**Pan European pension schemes – a way to close the pension gap**

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First published at: <http://politheor.net/>

The pan-European Personal Pension is the Commission led proposal to close the pension gap in a cost-effective manner. Its benefits spread across multiple fronts: improving pension system sustainability, strengthening current fiscal and macroeconomic coordination framework, unlock long-term investment, and contributing to deeper economic integration.

Europe is getting old. Ageing population is a luxury good hardly any country can afford. It has been one of the main policy challenges in the Union. Increasing [old-age dependency ratio](http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tsdde510&plugin=1) will widen the pension gap and make current pension systems unsustainable. Over the past decades, politicians have been in a rambling quest to close the gap. Their confidence in finding a solution must have been restored after commissioner Valdis Domborvskis [announced](http://www.euractiv.com/section/economy-jobs/interview/dombrovskis-there-is-appetite-for-a-pan-european-pensions-product/) the pan-European Personal Pension. Member States should utilize this opportunity to continue tackling ageing population as the pan-European Personal Pension underpins three socio-economic and institutional developments in the Union: pension system reform at national level, fiscal and macroeconomic policy coordination, and deeper economic integration.

[The pan-European Personal Pension](http://europa.eu/rapid/press-release_MEMO-17-1798_en.htm) is a voluntary, personal pension scheme that will provide a fresh option to save for retirement. It will not substitute existing schemes, but will complement them. Rationales behind the ide are affordable options for pension providers to spread their services across the Union, unlocking capital for long-term investment and contribution to narrowing the pension gap. The idea should be in place by the end of 2019.

Portability and cost-efficiency are the main advantages of the pan-European Pension in the context of free movement of labour and retirement saving. A saver moving within the Union during his working lifetime will accumulate retirement funds in multiple (national) compartments each complying with the rules of the member state in which they currently work. The pan-European Pension enables costless continuation of “topping up” the exact same personal pension plan when a saver changes his/her country of employment/residence. The pension providers (e.g. insurance companies, banks, investment firms etc.) will invest the funds in low-risk ventures. The so-called [default investment option](http://europa.eu/rapid/press-release_IP-17-1800_en.htm), which at least recovers the initial capital, will be the most common one offered to savers. Anyone employed, unemployed or in education can start participating in the pan-Pension scheme. The European Insurance and Occupational Pensions Authority (IOPA) will be the body in charge of authorizing pan-Pension product.

On a perturbing note, a [survey](http://onlinelibrary.wiley.com/doi/10.1111/j.1468-246X.2010.01382.x/abstract) of a similar scheme at the Union’s level limited only to occupational pensions ([IORP](http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32016L2341) Directive) enlightened concerns in development of pan-European pension plans in terms of harmonization of social and labour components. Another issue occurs in underdeveloped personal pensions market in the Union. So far, only [27%](https://www.theguardian.com/world/2017/jun/29/eu-pension-planned-for-people-who-move-between-countries) on Europeans are engaged in it (mostly in Germany and the Netherlands). Service providers and governments should bring personalized pensions closer to public and offer various incentives to participate in them. It is in their interest too.

To be blunt, personal pension plans including pan-European Pension are essential in reshaping and strengthening sustainability of pension systems in ageing Europe. Firstly, “personalization” of pensions was the core of the [World Bank’s](http://documents.worldbank.org/curated/en/973571468174557899/Averting-the-old-age-crisis-policies-to-protect-the-old-and-promote-growth) multipillar pension reform. The idea is to transfer pension expenses and risks from the government budget to contributors themselves gradually. Ageing increases the cost of pensions and puts too much pressure on already fragile public budgets.

Secondly, pan-European Pension supports present fiscal and economic policy coordination framework at the Union level. The point is to ease up the public finances. In that setting, governments will have manoeuvre to comply with requirements of, for example, the Stability and Growth Pact and Fiscal Pact regarding fiscal policy, and the Macroeconomic Imbalance Procedure concerning economic policy. The Eurozone would be somewhat more stable and policymakers would rather focus on sustainable growth.

Thirdly, a huge long-term investment and growth potential could be unlocked with pan-European Personal pension. The Europeans are known for their diligent saving habits. The pan-Pension could utilize that capital in cost–effective manner by achieving economy of scale. Consequently, the pan-Pension would buttress desirable [Capital Market Union](https://ec.europa.eu/info/business-economy-euro/growth-and-investment/capital-markets-union_en) and would therefore contribute to deeper economic integration.

Governments and savers should embrace the free movement of labour and its advantages by supporting the pan-European Personal Pension. It has the potential to yield progressive outcomes on multiple fronts – pension system sustainability, policy coordination, investment and growth, and deeper economic integration. Yet, it is not a final solution to ongoing policy challenges such as ageing population, but sure is a significant part of it. This time the Union may actually know what it is doing and why.