

Pensions and Taxation in the EU

Dr. Emer Mulligan

Dr. Dinali Wijeratne

Institute for Lifecourse & Society & Irish Centre for Social Gerontology,
National University of Ireland,
Galway



Outline

- Introduction and Background
- Reviewers' Questions
- Tax and Pensions
- Key Observations to date (literature, reports, preliminary interviews)
- Current models and Potential Framework for comparison
 - EU, OECD, ILO, World Bank etc.
- Next steps
- Concluding remarks

Introduction and Background

As part of EU H2020 Project Fairtax:

Revisioning the Fiscal EU: Fair, Sustainable, and Coordinated Tax and Social Policies

This section: European Pension Policies and Intergenerational Fiscal Sustainability, Fairness, and Consolidation



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Overall WP Objective

- *critically evaluate* the implications of demographic ageing across the EU and in selected OECD countries, and the employment, social security, tax, and pension policies introduced to address this phenomenon with a particular focus on fiscal sustainability, **equality**, and **consolidation** across the EU.
- Qualitative methodology: Lifecourse interviews- Biographical Narrative Interpretive Method – significant emphasis on the **Voices of Citizens** (EU Citizens Dialogue)



Five Profound Questions

1. The potential for future intergenerational conflict
2. The potential inequities caused to particular groups in society by the introduction of extended working life policies
3. The impact of the relevant policies on the ‘social contract’
4. The need for cross national consolidation of policy approaches to pension provision and extended working life to avoid tax inequities and to ensure fiscal sustainability into the future
5. The challenge of providing pensions in rapidly changing economic conditions

Pensions and Taxation in the EU

- New Data Collection: *Qualitative* methodology
 - Lifecourse methodology (part of Biographical Narrative Interpretive Method)
 - Semi- structured interviews
- Significant emphasis on the *Voices of Citizens (European Commission interest in 'Citizens Dialogue')*
 - Directly and via stakeholder groups



Questions from reviewers

1. Is it possible to consolidate pension policies across the EU?
2. Is it advisable to consolidate pension polices across the EU?
3. There is a need to put issues in context especially widespread information asymmetries and uncertainty. Given these issues how can pension systems be best designed to serve the needs of future generations ?

The Tax Connection



- As funding mechanism for State pensions???
- Tax relief – mechanics and merit? Key selling point?
Tax relief as a 'tax deferral' or 'tax subsidy'
- Taxation on pensions
- What can a focus on tax bring to the table?
- Canons of taxation and new criteria – some overlap with principles of good pension systems?

Key Observations to date (literature, reports, preliminary interviews)

Who did we talk to?

- Older people advocacy group employees
- Publicpolicy.ie Board member
- Private pensions industry consultant
- Informal ad hoc (e.g. members of pensions industry, Trust Board members of not-for-profit, local government pension administrators etc.)

Early Observations/Themes (1)

- Pensions crisis narrative? Shift from State to self-responsibility?
- Political sensitivities around tax relief and taxation of pensions ('power') and the 'black box' of tax expertise
- High level of dependency on state old-age pensions
- A serious gender issue? Marital Status? Credit for women working at home?
- Is there a communication problem?
- Public institutional arrangements? (e.g. Ministerial position and/or The Pensions Authority).
- Impact of levels of mobility – marginal issue?

Early Observations/Themes (2)

- Intergenerational solidarity - equality and sustainability
- Human Rights
 - Precarious employment
 - Older workers
 - Women
- Access, awareness and responsibility
- Adequacy and sustainability
- Cultural differences
- Citizens Assembly
- Policy toolkits
- Cluster groups approach
- Impact directly and via Advocacy groups



Current models and Potential Framework for comparison

EU,OECD,ILO, World Bank etc.

European Social Model

The **European social model** is a common vision many European states have for a society that combines economic growth with high living standards and good working conditions. (Sapir, 2005 and Boeri, 2002)

All European states do not use a single social model, but welfare states in Europe do share several broad characteristics. Broadly four models -

1. The **Nordic** model, in Denmark, Finland, Norway, Sweden and the Netherlands.
2. The **Continental** model, in Austria, Belgium, France, Germany and Luxembourg.
3. The **Anglosaxon** model, in Ireland and the United Kingdom.
4. The **Mediterranean** model, in Greece, Italy, Portugal and Spain.

EU Agenda on Pensions

- The European Commission has published a **White Paper (2012) on adequate, safe and sustainable pensions**
- The White Paper proposes, to:
 - Create **better opportunities for older workers**
 - Develop **complementary private retirement schemes**
 - Enhance the **safety of supplementary pension schemes**
 - Make **supplementary pensions compatible with mobility**
 - Encourage Member States to **promote longer working lives**
 - Continue to monitor the **adequacy, sustainability and safety of pensions** and support pension reforms in the Member States.

ILO (Social Protection Recommended model)

A life-cycle approach, starting with

- social protection for children,
- followed by schemes for women and men in working age,
- and closing with pensions and other support for older persons

(ILO world social protection report -2014/15)

ILO Pensions Model

(Wang, Zhang, Shand & Howell, 2014)

1. The extension of coverage to all members of the population;
2. Protection against poverty in old age, during disability or on death of the wage earner for all members of the population;
3. Provision of an income, in replacement of earnings lost as a result of voluntary or involuntary retirement for all those who have contributed;
4. Adjustment of this income to take account of inflation and, at least to some extent, of the general rise in living standards;
5. Creation of an environment for the development of additional voluntary provisions for retirement income.

ILO – Guiding Principles

social dialogue, universal coverage, equal treatment, social solidarity, gender equity, adequacy of benefits, efficiency and affordable administrative cost, social participation in management, state role and supervision, and financial sustainability.



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OECD (2014)

- ***Sustainability*** of the pension system in the context of the challenges of demographic change and financial-market risk.
- ***Adequacy*** of future retirement incomes and, in particular, the impact of private pensions.
- ***Modernity*** of pension provision to ensure that it reflects social and economic changes, especially the support it can provide for flexibility in the labour market and extending working lives.
- ***Equity*** within the pension system between different groups: women and men, low and high earners and workers in different sectors of the economy.

Sustainability VS Adequacy

(Healy and O'Reilly, 2015)

Sustainability Index	Adequacy Index
Top five countries Korea, Australia, India Indonesia, China	Top five countries Luxembourg, Russia, Hungary, Netherlands, Austria
Bottom five countries Italy, Austria, Greece, Hungary, Belgium	Bottom five countries Germany, China, Mexico, Korea, India

Next Steps

Interviews with Citizens (citizens dialogue in the EU)

✓ Interviews with Citizens (A gender-balanced sample from older, middle-aged and younger generations from)

- Private and public sector employees
- Pre retirees and OAPs
- Not-for profit sector
- Different gender groups
- Employees across a range of sectors and across various employment contracts
- Self-employed (pre and post retired)

✓ Stakeholders – interviews -Various Organisations to include for example:

- Age Action Ireland, Active Retirement Groups, Irish Association of Pension Funds, Irish Institute of Pension Managers, Third Age, the Irish Business and Employers' Confederation (IBEC), the Society of Actuaries in Ireland etc.), and other country equivalents

To Conclude.....

- Need for the Voice of Citizens
- Importance of interface with Taxation
- Framework for comparative study
- Power and information asymmetries
- Lots of Principles and Problems
- EU consolidation challenge – necessary? Feasible? wise?



Thanks!

Questions??

