

EUROPEAN ECONOMIC AREA
STANDING COMMITTEE
OF THE EFTA STATES

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Brussels

WORKING GROUP ON SOCIAL SECURITY

**COMMENTS BY THE EEA EFTA STATES ON THE COMMISSION'S
COMMUNICATION "SUPPORTING NATIONAL STRATEGIES FOR SAFE
AND SUSTAINABLE PENSIONS THROUGH AN INTEGRATED
APPROACH"¹**

EXECUTIVE SUMMARY

- 1. The EEA EFTA States share common objectives and concerns with the EU Member States as regards the future of the social protection systems and the sustainability of pensions. The EEA EFTA States welcome an approach based on an enhanced exchange of information and experience at European level. This is a valuable approach for assisting national policy-makers to find adequate responses to future challenges for the pension systems.**
- 2. The EEA EFTA States are assessing policy responses for modernising their pension systems, and they are therefore highly interested in following the ongoing work at EU level and more particularly within the Social Protection Committee.**

I INTRODUCTION

- 3. The EEA EFTA States have noted with great interest the new Communication concerning the sustainability of pension systems. As with previous Communications concerning the modernisation of social protection systems, the EEA EFTA States are pleased to submit comments in line with the information and consultation procedure provided for in the EEA Agreement.**

II SAFE AND SUSTAINABLE PENSIONS

- 4. The EEA EFTA States share the same concerns with regard to the future of pension systems as the EU Member States. Given the demographic changes and the ageing of the population, safe and sustainable pension systems are also of vital importance for the EEA EFTA States. In light of this, the EEA EFTA States are**

¹ COM (2001) 362 final

following with great interest the debate at EU level on the future of social protection systems and the reforms of pension systems.

5. The EEA EFTA States welcome the aim of enhanced exchange of information and experience at European level as a very valuable approach for national policy-makers to establish a good knowledge and understanding of the future challenges to pension systems and to assist them in finding the adequate responses which are needed to meet these challenges. However, successful measures taken in one country might not necessarily be directly transferable to another country. The EEA EFTA States agree that the diversity of pension systems at national level should be retained.

6. The EEA EFTA States note with interest that the Commission proposes to use the open method of co-ordination as the appropriate approach at EU level. For the EEA EFTA States, it would be valuable to follow how the EU uses this method by setting common objectives, translating these objectives into national policy strategies and measuring progress on the basis of commonly agreed and defined indicators.

III COMMON OBJECTIVES FOR FUTURE PENSION PROVISION

7. The EEA EFTA States agree that it is a fundamental objective to provide people with a secure and adequate pension in order to prevent poverty and social exclusion. However, an adequate pension requires the financial sustainability of public and private pension schemes. Economic growth and prudent management of public means and financial assets will therefore be the crucial factors for the future sustainability of the pension schemes.

8. To raise employment participation is important for ensuring the financial sustainability of pension systems in the long-term. The EEA EFTA States are of the opinion that, in the short run, the main challenge is to limit retirement from the labour market due to various schemes for early retirement. Both Norway and Iceland have a higher legal retirement age (67 years) than is common in Europe. However, in Norway the factual average retirement age is slightly above 60 years, while in Iceland, most women and men choose to work until they are 70 years of age. In Liechtenstein, the standard legal retirement age is 64, but it possible to draw an early pension as of the age of 60. On the other hand, it is possible to draw an early pension and stay active in the labour market at the same time, meaning that the pension is not reduced if one still has an income from gainful activity – the so-called “4th pillar”. The EEA EFTA States support the objective of encouraging older workers to stay in the labour market, and incitements to deferred and flexible retirement may prove to be a sound approach.

9. The EEA EFTA States are of the opinion that women’s participation in the labour market is a key issue. Labour participation rates for both men and women are high in the EEA EFTA States, especially as regards labour participation rates for older workers. For instance, about 60 per cent of Norwegian women aged 55-64 years were participating in the labour market in 1998.

10. A high participation of women in the labour market is, amongst others, closely linked to the legislation on parental leave. Like earlier in Norway, legislation on maternity and paternity leave, which increases the father's right to paid leave and improves equality between parents, was recently introduced in Iceland. One of the provisions in the new legislation establishes the right of the parent to keep acquired rights according to his or her employment agreement while on maternity or paternity leave. While parents are on paid leave, the maternity/paternity fund also pays contributions to the relevant pension fund of the parent.

11. Pension systems need to be modernised so that they reflect changes in the society and the labour market, and that they respond to individual needs and new family and employment patterns. The modernisation should focus on more flexible pension systems adjusted to the individual preferences of the persons concerned. Pension systems should furthermore be reviewed with a view to eliminating discrimination between men and women. The EEA EFTA States also agree to the objective of making pension systems more transparent and predictable, and the aim of a high legal certainty should be pursued.

12. The occupational pension system in Iceland has been reviewed. In 1996, the civil servants pension scheme was revised, in view of changing it from a partially funded to a fully funded system. Furthermore, in 1998 new general legislation for the operation of pension funds entered into force, ensuring pensioners' minimum rights and regulating the operations of the funds. In the future, pensions will mainly come from pension funds, and it has been estimated that the assets of the pension funds, which in 1999 were about 80% of GDP, will reach a least 1,5% of GDP in the middle of the twenty-first century.

IV A COMPREHENSIVE AND INTEGRATED APPROACH TO THE REFORM OF PENSION SYSTEMS

13. The EEA EFTA States agree that the future of pension systems depends on policies in different areas including employment, public finances and social protection, and that this calls for an integrated approach and close co-ordination among policy makers in these fields. It would be of great interest for the EEA EFTA States to follow closely the process at EU level, particularly within the Social Protection Committee, and to study the outcome of the proposed national strategy reports with regard to good practice and innovative approaches. In this regard, it should be mentioned that Norway has established a Pension Reform Commission that shall make suggestions for a future pension system which can provide long-term sustainability, stability, transparency, and contribute to meet the challenges of an ageing population and an increasing rate of early retirement. It will be of great interest and importance for the Norwegian Pension Reform Commission that will present its report in 2003, to follow the outcome of parallel processes in the EU Member States.

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