

Eurogroup statement on common principles for strengthening pension sustainability

The Eurogroup endorses, in the context of its thematic discussions on growth and jobs, a set of common principles for strengthening the sustainability of pension systems in the euro area.

The Eurogroup considers that significant progress has been achieved in improving pension sustainability in the euro area. However, it also acknowledges that considerable risks remain in many Member States, especially over the medium term. In particular, pension expenditure projections are sensitive to the underlying macroeconomic and demographic assumptions. Against this background, further policy action is needed to strengthen the resilience of public pension systems to adverse demographic and macroeconomic developments and to guard against the risk of reform reversal.

The Eurogroup underlines that in times of high public debt, the importance of pension sustainability for the euro area from a financial, economic and social point of view renders developments in this field a matter of common concern in the euro area. In the context of interlinkages in the monetary union, adverse cross-border spill-overs may arise from unsustainable national pension systems. Developing common principles for pension reforms in the euro area is therefore beneficial, while recognising that country specificities influence the features of national pension systems.

Overall, the Eurogroup considers that the sustainability of pension systems, while safeguarding the adequacy of old-age incomes, is a clear policy priority for euro area Member States.

The Eurogroup thus endorses the following common principles, which should guide Member States when implementing reforms in this field:

Safeguard against demographic and macroeconomic risks: reforms should focus on systematically increasing the resilience of public pension systems against risks from demographic change or macroeconomic shocks. In particular, the introduction of automatic mechanisms appropriately designed at Member State level has been shown to be an effective tool for dealing with the effects of demographic change, specifically the slow-moving but significant increases in life expectancy.

Flanking policies: pension reform should be complemented by flanking policies so as to improve the sustainability of the pension system, while ensuring the adequacy of pensions. These policies should seek to extend working lives and thereby boost retirement incomes, through measures to increase older people's employability as well as restricting early pathways out of the labour force. The provision of complementary means of savings for retirement should also be explored.

Broader reforms to strengthen growth and employment: longer working lives should be accommodated without higher expenditure on non-pension benefits. Effective policies need to be enacted to ensure that the entire work force is put to the fullest possible use. Workplaces should adapt to maximise the productivity of a heterogeneous workforce, while policies to boost productivity and potential growth should support the impact of pension reforms on sustainability more broadly.

Anchoring political and societal support: the implementation of pension reforms has far-reaching consequences for individuals as well as the macro-economy and has implications for intergenerational equity. Societal and political support is essential for the lasting success of reforms. In this context, it is particularly important to establish a common understanding of the challenges pension systems face, as well as a constructive dialogue and involvement of the relevant stakeholders, and an appropriate phasing in of the reforms.

The Eurogroup also approves these common principles as a reference point for reviewing national reform efforts to strengthen the sustainability of pension systems for euro area Member States. The Eurogroup thus invites the Commission to assess developments in this field within its usual surveillance processes, with a view to allowing periodic monitoring by the Eurogroup. The Eurogroup also invites its preparatory committees and the Commission to explore the development of appropriate benchmarks based on these common principles, and report back to the Eurogroup in the first half of 2017.

