

The newsletter of the European Association of Public Sector Pension Institutions

## National Updates - Italy

## Edito

### The new provisions of 2004

Containment of pension expenses and more generally financial restriction in social protection services with no reduction of benefits is a topical question and a challenge for the government.

In order to limit the huge number of early pensions in both the public and the private sector, a strategy has been defined to discourage early retirement of members who meet the minimum requirements for pension entitlement and those who have reached pensionable age.

This is the purpose of Law n° 186 of 27.7.2004 which states that:

- Public administration employees can remain in service until age 70 instead of 67 as presently,
- Staff from diplomatic administration are excluded as well as military staff, police, and fire-fighters,
- According to its needs, the administrative service can accept the request and appoint the employee to a different job,
- Service completed after age 67 have no impact on the pension level since they are not subject to any contribution and are not taken into account for the purpose of pension calculation,
- The extension of these provisions to local government employees will be subject to a specific regulation to be issued by the Public Service Department (depending from the chair of the Council of Ministers),
- A last bill, presently under consideration at the Parliament will allow the excluded categories mentioned above to remain in service, and will establish for all employers the obligation to accept prolongation of activity until age 70.

In addition, the Law n° 243 of 23.08.2004 (Provisions regarding pensions and government responsibilities for public social protection, improvement of supplementary coverage and employment stability and for the reorganisation of compulsory insurance and social entities) confirmed the objectives which are in line with the EU recommendations :

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This year has been rich in “euro events”. New Parliament, new Commission, integration of 10 new Member States, adoption of the Constitutional Treaty, decision of opening negotiations for a possible future integration of Turkey.

National debates have accompanied each of these events and have smoothed out afterwards.

The Constitutional Treaty still has to be ratified by each Member State, as for Turkey it might not join before 10 or 15 years . Since then, behaviours will probably have changed.

The different steps of the construction of Europe reflects what we observe in the field of social protection, particularly regarding reforms of pension systems. Each State measures its own level of protection with its own tools.

In both cases, we mainly care about superficial aspects, we forget History which has a strong impact on them.

We fail to see the future of our societies and the collective interest we have when building up, for our children, a future of progress and peace.

Everyone wants immediate results. Hardly has a measure been taken that we would like to know its impact. Communication has taken over information, quick successive information is not compatible with in depth reflection that any serious analysis requires. Media have thus (voluntarily or not) shaped our minds for transient interests.

However social protection is a long term process and deserves more consideration. Citizens must better understand what is at stake for their children as for themselves... Who will pave the way for social education ?

Thierry CHRISTOPHOUL  
*Original language: French*

- increasing retirement age gradually, mainly on a voluntary basis;
- developing supplementary provisions on top of public systems;

and also

- removing gradually the rules limiting the overlapping of pensions with professional incomes;
- revising the principle of aggregation extending its scope to the cases where the employee meets the minimum requirement in one of the funds where he has been contributing.

These principles will be implemented through decrees to be adopted by the Government within 12 months after the enforcement of the law.

Regarding pensions, the law establishes the following principles:

1. The worker who on 31.12.2007 and under the present legislation, meets both age and seniority conditions for entitlement to an old age pension, an early pension or a pension from the defined contribution system, can preserve its entitlement and request a certificate of entitlement ; In such a case he can retire at any time and his pension will be calculated under the present legislation without being affected by the regulations set out below.
2. The other workers retiring between 1.1.2008 and 31.12.2013 will be covered by the following provisions:

Years	Age and seniority requirement	Seniority
2008 - 2009	Age 60 and 35 years of contributions	40 years
2010 - 2013	Age 61 and 35 years of contributions	40 years

This provision replaces the requirement of age 57 and 35 years of seniority which was due to apply as from 1.1.2008.

As from 1.1.2014, the minimum required age will be 62 but this condition would be deferred if, by 2013, the Ministry of Labour and Social Protection registers any decrease in expenses resulting from the implementation of the new early retirement provisions.

In the defined contribution system, the required age grows from 57 up to 60 for women and up to 65 for men. However the pension can be granted

- with no age condition if the insured has completed at least 40 years of contributions
  - with an age condition in accordance to the seniority rules mentioned above.
3. Until 31.12.2015, during an experimental period, it will be possible to obtain an early pension on ground of 35 years seniority, at age 57 for salaried women and 58 for self employed women provided they opt for a pension calculation under the defined contribution system.
  4. For the period 2004-2007, the private sector salaried workers meeting the present requirement for entitlement to an early pension can stop paying contributions to the general scheme. In such a case, as soon as the entitlement is recognised, the employer also stops paying contributions and pays the equivalent amount to the employee.
  5. In the legal framework of supplementary pension, the Law n° 243/2004 has introduced a significant innovation : the government is allowed to directly allocate the TFR (end of service lump sum) to a pension fund if the worker expresses no wish to join any supplementary pension system within 6 months after the decree implementation or within 6 months after job start.

Gabriella SIMEONE (INPDAP)  
Original language: French

## National Updates – United Kingdom

### Principles and propositions for an affordable and sustainable Local Government Pension Scheme in England and Wales

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The Government intends to introduce new pension arrangements for local governments in England and Wales. For this purpose the ODPM has issued a consultation paper setting out propositions illustrating the core elements of a new-look LGPS.

After setting out the background of such operation, the Consultation Paper presents the basic principles which are in line with the EU Commission's recommendations:

- providing adequate levels of benefit in retirement to enhance social cohesion;
- the need to ensure the financial sustainability of pension systems; and
- the need to respond to the changing needs of all stakeholders.

**Main propositions of the consultation paper are as follow:**

"In common with the other public service pension schemes, in any new-look LGPS there would be a Scheme Retirement Age (SRA) of 65. Benefits taken as of choice before SRA would be subject to an actuarial reduction. Benefits drawn post SRA would be subject to an actuarial increase. The actuarial reductions/increases would be cost neutral to the Scheme and reflect the costs/savings of paying pensions before or after SRA. In both instances, members could be in receipt of pension benefits and continue to accrue further membership whilst they remain in a relevant employment.

Benefits could be linked to final basic salary, and could accrue on the basis of 1.6% per year, for example 10 years of membership would equate to a pension of 16% of basic salary. Basic salary does not include overtime, fees or bonuses.

The salary used in calculating the contribution rate could be that at the start of the financial year or, if employment commences or changes during the period, the salary on commencement of the job.

It is not intended that there would be an automatic lump sum in any new arrangement. Individuals could instead be able to commute up to the maximum permissible under Inland Revenue rules, i.e. 25% of the capital value of the benefits accrued at the point they are paid, up to ten years before or after SRA. The commutation rate could be 12:1; for every £1 of pension surrendered, £12 of lump sum would be awarded, up to the Inland Revenue 25% limit.

Apart from the new Inland Revenue allowances, from 2006, there could be no Scheme limit on the period of membership which could accrue in relation to employment.

There would be no facility to buy additional membership of the Scheme but consideration could be given to providing a defined contribution LGPS top-up arrangement.

There would be no requirement for employers to offer an AVC arrangement. However, members would be able to use an external AVC arrangement or take advantage of the Inland Revenue changes which will allow concurrent membership of registered pension schemes.

Death in service benefit could be 3 times final basic salary, paid as under the current arrangements, in consideration of the member's expression of wish as to who they nominate to receive the payment.

There would be no short-term survivor benefit provisions. Adult survivor benefits could be 50% of the pension after any commutation. Individual child survivor benefits could be 25% of the pension after any commutation and limited to a maximum of 50% where multiple dependants exist. Payment of children's pensions could cease at age 18.

Enhanced ill health benefits could be payable only where a member is permanently incapable of any employment, with enhancement up to the scheme retirement age. Consideration could be given to similar enhancement in relation to survivor benefits which are paid following death in service.

The Scheme could continue to offer unreduced benefits to early leavers whose departure is outside their control, and where termination of employment occurs on or after the members 55th birthday.

Any provision for the payment of pension benefits on redundancy grounds would not extend to statutory redundancies that would not attract any statutory redundancy payment. In a changing employment environment, and as part of the Government's policy of increasing the number of those who are still economically active after 50, it is believed that redundancy and efficiency retirements will reduce from the levels seen in the previous two decades.

The total illustrative future service cost, to be met by employer and employee contributions, of this package has been calculated as being in the region of 21% of pay, but would clearly vary depending on the profile of each employer's members and the final detail of any ultimate new-look arrangement."

### **Top-up scheme**

One of the main innovations proposed by the Consultation Paper concerns the creation of a Define Contribution Top-up scheme, similar to the additional scheme recently introduced in France. This scheme would operate as follows:

"An arrangement could be provided for members who wish to contribute in respect of any elements of their pay which do not constitute basic salary and are not, therefore, included in the core, final salary based benefit package. For members with overtime or fees which may vary during their employment, this would provide a facility to make additional contributions based upon fluctuating payments over a career.

Members of the defined benefit final salary arrangement could also be allowed to contribute concurrently to the DC in relation to pensionable earnings. Such an arrangement would provide an opportunity for members to provide additional pension provision for themselves and could be used to provide additional benefits in order to facilitate earlier retirement or to finance a phased retirement. Such opportunities chime with Ministers' wishes for more choice in the Scheme and more structured opportunities to build up greater pension benefits to enhance income in retirement.

The provision of a DC scheme alongside with the main new-look Scheme could help to overcome the specific shortcomings of a defined benefit scheme in relation to contributions made at any point in a working life where they would not count for final salary benefit calculation purposes. For instance, where overtime is worked disproportionately during early years of employment but declines later on. It also overcomes the inequality seen where members receive an artificially higher final salary due to exceptional or unusual payments being made during the last few years of their employment.

A DC arrangement would only run in parallel to the defined benefit arrangements in the new-look Scheme and would thus have some of its investment costs and risks more easily managed by the providing authority.

### **Other questions**

In addition to the above mentioned propositions, the consultation paper raises some questions:

About internal transfers : should inter fund adjustments automatically provide year to year service?

About survivor pension : should there be a reduction in survivor benefit where there is a significant age difference ?

Who will finance the extra costs generated by cohabitating partners' entitlement ?

How to deal with pension rights after age 65 ?

The consultation paper also deals with governance, information and taxation issues.

### Next steps

Answers are expected by 31 March 2005. It is envisaged that the outcome of the exercise will be reported to Ministers in the early Summer of 2005, with a view to the publication, later in 2005, of a specific set of proposals which will in due course form the basis of a new-look LGPS. It is envisaged that draft amending regulations would be circulated for consultation in 2006 with the intention of having the new scheme provisions in place for April, 2007, and coming into force in April, 2008.

Proposed by Bob HOLLOWAY ODPM October 2004  
 Abstract of the Consultation Paper « Facing the Future »  
*Original language: English*

### Other consultation papers in Scotland

Since the last newsletter was published the Scottish Public Pensions Agency has issued consultation documents for the Scottish Teachers Superannuation Scheme and is about to issue a consultation on the National Health Service [Scotland] Superannuation Scheme. These consultations are necessary to comply with the UK Government policy of increasing the normal pension age of public servants from age 60 to 65 by 2006 and at the same time raise the minimum pension age from age 50 to 55. The main issues, other than raising the normal pension age, are as detailed below:

	CURRENT PROVISION	POSSIBLE OPTION FOR CHANGE
1	Pension based on 1/80th of salary with lump sum fixed at 3 times pension.	Pension based on 1/60th of salary with flexible option to take up to 25% of "fund value" after commutation as tax-free cash by surrendering £1 of pension for £12 of lump sum.
2	Entitlement to widows' pension ceases on re-marriage or co-habitation.	Spouses' pensions paid for life.
3	Dependants' pension based on 1/160th accrual rate.	Dependants' pension (including unmarried and same sex partners) based on 1/120th accrual rate.
4	Pension benefits payable at retirement.	Flexibility in the transition from work to retirement, with the option to take some or all of pension benefits while continuing in work in a reduced or part time capacity
5	Pension calculated on final salary or best of last three years	Extend reference period for final salary calculation to best of last ten years
6	Premature retirement is only available where the employer meets the full cost of the difference between unreduced and actuarially reduced benefits.	More flexibility in the premature retirement and severance arrangements that would enable employers to determine how much to enhance the level of actuarially reduced benefits payable
7	Protected Step Down.	This includes extension of the current protection arrangements so that staff can choose to step down and have their pension up to the point of stepping down calculated on pensionable pay at that point
8	Additional contributions limited to 9% of salary.	Consider new flexibilities and options over the way that members buy additional benefits.
9	Abatement applies to pensions paid on both premature retirement and age grounds.	Pensions abated on a return to work only where unreduced or enhanced benefits have been granted following premature retirement.
10	Same level of ill-health benefits payable regardless of potential earnings capacity.	Ill-health retirement benefits that take account of the capacity of the individual to undertake other employment with a higher level of benefit payable to those unfit to undertake any further employment.

In addition to the consultations mentioned above the Agency has also issued consultations outlining possible changes to the schemes for Firemen and Local Government employees.

The date of implementation for all the new schemes will be October 2006 except the one for the Local Government which will be 2008.

Ian CLAPPERTON  
Director of Policy – SPPA  
*Original language: English*

## National Updates - France

### The survivor pension of the General Scheme

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In France, the Decree of 25 August 2004 which limited the entitlement to survivor pensions had generated a strong reaction from unions and raised some anxiety in the pensioners' population. These provisions due to be enforced as from 1 July 2006, with no retrospective effects, were taken to implement the Fillon Pension Law of August 2003. They restricted the qualifying conditions of survivor pensions by changing the calculation rules applying to personal incomes ; in fact, the incomes taken into account included the deceased spouse's pensions, either basic or supplementary. A ceiling of € 15,828 was established. If personal incomes exceeded this ceiling the survivor pension was no paid. Many widow/ers were affected by this provision.

The government submitted the situation to the Pension Orientation Committee (COR) which in a statement of 15 November recommended an in depth revision of the decree. One week later, Jean Pierre Raffarin, confirmed that the Government intended to modified the provision which presently concerns 2.3 million beneficiaries.

These modifications set out below will be submitted to the governing board of the National Institute of Social Security (CNAVTS). The decrees are expected by the end of the year. The Prime Minister Jean Pierre Raffarin has presented an « improved » arrangement of survivor pensions. The modifications are as follows :

- Regarding age conditions, the Ministry of Health and Social Protection has provided a new agenda. As from 1 July 2005, the qualifying age will be 52 instead of 55. Then the age will be lowered to 51 in 2007 and 50 in 2009. This condition will be gradually removed so that after 31 December 2010, there will be no age condition and a 40 year widow/er could be entitled to a survivor pension.
- as from age 60, the survivor pension is stabilised. If for example a beneficiary comes into an inheritance, there will be no impact on the survivor pension. The revision rules established by the decree of 24 August 2004 will be frozen. In accordance with the COR recommendations, the annual revision of resources which can generate a new calculation of the pension amount will be stopped at the date when beneficiaries obtain their own personal pensions and if they have no personal benefit, at the age of 60.
- Regarding means-test, savings and real estate incomes will not be considered, neither those issued from the deceased spouse's property nor those issued from joint property. Survivor pensions paid by statutory supplementary schemes (ARRCO and AGIRC) will not be taken into account either. Such measure would have excluded automatically a huge number of widows/ers whose incomes would have exceeded the income ceiling allowed for survivor pension entitlement.

- Regarding survivor's professional activity, the Prime Minister has reminded his objective to decrease unemployment rate by 10 % in 2005. He has therefore presented an arrangement of the survivor provision aiming to favour employment: « a single person who would like to take up a job after age 55 will have an abatement of 30% on the amount of his/her salary taken into account for the purpose of the pension calculation, in order to facilitate the overlapping of survivor pensions and salaries » (quote).

Finally all conditions regarding remarriage or duration of marriage are removed in the new survivor pension provision.

These measures will allow 200,000 persons to obtain a survivor pension. The COR estimates that the removal of the age condition will cost the Social Security between € 325 and 345 million per year at the end of the transition period. The Ministry of Health and Social protection estimates the cost for next year at € 55 million, coming in addition to € 50 million resulting from the 30 % abatement on salaries in the pension calculation. The Social Security Financing Bill forecasts a deficit of € 1.4 billion for the old age branch.

Presently and until the decrees are published, survivor pensions are processed under the former legislation in force before 1 July 2004. Survivors are entitled to a pension under 3 conditions :

- to be aged at least 55
- having been married with the deceased member during at least 2 years except if a child was born from the union, and not having remarried
- not having personal incomes exceeding the amount of 2,080 times the minimum salary per hour (this ceiling is evaluated either at the date of death or at the date of the application for pension)

#### **On-going rules:**

The survivor pension amounts to 54 % of the basic pension the deceased member had or would have been entitled to.

where the deceased spouse had been married several times, the survivor benefit is shared between the survivor spouse and the former spouses if not remarried, proportionally to the duration of each marriage.

The survivor pension is enhanced by 10 % where the beneficiary has raised at least three children.

A fixed rate bonus can be paid under certain conditions if one or several children are still dependent.

This bonus is stopped in the case of remarriage, cohabitation, or payment of a similar bonus by another institution.

The overlapping of one or several personal pensions with a survivor pension is allowed within the limit of ,

- either 52 % of the total amount of pensions of both spouses,
- or 73 % of the pension ceiling
- or the amount of the survivor pension

The most favourable ceiling is applied.

Like personal pensions, survivor pensions are paid at the end of each month. They are granted permanently even if the level of personal income happens to rise or if the beneficiary remarries. Only its amount can be changed.

Marc SIMON  
*Original language: French*

## Europe

### The reform of Regulation 1408/71

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The European Parliament as well as the Council have agreed on a reform of the co-ordination provisions applicable to Social Security systems. They have adopted Regulation (EC) 883/2004 of 29 April 2004 whose amended version was published in the Official Journal of 7 June 2004 (L200/1).

However this reform is still in process since some annexes are missing as well as the Implementing Regulation setting out all technical details (presently Regulation 574/72 is still in force). Therefore the implementation of the new regulation will be in force at the earliest in 2006.

As a rule, this reform aims to simplify the present Regulation while maintaining its basic principles. It also integrates the ECJ case law of the recent years and takes into account the extension of the co-ordination rules which are now applicable in 29 countries (25 Member States of the UE as well as Switzerland, Liechtenstein, Iceland and Norway (countries of the EEA).

The main new rules mainly concern:

- The extension of the scope to all nationals from any Member States, irrespective of the fact of having or not a remunerative activity (Art. 2, §1);
- The integration of pre-retirement benefits considered as a new branch of Social Security (see Art. 1(x), Art. 3(i), Art. 66;
- Reform of provisions relating to sickness, maternity and equivalent paternity as well as provisions relating to unemployment benefits.

The rules relating to old age insurance and disability remain more or less unchanged. However for the special schemes participating in the co-ordination working group and for some supplementary schemes, it is worth pointing out the following items:

- Special schemes for civil servants are defined in Art. 1 §1 (« definitions »)
- Contractual provisions are excluded from the scope of the Regulation provided they have not been subject to a decision by the public authorities which makes them obligatory.
- Art. 5 provides for an equal treatment of benefits, incomes, facts or events. This provision establishes that where legal effects result from the occurrence of certain facts or events, the competent Member State must also take into account similar facts or events occurred in any other Member States, as though they had taken place on its own territory. In spite of the extended scope of this statement, the provision does not concern the aggregation of periods completed in other Member states. This is important for civil servants' special schemes for which the former provisions of Art. 43a and Art. 51a of Regulation 1408/71 are maintained.
- Regarding disability benefits (Art. 44 sq.) the provision of Art. 43a of Regulation 1408/71 establishing that periods completed abroad are not automatically included in the aggregation process, is maintained by Art. 45 which refers to Art. 51.
- The question of the recognition by a Member State of the degree of disability decided in an institution of another Member State is now solved, since Art. 46 §3 provides for a reciprocal recognition where the concordance between the legislation of these Member States on conditions relating to the degree of invalidity is acknowledged in Annex VII. However as annexes are not yet completed, other schemes can be integrated in the list.
- The scope of rules relating to disability for civil servants schemes is defined by Art. 49 which refers to the special aggregation rules (Art. 60 § 2 and 3).

- Chapter V (Art. 50 sq.) is dedicated to old age and survivors' pensions. Previous provisions are maintained (particularly Art. 52 – Award of benefits ; Art. 53 to 55 – about overlapping of benefits; Art. 57 – Periods of insurance or residence of less than one year). Art. 60 sets out special provisions for civil servants and particularly the restriction regarding aggregation which, to date, was treated in Art. 61a of Regulation 1408/71.
- The provisions applicable to the Administrative Commission and the Advisory Committee (Art. 71 sq) also concern the Technical Commission for Data Processing.
- The question of medical examinations is settled by Art. 82 which refers to the future Implementing Regulation or to the agreements between Member States.
- Art. 87 sq. contains transitional and final provisions. Due to the extension of the co-ordination provisions to national of third countries (Regulation 859/2003 of 14 May 2003), Regulation 1408/71 remains in force for the persons concerned (Art. 90, § 1).

Hagen HÜGELSCHÄFFER  
Original language : French

## in short – in short – in short

### **Secretariat General**

The last general Assembly of EAPSPI, approved the transfer of the Secretariat General from CDC (France) to AKA (Germany). Consequently Thierry Christophoul, present Secretary General will end its mission on 30 June 2005 and Hagen Hügelschäffer from AKA will take over from him on 1<sup>st</sup> July, subject to the approval of AKA's Board. For administrative tasks, a smooth transition will be arranged between both institutions.

### **Seminar**

the European Training Centre for Social Affairs and Public Health (CEFASS), antenna of the European Institute of Public Administration (EIPA) and the Italian Institute for the Provision of Public Sector Pensions (INPDAP) will together with EAPSPI jointly organise a seminar on

### **Pensions, Labour Markets and Family Responsibilities Designing a New Social Security Architecture In Brussels on 24 – 25 February 2005**

The seminar is designed for civil servants and decision makers from the EU Member States and countries surrounding the EU who work in the pension and employment sectors, members of EAPSPI, as well as other key persons concerned with the need to change social systems in Europe.

The working language will be English, with simultaneous interpretation into Italian or French

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