Procedure file

Basic information

COS - Procedure on a strategy paper (historic)	1997/2158(COS)	Procedure completed
Supplementary pensions in the Single Market. Green Paper		
Subject 2.50.05 Insurance, pension funds 4.10.11 Retirement, pensions		

Key players

European Parliament	Committee responsible	Rapporteur	Appointed
	JURI Legal Affairs, Citizens' Rights		02/09/1997
		PPE FERRI Enrico	
	Committee for opinion	Rapporteur for opinion	Appointed
	ECON Economic and Monetary Affairs, Industrial Policy		10/11/1997
		PSE KUCKELKORN Wilfried	
	FEMM Women's Rights		16/04/1998
		PPE LULLING Astrid	
Council of the European Union	Council configuration	Meeting	Date
	Economic and Financial Affairs ECOFIN	2095	19/05/1998
	Economic and Financial Affairs ECOFIN	2044	17/11/1997

Key events

10/06/1997	Non-legislative basic document published	COM(1997)0283	Summary
15/09/1997	Committee referral announced in Parliament		
17/11/1997	Debate in Council	2044	
19/05/1998	Debate in Council	2095	
28/10/1998	Vote in committee		Summary
28/10/1998	Committee report tabled for plenary	A4-0400/1998	
17/11/1998	Debate in Parliament		
03/12/1998	Decision by Parliament	T4-0709/1998	Summary
03/12/1998	End of procedure in Parliament		
21/12/1998	Final act published in Official Journal		

Technical information

Procedure reference	1997/2158(COS)
Procedure type	COS - Procedure on a strategy paper (historic)
Procedure subtype	Commission strategy paper
Legal basis	Rules of Procedure EP 142
Stage reached in procedure	Procedure completed
Committee dossier	JURI/4/09089

Documentation gateway

Non-legislative basic document		COM(1997)0283	10/06/1997	EC	Summary
Economic and Social Committee: opinion, report		CES1403/1997 OJ C 073 09.03.1998, p. 0114	11/12/1997	ESC	Summary
Committee report tabled for plenary, single reading		A4-0400/1998 OJ C 379 07.12.1998, p. 0005	28/10/1998	EP	
Text adopted by Parliament, single reading		T4-0709/1998 OJ C 398 21.12.1998, p. 0018-0042	03/12/1998	EP	Summary
Non-legislative basic document		COM(1999)0134	11/05/1999	EC	

Supplementary pensions in the Single Market. Green Paper

OBJECTIVE: submission of a Green Paper on supplementary pensions in the single market with the aim of ascertaining the views of the parties concerned as to whether or not Community action is needed in this field. Replies must reach the Commission by 31.12.1997. SUBSTANCE: Pension schemes are a fundamental aspect of social protection in the EU. At present they take 3 forms: -state pensions (pillar 1), -pension schemes linked to employment (pillar 2), -pension schemes subscribed to by individuals, usually with life insurance companies (pillar 3). At present there are five people of working age to support each pensioner. By 2040, the same number will be having to support two pensioners, in view of the aging of the population and the decline of the birthrate in Europe. Another consequence of demographic trends is that the number of retired people is growing; they already swallow up 10% of the GDP of the Member States. Public expenditure on state pensions (88.8% of pensions at present) cannot continue to rise indefinitely. Unless something changes, by 2030 the Member States will no longer be able to meet the needs of pensioners. The Green Paper therefore considers solutions, including greater use of pillar 2 and 3 pension schemes, which at present account for only 7% and 0.9% of pensions respectively. In this context it is imperative that the Member States should amend their legislation and redefine the role of supplementary pension schemes. In particular, the balance betwen these schemes and State pension schemes needs to be altered, and it may be necessary to make it compulsory to subscribe to occupational pension schemes. Taxation measures are also needed to encourage tax-payers to subscribe to supplementary schemes. Unlike public schemes, pillar 2 and 3 schemes are capitalization schemes, which means that they are guaranteed by assets invested long-term to cover future pension payments. According to the Green Paper, the number of such schemes will increase considerably in the years ahead, and they may come to represent substantial sums (in 1993, ECU 1200 billion was invested through supplementary schemes). This is why there is an urgent need to examine how these schemes could function better in the context of the single market and the free movement of capital. At present, employment-related pension schemes or life-assurance pension schemes invest a large proportion of their assets in domestic government bonds. However, the availability of this type of bond will become increasingly limited in view of the commitments associated with EMU. Consequently, pension scheme managers are likely to have to resort to other types of asset, such as equities and private sector bonds. In the field of legislation, the rules concerning prudential supervision of these funds entail extreme compartmentalization. In many cases disproportionate restrictions are applied, which hamper the establishment of a genuine common market in pension funds. It is therefore up to the Member States to review the legislation in force, while ensuring effective supervision of the funds invested. Other methods of supervision would be compatible with the free movement of capital and would allow pension funds to invest more of their assets in long-term financial instruments, increasing returns and indirectly promoting employment. Besides the call for greater freedom of management of pension funds, the Green Paper stresses the need to establish a genuine European market in services offered by approved investment fund managers so that they can offer their services in other Member States. This would increase competition and cut costs, for the benefit of members of pension schemes. The Green Paper stresses the need to adopt without delay European legislation which will allow workers to move between supplementary pension schemes (cf. CNS97265), comparable to the provisions concerning statutory schemes. The lack of mobility has a significant impact on the mobility of workers and hence on employment. The Green Paper points out how important a role taxation has to play in pension provision, and suggests a number of ways in which tax incentives could be provided without hampering the establishment of a single market in occupational and life-assurance pension schemes.?

Supplementary pensions in the Single Market. Green Paper

The ESC welcomes the green paper and reiterates its concern that timely action be taken to ensure that adequate pension provisions will be available to those retiring in the next century. In regard to the retirement provision and EU capital markets, the ESC believes that, subject to appropriate prudential controls being in place including supervision over the investment managers, higher returns can be achieved without undue risk and that EU capital markets are likely to develop sufficiently to absorb any additional investment funds. The ESC fully supports the view that pension funds must be subject to appropriate prudential supervision. A key aspect of this would be to ensure that the supervision take particular responsibility for the control of risk. However the Commission poses a very important question when it asks whether there should be common rules for pension funds and insurance companies. The ESC would, however, emphasize that prudential rules must include an evaluation of liabilities using proper actuarial standards, and a close correlation between the return on assets and the extent of commitments. The ESC would also stress the need to involve members in the management of their pension fund and to ensure that the managers are obliged to provide members with information and access to advice. Concerning the free movement of workers, the ESC believes that employees temporarily seconded by their employer to work in another Member State with the company or an affiliate should be able to retain their membership of their home pension scheme, but it considers that it would not be reasonable to require an employer to retain in membership employees who resign to take up employment not connected with him in another Member State. The ESC supports the broad principle that pension funds as they accumulate represent a deferred benefit for scheme members and that taxation should similarly be deferred until the benefits are paid out to individual members. While fully respecting the principle of subsidiarity, the ESC believes it would enhance the mobility of workers if a common set of rules for the recognition of pension schemes domiciled in one Member State, in relation to all other Member States, could be developed for approval by the Council. ?

Supplementary pensions in the Single Market. Green Paper

The committee adopted unopposed, with one abstention, the motion for a resolution on the Commission Green Paper on supplementary pensions within the European Union. While stressing that the main problem in this field lay in the lack of a Community regulatory framework for pension funds for associations of people with the same occupational background or equivalent, the rapporteur, Mr Ferri (PPE, I) said that he would like to see a preliminary definition of the terms 'supplementary pension' and 'fund' in the Green Paper, since they were not identical. Having analysed the widely differing Community rules which applied in the four sectors where instruments were available for the establishment of voluntary pension schemes (life assurance, undertakings for collective investment in transferable securities, investment services and banks), the draft report adopted raised the problem of distortion of competition betwen certain products in the four regulated sectors and those in the pension fund sector; in this respect, there was an urgent need to act to prevent the products on offer from giving rise to identical hopes, as regards their reliability, on the part of citizens investing in them. Accordingly, in one of the amendments, the rapporteur called on the Commission to analyse carefully the relationship between the rules governing pension funds and life assurance in order to avoid any discrimination between products with similar objectives and of similar substance. Noting that supplementary pensions constituted deferred salary, which should be placed on the same footing as salary itself, the resolution adopted stressed the application to the field in question of the 'prudent man' principle, and outlined various elements which ought to be included in the concept of management with all reasonable and usual care, skill, and forethought. It recommended the introduction of a 'European passport' for pension funds governed by standard prudential supervision rules, and indicated a series of rules (concerning actuarial principles, accounting, participation by employees, employers, government and consumers in investment policies, etc.) for the basic harmonisation of pension funds. The tax treatment of supplementary pensions was also touched upon, particularly to instruct the Commission's Working Party on Fiscal Policy to indicate ways of coordinating and harmonising the Member States' tax systems better and thereby ensure that they present as few disincentives as possible to freedom to provide services in the field of pension funds. ?

Supplementary pensions in the Single Market. Green Paper

In adopting the report by Mr Enrico FERRI (PPE, I) on supplementary pensions, the European Parliament called on the Commission to submit a proposal for a directive to enable pension funds to enjoy freedom of investment, lay down their spheres and limits of operations as regards investment in and outside the Community, the amounts contributed by employers and employees, and the operating procedures for pension funds to raise capital on Community markets. Operators should be allowed to exercise the freedom to provide management services in any Member State, and principles should be laid down governing prudential supervision in accordance with the European social market model of co-decision and co-determination. Parliament believed that supplementary pension provision was an important way of supporting statutory pension insurance and could serve to maintain or improve pensioners' income. It considered that national governments should assume responsibility for making payments due under 'first-pillar' social security schemes. It called for the introduction of a 'European passport' for pension funds, in so far as standard prudential supervision rules guaranteed the possibility of controls and the co-determination of persons entitled to pensions and insolvency insurance. Prudence was called for however, and this meant: - balance of assets and liabilities; - diversification of investment; - maintenance of sufficient liquidity; - restriction of investment in service providers, including associated companies and subsidiaries; - involvement of the contributors and sectoral interests; - clear separation of the employer's assets and the pension fund; - provision for commitments; - the implementation of stringent and effective control. Parliament considered that Community legislation to regulate pension funds should bring about harmonisation of national provisions relating to actuarial principles and accounting rules, and employee, employer, government and consumer participation in investment policies. There should also be harmonisation of final pension provision, to be subject to annual increases, linked to average earnings or inflation. Occupational pension schemes must not channel surplus profits back into firms, but use them or set them aside for improvements in the pension schemes. Parliament urged the Member States to press ahead with the harmonization of fiscal systems for supplementary pension provision by introducing a separate code of conduct governing a number of basic taxation principles in this area, such as the tax-deductibility of pension contributions and pension plans, exemption of pension funds from income and capital taxation on investments and taxation of final benefits. It called on the Commission to present a revised version of its proposal of 1987 on equal treatment of men and women in statutory and occupational social security schemes to lay the legal basis for individualisation of pension rights and set a flexible retirement age for men and women. It particularly drew attention to the fact that supplementary pension schemes should be designed to promote employment and equal treatment. Parliament stressed the importance of ensuring transfers of pension entitlements from one employer to another within the same country or between Member States. Such transfers ought to be possible under capitalisation schemes, on condition that provision was made for preserving entitlements acquired under other systems. It pointed out in particular that long vesting periods constituted a distinct barrier to freedom of movement which, despite higher costs for the undertakings concerned, could be overcome by a long-term reduction to a maximum of five years. Parliament called on the

Commission to draw up a report on speculators and their client base, and the extent to which supplementary pension provision influenced the employment situation in Europe. It also called on the Commission to ensure that the future directive stressed the economic needs of Europe's elderly citizens.?