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*Committee on Employment and Social Affairs*

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## **DRAFT REPORT**

on the future of social security systems and pensions: their financing and the trend towards individualisation  
(2007/2290(INI))

Committee on Employment and Social Affairs

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## MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

### **on the future of social security systems and pensions: their financing and the trend towards individualisation (2007/2290(INI))**

*The European Parliament,*

- having regard to the Commission communication on the long-term sustainability of public finances in the EU (COM(2006)0574),
- having regard to Article 99 of the Treaty,
- having regard to the European Council conclusions of 13 and 14 March 2008,
- having regard to the Commission communication on Modernising social protection for greater social justice and economic cohesion: taking forward the active inclusion of people furthest from the labour market (COM(2007)0620),
- having regard to the UN Convention concerning Minimum Standards of Social Security 1952,
- having regard to the Commission communication entitled, 'Protection of employees in the event of the insolvency of their employer' (SEC(2008)0475),
- having regard to the European social partners' recommendations in the report entitled, 'Key Challenges Facing European Labour Markets: A Joint Analysis of European Social Partners', of 18 October 2007,
- having regard to the Commission's Green Paper on 'Modernising labour law to meet the challenges of the 21st century' (COM(2006)0708) and to the Parliament's resolution of 11 June 2007 modernising labour law to meet the challenges of the 21st century<sup>1</sup>,
- having regard to the Commission communication entitled, 'Social reality stocktaking - Interim report to the 2007 Spring European Council' (COM(2007)0063) and to the Parliament's resolution of 15 November 2007 on Social Reality Stocktaking<sup>2</sup>,
- having regard to the Commission communication entitled, 'Promoting solidarity between the generations' (COM(2007)0244), and to the Parliament's resolution of 30 January 2008 on the demographic future of Europe<sup>3</sup>,
- having regard to Rule 45 of its Rules of Procedure,
- having regard to the report of the Committee on Employment and Social Affairs and the

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<sup>1</sup> Texts adopted, P6\_TA(2007)0339.

<sup>2</sup> Texts adopted, P6\_TA(2007)0541.

<sup>3</sup> Texts adopted, P6\_TA(2007)0066.

opinions of the Committee on Economic and Monetary Affairs and the Committee on Women's Rights and Gender Equality (A6-0000/2008),

- A. Whereas the total population of the European Union is expected to increase slightly until 2025 and to decrease slightly after 2025, becoming by 2050 slightly smaller and significantly older,
- B. Whereas, with immigration constant at present levels, the work force will decrease from 227 million people in 2005 to 183 million in 2050, the employment rate will rise to 70% in 2020, mainly due to higher female employment rates, the total number of people employed will increase by 20 million to 2017, but after that will decrease by 30 million to 2050 and the projected ratio of people over 65 to people of working age will rise from 1:4 in 2005 to 1:2 in 2050,
- C. Whereas, due to lower proportions of unemployed people, unemployment benefit spending will fall by about 0,6 percentage points of GDP by 2050, a decrease that is very modest and will not compensate higher expenditure in other sectors,
- D. Whereas the European Union spends 27,2% of GDP on social protection (2008), the major share being spent on old age benefits and pensions (46%),
- E. Whereas the fact of the ageing population is expected to lead to increases in public spending, most of it for pensions, health care and long-term care, in most Member States by 2050 if current policies are pursued, with the largest increase occurring between 2020 and 2040,

### ***General concerns***

- 1. Urges the Member States, in the light of the Lisbon strategy and the need for action to keep the social security and pensions systems sustainable, to make more progress in shifting from a social expenditure to a social activation outlook and to attract and retain more people in quality employment, increase labour supply, modernise social protection systems and increase investment in human capital through better education and training;
- 2. Emphasises that sources of economic growth will alter: employment will make a positive contribution to growth until 2010 and after 2030 a negative one, and labour productivity will thus become a dominant source of growth; recognises that, to preserve a higher level of productivity, it will be essential to invest more in research and development;
- 3. Highlights, in the context of current demographic, economic and social trends and the prevention of inter-generational and inter-societal conflicts, the importance of finding new models for the distribution of costs and benefits among what will be a smaller economically active and a larger economically inactive population in an efficient and equitable manner;
- 4. Recalls its belief that EU labour law should reinforce employment contracts of indefinite duration as the general form of employment under which adequate social and health protection is provided and respect for fundamental rights is ensured;

5. Recalls that the core of European social models is solidarity between economically active and economically inactive people, primarily financed by work-related earnings, such as social security contributions or labour taxation; nevertheless points out that the ageing population will put serious pressure on the active work force; stresses that this could jeopardise solidarity and as a consequence European social models; stresses the significant importance, therefore, of rethinking solidarity, including finding a new, fair funding balance;
6. Points to the ongoing development of individualisation, which should be accompanied by more strenuous efforts to individualise social rights in order to enable people, especially women, to become more independent;

### ***Work force***

7. Believes that a decreasing work force will, if the present situation continues, lead to a decrease in the total number of hours worked; considers that it may be necessary to compensate this development by increasing the hours worked by the remaining workers or reducing the number of people who work part-time;
8. Recalls that higher employment rates are heavily dependent on the need to keep all groups active and therefore stresses the need to fight discrimination on the labour market;
9. Considers that it might be necessary for people to work past the age 65, remaining as long as possible in the labour force; stresses the need to discuss raising the legal retirement age;
10. Recalls that any pro-active economic migration policy that addresses especially potential migrants of working age and offers fast-track immigration to highly skilled applicants would need to be complemented by better integration of migrants into the labour market and society as a whole; stresses that intensified efforts to increase immigration might lead to a brain-drain in the countries of origin, which might have a negative effect on the economical and societal development of these countries;

### ***Pensions***

11. Draws attention to the existing discrimination against vulnerable groups in the labour market, which leads to lower employment rates and lower wages and therefore fewer opportunities for those groups to build up adequate pensions; insists on the need to provide equal opportunities for all;
12. Recognises that increasing public spending on pensions could be reduced by a partial switch to privately funded schemes; emphasises that a stronger focus on privately funded pensions would increase the need for appropriate regulation of private pension funds;
13. Calls upon the Member States to take serious account of the need to redesign traditional pension systems which are based on systematic risk assessments and the assumption of a typical, standard life course, given that the assumed standard life course is changing

rapidly and so-called patchwork biographies will become more and more common, leading to the new social risk of increasing unpredictability for many individuals and for vulnerable groups in particular, especially immigrants, low-skilled workers, and single parents;

14. Observes that it is predominantly women who take care of children, voluntarily or involuntarily under the pressure of cultural attitudes and social norms or of the poor quality or lack of childcare facilities stresses the need to compensate women and to provide them with real choices as regards having children, without fearing possible financial disadvantages or suffering detriment to their career progression; welcomes action by Member States to compensation this;

#### ***Financial sustainability***

15. Stresses the need for the Member States to preserve adequate levels of funding for social security and pensions systems, the need to for them to find alternative and robust tax bases in face of increased competition brought about by globalisation; warns of the possible reduction of tax revenue caused by flat tax rates, given the fact that they are strictly related to the total number of people in the labour force; stresses the importance of reducing reliance on labour taxation in order to increase the competitiveness of Member States economies and provide more work incentives; recognises the complexity involved in shifting to a more capital taxation, given the smaller capital tax base and greater mobility of capital; suggests that increasing the use of environmental taxes and greater reliance on consumption as tax base be considered, and thus the need for greater progressiveness, which would reduce the pressure on lower incomes;

#### ***Healthcare and long-term care***

16. Insists on the importance of preserving the values and principles underpinning all health care systems of the European Union, which comprise universal coverage, solidarity in financing, equity of access and the provision of high quality health care, notwithstanding the need for rational consumption of scarce resources;
17. Given the projected higher costs of health care and long term care, considers that Member States should reflect on their funding and take account of the fact that, given the possibility that less non-professional care will be available due to the trend towards smaller families and an increase in women's participation in the labour market, the increase in long-term care might be higher than projected;
18. Observes that public funding of health care contributes to efficiency and fairness by providing protection against financial risk and by not linking payments to the risk of ill health, whereas, in contrast, private contribution mechanisms involve limited or no pooling of risks and usually link payments to the risk of ill health and ability to pay;
19. Notes that health care systems that are predominantly funded through employment-based social insurance contributions may benefit from broadening the revenue base to include non-earnings-related income;
20. Instructs its President to forward this resolution to the Council, the Commission, the

Employment Committee, Social Protection Committee, and the governments and parliaments of the Member States and the candidate countries.

## EXPLANATORY STATEMENT

### *Demographic developments*

The demographic trend in Europe will lead to a projected decrease of population and to the ageing of the population ageing. This will result in a slightly smaller and significantly older population in 2050. This will be induced by birth rates below the natural replacement rate and a higher life expectancy, which leads to a reversion of the age pyramid due to a shrinking number of younger people and a growing share of people above the age 65.

The average birth rate in the EU is not a reflection of women's choice or of European citizens' actual aspirations for creating a family, and may therefore also be linked to the difficulty of reconciling work with family life (lack of child-care infrastructures, social and economic support for families, and jobs for women), the anxiety-inducing social environment (unstable work situation, expensive housing) and a fear of the future (late access to employment for young people and job insecurity).

To compensate the changes in the working population through immigration, the required demand of 90-100 million people, leading to much larger ethno-cultural and religious heterogeneity; reminds that intensified efforts to increase immigration of high-skilled persons might lead to higher brain-drain in the countries of origin, which might have seriously negative impact on the economical and societal development of these countries.

### *Social developments*

The rapporteur believes that it is possible to make considerable progress in transforming the welfare state by shifting from a social expenditure to a social investment perspective.

Given the Lisbon strategy and the employment targets agreed on a EU level, there is the need to attract and retain more people in quality employment, to increase labour supply and to modernise social protection systems, to improve adaptability and security of workers and enterprises, and to increase investment in human capital through better education and skills.

It is recognised that there is a diversification of life forms, observable in fewer marriages, higher divorce rates, longer postponing the birth of the first child, which results in the complement of the still dominant traditional marriage model through alternative forms of living together.

The rapporteur realises that an increased individual behaviour changes the loyalty of people concerning societal institutions, like social security systems, and will put pressure on the discussion of redefining solidarity and social balancing.

### *Financial developments*

The ageing population is projected to lead to increases in public spending - mostly to pension, health care and long-term care spending - in most Member States by 2050 on the basis of current policies. The potential offsetting savings in terms of public spending on education are likely to be limited due to increasing investments in lifelong learning.

The rapporteur recognises that tax collection has been impacted by structural developments and growing challenges, like an increasing global competition and an increasing mobility of factors of production; thus stresses the need for discussing alternative and robust tax bases.

### ***Economic developments***

Currently the world is characterised by globalisation, i.e. accelerated open trade, and rapid technological progress, which creates intense competitive pressures, forcing companies to be more flexible to enable market expansion. Projections show that the potential annual average GDP growth rate will decline in the next decades.

In the future the sources of economic growth will alter: employment will make a positive contribution to growth until 2010 and after 2030 turn significantly negative, whereas labour productivity will become dominant and sometimes the only source of growth. Thus to preserve a higher level of productivity, it will be essential to invest more in research and development.

The changed age structure of the workforce could alter the composition of consumption and domestic demand, potentially implying reallocations between sectors, which require a rise in job mobility, to avoid increasing labour market mismatches with even lower employment.

### ***Labour market developments***

Globalisation will lead to industrial and regional structural changes and changes in employment patterns and levels, and, as a response, to policies aimed at more flexicurity; stresses that the core challenge is to achieve economic flexibility with better social protection in order to create an environment capable of making the best use of the opportunities; recognises the need for a skilled and adaptable labour force, therefore combining active labour market policies with investment in lifelong learning to enhance employability.

This also means strengthening education and training notably for the low-skilled.

The labour market is the key to successful policy adjustment, since ultimately it is the economic output of a country that determines its capacity to sustain high quality welfare.

At constant immigration, the work force will decrease from 227 million people in 2005 to 183 million in 2050; the employment rate will raise to 70% in 2020, mainly due to higher female employment rates, primarily resulting through the retirement of older women, where the employment rates were low; the total number of persons employed will increase by 20 million to 2017, but after that will decrease by 30 million to 2050.

This will also lead to lower proportions of unemployed people and thus the unemployment benefit spending will fall about 0.6 percentage points of GDP in 2050. This decrease is very modest and relatively small and will not compensate higher expenditures in other sectors.

The decrease of people in the work force will lead to a decrease of the total amount of hours worked. To compensate this development, it is necessary to increase the overall hours worked of the remaining workers or to reduce the number of people, who work part-time.

Higher employment rates depend strongly on the activation of all groups facing discrimination in the labour market. In this light the need to reconcile women's economic roles in ways that are equitable and efficient and changes in the provision of essential household services like child care to enable women to reconcile work with family life are needed.

In this light it is also important that there must be enough job opportunities for older people with appropriate working skills. Therefore, age-discrimination need to tackled, lifelong learning promoted, flexible retirement pathways provided for and healthy work conditions in place.

The rapporteur is of the opinion that Member States should use these developments as a window of opportunity to pursue structural reforms.

### *Age related developments*

The ageing of the population will put more pressure on public spending and on some categories of tax revenues, as at the same time, globalisation will render it increasingly difficult to collect taxes from mobile tax bases.

Much of the projected gain in life expectancy will result from lower mortality rates at older age, which will change the relation of duration of retirement to work.

The rapporteur is convinced that one of the key challenges will be to develop labour market policies and reforms in the tax and benefit systems aimed at increasing labour supply and further reforms of the welfare state that guarantee the long-term sustainability of public finances in the face of an ageing population.

### *Pensions*

Demographic development will lead to an increase of public pension spending in all Member States. This increase can be lowered by a partial switch of the public old-age pension scheme into private funded schemes, but a stronger focus on private funded pensions can create new challenges and forms of risks and the necessity of appropriate regulation of private pension's funds.

Pension regimes in the Member States are - although to a different degree - historically developed systems based on the so-called male-breadwinner model, i.e. are highly familiarised.

Attention needs to be paid on redesigning traditional pension systems, which are based on systematic risk assessments, starting from the assumption of the typical standardised life course, in face of the current trend that the assumed standardised life course is changing rapidly and so-called patchwork biographies will become more and more common, which leads to a new social risk of an increasing unpredictability of the future for many individuals and for vulnerable groups in particular, especially immigrants, low-skilled workers, and single parents. Unstable work biographies substantially influence pension claims and that in most professions interruptions are disadvantageous for career paths and wage levels.

Women predominantly take care for children, voluntarily or involuntarily due to cultural attitudes and social norms or due to low quality or the lack of childcare facilities. This fact is compounded by the design of the terms of maternity leave in many Member States, which stipulate that women have to take the break; stresses the necessity to compensate women for that loss of career to provide them with a real choice to have children without fearing possible financial disadvantages.

### ***Healthcare developments***

Age itself is not the causal factor of health care spending, but an ageing population will put pressure for increased public spending, thus public expenditure on health care will increase by 1.5-2 percentage points of GDP in most Member States to 2050.

There is a strong impact of an ageing population on long-term care, mainly caused by the increase in the number of elderly people and the increase in the need for long-term care, which result in an increase of 0.5-1 percentage points of GDP.

Furthermore, less informal care will be available within households due to the trend to smaller families and the increase in women's participation in the labour market, thus the increase in long-term care could be higher than projected due to the need of more formal care.

In face of an ageing population, the provision of health care for all will increase the costs for provided services, which - seeing that an increase in contribution is not an option - will accelerate the trend to reduce the amount of public financed services to a minimum core of vital services, leading to a perpetual discussion on the extent of this core. People, who have the possibilities to withdraw from solidarity, could leave public health care schemes to find more and higher quality services at private health care provider, which will put additional pressure on public health care financing, resulting in fewer services in lower quality, which will deteriorate the confidence in public health care and will put solidarity under pressure.

### ***Main considerations of the rapporteur***

Demographic pressures induced by ageing and more diverse population structures will - in combination with stringent fiscal realities - push Member States to rethink elements of traditional social security systems as pension schemes, labour market programmes, and health and education policies.

Possible solutions to mitigate the development are higher labour force participation rates, especially for the age group 55 -65 and for women, whose employment rates are at the moment significantly lower. This will require adequate possibilities for women to reconcile work with family life, particularly child care facilities and all-day-schools and also to improve work opportunities and conditions for people with disabilities and strengthened efforts to tackle social exclusion. To meet this it is necessary to implement the Lisbon Agenda with a focus on getting people into jobs, providing them with decent pay and other incentives to work.

Ensuring at the same time the sustainability and adequacy of health care and retirement income for the population in the Member States over the coming decades is a task requiring action at all levels of society, government, firms and households.