The Cost-effectiveness of pensions giving context to the European debate

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Emerging challenges in the impact of taxes on pensions
What happens in the EU today and what developments are likely in the future?
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Pensions and their taxation in the EU

1st point, 4 policy dimensions
   (economic growth, budgetary policy, labour market and social policy)

2nd point, A complex EU toolkit

3rd point, Changing role of taxation and welfare
   (focus on both spending and revenues)

4th point, Linking EU and national debates on taxation – new considerations
1st Point, Four policy dimensions

• Budgetary constraints and consolidation of public finances (+ taxation)
• Increasing employment (- taxation on work)
• Social adequacy (- taxes and contributions on wages; + VAT; + taxes on financial transactions)
• Boosting economic growth (- taxes)

• Coordination of fiscal policy
1st Point, Four policy dimensions

- Budgetary dimension
- Labor market and employment growth
- Economic growth dimension
- Adequacy and social dimension

Coordination of fiscal policy
2nd point, Complex EU toolkit

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<th>EU toolkit</th>
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<td>Economic growth</td>
<td>European Semester (Annual Growth Survey)</td>
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<td>Entrepreneurship 2020 Action Plan</td>
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3rd point, Changing role of taxation and welfare

Why is taxation so relevant?

• EU more balanced approach to both expenditures and revenues
  

• (…) greater attention must be paid to the design and structure of tax systems, to make them more effective, more efficient and fairer (…) (Social Investment Package, 2013)
3rd Point, Changing role of taxation and welfare

Budgetary dimension
Taxation: larger base

Labour and employment growth
Lower taxes on labour

Economic growth dimension
Lower taxes

Social Adequacy
Tax expenditures and FTT

Coordination of fiscal policy
## 3rd point, Changing role of taxation and welfare

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<th>Tax Breaks (Tax Expenditures)</th>
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<td>Tax breaks (tax expenditures)</td>
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4th Point, Linking EU and national debates on taxation

• **Social Investment Package (2013)**

  Social investment involves strengthening people’s current and future capacities (...) and helps to 'prepare' people to confront life's risks, rather than simply 'repairing' the consequences to modernise social policies to optimise their effectiveness and efficiency, and the way they are financed

• **Taxation**

  The financing structure can be strengthened through improving tax collection, broadening tax bases, critically reviewing tax expenditure items and making the tax structure more growth-friendly, e.g. through environmental taxes
4th point, Linking EU and national debates on taxation

- Effective and efficient pension spending, SIP
  - Sustainable and adequate pensions through active ageing
    (employment-friendly taxation)
- Adequate protection for those at risk of poverty
  (taxing low pension benefits and regressive effects)
- More efficient pension funds and safe benefits
  (tax incentives for pension funds; taxation of financial transactions)
4th point, Linking EU and national debates on taxation (reigniting entrepreneurial drive)

- Self-employed should receive benefits that are comparable to the benefits for employed workers, without reducing those of the latter (Entrepreneurship 2020- Action Plan)

To support business and to provide adequate protection for specific occupational groups (Pension Adequacy Report, 2012)

- Autonomy (financial and technical) of professional pension schemes (to increase efficiency and efficacy)?

“LP are those practiced on the basis of relevant professional qualifications in a personal, responsible and professionally independent capacity by those providing intellectual and conceptual services in the interest of the client and the public.” Directive 2005/36/CE
4th point, Linking EU and national debates on taxation (Italy as an instance)

• Actual debate (on LP pensions)
  • Economic crisis and its impact on pensions (LP status; effects on economic performance)

• Taxing pension schemes (how to grant adequacy), respecting non-discrimination between pension schemes

• What role for private (self-managed) pension schemes?
Concluding remarks

• EU debate focused on pensions through a multi-dimensional approach

• **Increased focus on taxation (not just on spending)**

• Pensions and social policy framed through Social Investment paradigm (social policy revenues and expenditures to be efficient)

• Reconciliation of economic and social purposes (e.g. a subsidiary role for professional pension schemes)