

OPSG

# OCCUPATIONAL PENSIONS STAKEHOLDER GROUP

Advice on Pensions Gap Dashboard

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# PENSION GAP DASHBOARD

## INTRODUCTION

In December 2020 the European Commission sent a Call for Advice (CfA) to EIOPA, requesting technical advice on the development of best practices on (1) pension tracking systems and (2) a pension dashboard. The roots of this request can be found in the June 2020 report of the High Level Forum (HLF) on the Capital Markets Union (CMU). This HLF-report observed that **18% of EU citizens currently are at risk of poverty or social exclusion in older age**, making pension adequacy a major policy issue.

In response to this and the other HLF-recommendations, the European Commission published in September 2020 its CMU Action Plan. Herein, the European Commission declared 'The Commission will facilitate the monitoring of pension adequacy in Member States through the development of pension dashboards.

EIOPA's consultation document describes the overall objectives of a pension dashboard as well as the relation to already existing work of the European Commission in the area of pension adequacy and pension sustainability. The consultation document contains the main elements of a draft report to be made to the Commission.

## OBJECTIVES PENSION DASHBOARD

**The overall purpose of the pension dashboard is to strengthen the monitoring of pension developments in Member States.** ‘Dashboards’ with indicators on both public first pillar PAYG pensions, as well as estimating the contribution of occupational and personal pensions, can enable public authorities to identify early on emerging gaps in the provision of pensions to their population. They are a means to design suitable policy responses coping with future pressure on public finances or poverty of the population at old age.

The pension dashboard is foreseen to have several important advantages, compared to the current situation:

- Ease of communication: the dashboard presents relevant data and indicators in a transparent format.
- Completeness: current data on pension adequacy, especially data on occupational and personal pensions, are incomplete;
- Comprehensiveness: the dashboard will be a combination of different indicators that shed light on different aspects of pension adequacy and sustainability;
- Comparability: the dashboard will present the same indicators for all Member States;
- Benchmarking: because of the comparability of the indicators, national governments and the Member States gain insight in where they stand compared to other countries;
- Up to date information: the Ageing Report, Pension adequacy report and Fiscal sustainability report all appear once in every three years. The dashboard could be updated at a higher frequency.

On top of that, the OPSG would like to add two considerations.

Our first consideration is that making available an EU Dashboard based on an agreed and accepted transparent methodology and based on the most reliable and preferably recent data available, will change the quality of policy discussions not only between the EU institutions and Member States, but also within Member States.

At present discussions can still be obfuscated by incomplete data and/or over-optimistic assumptions about economic developments, that tend to complicate the difficult discussions and decisions on pension reforms. To bring adequate information on PAYG public pensions together with information on all occupational pensions, and make this available to the EU institutions, the Member States and the wider public, is an important endeavour.

It will remain a national competence to decide on pension policy, but a common fact base nevertheless will be very helpful.

Our second consideration is the element of 'benchmarking'. Making clear that there are considerable and measurable advantages to getting the policy-mix on pensions right, and that some of those, like the development of the CMU and the encouragement of cross-EU investments that help stabilize the monetary union, kick-in at a much shorter timeline, will help develop a very useful positive narrative on pension policy.

## MAIN ISSUES

### *Data availability*

EIOPA notices that many reports already exist, most prominently the three yearly Ageing report and the Pension Adequacy report of the European Commission. EIOPA also notices that these reports address different aspects, are not easily to integrate and underlying data are not complete over first and second pillars. Furthermore information on individual long-term savings products is largely lacking. On this last category a difficulty is also that no common definition exists that would easily allow to see what could or should be included at the European level.

For additional pensions that are not covered by IORP II and for individual long-term savings products a solution could be that an EU Dashboard includes per Member State at least qualitative information on those pensions and products that at the national level are clearly perceived as a provision for old age and that are of substantial importance to the Member States concerned. The inclusion of quantitative data could then be added at a later stage when sufficiently reliable data become available.

EIOPA describes in its consultation paper all public data sources it identified, including those from the ECB and the OECD, and raises the question whether anyone can add to that. Our view is that the work done by EIOPA is exhaustive. We would however like to note that some other stakeholders provide relevant reports, like the yearly Mercer-Melbourne report. It would therefore be useful if EIOPA could mention in its final report to the Commission some other data sources.

From an analysis of available data and a description of data needed to create a Dashboard, EIOPA comes to the conclusion that there are gaps in existing reporting requirements that should be filled. We support this conclusion.

### *Role of NCAs and EIOPA*

NCAs, EIOPA and the ECB already collect a lot of data on IORPs and to quite a degree also on insurance undertakings. So from that perspective it would be logical to task EIOPA with the

setting-up and maintenance of an EU Pension Dashboard, or at least the part dealing with additional pensions. An effective way has to be found to combine information on first pillar pensions that as yet is not being collected by EIOPA and/or NCA's but rather by Member States and the Commission, with the information NCA's, EIOPA and the ECB is collecting. In as far as the latter is concerned, keeping definitions as much as possible the same even if particular data are used for different purposes and/or by different institutions will help keep costs reasonable and will facilitate cross references between different reports. Including additional data in existing reporting requirements to fill the gaps will have to be considered in a proportionate and cost-effective way.

On the other hand some stakeholders may have objections to task NCAs with something that will go beyond supervisory and prudential needs. We suggest to take a pragmatic approach in this issue, and to consider the pros and cons of having independent institutions presenting a dashboard.

#### *How to present indicators for different policy aims?*

EIOPA does explain well in its consultation document that formats should be found that allow easy comparisons. The ambition of the Commission to come to one final indicator to present the quality level of the pension system of a Member State, may however be too unnuanced, even if we recognize that for instance the Mercer-Melbourne index does the same. Some policy aims that are highly relevant for pension systems may be difficult to meet at the same time. There is at least tension between pension adequacy and financial sustainability. Also, it would be important to look at timelines. Pension adequacy is often considered on relatively short terms, while financial sustainability is typically discussed in longer terms. It is important to have clear and transparent methodologies.

An effective Dashboard should also present at least the most important sub-indicators in order to facilitate fact-based discussions on competing policy-aims.

*Pension adequacy is relative to living standards*

Member States have different levels of living standard and, until now, different levels of minimum wages. (The Commission on October 28th 2020, has proposed a directive on adequate minimum wages in the European Union, that is still before the Parliament and the Council.)

Indicators of pension adequacy should not, or not only be nominal amounts in Euro, but should take into account welfare levels in the Member State concerned.

*Live Dashboard, or another report?*

EIOPA contrasts two forms for an EU Pension Dashboard. It could be a live Dashboard that could be consulted anytime and provide the latest set of available data and information. On the other hand, it could also take the form of a being periodically published, for instance annually on the basis of data that are also collected once a year.

It seems rather obvious that a live Dashboard is superior, but the real question here is, whether this is really sufficiently better to justify the probable higher costs. It would be necessary to verify by which frequency underlying data are reported. If this is yearly as well, a live Dashboard may not be that much different from an annual report.

*Costs and benefits*

As noted above, keeping costs within bounds is a prerequisite. In particular when additional data are required to the level already being reported by IORPs, it would be reasonable to check that the value added that can be achieved is commensurate to the additional costs.

## WIDER ISSUES

EIOPA reflected in its consultation document on the data a Dashboard should ideally contain in order to reach its objectives. Below the surface there are some more philosophical relevant questions as well. Do we really know which sources of retirement income are relevant? And which are not?

Should we look at labour after the legal retirement age? What about house ownership? (also for one's own home?) Savings in general? Solidarity within family relationships?

Questions like that also refer to value systems attached to a pension system. Is the ultimate policy aim the avoidance of poverty? Or wider income replacement at higher incomes?

Principle 15 of the European Pillar of Social Rights has three parts:

1. right to a pension commensurate to [one's] contributions and ensuring an adequate income;
2. women and men shall have equal opportunities to acquire pension rights;
3. everyone in old-age has the right to resources that ensure living in dignity.

A difficult issue not dealt with in a pension dashboard, is the relation between the level of expected interest rates and the balance to be struck between funded pensions and PAYG.

And in the context of the CMU, or the economic governance of the monetary union, wider issues exist as well. Should one take account of the level in which pensions are already funded, when comparing levels of public debt over Member States? And if one looks at the current account balance of Member States? The Netherlands is often criticized for a very high level of pension-savings, that turn for a substantial part in foreign investments which leads to a surplus on the current account. At the same time more than 40% of these investments are made in other Member States.

## **“PERFECT IS THE ENEMY OF GOOD”**

This quote is attributed to Voltaire, who in fact translated an Italian proverb: “Le meglio è l’inimico del bene”. This notion is cross-cultural and the parallel from Confucius is perhaps even more apt: “Better a diamond with a flaw than a pebble without”.

The recommendation *at this stage* would be:

- express strong support in general for the development of an EU Pension Dashboard, in particular because of the possibilities to create a new positive narrative on pension policy as well as reinforce the fact-based elements
- underline that a gradual development may be the most effective strategy to develop a fully fledged EU Pension Dashboard
- have a first round of open discussion on the main issues
- request EIOPA to share a summary of consultation reactions received