1	2	-9	DB	11	DC	NA	70	19.5	NA	4	1,7
EE	11	9	9	DB and DC	/		100	/	22	/		-0,1
EL	-7	-12	-12	DB	/		NA	/	20	/		-
ES	-12	-9	-9	DB	/		89	/	28.3	/		7,1
FR	-18	-16	-16	DB	/		100	/	20	/		2,0
IE	-11	-10	-2	DB	-9	DC	100	55	9.5	10-15	10	6,4
IT	3	-3	-17	DB and DC	14	DC	100	11.4	33	5.7	6.91	0,4
CY	16	14	14	DB	/		86	/	16.6	/		12,9
LV	-12	-11	-11	NDC and DC	/		100	/	20	/		1,5
LT	-3	1	1	DB and DC	/		89	/	26	/		3,7
LU	0	-1	-1	DB	/		92	/	24	/		7,4
HU	5	13	13	DB and DC	/		100	/	26.5	/		6,4
MT	-21	-17	-17	DB	/		100	/	30	/		-0,4
NL	8	5	2	DB	4	DB	100	91	7	9.8	11.5 -12.5	3,5
AT	5	1	1	DB	/		100	/	22.8	/		-1,2
PL	-19	-16	-16	NDC and DC	/		77	/	36.9	/		-4,6
PT	-20	-20	-20	DB	/		81	/	33	/		5,5
RO	52	39	39	DB and DC	/		NA	/	29	/		NA
SI	2	-4	-4	DB	/		100	/	24.35	/		8,3
SK	2	1	1	DB and DC	/		100	/	28.75	/		4,1
FI	-11	-13	-12	DB	/		100	/	21.6	/		3,1
SE	-13	-13	-11	NDC and DC	-2	DB	100	90	17.2	13.7	13.7	0,6
UK	-4	-2	-3	DB	1	DC	100	53 (M)/56(F)	19.85% (17.25%)	9	8	2,0

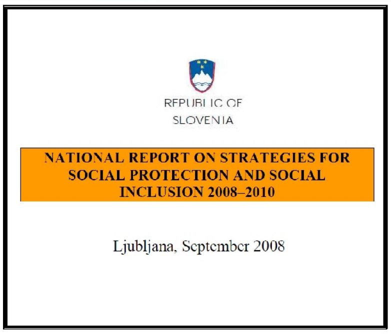
3) National Strategic Reports

- Following the streamlining of the Open Method of Coordination on Social Protection and Social Inclusion, Member States are charged with translating the common objectives into National Plans for each of the three areas of
  - Social Inclusion,
  - Pensions and
  - Health and Long-Term Care.
- These plans, which cover a period of two years, are submitted to the Commission in the form of a National Report on Strategies for Social Protection and Social Inclusion.

34

3) 27 National Strategic Reports

- Example
- Member States explain what they will do.


REPUBLIC OF SLOVENIA

NATIONAL REPORT ON STRATEGIES FOR SOCIAL PROTECTION AND SOCIAL INCLUSION 2008–2010

Ljubljana, September 2008

35

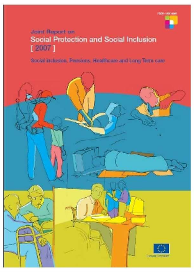
4) Joint reports

- A joint analysis and assessment by the European Commission and the Council of the National Reports
- The Joint Reports
  - assess national progress
  - set key priorities and
  - identify good practice and innovative approaches
- 2002, 2004 and since 2005 annually

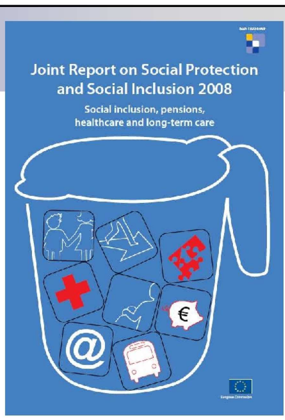
36

KATHOLIEKE UNIVERSITEIT LEUVEN

4) Joint report 2008:



2007



Where does OMC come from ?

- increasing number of European recommendations on pensions
- the pension debate in the hands of the finance and economic departments
- from 1999: the ministers of social affairs wanted to be part of the game again
- OMC was from the Lisbon summit onwards the tool for the social players to play an “effective” role

OMC

- The joints reports are more a mere juxtaposition of developments and elements and is NOT a real strategy
- Is a political tool
- Is an “ugly contest”
- Does not reveal a so called social model

"Economic and sociological" Moddeling

Classification of European pension schemes

Esping-Anderson classification	"Liberal"	"Social-democrat"	"Conservative/corporatist"
Historical reference	Beveridge	Beveridge	Bismarck
Geographical location	Anglo-Saxon	Scandinavian countries (except Finland) and the Netherlands	Continental (except Netherlands & Finland) / Southern Europe
Scope of pension	Selective	Universal	Contribution
Type of benefit paid	Fixed	Fixed	Proportional
Financing method	Contributions	Taxes	Contributions & taxes
System organization / management	Unified State centralized	Unified State decentralized	Fragmented State & joint employer-employee

VALUES
Solidarity, equality, responsibility, participation, security of existence and the level of protection.

40

Developping a common European strategy EUROPE'S PATCHWORK in a world run on subsidiarity

affiliation	voluntary	obligatory	mixed						
level	national	industry-wide	company	individual					
actors	funds	insurers	banks						
booking	internal	external	mixed						
coverage	overall	categories	individual						
fiscal	EEE	ETT	ETE	EET	TET	TEE	ETE	TTE	TTT
control	prudent man	strict state supervision							
participation	organising	supervising	managing	none					
risk/cost	indvidual	employer	society						
finance	repartition	open – closed capitalisation	mixed						
government	organising	regulating	managing	controlling					

41

EUROPE'S PATCHWORK

supporting national strategies for safe and sustainable pensions through an integrated market

OPEN METHOD OF COORDINATION

42

OMC, pensions and Europe
Let's be honest:

- The social players don't have the same degree of cohesion as the economic ones
- The social players always seem to subscribe the financial recommendations
  - impossibility to increase contributions
  - only possibility to reduce benefits and increase retirement age
- The ministers of social affairs – although their competence – are not (exclusively) competent in the technical matters but ECOFIN decides on the important issues
- The European Council always stresses that OMC is subordinated to the common economic policy

43

OMC, pensions and Europe
Let's be honest:

- The European institutions actually don't have real competence in pension matters.
- Why is the economic growth and stability pact always referred to the OMC process by the commission ? **It's not an appropriate tool to measure long term social policy effects.**
- The OMC process is influenced by a particular "need" or even obsession to
  - "obligatory" reduce contributions and
  - "obligatory" reduce public expenditure on Pensions
- OMC takes place between officials and civil servants and thus does not take into account the very important role of the social partners
  - OMC reduces democracy
  - OMC reduces transparancy

IS OMC DEMOCRATICALLY LEGITIMATE ?

44

The true question: do we want need a common pension policy?

- Involves a strong ideological – and therefore political – debate
- Historically and culturally, the Member States have developed different pension approaches
- OMC can help, as it – legally – always has … however pensions remain a national policy aspect within this framework
- A common pension policy has clear (dis)advantages.

45


KATHOLIEKE UNIVERSITEIT
LEUVEN
THANK
YOU
FOR
YOUR
ATTENTION !
Questions ?
yves.stevens@law.kuleuven.be

SOURCES

- CRONQVIST, H., and THALER, R., "Design choices in privatised social security systems: learning from the Swedish experience", American Economic Association Papers and Proceedings, 2004, 424-428.
- ESPING-ANDERSEN, G., "The Three Worlds of Welfare Capitalism", Princeton University Press, Princeton 1990.
- EUROSTAT, "Demographic outlook", European Commission, Luxembourg, 2009.
- HOFSTEDE, G., "Culture's consequences: comparing values, behaviours, institutions, and organisations across nations", 2nd edition, Sage Publications, Thousand Oaks/London/New Delhi, 2001.
- ILO, "Social Security Pensions: development and reform", ILO, Geneva, 2000, 769 p.
- Mc MORROW, K. and ROEGER, W., "The economic and financial market consequences of global ageing", Springer, Berlin, 2004, 345 p.
- MILES, D., "Funded and unfunded pension schemes: risk, return and welfare", CESINFO working paper 239, 2000.
- OECD "Private pension outloook 2008", OECD, Paris, 2009.
- OECD, "Pensions in a financial crisis", OECD, Paris, 2009, 11 p.
- ORENTSTEIN, M., "Privatizing Pensions: the Transnational Campaign for Social Security Reform", Princeton University Press, Princeton, 2008, 217.
- SALOM KI, "Public pension expenditure in the EPC and the European Commission projections: an analysis of the projection results", Directorate-General for Economic and Financial Affairs, 2006.
- SLEIJPEN, O., "On the exportability of the Dutch pension system to the European Union", Maastricht University, Maastricht, 2009.
- VAN ELS, P., VAN ROOIJ, M., and SCHUIT, M., "Why mandatory retirement saving?" in O. STEENBEEK and S. VAN DER LECQ, "Costs and Benefits of Collective Pension Systems", Springer Verlag, Berlin/ Heidelberg, 2007.
- VAN ROOIJ, M., KOOL, C., and PRAST, H., "Risk-return preferences in the pension domain: are people able to choose?", Journal of Public Economics, no. 91, 2007, 701-722.
- WHITEHOUSE, E. - WORLD BANK, "Pensions panorama: retirement income systems in 53 countries", Washington, World bank, 2007.
- WORLD BANK, "Averting the Old-Age Crisis: Policies to Protect the Old and Promote Growth", A World Bank Policy Research Report, Washington DC, 1994.
- WORLDBANK, "Pension Reform in Southeastern Europe: Linking to Labor and Financial Market Reforms," World Bank, New York, October 21, 2008.

CONCISE CV YVES STEVENS

- Prof. dr. Yves Stevens is a professor of the Institute of Social Law of the Katholieke Universiteit Leuven.
- Pensions form his main legal research domain whereby he follows both the Belgian and the international evolutions.
- He has published a great deal on the broader pension issue both in international and national (legal) periodicals.
- He is a member of different expert groups (both private and public) in relation to statutory and complementary social security.
- He is the president of the Belgian Occupational Pension Commission.
- He chairs a specific law shool chair on pensions for the pension professional.
- He is the treasurer of the European Network on Supplementary Pension) Researchers (ENSPR).