

National updates

SPAIN

Fiscal incentives for occupational pension systems

In its Law associated to the State General Budget for 2002 the Spanish government proposes a package of measures mainly of fiscal nature in order to promote supplementary social insurance.

The most important measures are the following:

- Suppression of the ceiling (in %) applying to contributions paid to pension plans and social protection mutual societies. At present these limits amount to 25 % of the remuneration resulting from professional or economic activities and 40 % of the same remuneration for people aged 52 and over.

- The quantitative upper limit is maintained at the level of € 7,212 (i.e. 1,200 000 pesetas) but it can be increased by € 1,200 (200,000 pesetas) for each year after age 52 up to a maximum limit of € 22,838 (3,800 000 pesetas) for beneficiaries or members of mutual benefit societies aged 65 and over. Presently the increase per year after age 52 amounts to € 601 (100,000 pesetas).

- Suppression of the ceiling (in %) for all occupational pension plans either individual or collective. Beneficiaries or members of mutual benefit societies can pay contributions to a professional pension plan within a general limit of € 7,212 (1,200 000 pesetas) or even an

upper limit after age 52. They will also be allowed to pay contributions to a personal or collective plan within the same limits.

- Any person will be allowed to contribute to pension plans even if the benefits are not connected with labour incomes or incomes resulting from an economic activity.

- Introduction of a new deduction in the tax on companies. It will amount to 10 % of the contribution paid by companies to occupational pension plans. Consequently companies, contributing to pension plans will have two advantages: first contributions will be deductible from the taxable basis for the tax on companies and secondly they will generate a tax relief of 10 % of their amount.

Modifications have also been introduced in the occupational pension administration. The workers' decision power has been reduced comparatively with the employers' power in order to facilitate the creation of pension plans. The proposed reform allows to settle these questions through collective bargaining.

The government has tried with no success (since it had not obtained the unions' approval) to create a supplementary pension fund for State civil servants. This attempt was

(see page 2)

Editorial

In a few days, a page of history of our old continent will be turned. 12 countries of the European Union will definitively give up their national currency, sometimes ancient currencies, symbol of their culture. However this major historical event will not be considered as such at once. Everybody will be more concerned by the introduction of the Euro in their daily environment than by its strategic role in the future of Europe. History will judge!

After stating the progress of the Union, the Heads of States and governments gathered in Laeken have also pointed out the challenges that will have to be taken up. The introduction of the Central and Eastern European Countries will further the realisation of a huge structure of European cultures, able to compete with the other major regions of the world. However in addition to the dozen of present candidate countries, one day the question of the introduction of Russia and Turkey will have to be considered, two countries which stand as boundaries between the Eastern and the Western worlds.

The Laeken summit invited to work on the future of Europe and more particularly to reflect on the best distribution of competence, the reduction of bureaucracy, a more democratic decision process and more transparency in the way our institutions work; by doing so it has introduced principles of governance which will improve the credibility of the European model in the world-wide debate on globalisation.

However the key role of social protection as a toll of cohesion and peace must still be recognised in a future European Constitution.

On the threshold of this year 2002, that is our best wish so that the future of our children be governed by principles of sustainable development and solidarity.

Thierry CHRISTOPHOUL
Original language : French

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in short

New subscriber

On 19 September 2001, a second Spanish subscriber joined the association: the Basque federation of EPSV (entities of voluntary social insurance). This Federacion is chaired by Pedro Maria de la Torre San Cristobal. The correspondent for the association, Jon Aldecoa (j.aldecoa@clientes.euskaltel.es) is already well known within the association.

Pension Forum in Bordeaux

This event which was traditionally organised at the end of the winter will be held next year on 20 September. Its title : "Towards a European pension". An international seminar will be organised just before on 19 September. It will give the opportunity to analyse the general trends of the various pension systems.

EAPSPI new URL addresses

www.eapspi.org (English version)
www.aeirsp.org (French version)
www.evvod.org (German version)

included in the salary policy for 2002. The State had committed itself to pay a contribution of 0.5 % of the pay roll.

According to a report from the Labour Ministry, the public pension system has been considerably improved because of the recent economic growth and a

strong increase in the number of social security contributors, however the development of supplementary schemes remains in the medium term the main solution to the pension problem.

José Carlos Garay
Original language: French

FRANCE

The first report of the Pension Orientation Committee

In March 2000, the French Prime Minister announced his decision to create a Pension Orientation Committee (COR) to organise in the long term the future of pensions in France. Three months later the COR was set up. It is composed of Members of Parliament, heads of administrative services, and experts as well as representatives of unions, families and pensioners. Its missions are the followings:

- to describe the current financial situation and the forecasts of the various pension schemes according to the economic social and demographic evolutions;
- to analyse the necessary conditions to ensure long term financial sustainability for these schemes;
- to consider the consistency of the pay-as-you-go system by guarantying solidarity between schemes and respect of equity both among pensioners and between the different generations.

For one and a half year the COR has organised its work through three working groups dedicated to the following subjects : age and retirement, pensions diversity and inequality and finally general prospects and financial forecast. The COR which must establish at least one public report every two years delivered its first report on 6 December.

The COR has neither negotiation power nor decision power. It only analyses proposals and leaves the pension decision to public authorities and social partners. This first report does not present any ready made reform package. It is structured into three parts: the present situation, the elements to be considered in the future, the orientations and proposals to be debated.

The current situation

In the first part, the COR considers that the advantages of pay-as-you-go schemes are considerable with the generalisation of pension coverage and the guaranty of a financial independence for the elderly. However the increase in unemployment has affected the passage from activity to retirement and the diversity of pension schemes raises both the question of equity between the insured covered by the different schemes and the question of "poly-pensioners" who represent more than one third of the pensioners.

The COR reminds the important part represented by pensioners in social protection, public finances and economy in general, since old age and survivors pensions globally amounts to 12.6 % of GDP (in 2000). It reminds the scope of the reforms introduced in the nineties : reform of the general scheme for private sector workers in 1993, creation of an old age solidarity fund in 1993, reform of supplementary schemes for private sector workers from 1993 to 1996 and later in 2001, and finally creation of a pension reserve fund in 1999.

The COR concludes this first part by underlying the French population's attachment to their pension system but also their concern for the future, fostered by repetitive information about the schemes' financial difficulties.

The elements to be considered in the future

The second part of the report aims to measure the future financial difficulties of the French pension schemes. It considers the weakness of fertility rates, the increase in life expectancy (particularly at age 60) and the migratory balance which has

been in average about + 50,000 per year over the last years. If these trends are confirmed, the dependency ratio, (the ratio of people aged 60 and over to the number of people aged between 20 and 59) would nearly double between 2000 and 2040 passing from 38 % up to 73 %. This trend will accelerate in 2006 with the generations born after 1945. The COR states that the impact of the variations in the hypotheses of fertility, mortality and immigration upon the dependency ratio are quite limited by 2040.

In the hypothesis of a voluntary macroeconomic scenario supposing a stable unemployment rate of 4.5 % after 2010 (full employment scenario), the extra cost of pensions would amount to 4 points of the GDP in 2040 under unchanged regulation. The deterioration would be more serious and could be observed as from the beginning of the projection period in the public service pension schemes whereas in schemes for private sector employees, the balance would be negative (in 2010 for the general scheme, and in 2015 for the supplementary schemes). Because of the reforms introduced in these schemes, the replacement rate offered to the workers would decrease whereas the replacement rate provided by the civil servants pension schemes would remain stable. At the macroeconomic level, the ratio of the net average pension to the net average salary would decrease from 78 % in 2000 down to 64 % in 2040.

Because of the uncertainty resulting for projections, the COR also presents the results of several demographic and economic variables relating to the reference scenario. It underlines the major importance of employment and activity hypotheses by 2040.

The COR enlarges the pension-related prospective by considering the evolution of society concerning the organisation of the subsequent life stages. It closes this second part of the report by providing some international reference marks. It sets out how the European Union considers the pension issue and describes the strategies implemented by several countries in order to present the French situation against an international backdrop.

Orientations and proposals to be debated

The third and last part of the report refers to the mandate given to the COR that allows it to present orientations and proposals for future reforms.

Considering the present concern about the future of the French pension system, the COR regards as necessary to build up a new social contract between generations. This contract could rely on the following guidelines: confirmation of the pay-as-you-go option, connection between pensions and professional activities associated to a certain redistribution, recognition of a labour right inseparable from a pension right, financial sustainability of the pension system, equality and solidarity among contributing members, opportunity for individual options within a certain framework and a right to obtain proper information.

The COR also gives the guidelines of the national policy which today seems necessary to adapt the labour market to the population age structure in order to leave a place for old workers. For this purpose it requests the organisation of a tripartite conference (State; employees' unions and employers' unions);

The COR also examines the way to maintain the system's balance over a twenty year period and over a forty year period. It recommends to introduce a certain continuity in the management of adaptation measures likely to guaranty this balance. This could be done through a clear information about the replacement rates. As long as maintaining the pension level is the major objective, the adjustment introduced into the pay-as-you-go pension system are limited to a search for new financing elements and ways to postpone retirement age. The COR provides many estimates on the impact of these adjustments by 2040.

However the ways to find additional financing particularly the opportunity to increase contributions have raised divergent points of view within the COR. This divergence also concerns the opportunity to raise the average retirement age through measures which go further than an active employment policy. The possible modification of age conditions and duration of careers for the entitlement to a full rate pension is also subject to debate.

In a last chapter, the COR examines the answers likely to meet the French population's expectations concerning three issues : equality and solidarity between contributing members, opportunity for individual choices likely to be introduced in the pension system, and finally the information that the French contributors can expect concerning their pension.

The search for equality of treatment between contributing members highlight the particular situation of civil service pension schemes (State, local governments, hospitals), since without any reform these schemes will have to face a more rapid deterioration of their financial situation. The COR examines several ways to introduce a reform aiming to increase the service period for a full rate pension from 37.5 to 40 years, as it has already been done in 1993 for the private sector employees. In people's mind this adjustment would have the advantage to re-establish equality between private sector workers and civil servants. However certain members of the COR think the

adjustment would have to be done the other way round by reducing the necessary service to 37.5 years for all active employees while finding other solutions to preserve pension schemes' financial balance. This was the major bone of contention of the report.

Although its proposals are not very ambitious, this report at least clarifies the diagnosis and reintroduce the debate. The pre-election period is not favourable to changes but it encourages promises. The Minister of Employment and solidarity supports a tripartite conference after the ballot to define a future negotiation framework and to pass from consultation (with the COR studies) to negotiations. One must admit that apart from the creation of the COR and the Pension reserve fund which call for long term pension evolution, there has been no significant change over the last years and the largest part of the reform is still to be prepared.

Yves Guégano

Original language: French

ITALY

INPDAP Annual Report on Welfare State Key points in brief

The Italian National Insurance Institute for Employees of the Public Administration (Inpdap) presented its first Annual Report on Welfare State.

The main goal of this Report has been to improve the quality and comparability of data and information concerning Welfare State and to contribute to the public debate.

The Report deals with the following subjects:

- income distribution and difference in wealth and quality of life around the world; in particular, between the Northern and Southern parts of the world and within European countries;
- comparative analysis of the unemployment benefits and pension systems in the European countries;
- economic and social implications of the recent pension reforms made in Italy in the 1990s;
- medium-long term projections of pension expenditure for public employees on the basis of a microsimu-

lation model created by Inpdap.

This brief note intends to explain the main results of the comparative analysis on the pension expenditure levels in European countries.

According to the Eurostat figures available up until 1998, in the 15 countries of the European Union from 1990 to 1998 overall social spending as a proportion of GDP showed an upward trend until 1993. Subsequently there was a downturn – more noticeable in the last two years – which resulted in a drop of 1,2 percentage points (from 28,9% to 27,7%) between 1993 and 1998.

Italy presents social expenditure levels consistently below the European average. Between 1990 and 1998 the differential increased from 1,1 to 2,5 percentage points. In accordance with European trends the peak was reached in 1993 with a value of 26,2%. In 1998, with 25,2%, Italy occupied tenth place,

in short

Conference

The next annual conference of EAPSPI will be held in Rome on 24 and 25 October 2002

followed by Ireland, Luxembourg, Portugal, Spain and Greece.

The prevalence of pension expenditure in social spending is a feature which Italy shares with the vast majority of European countries. However, we need to ascertain whether this phenomenon is particularly acute in Italy, as the Eurostat figures would seem to suggest. Actually, if we take into account the problems posed by differences both in accounting methods and institutional structure, the anomaly of Italy becomes far less significant.

A comparative analysis of pension expenditure in Italy, Germany, France and the United Kingdom, specifically conducted for this purpose, enables us to interpret the figures available from Eurostat more accurately.

In Italy all Severance Pay is attributed to services for the elderly, regardless of the age of the recipient. In Germany early-retirement pensions are attributed to unemployment services, unlike the practice in this country. As regards the UK, the Eurostat survey excludes personal pensions (which account for more than two points of GDP) and failure to include welfare services for the elderly means that overall spending on old people has been considerably underestimated.

Pensions are recorded gross before deductions for tax and contributions. The fiscal approach to transfers, however, is not the same in the four countries examined. In Germany substantial tax exemption is in force, even though some forms of contribution do exist. In France and the United Kingdom the system of deductions and subtractions from personal tax actually results in a very light burden. In Italy, on the other hand, only very limited concessions apply to pensions and the principle of personal tax liability remains in force for both unearned income and for severance pay.

The effects are not without significance: in 2000 the tax levied on pensions in this country was just under 2% of GDP. The sum calculated after direct taxation and social security contributions comes closer into line with spending in the various other countries.

It is important to stress two further aspects. Firstly Germany, unlike Italy, has no compulsory pension system for the self-employed. They are given support in the form of tax concessions. These tax expenditures are not counted in Eurostat calculations but they actually mean that spending on pensions in Germany is underestimated.

Secondly, there is a significant parallel between intervention involving old-age and survivor pensions on the one hand and intervention involving disability and unemployment on the other. In Italy, judging by official surveys, intervention in the second of these areas is extremely limited. Several studies show that in Italy, Germany and France withdrawal from the labour market occurs at about 60 years of age and at 62 in the United Kingdom, although for very different reasons. In Italy ordinary retirement accounts for most cases, with a very limited role attributed to redundancy and recognised disability, whereas in Germany and the United Kingdom half the withdrawals from the labour market are due to redundancy and disability.

Therefore it would be advisable to consider jointly all the functions of social protection that are important in the final phase of an individual's working life. Overall spending on old age, disability and unemployment tends to reach very similar levels in all the countries examined. The various fiscal effects and the fact that our state pension system covers a wider range of categories, suggest that in Italy overall spending attains a level comparable to that of the other countries.

Francesca Corezzi
Original language: English

Table – Old age, survivors and invalidity pensions and unemployment benefits (1998)
(Expressed as a share of GDP)

	Germany		France		Italy		United Kingdom	
	Eurostat	National sources	Eurostat	National sources	Eurostat	National sources	Eurostat	National sources
Old age and survivors pensions (1)	11,9	12,7	12,8	12,8	15,6	15,8	11,4	(a) 13,1
Direct taxes and social contributions (2)	1,2	1,2	0,4	0,4	2,3	2,3	0,4	0,4
Benefits after deduction of taxes (3=1-2)	10,7	11,5	12,4	12,4	13,3	13,5	11,0	12,7
Invalidity pensions(4)	2,2	2,0	1,4	1,9	1,5	1,6	3,0	4,0
Unemployment benefits (5)	2,5	2,2	2,2	2,6	0,7	0,4	0,9	0,8
Total (3+4+5)	15,4	15,7	16,0	16,9	15,5	15,5	14,9	17,5

(a) Data includes private personal pensions, not considered in Eurostat survey

Source: Eurostat, *European Social Statistics. Social Protection 1980-1998*; Statistisches Jahrbuch für die Bundesrepublik Deutschland, 2000; Ministero del Tesoro, *Rel. sulla Situazione Economica del Paese*, 1999; Office for National Statistics, *United Kingdom National Accounts (the Blue Book) 1999*; Department of Social Security, *Statistics 1999*; Ministère de l'Emploi et de la Solidarité, *Dossier solidarité et santé, Les comptes de la protection sociale 95-99*

Open Forum

AKA (GERMANY)

Taxation of occupational pensions in Europe

Present situation

The communication from the Commission

The question of occupational pension taxation and its consequences on labour mobility has been discussed within Europe for a long time. On 19 April 2001, the Commission issued a communication COM(2001) 214 Final on « the elimination of tax obstacles to the cross border provision of occupational pensions » complementing the proposal for the pension fund directive (proposal for a directive of the European Parliament and of the Council on the activities of institutions for occupational retirement provision); the communication deals with the tax problem relating to cross-border occupational pensions. Among other things, the Commission calls on the European Parliament, the Council and the Social and Economic Committee to support benefits taxation (through the EET system) in the Member States and to consider the measures likely to eliminate the obstacles to the free movement of workers due to the different taxation systems.

The draft report from the European Parliament

The Commission counters the argument forwarded by the Member States that it is difficult to control the implementation of taxation rules in the case of cross-border migration, by pointing out this cannot justify fiscal discrimination.

The Commission refers to the directive relating to the mutual assistance directive and proposes that institutions for occupational pension provision apply the automatic exchange of information in order to avoid tax evasion.

On 12 September 2001, the Committee on Economic and Monetary Affairs of the European

Parliament, with Ieke van den Burg as a rapporteur, analysed the communication. In its draft report the Committee on Economic and Monetary Affairs supports the taxation of occupational pensions in all Member States of the European Union.

It explicitly refers to Germany and Luxembourg when requesting all Member States which do not apply benefit taxation to take steps as quickly as possible to introduce the EET system for occupational pensions. However the Committee does not express a view about a possible directive on this subject. Due to the difficult decision process relating to tax legislation (unanimity required), it recommends the open co-ordination process. This implies mutually agreed objectives and regular exchanges of best practices between Member States as a basis for tax legislation. In addition the Committee through its rapporteur, supports a mutual recognition of institutions providing occupational pensions. It requests that the states which tax benefits should allow migrant workers the facility to deduct pension contributions paid to a pension scheme to which they had contributed prior to migrating where these contributions have already been subject to tax.

The parliamentary committee also supports the abolition of fiscal obstacles in the case of transfer of assets covering pension rights.

AKA's position

From AKA's point of view, the communication from the Commission and the report of the European Parliament may have some effect on the German supplementary scheme for public employees.

Firstly AKA supports the idea to introduce in all Member States a fiscal system taxing benefits and not

contributions. This would eliminate the constraints existing in Germany due to the TEE tax system. In addition, the introduction of occupational pension and supplementary pension taxation would have a positive effect on free movement of workers within Europe and would considerably reduce charges for the employers.

AKA supports the proposal from the Committee to develop a process of open co-ordination setting out mutually agreed objectives and exchanges of best practice between Member States. Due to the huge number of pension schemes and the diversity of tax regulations, one cannot expect any harmonisation at a European level in the short term. AKA's view is that the open co-ordination process needs the involvement of all national institutions that will alter be concerned by the transposition if it is to succeed. This also covers the automatic exchange of information between occupational pension institutions.

AKA welcomes the request expressed by the Committee on Economic and Monetary affairs to be associated to the future work of the Pensions Forum. That is the only way to ensure all relevant institutions are involved in the process from the outset.

Conclusion

From AKA's point of view, the generalisation of benefit taxation through the EET system, the participation in the Pensions Forum and the organisation of an open co-ordination are favourable evolutions in the field of European occupational pension provision.

Klaus Stürmer
Hagen Hügelschäffer
Original language: German

Management

Exchanging ideas in practice

Visit of LGPS to ABP

At the conference in Stockholm as part of the LGPS up-date I explained that we were about to undertake a short review exercise into some of the problems facing the Scheme and taking stock of where the scheme is and where it is going in future. Our connection with EAPSPI has been invaluable in broadening the perspective now brought to any stocktaking. In particular, and with huge thanks to Mathieu Scheepers for the hard work in making the internal arrangements, Terry Crossley, I and a London pension manager spent three intense days with ABP in Heerlen.

Over the three days some very useful examples of how a centralised administration of a scheme not too different in size from the LGPS in England and Wales, and one that is funded, can operate. This is in direct contrast to the arrangements in England and Wales where administration and fund management is carried out by 89 separate bodies. There are of course differing cultural and social impacts that cannot be replicated outside an individual country but opening our eyes to different possibilities was invaluable. In particular the point we all have to bear in mind is that we are providing a service which we should ensure is of the highest standard. This is a message all of us should constantly carry around.

The arrangements and the success of the three days show how valuable EAPSPI can be in bringing people together and sharing ideas. And within a week we helped with the arrangements for a visit of CDC staff from Angers and Bordeaux. Working together and broadening our experiences, and never being satisfied that all problems have a single answer is a way ahead supported and encouraged by EAPSPI.

Brian Town
Original language: English

Study trip of CDC/BCR to London

On 6 and 7 December, a delegation of CDC/BCR went to London to visit several pension institutions : London United Pension scheme, London Pensions Fund Authority, the Pension service of the Department of Transport, Local Government and the Regions (DTLR)) as well as the Government Actuary's Department.

This study trip aimed both to improve the practice of English language in a professional context and to discover other systems and other management methods. All the group appreciated the warm welcome of their British colleagues and just regretted time was too short to exchange not only about regulations and systems but also about management, software and procedures. Two French secretaries took this opportunity to meet their British counterparts and compare their working methods. They would like to enlarge this experience and even develop a network to develop their mutual knowledge. All the group found the experience highly interesting and would be happy to receive their British colleagues to further this type of exchanges.

Visit to DTLR

After a warm welcome by Terry Crossley, Brian Town presented the Local Government Pension Scheme, that most of our EAPSPI members are familiar with. Several other presentations followed : the Civil Service pensions, the Teachers pension scheme and the National Health Service pension scheme. All four schemes have more or less the same qualifying conditions and the same calculation rules for benefits, the main difference concern the contributions rate and the financing method. LGPS is fully funded whereas the other three schemes are pay-as-you-go or rely on notional funds, a method which in fact requires the financial participation of the government.

Claude Dubois
Original language : French

General rules for State civil servants, teachers, employees of local governments and health services

Qualifying period : 2 years

Pension calculation:

Annuity = Final salary x 1/80th per year of reckonable service
Lump sum paid on retirement = 3 x annual pension

Lump sum paid on death in service = 2 x annual salary

Possibility to pay AVCs (additional Voluntary Contributions) to buy a supplementary annuity

Possibility to buy added years

Pensions are increased in line with price inflation

National updates

UK

New arrangements in the Civil service pension scheme

This scheme which covers State civil servants is preparing new arrangements that will be introduced on 1st October 2002. In the current scheme ("classic") the contribution amounts to 1.5 % of the salary and only covers the financing of survivors benefits. The new scheme ("premium") allows members to pay higher contributions (3.5 % instead of 1.5 %) and provides better benefits.

New members will have a choice between "premium" and "partnership" which will be a money-purchase pension arrangement with contributions by members and employers held in a stakeholder pension invested by an insurance company. The existing staff are being asked to choose from three options:

The "classic" choice, which is the continuation of the current system,
The "premium" choice, which gives the opportunity to convert years accrued in the current scheme to new scheme service,
The "classic plus" choice, which allows members to keep their past service in the current scheme and join the new scheme for services completed after 1st October 2002.

The choice will have to be made once for all. There will be no possibility to change later.

Members will receive a choice pack including a personal pension forecast that will present the effect on each choice on the amount of benefits that can be expected at retirement age. The communication campaign that sets out his new arrangement has already begun. Members have received a folder where they can place the factsheets received one by one over the period of information campaign. These short and easy reading documents explain how the system works and help members to make their choice according of their own situation.

Julia Wood

Original language : English

European Association of Public Sector Pensions Institutions - EAPSPI

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European updates

Case law

Recently two judgements of the European Court of Justice have considered that provisions of the French Civil and Military Retirement Pensions Code infringed the principle of equality between men and women. Both judgements are based on the following principle : pensions of French civil servants constitute pay and as such they come under Article 119 of the Treaty.

The Griesmar Case C-366/99 of 29 November 2001

The French Civil and Military Retirement Pensions Code grants to women only a service credit of one year for each child born or brought up during at least 9 years. This provision which also concerns adopted children is considered by the Court as discriminatory since this advantage is not related with maternity (which would have justified a difference in treatment) but with bringing up children which in theory concerns both male and female employees. Consequently the Court considers that men having assumed the task of

bringing up children are affected by sex discrimination.

The Mouflin Case C-206/00 of 13 December 2001

The same French Civil and Military Retirement Pensions Code allows women only, to retire with a pension, with no age condition, where they have completed their 15 year qualifying period and their husband is affected by permanent total working disability. The Court considered that such provision infringes the principle of gender equality and is discriminatory towards male civil servants whose wife suffers permanent disability impeding any work.