

AGE

AGE welcomes this Peer Review on public information on pension systems and pension system changes. AGE closely monitors the development of social policy, in particular as regards measures affecting people in old age such as active ageing, minimum incomes, social inclusion, pension rights, social assistance to the most vulnerable, long term care, etc. As one of the leading EU NGO with expertise in age related issues, AGE aims to bring the voice of people aged 50+ into policy-making processes at all stages, both at the national and EU levels.

Representing pensioners' associations across Europe, AGE wishes to contribute to the discussion on one of the key aspects regarding the ongoing pension reforms in Europe: providing current and future pensioners with reliable and transparent information about the building-up of their pension rights. We asked our expert group members to respond to the questionnaire that was sent to Member States and based on their responses and the outcome of previous discussions within AGE, we have developed some proposals to help improve the understanding that people have of their rights and future entitlements to a pension in order to help everyone make a more informed choice.

The lack of understanding of pensions systems is pervasive across the EU: Governments need not only to inform citizens in case changes are underway. Citizens are too often insufficiently aware of how their pension rights are built and the various options they may have. Very few understand the consequences that their decision or lack of decision will have on their income in old age.

AGE would like therefore to see governments and private bodies such as pension funds recognise their duty to provide full and reliable information to people throughout their career in a format that is accessible to all. This duty should not only be imposed on governments. The involvement of older people's organisations in the management of pension funds and in the provision of information are other ways of increasing understanding and trust in the area of occupational pensions.

People need to be given regular and accessible information about the building-up of their pension rights (i.e. a set of minimum information requirements that regularly explain the rights and future entitlements is an absolute necessity for everyone).

Older people's organisations can help improve the understanding of pension reforms: Transparency and reliability are key elements to increasing the understanding of pensions systems and the proposed reforms and to build support for new approaches. Older people's organisations should be involved in a vivid civil dialogue at national level to ensure the effective introduction, implementation, management and monitoring of the pension systems' reforms.

Our remarks follow the format of the preparatory questionnaire, in particular we would like to make the following comments:

1. Informing on change

1.1 What do individuals know about main aspects of the pension systems that are changing?

Most people do not understand their current pension system – both state and private – because it is complex, has changed frequently and recently and little information has reached them. The young generation is even less informed. People tend to mistrust the information they receive, to find it too difficult to understand or to feel that there is nothing they can do about it anyway. Few understand that they may have some forms of choice including in state pensions. The vast majority of people over estimate their pension rights but most realise that the basic state pension is going to decrease in the future due to the demographic pressure and that the state pension age will need to rise. The gradual parametric changes introduced to basic and state second pension are not understood by the vast majority of citizens.

The media are the main source of information for most people. This poses the question of the **reliability of the information provided**. Often media only pick part of the picture and present their own interpretation of the changes proposed, rather than the overall proposal and the full consequences that the change will bring about.

When information is available to the public, people find it difficult to relate it to their own case. Very few people fall into the broad categories described in the information available to the public at large.

The changes introduced are sometimes not even well understood by the pensions' specialists (civil servants, social careers, private pension funds sale persons, financial advisers, etc;). Just like for income taxes, financial advisers don't always agree on the way pensions rights will be calculated and what the outcome of the various options will be.

This creates greater confusion among individuals seeking advice or information about their personal situation.

1.2 What do individuals know of the different types of financial risks to which individuals are exposed and on which they can make choices?

Very little. For most people, pensions systems and risks are two concepts which do not go together or rather that "should not" go together. Most people lack the increasingly complex knowledge and understanding of economics to be able to assess risks and don't see choice as being associated to pensions systems (except for 3rd pillar which are mainly taken up by the highly educated). Risk and choice are therefore not considered to be an issue for 1st pillar pension schemes. But information on individual 1st pillar pensions' rights often comes very late; i.e. too late to make alternative choices (in Belgium, for example every worker receives information about his/her pensions rights under the PAYG system when they reach 55; much too late to look for other options in a country where the average exit age is below 60).

As far as the 2nd and 3rd pillars are concerned, the issues are **reliability and predictability**. Despite the fact that most 2nd and 3rd pillar pension providers offer clear and (too) simple

information on their financial products, how can people be sure that the information provided is reliable, complete and the outcome predictable?

How informed can one's choice be when the information provided is not reliable or just can't be predicted? Who could predict the ERON scandal? How reliable was the information that the Allied Steel and Wire (ASW) and United Engineering Forgings (UEF) workers received and how much choice did they have?

What choice will young people have when they will be faced with the proposed acquisition conditions for accessing supplementary pensions schemes (a vesting period of 5 years and a minimum vesting age of 25)?

The issue is who should bear the risk? It is increasingly expected that the individual will have to carry the risk. AGE members feel that this should be addressed as it contradicts the fundamental principle upon which pensions systems were developed in the past: solidarity.

Informed choice goes hand in hand with control, either direct control or the ability to trust the body which has the control. Informed choice implies that the information is provided in a reliable, trustworthy way and on due time, i.e. when one can still use it to a relevant choice. Receiving full information afterward is of little value. People's knowledge is often limited until they receive information brochures from annuity providers as they approach retirement. Here again the information is provided too late to enable informed choice.

A check and/or validation system by an independent body would help build trust in these products and support informed choice. It would also help ensure that information is provided in a timely and reliable way to everyone entitled to it.

1.3 How are people informed about these questions and how can the efficiency of this information be assessed? What are the main tools to provide information to individuals?

For the moment the main tools are the media, public websites (not very accessible for many older people), ombudsmen, financial institutions, professional advisers, financial institutions, employers, trade unions and senior people's organisations.

The main issue here is the **independence** of the information source. If information on 2nd and 3rd pillars is provided by the pensions funds, it will never be perceived to be reliable. At least as long as they follow their own guidelines and decide themselves what information to provide. This is why there should be some **common EU rules** on the information that needs to be provided and checked by an independent body. This should be compulsory across the EU. To support transferability of workers' investments, it is of utmost importance to have access to full and reliable information on funds performance and this should be treated as a right for the workers.

2. Informing on choices

2.1 What are the actual main choices available to individuals (including portfolio profiles, etc.)? What are the choices of financial products individuals have: in the mandatory system (i.e. opt-out to the employers' scheme), in the second and third pillars?

For 1st pillar schemes, in a few countries, workers have the choice to opt out of state pension. But in most countries choice is limited to the age at which one retires and to change status (move from "employee" or "civil servant" to "self employed" and vice-versa). One could include the choice of working for an employer with a good, soundly financed occupational scheme. But nowadays, most people take whatever job is offered to them, rather than pick and chose a specific employer. This is particularly true for older workers who can't be too demanding given the limited offers they get when they are over 50. Schemes vary enormously and candidates for jobs in the private sector may get little or no information on the company scheme. Portfolio information would be available for the various types of personal pension on the condition that employee knows what questions to ask. Most do not know. That applies to defined-contribution pensions whether opted out or 3rd pillar. Defined-benefit schemes provide financial information, including portfolio but this is not enough to protect employees from the risk of collapse of their scheme.

As a large variety of rules exist across EU, there is a need for an EU initiative to ensure that reliable information about the variety of financial products on offer is available. For the moment, workers' mobility at national level and EU level is thwarted by the many types of legislation that apply.

2.2 What are the actual choices people take regarding their pensions?

As said earlier, the main choice that people make regards the age at which they will retire. People's decision depends in part of the income they expect to draw when they retire but other factors play a role such as job satisfaction, health and mental health condition, health and mental health of the partner, whether or not the partner has retired, news about reforms that will come up soon, caring duties for a dependent relative, etc. If the opportunity exists, a growing number decide to continue to work part time while drawing on their pension. Flexible retirement is increasingly popular both for financial and personal (job satisfaction) reasons.

Other choices in annuities regarding joint or single life, indexed or not, guaranteed sum in event of death etc. come with annuity offers from private providers and leave most people confused. No one really understands what impact divorce or break-up have on one's rights. Professional advice differs and makes it even more confusing for individuals to make an informed choice.

Basic state pension can be also deferred and taken later as an enhanced amount or lump sum. In the countries with high level of pensioners receiving means tested pensions, such as the UK, it is a very complex decision to make as one may lose some benefits (poverty trap).

2.3 What is the population's ability to understand financial notions related to pensions?

Most people do not know how and do not wish to engage in the calculation of their own pensions. Women are especially likely to leave decisions to their husbands or partners. Trade unions try to keep their membership informed but in some countries many workers are not unionised or workers prefer to trust the union to make the right choice for them.

However a minimum of knowledge of economic mechanisms is required to understand notions of return on investment, inflation, allowance indexation, compound interests, etc. This should become part of the national education programmes and should be organised in the mandatory educational system (primary and secondary schools) to ensure everyone has access at least to basic information.

2.4 What are the main tools to provide information to individuals?

In the UK, trade unions do their best and have started a 'Pensions Champions' scheme to improve the understanding among shop stewards so they can educate their membership. The National Pensioners Convention has produced booklets for workers and pensioners explaining the system and how it needs to be improved. Government has set up the *Thoresen Review* to assess ways of providing generic financial advice to workers about the new Personal Accounts. However, many think that no amount of such advice will avoid the charge of misspelling, i.e. some people will find they have made the wrong decision when they come to retirement, mainly because they had not been able to foresee breaks in earning nor the effects of means testing – the pensions poverty trap.

Regular information, on yearly basis for instance, by pension funds would allow workers to manage their investment decisions to get a decent amount of pension. A strong 1st pensions pillar remains the best protection of workers at old age, in particular those workers with low wages i.e. in the incapacity of investing and/or with lack of savings.

3. Informing on rights

3.1 What do individuals know of their already accrued pensions including statutory pensions (unfunded and funded tiers)?

In some countries, forecasts on state pensions are available from the Department of Pensions records Office. Information is sometimes sent to individuals, sometimes people have to request it. Websites allow defined-benefit pensions to be calculated given assumptions concerning earnings and staying in the same job. Defined-contribution pensions, as we know, are inherently unpredictable but that does not stop private providers from suggesting rather optimistic returns, with the caveats in small print.

With the exception of few countries very little regular information tools exist. This is clearly an area which needs improvement and AGE calls for EU legislation in this area.

3.2 What do people know of the impact of different decisions on retirement age and transition from work to retirement on their potential future benefits?

It is generally understood that if one works longer she/he will get a better pension, state and private. But again those who will be subject to means testing have to consider if they will gain much from a higher pension or merely lose benefits. Women often do not understand that they will get very little or no state pension because their contribution record is insufficient. In the UK, this should improve from 2010 when only 30 years will be required for full basic pension. On the other hand the basic pension will be very small by then, about 14% of average wages.

3.3 What are the main tools to provide information to individuals?

Occupational and defined-contribution pension providers provide specific information if asked. However, in DC pensions it can be better to retire when the stock market peaks and no one can predict when this will be the case. In most countries, individuals can get information on the effect of retiring earlier or later for their state pension from the Department of Pensions or ombudsman.

In view of improving information tools, three levels must be considered:

- General explanation of pension schemes mechanisms available in the country (state/public pension, 2nd, 3rd pillars); policy makers should work more closely with relevant stakeholders including NGOs to develop reliable, easy to understand information.
- Individualised information on 1st pillar pension rights on a yearly basis; this is not only necessary for the individual but according to the countries that have such a system, it helps public authorities in identifying gaps in pension provision. It is therefore a useful tool for policy makers to assess long term impact of the reforms they implement.
- Information from employers on investment choices should be available to job applicants as well as employees;
- Provision from pension funds of yearly detailed calculations of amount of capital obtained by a worker according to his/her investment and the expected allowance s/he could receive at retirement age, with reference to current actuarial factors.