

**E U R O P E A N E C O N O M I C A R E A**  
**S T A N D I N G C O M M I T T E E**  
**O F T H E E F T A S T A T E S**

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14 December 2000  
Brussels

**WORKING GROUP ON SOCIAL SECURITY**

**Comments by the EEA EFTA States on the Commission's Communication "The Future Evolution of Social Protection from a Long-Term Point of View: Safe and Sustainable Pensions"<sup>1</sup>**

**EXECUTIVE SUMMARY**

**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 are following the debate on the future of social protection with great interest, since we are facing, to a large extent, the same challenges as the EU Member States.**

**The EEA EFTA States are highly interested in participating in the exchange of information and ideas and contributing to the survey/study on the future evolution of social protection and development of the pension systems that is proposed in the Communication. Moreover, the EEA EFTA States would express their wish to be linked up to the discussions of the Social Protection Committee.**

**I INTRODUCTION**

1. The EEA EFTA States would like to express their recognition of the analysis in the Communication on safe and sustainable pension systems. As with previous Communications presented by the Commission, it is a central element in the ongoing debate at European level on the future of social protection systems. According to this Communication, the aim of the EU Member States is to stimulate a joint effort which identifies practical ways of making adequate pension provision sustainable, while maintaining sound public finances and intergenerational fairness.

2. In view of the information and consultation procedure provided for in the EEA Agreement, the EEA EFTA States are pleased to submit comments on this new Communication. This follows up earlier comments submitted by the EEA EFTA States

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<sup>1</sup> COM (2000) 622 final

to the Commission's Communication "The Future of Social Protection"<sup>2</sup> in 1995, the Communication "Modernising and Improving Social Protection in the EU"<sup>3</sup> in 1997, and the Communication "A Concerted Strategy for Modernising Social Protection" in 1999<sup>4</sup>.

## II SAFE AND SUSTAINABLE PENSIONS

3. To make pensions safe and reliable and pension systems sustainable is of vital importance, also for the EEA EFTA States, and we are therefore following the discussions on the future financing of the pension systems with great interest. The EEA EFTA States are to some extent facing the same challenges as the EU Member States, e.g. the need to take into account the maturation of these systems and the demographic changes in the forthcoming decades. However, these challenges might have less effect in the near future on the pensions systems in the EEA EFTA States<sup>5</sup> given the high employment in these countries.

4. The EEA EFTA States agree that it is a fundamental objective to provide people with a secure and adequate pension. The analysis in the Communication of funded schemes versus pay-as-you-go schemes is important in view of making pension systems sustainable. The analysis is well balanced and takes into account both the economical and political risks. Some funding might prove advantageous to avoid mistrust among future pensioners. However, economic growth and prudent management of public means and financial assets will be the crucial factors for the future sustainability of the pension schemes.

5. The main challenge we see in the long run, is the demographic balance given the future steep rise of old age pensioners due to the baby boom during the first post-war decades and the declining birth rates in Europe from around 1970. On the other hand, the birth rates in the EEA EFTA States are higher than the average in the EU. Iceland has the highest birth rate in the EEA. In Norway the birth rate has increased as compared to the situation some years back, which might be a response to measures

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<sup>2</sup> COM (1995) 466 final

<sup>3</sup> COM (1997) 102 final

<sup>4</sup> COM (1999) 221 final

<sup>5</sup> There are three pension schemes in **Iceland**: a national pension scheme which is a pay-as-you-go scheme, an occupational pension scheme which is a fully funded scheme, and a voluntary pension scheme.

There are three systems in the **Liechtenstein** pension scheme: a basic scheme (for all workers, the self-employed and the not gainfully active persons) depending on a pay-as-you-go system; an occupational capital cover fund for companies; and a voluntary insurance. Liechtenstein is currently examining, whether and if so, to what extent, the pay-as-you-go system of the basic scheme (whose fund already holds the equivalent of 14 times the annual expenditure) should be changed into a capital cover fund.

In **Norway** the main public pension scheme (the National Insurance Scheme) is financed entirely on a pay-as-you-go basis. Service pensions in the private sector and in the municipalities are capital funded. The National Insurance's pension costs are estimated to increase from 7-8 per cent of the GDP in 2000 to 17-18 per cent of the GDP in 2050.

introduced in view of making child care less expensive and burdensome, for instance, the age limit for family allowances was recently raised from 16 to 18 years.

6. 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. Despite a higher legal retirement age in Norway (67 years) than common in Europe, the factual average retirement age is slightly above 60 years. However, efforts are made, in various ways, to encourage older workers to stay on longer as occupationally active, which should not be unreasonable given the improved health of senior citizens and the gradual increase in average life expectancy. In Iceland, the official retirement age is also 67 years, but most people, both women and men, choose to work until they are 70 years of age. It should also be noted that the retirement age for women is the same as for men both in Iceland and Norway. This goes for the public pension system as well as the occupational pension system. In Liechtenstein the standard legal retirement age of 64 was introduced in 1997, along with the possibility to retire two years earlier (in 2001 the possibility to draw an early pension as of the age of 60 will be introduced).

7. The EEA EFTA States support the view 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.

8. 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.

9. The EEA EFTA States welcome the guiding principles and objectives for pension reforms that are outlined in the Communication. One is focusing on more flexible pension systems adjusted to the individual preferences of the persons concerned. The EEA EFTA States view this as a sound approach, both in social and economic terms. In order to achieve this objective, it will be necessary also to facilitate labour market access and adaptability for persons over or around retirement age. To make the systems more employment friendly by stimulating persons who are in good health to stay in work longer than today, therefore, seems to be a sound policy in order to protect the stability and financial balance of present social security systems. Moreover, the EEA EFTA States see it as important that disabled persons are also encouraged to use their work capacity on the labour market, to the benefit of themselves as well as the society.

10. At the same time, measures aimed at an enhanced and more equitable redistribution of income and welfare between various social groups in the society are

necessary, in order to improve the situation and living conditions for certain vulnerable and exposed groups and to combat social exclusion. The EEA EFTA States would also stress the problem of poverty among older women who have had a low participation in the labour market. In this regard, it should be mentioned that Iceland has increased benefits to older women during the last decade, and this has contributed to a considerably better situation for older women.

### **III EXCHANGE OF INFORMATION AND STUDIES**

11. The EEA EFTA States agree that European countries have a lot to learn from each other in the field of pension insurance, and that an exchange of experience and ideas will broaden the range of policy options. In this regard, it should be mentioned that the EEA EFTA States expressed their interest in participating in the High Level Group on Social Protection in the EFTA comments submitted on the Communication “A Concerted Strategy for Modernising Social Protection”. The EEA EFTA States would reiterate this wish in view of the establishment of the Social Protection Committee and express our wish to be linked up to the discussions in this Committee.

12. The EEA EFTA States share common objectives and concerns with the EU Member States as regards the future of social protection systems and pensions, and therefore also share the interest to discuss the guiding principles and objectives for pension reforms which are presented in the Communication. We are also highly interested in contributing to the survey/study and exchange of information on the future evolution of social protection and development of the pension systems that is proposed in the Communication.

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