Europe evaluates incentives for working longer and subsidies for saving more

By Editor Test *Thu, Feb 28, 2013*

Pension adequacy in Europe "requires active aging strategies, investments in life-long learning of all age groups, the adaption of workplaces to the needs of older workers and new forms of labor-force participation," a European Union officlal said.

European pension policies should promote "active aging," using a "modern tax and benefit system" to incentives for longer participation in the labor market, said László Andor, European Union's commissioner for employment social affairs and inclusion.

Speaking at a conference on tax issues for pensions in Brussels, Andor referred to the last year's Pensions Adequacy Report, which stressed that increasing working life would be key to pension adequacy in the future.

"This requires active aging strategies, investments in life-long learning of all age groups, the adaption of workplaces to the needs of older workers and new forms of labor-force participation," he said.

The tax system could incentivize active participation in the labor market until the statutory retirement age is reached, or even beyond that stage, he said, adding that "it may be necessary to increase taxation in other areas, such as value-added taxes, green taxes and property taxes" to offset the reductions in taxes on earned income.

The commissioner conceded that tax increases, if not properly designed could backfire, and that shifting taxation from labor to other sources might affect the financing of social protection.

"This is a risk particularly in countries where social protection is primarily based on social insurance contributions," he said. "However, the financing of social protection could be preserved by earmarking a portion of revenues for this purpose, as done for instance by Germany for VAT."

Andor also stressed that, as part of the EU's plans to cut costs, member states will have to look at the cost of promoting funded second and third-pillar pensions through tax exemptions and other subsidies.

"They will have to examine whether fiscal incentives offered to pension savers and to pension funds yield enough value in terms of pension provision," he said. "They will also have to consider whether similar or better results can be achieved through other or complementary means."

The key argument for subsidies through tax exemptions, according to Andor, is that second and third-pillar schemes are voluntary. Therefore, economic incentives are necessary to motivate employers and individuals to defer consumption into the future and build extra entitlements through complementary savings, he said.

"Yet, even with high subsidies, it has been impossible in some member states to raise coverage above

50%," he added, noting that some authorities were now trying the regulatory approach of auto-enrolment instead.

Public authorities might need to look at the idea of mandatory private pensions, he noted. "Making it mandatory need not mean we abolish or even reduce fiscal incentives," he said. "But it would mean we have more room to consider how much we subsidize and with which distributional profile."