

## Focus

### Study on the co-ordination of Social Security schemes – The Portuguese example

The present article analyses one of the main obstacles to European construction.

The key principle of a "social Europe" is the social protection of those who, because of old age, accident, occupational diseases or other reason, become incapable or fulfil all conditions to receive social benefits.

This article deals only with retirement pension schemes, which are roughly similar to what Regulation (EEC) n°1408/71 calls "incapacity and old age pensions".

This issue is very closely linked with the essential matter of free movement of people and portability of pension rights. Mobility of people is hampered by the fact that a Member State or a scheme does not always recognise vested rights or rights currently being accrued in another Member State. This is why the European Union needs to facilitate "transfers of pension rights".

These transfers of rights may be carried out in various ways according to the legal position of the schemes, their financial nature and their make-up. The different methods depend on the degree of similarity between the schemes involved, their respective nature (funded or pay-as-you-go), their financial reserves, the degree of coverage they guarantee to their members, etc.

We do not pretend to deliver the best solutions, not even to set out a systematised and final frame for the issue. Our goal is not as ambitious, but still interesting.

First, we will examine the example of the Portuguese co-ordination, and secondly, we will try to systematise the solutions presented.

#### THE PORTUGUESE POINT OF VIEW – CO-ORDINATION AND CIVIL SERVICE

The social protection system for civil servants, administered by Caixa Geral de Aposentações, is co-ordinated with other national and foreign systems. The following sets out each of these co-ordination schemes.

#### National co-ordination

##### Unified pension

This system affects the right to a pension (immediate and unconditional) and the pension calculation.

In brief, the legal system establishing the unified pension, which has recently been reviewed and improved, provides for those who have paid contributions to the Social Security scheme (private sector employees) or the scheme for civil servants, with a single pension,

*(See page 2)*

## EDITORIAL

This new issue of our newsletter is coming out while the provisions of Regulation EEC n°1408/71 have been enforced for just one year.

Is it surprising if an important place has been given to co-ordination in this issue ?

On the one hand, it is a really topical matter since the Commission envisages the modernisation et the simplification of a nearly thirty-year-old regulation.

On the other hand, it has to be admitted that the implementation of the extension, resulting from so many compromises, can sometimes look like a maze.

On the basis of its studies carried out by its legal expert commission, the association intends to propose its expertise to the Commission, at the beginning of September. In fact, even supplementary schemes could be involved in this process.

The financing of public sector pension schemes is still a vexed question, especially in countries which have chosen a pay-as-you-go method. As the same causes generate the same results, a partial funding seems to be the most relevant alternative to cushion the babyboom effect. The issue chosen for the annual conference of October will give an idea of how this phenomenon is analysed by our institutions.

The role of our association is also highlighted by the specific surveys done at one of the members' request. The analysis of anticipated pensions on grounds of ill health underlines convergences and divergences in this field.

Thierry Christophoul  
*Original language : French*

FOCUS	NATIONAL UPDATES
<b>Vasco Costa</b>	<b>Terry Crossley</b>
Study on the co-ordination of Social Security schemes p 1	New investment regulations p 4
<b>Xavier Fontquerni-Ribe</b>	<b>Declan Naughton</b>
Early retirement on grounds of ill health p 7	Funding of pensions p 6
	<b>Hagen Hügelschäffer</b>
	Symposium on the financing of pensions p 6
ASSOCIATION ACTIVITIES	EUROPÉAN UPDATES
<b>Philippe Nys</b>	<b>Klaus Stürmer</b>
Working group on co-ordination p 5	Proposal of the Commission p 5

## In short

### Agenda

The next meeting of the Board will be held in Brussels on 6 October.

The legal expert working group will also meet in Brussels at the same date.

### Address book

Kenneth Sorensen (KP – Denmark) informs us that his e mail address has changed : [Khs@sampension.dk](mailto:Khs@sampension.dk)

In fact, KP has established a new company « SamPension » to which his employment has been transferred. We hope more information will be given in the next issue of EPB

### Reminder

Compulsory supplementary schemes are requested to send to the secretariat their comment on article 7 h of the Proposal for a Council Regulation n° C38/08.

Those comments will be subsequently sent to the working group on co-ordination.

which is calculated under the rules of the last scheme of which the employee was a member immediately before retiring.

The unified pension takes into account the total service in both schemes.

The amount of pension is divided in two parts to be paid by each institution in proportion to the period of contributory service registered with them.

The difference between the amount to be paid by the first scheme, (whose rules were not taken into account in the pension calculation), and the amount that should be paid if these rules were applied to the service covered by this scheme, is shared in two equal parts.

One half only is paid by the first institution; the other half remains unpaid.

In order to implement the unified pension system, regulations and procedures have been provided in an agreement between the National Centre of Pensions (Social Security general scheme) and CGA.

Thus under this agreement, when the first pension institution receives an application for a unified pension, it must send it immediately to the last institution.

To calculate the unified pension, the first institution must inform the last one about all contributory service it has registered and the amount that it would have paid, had its own rules applied and taken into account only the period of membership with that institution.

After the calculation of the unified pension, the last institution must notify the first one of the amount it should pay and must inform the retiree that he is eligible for a pension.

Processing is slowed down because the calculation is worked out by the last institution. To solve this problem, CGA makes a temporary award, if it has reliable information on the periods mentioned in the member's claim for a pension. CGA pays an interim amount of pension that can be modified later.

### Co-ordination within the banking sector

As reported at the Munich conference, in Portugal there is a funded basic scheme for the social protection of bank employees.

The basic elements of this scheme are set up under the Labour Collective Agreements of the Banking Sector.

Banks are required to pay benefits to workers up to a certain amount. Where employees do not receive Social Security benefits, then the banks pay the full amount. Whereas if they receive Social Security benefits, they will get only the difference between the total amount provided in the agreement and the part paid by social security.

The system is based on the obligation to build up funds to provide for pensions and survivor pensions and transfer them to the other banks' pension funds in case of mobility.

To achieve this, a transfer system of rights and assets was set up between the pension funds of the various banks.

It should be noted that complete portability of rights and assets (minimum pension, retirement conditions, calculation, etc...) is only possible between banking institutions.

The system is quite simple, the employee simply requests a transfer of assets, reflecting his accrued rights, to his new banking institution.

### The former Macao system

Until 26 December 1989, pensions paid out by the Macao territory government would take into account all of the service as a civil servant, either in metropolitan Portugal, or in the former overseas provinces, or in the Macao territory.

CGA would pay the pension share concerning the time of service completed in metropolitan Portugal.

The metropolitan institution (i.e. CGA) and the overseas institution only had to notify the Macao Territory of the period of pensionable service and reimburse their pension share calculated according to the rules of the Macao's scheme as a proportion of the total period of pensionable service. This was a monthly reimbursement.

This erstwhile system was far ahead of the other systems (unified and bank) set out above.

A single pension is always based on the rules of the last scheme (like the unified or bank Portuguese pension), occasionally without any deduction (unlike the unified pension) sometimes with no transfer of assets (unlike the bank pension).

### External co-ordination

#### Transfer of actuarial equivalent towards the European Communities

This system was studied in EPB n°2.

#### Regulations (EEC) n° 1408/71 and 574/72

The 25 year old system set up by Community regulations, is based on the co-ordination principle (aggregation of pensionable periods for establishing entitlement and efforts to limit the financial implications on national schemes).

Unlike the unified pension method, this system does not provide for a simultaneous entitlement in the various schemes (if the pensionable age is different in each country, the payment of the various pensions will start at different times – there is no harmonisation with the first scheme which grants a pension).

For example a member can be considered as disabled in one scheme but not in another.

They can also reach the maximum pensionable age in one scheme and not in the other.

Although this system provided by the Regulations is financially the least onerous, it is not entirely cost neutral.

In the case of periods shorter than one year, an institution may have to pay for the service completed under its regulations plus the service registered by the other institutions.

According to the interpretation given to Art 15/3 c of the implementation Regulation, an institution whose scheme only consider whole years and months of service, excluding remaining days, can be compelled to take into account certain days not included in the period of service for which no contribution has been paid.

This cost, which is not provided by the national legislation, must be added to the cost resulting from the aggregation of periods establishing entitlement.

#### Other international agreements

In addition to these international systems, there are other systems based on bilateral agreements (covering mainly social security schemes) between Portugal and countries with large communities of Portuguese emigrants.

These systems differ according to each case, but they remain close to Community Regulations.

It is worth mentioning them, but as there are so many it is not possible to analyse them in detail.

### SYSTEMATISATION

The systematisation of the solutions presented can be carried out according to various factors, for example:

#### **According to conditions of entitlement**

- Aggregation of periods (minimum period and other conditions);
- Simultaneous payment of pensions even if the dates of entitlement are different.

#### **According to the pension calculation rules:**

- The pension, or pension share, paid by each scheme is determined according to their own rules;
- Implementation of rules other than the scheme's:
  - specific rules,
  - rules of one of the schemes which has previously covered the member (ex: unified pension).

#### **According to the system, there are various results.**

Thus, the pensioner can be entitled to:

- A pension worked out by the last scheme, as if s/he has been covered only by this scheme for all his or her career;
- A pension worked out by the last scheme, with certain limits (ex: unified pension);
- Two or more pensions worked out according to each scheme's rules, with the benefit of aggregation of contributory periods for establishing entitlement to a pension.

## In short

### Field trip

In order to enrich the debate on the necessary reform of pensions in France, the Pension Department of Caisse des dépôts has organised a field trip to Canada for some administrators of CNRACL (national pension scheme for local government employees) and IRCANTEC (supplementary scheme for non established public sector employees).

The organisation of the Canadian pension system with visits to pension institutions like OMERS (Ontario Municipal Employees Retirement board), the management of the reserve fund and a visit to the solidarity fund for Quebec workers were part of the programme.

The major events of this trip will be presented in an article to be published in the next issue of EPB.

More than ever, the adaptation of our systems will be based on the observation of what can be found in other systems.

These systems imply different procedures. Two types can be distinguished: the first, for which active co-operation of institutions consists in determining the main elements for the calculation of pensions (application file forwarded to the relevant scheme). Then, each scheme informs the other on the member's situation and works out its share of the pension, according to its own rules.

The second type of procedures is based on the principle of centralisation: one scheme, usually the last one, collects the information and calculates the pension. Subsequently, it informs the other schemes of their respective shares.

#### PROJECTION IN THE FUTURE

The development and improvement of a "Social Europe" are common aims for European Union Member States.

The Regulations system has been set up in a period when ambitions were not as high as nowadays.

Since 1972, many battles for the building of Europe have been engaged and won. The most recent was the Euro.

Today a "Social Europe" is a necessity.

Shall we improve the existing co-ordination system of Community Regulations, or build up a new and more ambitious system? This article does not intend to give any answer.

In the second case, we consider that the EAPSPI members' experience can be valuable.

Indeed, we believe that it can be useful and fruitful to consider the national solutions as a basis for consideration.

And who better than EAPSPI could collect information on all those national co-ordination systems\*? This could be a good opportunity for member institutions to reconsider their own systems and to improve them through comparative studies. In the long term, this may result in a real process of convergence...

Beyond a mere presentation of national schemes, this article intends to propose ways which could be efficiently explored by EAPSPI internally or externally.

Please, forgive the boldness of my opinions !

Vasco Costa

Original language : French

*\* The European Club of local government pension fund, which is the precursor of EAPSPI, studied the subject of portability of pension rights at its conference held in Angers in 1995. Each institution had then described the systems of portability existing in their countries. The minutes of the conference are available on the association's Internet site.*

## National updates

### UNITED KINGDOM

#### New investment regulations

Local authorities in England and Wales are being consulted on new regulations which will require them to produce, by July 2000,

- a statement of investment principles for their pension funds
- to give details of their policies (if any) regarding investments in socially responsible companies.

The local government pension funds in England and Wales have a total current market value of £80 billion and the government is keen to see local government funds brought into line with steps now being taken to require private sector pension schemes to state their policies on socially responsible investments.

It is highly likely that local authorities in Scotland and Northern Ireland will have their scheme regulations amended shortly to reflect these proposals.

Terry Crossley  
(DETR - London)

Original language : English

## European updates

### Proposal of the Commission concerning a reform and a simplification of Directive N°. 1408/71

The Commission issued a communiqué in 1997 entitled "Action plan promoting labour mobility within the Union", which committed it to present a proposal for the simplification and modernisation of directive no 1408/71 by the end of 1998. A consultation draft was issued by the Commission in December 1998. The results have been published in a report in early spring 1999.

Significant features of the draft proposals include

- the extension of the scope of the directive beyond the limited employment field;
- the integration of members of other states;

- The integration of anticipated old-age benefits;
- And the improvement of the rights of unemployed moving to another EU Member State to look for a job.

These points, which so far are only Commission proposals, are now to be scrutinised by the Council and the European Parliament.

It should not be forgotten that a new directive developing Directive 1408/71 requires unanimity in the Council. Furthermore, the proposal does not take

into account either the latest judgements of the European Court of Justice (for example the judgements "Kohl" and "Decker") or developments in the field of assistance to elderly dependants, so further modifications are expected. This draft proposal is a step in the further development of a "social Europe". A number of amendments will follow, and it is still a long way before a final version of a new directive is produced.

————— Klaus Stürmer

*Original language : German*

## Association's activities

### Lisbon

#### Working group on co-ordination

At a meeting in Lisbon, held between 30 June and 2 July 1999 (as announced in the 3<sup>rd</sup> issue of Euro Pension Bulletin), the permanent legal expert commission subgroup for special pension schemes' discussed the legal, administrative and technical problems linked to the formal implementation of co-ordination provided by Regulations EEC n°1408/71 and 574/72. The working group could, in fact, be an expert commission within the Association in order to help its members find solutions to identified problems. Besides this internal role, the working group has set out, in a report sent to the Association Board, several proposals possibly letting the Association justify its position as an external group of technical experts,

because of the different studies it has produced.

The Proposal for a Council Regulation (EC) on co-ordination of social security systems (1999/C38/08) was also discussed.

In this article we cannot give a full report of the work done in Lisbon. Members interested in reading the minutes of the meeting can request a copy by simply writing to the Secretariat General.

Nevertheless, it should be noted that the proposal for the co-ordination of social security systems has a wider scope than the Regulation EEC n° 1408/71. Indeed, in compliance with article 7 h, paragraph 2, co-ordination

would apply to contractual provisions which have been the subject of a decision by public authorities, rendering them compulsory or extending their scope. In such a case, schemes such as ABP may be affected.

Those schemes concerned can obtain a copy of the proposal from the Secretariat General and can also send their comments, which will be transmitted to the permanent legal expert commission. For those who wish, it is also possible to take part in the working group which will be holding a meeting in Brussels on 5 and 6 (October?) 1999, before the conference and annual General Assembly.

————— Philippe Nys

*Original language : French*

## National updates

### GERMANY

#### Symposium on the financing of public service pensions

On 29 September 1999, the *Arbeitsgemeinschaft kommunale und kirchliche Altersversorgung (AKA) e.V.* is running a symposium in Cologne "The financing of public service pensions – problems and options" under the patronage of the Confederation of Associations of German municipalities.

This is an issue of a growing interest in Germany of late.

All legal pension schemes face serious problems because of a longer life expectancy and a shortened working life due to training periods, anticipated pensions and a very high unemployment rate.

Pension schemes for civil servants and public service employees face the same problems as they undergo specific developments, such as a decrease in the number of staff and the privatisation of certain public sector functions.

For public service pensions, the problem of financing has long been overlooked. A change in public opinion occurred when the federal government issued a report on the pension situation in 1996. However the solutions proposed to solve financial problems do not always take into account the particular nature of the financing of public sector pension schemes.

At the symposium on 29 September, professors Klaus HEUBECK and Bert RÜRUP, experts in the pension field, will make presentations on the actuarial and economic conditions of public sector pension schemes, and propose future solutions for financing. Their proposals will be discussed with the audience composed of politicians, representatives of ministries, municipalities and the collective association of civil servants and employees.

————— Hagen Hügelschäffer  
*Original language : German*

### IRELAND

#### Funding of pensions

Public Sector occupational pensions in Ireland are almost exclusively paid on a pay as you go basis. State welfare pensions are also paid from current income.

The annual expenditure by the state on all pensions is of the order of IR£2.5bn (€3.17bn).

Concern has grown in recent years about the expenditure required to fund future liabilities. In Ireland, a falling birth rate and the age structure of the population means that an increasing burden will fall on future generations. Additional pressures will arise from the retirement of many state employees recruited to a rapidly expanding public service in the 1960's and the 1970's. The longer life expectancy of the population in general will also have a

bearing on expenditure by both occupational pension schemes and state welfare schemes.

The position of the Local Government Superannuation Scheme (LGSS) helps to illustrate the problem faced by public sector occupational pension schemes. The LGSS is one of the largest pension schemes in the State with some 70,000 contributing members and 30,000 pensioners. In 1996, the excess of expenditure over income was a little over IR£100m (€126.97m). An actuarial study carried out in 1995 found that the gap will, if present trends continue, increase to almost IR£300m (€380.91m) by 2030. A study relating to expenditure on future state welfare payments also found that liabilities will increase over the next few decades.

In order to deal with this problem, the Minister for Finance announced an initiative on 23 July 1999. The Government has decided that 1% of GNP will be set aside each year from now on to fund a part of overall pension liabilities.

No decision has yet been made on which agency will manage the fund. To protect the fund the Minister said that legislation will be enacted which will prevent any future government from reneging on the requirement to contribute 1% to the fund. However, it will be possible to increase on this level of contribution if it is so desired.

————— Declan Naughton  
*Original language : English*

## Focus

### Early pensions on grounds of ill health

At Terry Crossley's request (Terry is head of the Pensions division at the Department of the Environment, Transport and the Regions in London), the secretariat has launched an survey on early pensions on grounds of ill health in the member institutions of EAPSPI.

Eight institutions belonging to 7 countries have answered.

- In Germany, on the one hand the supplementary scheme for public sector employees represented by AKA for local governments and by VBL for the State and the Länder, and on the other hand, the scheme for civil servants;
- In Belgium, the Administration des Pensions (AP);
- In Finland, the supplementary scheme for local governments (KE);
- In France, the pension institution for local government agents (CNRACL);
- In Ireland, the Local Government Superannuation Scheme (LGSS);
- In the Netherlands, ABP;
- In Portugal, CGA, pension scheme for civil servants.

This summary follows the structure of the questionnaire on which it is based, i.e. the weight of ill health pensions in the global pension burden, the conditions for early retirement on grounds of ill health, and the present policies regarding ill health.

#### THE WEIGHT OF ILL HEALTH PENSIONS IN THE GLOBAL PENSION BURDEN

The number of retirements due to disability and the resulting cost differ significantly in the various schemes.

#### Retirements on grounds of ill health in relation to the global number of retirements

The German scheme for civil servants presents the most important rate of ill health retirement with 50.4 %. It is followed by the Finnish scheme with a percentage of 40 %.

In Ireland (LGSS), this part varies from 25 % in 1994 to 32 % in 1995, with an intermediary rate of 28 % in 1996. In a similar proportion, Portugal presents a rate of 28.2 %.

Another group of schemes present lower rates: in France, CNRACL with a rate of 14.9; in Belgium, AP with 16.76 % and in Germany, AKA with 17.26 % (whereas VBL indicates a rate of 22.9).

It has to be mentioned that in Germany, the rate of ill health retirements has dramatically increased between 1975 and 1990 (particularly in Bavaria, where the number of departures has risen by 547 % during those 15 years). This trend has slowed down since 1990 (only 46.5 % more between 1990 and 1997). VBL explains this trend by the development of early retirements granted under agreements with employers. For AKA, the development of gradual cessation of activity also has an incidence on this evolution. It must be noted that in the German scheme for civil servants, the number of ill health departures even decreased in 1998 in relation to the previous year.

In France, where the number of ill health retirements is proportionally lower, there are other systems of early retirement available as of age 50 or age 55 according to the categories of jobs.

#### Cost of ill health pensions

Consequently, the cost of ill health pensions varies a lot from one scheme to the other.

In Finland (KE), the expenses due to ill health retirement represent 20 % of the global amount of benefits. This percentage seems rather steady, but the global cost of pensions has dramatically increased.

In Germany, in supplementary schemes, the cost of disability has relatively decreased between 1993 and 1998 since it went down from 16.1 to 14 %. This paradoxical decrease in cost when the number of ill health retirements goes up can be explained by the massive increase in the global number of pensioners.

## Note

*Disability pension, incapacity pension or ill health pension are very close linguistic notions which can however represent different concepts regarding regulations.*

*Where various terms are used by the same scheme, it is necessary to refer to regulations to understand what each term means.*

*In a same country, the word used can change according to the scheme or the categories of members covered.*

*Although the linguistic working group has proposed general definitions for each term, it has concluded that it is not possible to establish reliable linguistic equivalence between the words used in French, English and German since in this field, there are as many distinctions as there are regulatory particularities so that the link between the word and the exact nature of the benefit is not the same in each scheme.*

However in the scheme for civil servants, the part of expenses due to ill health represents 31.1 % of the global amount of benefits (34 % if excluding survivor benefits).

In Portugal, the part of expenses allocated to disability is rather steady: 16 % of global pension burden or 18.9 % of the amount of personal benefits.

In France, for the CNRACL, the respective ratios are 4.5 and 5.1 %.

ABP mentions a slight increase in the expenses due to ill health pensions.

We must however be extremely cautious when comparing the statistics of the various schemes. The part covered by ill health pensions can be calculated in proportion to the global amount of benefits or to the amount of the personal benefits alone. It is also worth noting that the rates of CNRACL which are much lower than the others can be explained by the fact that ill health pensions are not statistically counted as such as of age 60.

#### **CONDITIONS FOR EARLY RETIREMENT ON GROUNDS OF ILL HEALTH**

The recognition of disability is realised under different conditions in the various schemes. The calculation also depends on more or less favourable rules.

#### **Conditions and competent bodies to determine disability**

All schemes have not got a common definition of disability.

In Germany, a distinction is made between job related incapacity which concerns employees whose capacity to carry out a specific work is reduced, and incapacity where the employee cannot complete regularly and continuously any kind of professional activity.

In France, a disabled person is a person recognised totally and permanently incapable of carrying on his or her activity on grounds of an affliction contracted or worsened during a period taken into account in the calculation of pension rights. There is neither condition of age, nor minimum service, nor disability rate. It is only the incapacity to complete one's activity which is taken into account.

Portugal recognises two types of disability. The first one entitles to an ordinary pension (after 5 year service

and under the condition of being totally and definitively disabled), the second entitles to an extraordinary pension (with no minimum service, but after being declared partially or totally disabled further to an occupational accident or a sickness caused by the professional activity).

In Belgium, an ill health pension can be granted for a two year period. After this time, the employee can be recognised permanently disabled.

In Finland, two kinds of disability are also to be distinguished: permanent disability, which entitles to a permanent pension, and temporary disability where the employee can reasonably expect to recover thanks to medical care and a rehabilitation program. In the latter case, the disabled receives a rehabilitation benefit which can be considered as a fix term assistance. In the Finnish scheme, the recognition of disability for a person aged over 58 is less strict than when it concerns a younger person. The benefit granted in this case is called "individual early retirement pension" which is similar to the disability pension (in the future, the entitlement to this benefit will be postponed to age 60).

Disability must be stated by bodies designated by the scheme or by the regulations fixed by public authorities : the general scheme institution for the German supplementary schemes, the practitioners of the pension institution (CGA) in Portugal, the employer institution in Ireland and in the German scheme for civil servants. In France, a commission of the "Département" gives a first medical advice whereas the final decision is up to the pension institution (CNRACL).

#### **Calculation rules for ill health pensions**

Most ill health pensions are calculated like retirement pensions, but some schemes add some particularities. In Ireland, the disabled employee can obtain an enhancement of reckonable service. The number of added years depends on the duration of membership (there are three cases: membership comprised between 5 and 10 years, between 10 and 20 years or over 20 years).

For ABP (Netherlands), the amount of the pension depends on the disability rate, with a maximum of 70 % of final salary for a 80 % disability rate and a minimum of 14 % of final salary for a disability rate comprised between 15 % and 25 %.

In France, ill health pensions are calculated according to the number of reckonable years. However, for employees with a disability rate of at least 60 %, the pension cannot be lower than 50 % of final salary. If ill health is due to an occupational accident, the pension will be accompanied by an occupational accident annuity calculated according to the disability rate.

In Belgium, the pension is calculated according to the same rules as the retirement pension. However, the regulations guarantee a minimum amount of € 21,626 for a single person and € 29,561 for a married person. In the case of serious handicap, an additional amount of € 1481.29 per year is granted. Like in France, if disability is due to an occupational accident, the beneficiary also receives an annuity calculated according to the disability rate.

According to the type of disability, the Finnish scheme grants either a permanent pension, or a cash rehabilitation benefit or an individual early retirement pension.

In Portugal, the calculation makes again the difference between the ordinary pension and the extraordinary pension. The former is calculated like the retirement pension, i.e.  $1/36^{\text{th}}$  of final salary for each reckonable year, whereas the extraordinary pension is enhanced by the number of years remaining to complete the maximum of 36 years, multiplied by disability rate. Therefore, in the case of a 100 % disability, the person is entitled to a full rate pension whatever the number of service years.

In Germany, the supplementary schemes grant enhancements of reckonable time according to the age of the disabled. The number of years comprised between the age of the disabled and 55 is taken into account for 2/3 ; the periods comprised between age 55 and 60 are taken into account for 1/2.

In the German scheme for civil servants, the enhancement concerns the period comprised between the pensioner's age and age 60. This time is taken into account for 1/3.

In supplementary schemes, the difference between job related incapacity and working incapacity has an effect on the amount of pensions since in the first case, one considers that the person can have another remunerated activity; the pension thus amounts to 70 % of the amount granted for working incapacity.

### **POLICIES REGARDING ILL HEALTH**

Many schemes are concerned by the financial charge represented by ill health pensions. However, few of them have launched research or have taken steps in order to curb the cost of these pensions. Indeed, in most cases, the prevention policy depends mainly on the employer. It can also be the subject of information campaigns on security at work organised by ministries. This is the case in Portugal, it is also true in France where several measures have been envisaged in order to develop a real policy regarding disability mainly through the creation of a prevention fund.

In fact, prevention should start with a precise analysis of the causes and circumstances of disability, but these information are not always available for pension institutions.

Few schemes could answer the question regarding the main causes of ill health. Certain supplementary schemes depend on the general scheme for the recognition of disability and therefore do not have this type of information. Supplementary schemes directly administered by local government have no access to these data.

For other schemes, it has to be noted that the first cause of disability is due to mental disorders (it is the case for ABP, CNRACL and in the Finnish scheme).

In second place, we find heart and circulatory system problems for ABP, diseases of the musculo-skeleton system and connective tissues for the Finnish scheme, and rheumatic and traumatic afflictions often relating to manual work and hard jobs for CNRACL.

The German scheme for civil servants refers to wider categories as they distinguish physical afflictions which represent 48.9 % of disability cases and mental diseases which represent 20.7 %. They also mention afflictions both physical and mental (18.5 %) and alcoholism (1.5%).

If prevention cannot be developed, the reduction of the burden due to disability can also be lighten through restrictive measures.

This is the case in Germany where in 1996, measures have been taken in order to limit the professional incomes for beneficiaries of disability pensions. This "overlapping rule" allows to reduce or even stop a pension for people whose incomes exceed a certain ceiling. In 1997, a proposal of reform intended to restructure the pension system. Ill health pensions were concerned in the same way as any other anticipated pensions. This reform which was to be enforced in 1999 has been postponed until the end of the year 2000. In fact the question of anticipated pensions will probably be reconsidered in the framework of a more global reform of pension systems.

ABP has also reduced the amount of ill health pensions since the maximum rate has decreased from 80 % down to 70 %, whereas the intermediary rates have passed from 65 % to 52.5 % and from 50% to 42 %.

Finally, certain schemes prefer to choose the way of rehabilitation or reinstatement in another occupation by encouraging the continuation of a professional activity even in the case of disability. (In this field again, health insurance and employers are very concerned).

The Belgian system proposes an alternative of reinstatement during a two year period in another occupation less demanding than the previous one.

## Note

*According to pension schemes, the disability rate can have a significant importance, particularly regarding the benefit of free notional years. Therefore, the medical opinion given by the various institutions, commission or experts must be absolutely fair and unbiased. That is why it must refer to or be controlled through standardised scales.*

*CNRACL (France) has set up an application program which makes it possible for an administrative employee with no medical knowledge to check the reliability of the disability rate proposed by the practitioner, according to the description of the considered affliction. (see Clubinfos n°6)*

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### European Association of Public Sector Pensions Institutions - EAPSPI

Association under the French Law  
1<sup>st</sup> July 1901, registered at  
Préfecture de la Gironde  
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### Euro Pension Bulletin, Newsletter for EAPSI's members

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For German civil servants, it is possible to maintain a half time activity which provides incomes higher than the amount of what would be the disability pension. The pension institution can also grant benefits to encourage rehabilitation measures.

In Finland, the pension institution can financially participate in the rehabilitation effort undertaken by the employer. In this country, early rehabilitation programmes concern employees who are still in activity but are threatened by a reduction of their working capacity. Thus, individualised prevention goes along with rehabilitation.

### CONCLUSION

The problem of disability is a complex one. It is first a human problem but also a financial one; it concerns health insurance as well as employers and pension institutions. In this field, the action must come beforehand with a **co-ordinated** prevention policy and be continued afterwards with a rehabilitation policy **also co-ordinated**.

The prevention policy can be a collective one, it can be developed at a national level or through information campaigns or it can be more precisely focussed by analysing the risks more specifically linked to each type of job. It can also be developed on an individual plan.

Finland particularly has understood that one must not wait until disability develops, but it is necessary to operate before on individual cases likely to be concerned. It has to be noted that a whole unit of the pension institution is dedicated to rehabilitation.

When disability is declared, certain countries show that it is still possible to find intermediary alternatives through reinstatement in another activity or part time work. Systems of flexible pensions or partial pensions (see Clubinfos n° 10 pages 4 and 5) can also allow unhealthy people to carry on a professional activity in reasonable physical and financial conditions without applying for an ill health pension.

Finally, the point is to encourage rehabilitation by making this alternative financially more attractive than ill health pensions (see Finnish system in Clubinfos n° 7 page 3).

Indeed, it is essential to guarantee to disabled employees a minimum income. We find here the notion of solidarity which, in the case of disability, concerns both pay-as-you-go and funded schemes (whereas regarding retirement pension rights, the principle of solidarity is not equally recognised by all types of schemes). The principle of enhancements and additional years is also generously widespread in nearly all schemes. However, where solidarity is involved, it is particularly important to avoid excesses of liberality in order to preserve a certain equity among members, and that is why rules on overlapping appear. Can one receive an ill health pension from a public sector pension scheme and overlap it with professional incomes from the private sector? This question is essential when the cost of ill health is under consideration. Certain systems, such as the Belgian system submit incomes to certain ceilings; for ABP, the ill health pension cumulated with new professional incomes cannot exceed the former salary of the disabled (see report of the Rome conference – 1996). However, there are still a lot of schemes which do not apply any restriction in this field (or if they are any, they often concern public sector activities only). Finally, the problem of overlapping disability pensions with other incomes can be even more complex if it is raised in a context of mobility within Europe.

■ Xavier Fontquerni-Ribe  
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*The original documents on the basis of which this article has been drawn up are available at the secretariat general.*

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