

EUROPEAN UPDATES

Seminar with social partners on supplementary pensions

Social partners were invited by the European Commission to discuss problems of supplementary pensions at a seminar held in Brussels on 17 November. AKA attended on behalf of the German public employers.

Mr Merlin of DG XV informed all participants about the drafting of a proposal for a directive relating to all funded occupational pension institutions. Thus pay-as-you-go systems were not concerned. This directive would aim at liberalizing investment regulations by introducing the principle of « prudent man ». The proposal would favour a qualitative investment method. Other provisions would regulate the crossborder management and would improve the protection of the insured by supervising the authorisation and the control of institutions as well as the quality of management and the level of the necessary information. The Proposal for a directive could be adopted in the first half of year 2000.

Mr Kontizas (DG V) declared that, in addition to this proposal, the Commission would start a debate on other questions relating to the problems identified in the Green Paper, i.e.

- Duration of qualifying periods required to obtain accrued rights
- Portability of pension rights
- Crossborder affiliation for workers who are not seconded.

These problems will possibly be discussed in the framework of the pension forum that the Commission will convene next year.

The programme of the seminar was completed by two reports by Professor Tamburi and Professor Steinmeyer on portability of pension rights; Both professors highlighted the fact that portability would only concern a few workers, especially executives and that for this reason, it would not be relevant to change all legal bases of supplementary pensions in Member States.

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Best wishes for a
fruitful co-operation
in 2000

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EDITORIAL

This month of December, like any other end of year, is a good opportunity to have a look backward at the whole year.

In 1999, the European institutions have been shattered by the Commission's resignation, required by the Parliament. The institutional reform necessary before the extension of the Union is still stopped by the lack of consensus. Finally the conflict in the Balkans and the troubles concerning sanitary controls have completed the confusion.

Although the Parliament is now more powerful than before, its renewal has not significantly moved the voters. Does it mean that European citizens are not interested in their future?

Their recent reaction against WTO tends to prove the contrary.

A lack of communication also explains partly this passivity but in the context of internationalisation, the actual problem seems to be the lack of reference points.

The Commission seems to be willing to fulfil these expectations, as it develops events associating social partners, NGO and other representatives of the society.

However our participation will not be sufficient if we cannot stand as a communication link.

In a society where there is more and more information circulating more and more rapidly, the European construction, especially in its social aspect, requires a reliable information organisation with transparent sources.

At the threshold of this last year of the century I do wish we could take up the challenge of the construction of a new society for the future generations

Thierry Christophoul
Original language : French

In short

Agenda

Board meeting

The next meeting of the Board Will be held in Heerlen on 10 and 11 February 2000.

Forum

CDC's annual forum on pensions will be held in Bordeaux on 17 March 2000.

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Professor Tamburi underlined the complexity of supplementary pension schemes in the 15 countries of the European Union which would hinder a co-ordination process. For this reason it would be more appropriate to fix certain principles and let the concerned schemes free to find the right solutions. All solutions should rely on the principles set out in the Veil Report, i.e. respect of Member States' pension regulations since European legislation cannot be more favourable than national law.

Professor Steinmeyer supported a pragmatic method. However a transposition of the principle of no-discrimination would not be sufficient to achieve free movement for workers. Portability of pension rights has to face a huge number of technical problems, particularly regarding financing and actuarial assessment of rights. The major obstacle arises from different tax

legislation in Member States regarding contributions.

During the debate, Géza von Puskás (AKA) also supported a pragmatic approach. He informed the participants about the studies carried out by EAPSPI on portability of pension rights. The results of these studies could lead to principles or even standard agreements which could be implemented by the concerned schemes on a bilateral basis. This could be used as a model for the future studies of the pension Forum. Whereas the unions' representatives underlined that pension contributions are part of the workers' salaries and that long qualifying periods were a discriminatory factor, employers' representatives were willing to participate in the studies of the pension Forum, a Forum which, according to the Commission will be only an advisory structure.

Géza von Puskás
Original language: German

National updates

PORTUGAL

Pension arrangements for the transfer of administration from Macao to the People's Republic of China

After the Hong Kong event, the transfer of sovereignty of the region of Macao (Macao Peninsula, and isles of Taipa and Coloane) to the People's Republic of China will be effective on 20 December 1999.

At first sight, this event has no interest for EAPSPI. However it is worth mentioning it for the complexity of the legal arrangements which associate two types of social protection systems: one which is funded (Macao Pension Fund) and one which is pay-as-you-go (CGA).

One must specify that until 1986, the system run in Macao, heritage of the previous Portuguese administration of Overseas, was also pay-as-you-go. It is necessary to give an overview of the recent history of the system of social protection for Macao civil servants, and to describe the problems relating to the transfer of pension rights towards the pay-as-you-go scheme of CGA.

The pension system for Macao civil servants

Until the enforcement of the present Constitution of the Portuguese Republic in 1976, Macao was like the other former African colonies and Timor-Leste, a Portuguese Overseas Province.

Most of the civil servants working in administrative divisions belonged to the provinces' staff and as such, had no relation with Portugal nor with its system of social protection for civil servants which has been administered by CGA. These civil servants paid contributions for their pension and the Province was responsible for collecting contributions and paying pensions.

Macao was in the same position as the other Provinces under the Status of Overseas' Civil Servants (EFU). This system was purely pay-as-you-go.

On 25 April 1974, The fall of the so-called "New State" and the implementation of the new Constitution have given a new organic status to the Chinese Territory placed under Portuguese administration. Responsibility for public administration and social security were transferred to the Territory's own institutions.

Fearing an unfavourable evolution of the pension burden (personal pension and survivors') which would have threatened the public finances, on 31 December 1985, it was decided to transform the pay-as-you-go system into a funded system. The administration of the new system was entrusted to a public institution, the Macao Pension Fund (FPM), set up for this purpose and working in close relation with the Government of Macao and the Direction of Finances.

To achieve such a radical change, the FPM received allocations provided by the General Budget of the Territory and by private budgets of autonomous institutions. The FPM was also responsible for collecting contributions (it should be noted that active member's contributions went up from 6 % to 10 % and the contributions from the Territory's Budget rose from 18 % to 20 %). These resources made it possible at a first stage, to build up, and then to strengthen the reserves necessary to set up the pension scheme. In addition, during a transition period, the FPM was exempted from the payment of pensions which was then entrusted to the General Budget of the Territory.

Later in 1987, when the starting period was over, the scheme went through several important organic modifications, aiming at a greater management autonomy.

The FPM is responsible for the administration of pensions (retirement and survivor pensions) under the rules enforced on the Territory. It relies on the following incomes: contributions from active members, from the General Budget of the Territory and from private budgets of autonomous institutions (allocations from these budgets aim to build up and strengthen the reserves), return from real estate, investments, incomes from alienation or cession of real estate as well as legacy heritage or donation.

In fact, although it presents all the features of a public foundation (public scope purpose) placed under the authority of a Governor (the Territory is involved in the obligation of pension payment), the FPM has achieved an administrative structure totally independent from the other services of the Territory since it has its own management bodies.

More recently, in September 1998, the FPM was reorganised again in order to study future prospects, since the integration process and the transfer of responsibilities had come to an end. The calculation rules of the scheme are not given in detail since they are not fundamentally different from CGA's rules.

CGA has co-operated with the FPM to set out the conditions of transfers of pension rights (already accrued or currently being accrued by active members or pensioners from Macao) towards the Portuguese Republic.

Transfer of pension rights from the FPM towards CGA

The conditions of the transfer of power are defined in the Common Declaration of the Portuguese Republic and the People's Republic of China on the question of Macao dated 13 April 1987. They are particularly complex.

For civil servants of the Portuguese services who wish to stay on the Territory after 20 December 1999, the Common Declaration settles the conditions of preservation of respective job-related commitments as well as the preservation of social protection rights accrued or currently being accrued.

For civil servants who wish to go back to Portugal, the Declaration sets out the conditions of integration into the Portuguese public services as well as the conditions of transfers of rights and charges towards the Caixa Geral de Aposentações.

The Decrees n° 357/93 of 14 October, n° 89-F/98 of 13 April and n° 347/99 of 27 August fix specific regulations for Portugal and the Territory. These regulations have a major importance for CGA. They refer to the following categories:

Main features of Macao pension scheme

Qualifying period: 15 years – maximum pensionable age: between age 60 and 65 – 36 years of service required for a full rate pension – early pension with 30 years of service, either at the age of 55 or whatever the age if it does not affect the service – pension adjustment in line with salaries indexation – contribution: 27 % (9 % payable by employees, 18 % by the employer) plus 3 % for the survivor pension (1 % payable by the employee, 2 % by the employer) – benefit under the form of an annuity or a lump sum (the lump sum being calculated according to pensionable salary and reckonable time: 2 months of salary for each reckonable year);

Civil servants staying in Macao after the transfer of power

For active members, the job-related commitment is maintained and the new salaries cannot be lower than the ones provided by the Portuguese services. For pensioners, the regulations provide that pensions cannot be lower than the amount previously paid, whatever the beneficiary's nationality and residence.

Civil servant going back to Portugal

Active members will be reintegrated into Portuguese public services; contributory service completed in Macao will be taken into account by CGA. For pensioners a transfer of charges towards CGA is possible (on the beneficiary's request).

CGA is concerned with this latter category.

The major point is that CGA takes into account the reckonable service completed in Macao civil service. However this principle is subject to the transfer from FMP to CGA of an amount calculated on the basis of 10 % of the salary and the reckonable time completed by the person at the date of the transfer.

For the former civil servants of the Administration of the Territory and their dependants, the pensions charges, all calculated according to the rules of the Macao scheme, have been transferred on the pensioners' request (the amount to be transferred was calculated on the basis of 10 %

of the pension paid to the beneficiary at the time of the transfer). As of the date of transfer, beneficiaries come under the new scheme (regulated by the Retirement and Survivor Pensions Status) especially regarding pension adjustment rules.

Here are the main points of this transfer. This system could be used as a reference for similar situations of transfer of power. It can also prove that it is possible to establish transfer processes for pension rights, between two different types of schemes.

Vasco Costa
Original language: French

*530 active members have been reintegrated in the Portuguese services and 3,330 pensioners – retirement pensions and survivor pensions have been transferred to CGA.
The funds transferred have not been integrated in the pay-as-you-go system. They have been invested*

ITALY

INPDAP and supplementary schemes

The law of 1995 relating to the last reform of the basic and supplementary pensions, followed by the law of 27 May 1999, n° 144 have developed the decree of 1993 on supplementary pensions. This provides the opportunity for institutions which administer compulsory pension schemes to pass agreements with pension funds in order to collect contributions, pay benefits and carry out all activities related to these services including the constitution of asset companies provided they hold the majority of social capital.

The law requires the approval of the Authority guaranteeing market competition and the organisation of the service in accordance with criteria for accounting separation.

Thus, INPDAP has obtained from the legislator authorisation to provide pension fund administration management services.

In addition, the agreement of 2 June 1999 between ARAN (Agenzia per la Rappresentanza Negoziale delle Amministrazioni Pubbliche - Agency responsible for defining contracts with public agents) and the trade unions has given a start to the pension funds by containing the cost of constitution and management. This has limited the number of funds and has allowed institutions such as INPDAP to deal with supplementary pensions since institutionally they are already responsible for pensions and have staff, technologies and organisation adapted to such operations.

For this purpose, in September, the governing Board approved the "Regulation allowing INPDAP to render administrative services to supplementary pension funds, by way of agreements".

The main articles of this regulation concern:

- Services to be rendered in term of : typology, structure of agreement, relation between financial partners, operational and accounting organisation
- administrative and accounting services
- creation of database
- follow up of the regulatory and statutory evolution of the fund
- follow up of the fund's partners
- contributions paid by the insured
- benefits to be paid out, (annuity and lump sums)
- Accounting and balance of the fund
- Service cost and relating profits.

Presently INPDAP is awaiting the approval of the Authority guaranteeing market competition for actual realisation.

Gabriella SIMEONE
Langue originale français

OUTSIDE EUROPE

CANADA

OVERVIEW ON THE PENSION SYSTEM

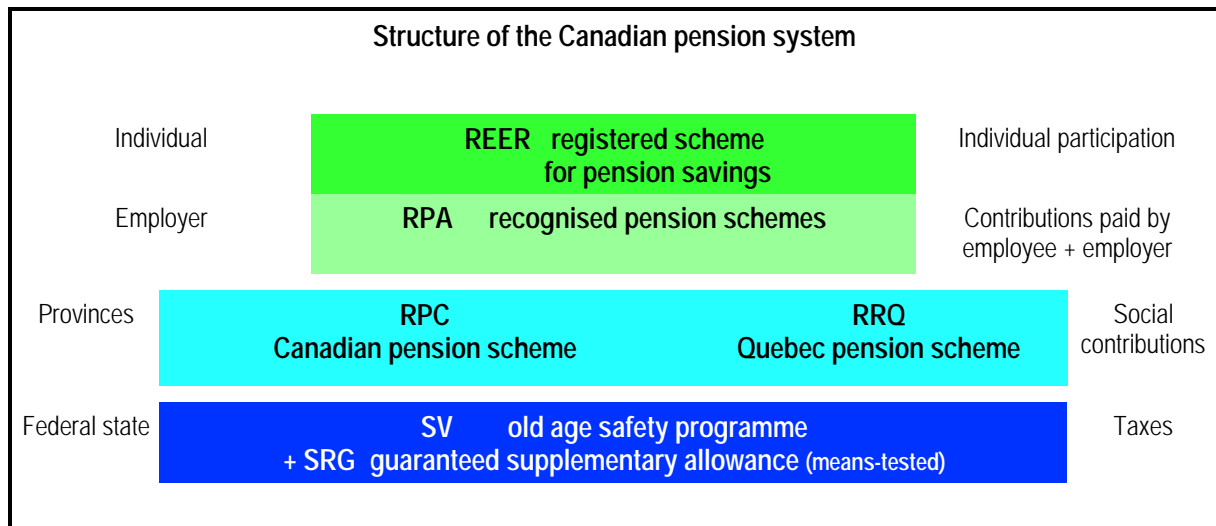
From 14 August until 1 September, CDC's Pension Department carried out a working visit for the members of the governing board of CNRACL and IRCANTEC. While a topical debate has been launched in France after the publication of the Charpin Report, it seemed interesting to consider the evolution and solutions implemented in

a country which is still demographically young but which will have to face the effect of the « grey wave ». like the other developed countries.

The Canadian system is composed of 4 pillars, it would be more accurate to call them layers rather than pillars since this latter word refers more especially to parallel schemes. The first two are

universal, compulsory and pay-as-you-go. They cover both private and public sectors.

Their replacement rate is about 25 %. The third and fourth layers are funded and optional, one is collective, the other one is individual.



The reduced size of the first two boxes indicates that supplementary pensions do not cover the whole population. However the graph does not represent the real proportion of the covered population

The old age safety programme set up in 1952 and administered by the federal Government aims at guaranteeing a minimum income to all persons aged over 65 and living in Canada, as well as to certain people close to pensionable age. This fixed rate benefit is not related to any professional activity. It can also be paid to people who are still employed. It varies according to personal income and can be completed by a spouse allowance granted in especially difficult situations to certain widows, widowers and household that only have income from one pensioner. It is fully financed by tax. The scheme covers 3.7 million people and its annual

expenses amount to more or less €15.4 billion (3 % of GDP)

The second layer is covered either by the Canadian Pension Scheme or by the Quebec Pension scheme. Set up on 1 January 1966, this consolidated scheme is administered by the Federal government and by the Quebec pension system.

This layer aims to replace a part of the income lost following retirement, disability or death of a member. It is financed by a 7 % contribution equally shared by employers and employees. The basis for contributions is limited to the maximum amount taken into

account for the calculation of the pensionable salary (€ 24,850 in 1999 including a franchise of €2,290)

Over the next four years the contribution rate will gradually increase and reach 9.9 % of pensionable incomes in 2003 (stable balanced rate)

The scheme pays retirement pensions, disability pensions, surviving spouse pensions, children pensions in the case of disability or death, as well as death benefits. Their amount is adjusted in line with the cost of living.

The retirement pension is full rate at age 65 (about 25 % of monthly pensionable salaries). However it is

In short

Conference on active ageing

On 15 and 16 November the European Commission organised a conference on the subject of "active ageing". Jean Pierre Delville and Thierry Christophoul were invited as representatives of EAPSPI.

Web news

Database

8 presentations of pension schemes have been translated into German. They will be placed on the association site after they are validated by the relevant institutions.

possible to get it from age 60 with an actuarial reduction of 0.5 % per month of anticipation. But if the entitlement starts after age 65, the pension is enhanced by 0.5 % per month of postponement.

For the whole country, these benefits amount to €16 billions (3 % of GDP)

The legally recognised pension schemes (RPA – 3rd stratum) are established on a voluntary basis by the employer and the unions represented in the company. They are included in the labour contract. Contributions are generally equally shared and can be deducted from taxable incomes whereas benefits which are only annuities are subject to tax.

These schemes can be defined benefit (54 %) or defined contribution (45 %) or mixed arrangements (1 %). However the second type covers 88 % of active contributors and the first type only 11 %. There are 15,000 schemes covering 5 million contributors which represents Can\$ 530 billion liabilities (€315 billion), all funded. Asset mix is diversified and regulated. Investment income is free from tax.

Finally the registered schemes for pension savings (REER) are run like individual money purchase systems. They have the same fiscal incentives as RPA and are submitted to the same controls and rules regarding investments.

Like in all developed countries, there are several forms of plans. However pension saving arrangements remain separate from life insurance.

The first two layers are placed under the authority of the Chief Actuary of Canada (or Quebec) who is responsible for reporting over a three year-period. This report for the Government and the Parliament assesses the financial balance of the schemes under its supervision.

The Minister of Finance is responsible for protecting the insured, the contributors and the members of pension schemes against losses by establishing a legal framework which « would develop the public's confidence into the competitive financial system ». For this purpose it also supervises the 3rd and 4th layers.

The main developments observed concern the effect of demographic evolution resulting from the « baby-boom ». However, Canada also takes into account the impact of immigration since the country goes on attracting immigrants from all over the world (there are about 4000 ethnic groups in Toronto).

While the first layer, regarded as a safety net, will continue to be financed by taxes as a pure pay-as-you-go system, the second one will be partially funded with « pay-as-you-go reserves ». The point is to establish a real inter-generation solidarity which could correct the negative effects on future generations, resulting from the preservation of a strict pay-as-you-go system. To start the fund, the contribution rate of RPC will gradually rise from 7 % to 9.9 % in 2003.

The administration of this reserve will be entrusted to a federal body except for Quebec where the assets will be administered by the Quebec Caisse for deposits and investments. The management of these bodies is the object of regular reports made to the political authorities (Government and Parliament).

Regarding the 3rd and 4th layers, although a certain stock market risk cannot be avoided, the future can be envisaged with a certain peace of mind thanks to the requirement of full funding and to the instruments of analysis and supervision developed by public bodies responsible for the control of the schemes' administration and solvency.

However prudential rules generally adopted and implemented facilitate a correct assessment of the risk; certain schemes have even set up tools aiming at optimising the ratio return/risks.

The Canadian system is characterised by the idea of collective and shared responsibility involving all interested parties. The solutions proposed and approved to face the future difficulties demonstrate a real intention of permanent management of long-term risk.

Thierry CHRISTOPHOUL
Original language : French

National updates

GERMANY

Is it still possible to finance public sector pensions?

At a symposium held on 29 September 1999, in Cologne, the Association of pension schemes for Municipalities and churches discussed the question of financing public service pensions. How is it possible to maintain this financing considering the present structural problems? (prolongation of life expectancy, shortening of working life due to training periods, anticipated pensions and a very high unemployment rate). At AKA's request the study focussed on the economic and actuarial aspects of the problem. This analysis was presented by Mr Rürup and Mr Heubeck, professors of national and international repute. About 400 representatives of the political world, of ministries, courts of accounts, churches, municipalities and Länder attended.

Both professors first analysed the present situation of public sector pension schemes (pensions for civil servants and supplementary pensions) and presented their conclusions. They also envisaged solutions able to fit the requirements of future financing. They felt it is achievable without changing the present system, only by strengthening the mixed financing method associating pay-as-you-go and funding, through an increase in reserves. Over the years, the returns on accumulated capital will reduce charges, and limit the growth of the contribution rate. Of course this process will entail high charges to be met by active members. The result can be achieved through professional optimised investments as those which are carried out in public service pension schemes.

Professors Heubeck and Rürup clearly stated that the financing method used by insurance companies would be not only unsuitable, but also excessively expensive. That is why it would be more convenient to consolidate the financing method within the existing systems

It is precisely the flexibility of the periodic funding system applied to supplementary schemes, which allows the employees rights to match the present economic conditions and the budgetary situation of employers. From a financial economic and actuarial point of view, there is no reason for a radical change in the financing methods.

These proposals were followed by a debate within a panel with representatives of the political world, ministries, municipalities and the association of civil servants as well as all the unions. All of them were well informed about the difficult situation of public sector pensions since they are very much involved in this field. All came to the conclusion that a reform was necessary within the limit of the present schemes' preservation. It could concern for instance the funding rate. However all participants disapproved the financing method presently used by insurance companies.

In conclusion, the participants underlined that the future developments of supplementary pensions and pensions for civil servants, would depend on modifications introduced to the amount of the basic legal pension.

Civil servants should be aware that pensions resulting from collective agreements are tightly bound to the situation of the general scheme and the situation of the budget. Social partners for supplementary pensions and the legislator for civil servants' pensions will decide whether and to what extent it is necessary to integrate modified general conditions, while maintaining confidence in the existing rights.

Hagen Hügelschäffer
Original language: German

In short

Moving in and out

Eric Thuillez who was Managing director of IRCANTEC is now posted in Paris at the management of savings funds within CDC Group. He has been replaced by Henri d'Oysonville at the head of the Angers establishment.

Pierre Ducret, Managing director of CNRACL and the Bordeaux establishment has been appointed deputy secretary general of CDC Group since 1 December 1999. His successor Louis Quétier will take up the head of the Bordeaux establishment as of 1 January

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European updates

Active ageing

On 15 and 16 November, the European Commission (DG V Employment and Social affairs) organised a conference in Brussels on « active ageing ». Through this event which closed the International year for senior citizens, the Commission aimed at defining a several year programme and launching the reflection on the XXIst century society. Firstly, Barbara Helffrich underlined that the extension of life expectancy was one of the good result of the social protection systems. Several speakers highlighted the major role of early cessation of activity as a solution against unemployment.

The concept of active ageing aims at providing to the third part of life, a better quality, by « making old age more lively ».

Nowadays it looks like « active ageing » is a way to maintain a physical and mental comfort which favours the prolongation of a healthy life.

Active ageing has been successively analysed from the point of view of employment (promotion of work for the elderly), from the point of view of pension systems, health policy, social integration and action against discrimination.

Regarding pensions, Pr Anne-Marie Guillemard (sociologist in Paris) reminded that the social contract relies on a tacit rule for distribution of social time over the life cycle.

Pensions are part of the three-fold concept of the life cycle: education (or training) – work – and remunerated free time. Thus the right to enjoy a rest at the end of life implies the obligation of social transfers which allows a modest but decent end of life.

Over the last years, the changes regarding labour and employment have had different effects on the life cycle which has become more flexible and is no longer three-fold. Thus, education/training is spread over the whole life. Such evolution of the societal context requires a new definition of the inter-generation contract.

The other reports confirmed this approach.

The elderly must be fully-fledged citizens. This consideration led Mrs Sally Greengross to draw the attention

of the audience on age discrimination and the way it is possible to reduce it. Discriminatory practice based on age leads to social exclusion and people are not even aware of it. It is necessary to become fully conscious of the problem if we want to develop actions against it.

Mrs Greengross left it to the European legal competence and to the Parliament to remove the present obstacles.

In his closing address, Allan Larsson (Director General for Employment and social security) reminded that regarding employment strategy, the Amsterdam Treaty had introduced a new approach guaranteeing a consistent policy in order to maintain labour and develop new behaviours.

He also drew the audience's attention on the responsibility of social partners concerning modernisation of occupational life. He underlined that 80 % of the users of most new technologies available in the next 10 years would be employees having been trained in the past, hence the utmost necessity to update competence and know how several time over the active life. This requires a new contractual framework for occupational activity.

Concerning social security, the European construction will generate strong pressure on new generations. Four objectives underpin the co-operation programme: to guarantee stable incomes, and decent pensions, to promote social integration and to develop quality health services.

He also indicated that the Commission would use all means provided by the Amsterdam Treaty to fight against all types of discrimination, particularly the one concerning the elderly. Finally he invited the participants to convert the debate into concrete action associating the traditional partners (unions, experts, researchers...) and also NGO which are often pioneers regarding changes.

This approach is supported by the Parliament which through the President of its social commission, Michel Rocard is very much willing to further the construction of a social Europe by getting more involved in each of the concerned fields.

Thierry Christophoul
Original language: French