



FUTURE IN BALANCE.

E A P S P I

Pensions for the Public Sector

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EDITORIAL

In the last years, a global trend is emerging for pension rights to become less generous and for individuals to play a more important role in their own retirement planning. At the same time as this increasing responsibility placed on individuals, EAPSPI members are faced with a duty of communication to active members of their retirement schemes. In the past, pension schemes often communicated directly only with pensioners, leaving the communication with active members in the hands of employers. The first time members came into direct contact with their pension scheme was the moment they retired. Modern technology has completely transformed this situation, making it easier for the pension scheme to provide specific information to all affiliates, active or retired, using a variety of channels. Indeed, information technology has made it possible for citizens to consult their pension rights at any moment. The business of retirement schemes has thus evolved from that of an “invisible” administrative manager into a long-term partner entrusted with a role of providing clear, accurate, comprehensible information on future pensions to workers throughout their careers. For these reasons Customer Relationship Management (CRM) has now become a key issue also for public sector pension schemes. Moreover, the legal framework in a growing number of countries entitles affiliates to obtain information from their schemes about their acquired rights and how to optimise them under the relevant regulations. EAPSPI’s conference of last October has examined the changes in information and advisory services taking place in the European public-sector pensions industry – describing both overall trends and situations in specific countries.

Communication is also the starting point of the issue of mobile researchers. Due to short-term labour contracts especially at the beginning of their career, scientists often lose track of their pension rights they have acquired during their working life. Pension schemes will have to develop solutions to avoid disadvantages for mobile workers. And any solution starts with access to sound information and therefore assessment of the future pension level.

Communication between EAPSPI’s members was finally the origin of the seminar in London last November. Public sector pension schemes are often under pressure in many countries, notably in the aftermath of the crisis. Against this background, reciprocal knowledge of the problems and answers found in other countries is not only interesting but helpful and important in finding own solutions at national level.

Kind regards,



Hagen Hügelschäffer

EAPSPI conference 2010 in Paris

EAPSPI's conference 2010 dealt with information and communication strategies of public sector pension institutions. In addition to two external key-note speakers at the beginning of this event, notably representatives from EAPSPI's members presented and discussed their different approaches in this field.

The conference started with a presentation by **Pablo Antolín** (OECD) about "Communicating uncertainty in pension benefits from DC pension plans". Mr Antolín talked about the usefulness of pension projections versus their reliability, about the typical present structure of pension information (accounting and forward-looking), about what the different countries are doing in practice, and finally about how the pension benefit statements are and could be, regarding the communication of the uncertainty of the pension projections in a reliable and simple as possible way.

The second presentation was performed by **Jean-Marie Palach** (Director of GIP Info Retraite - France) about "Information provision to French workers on pension rights". In the first part of his speech, Mr Palach made a short introduction to GIP Info Retraite and its origins, as well as to the foreseen future pension reforms affecting them, and to the French pension system. At this point, he gave a more detailed introduction to the French pension information rights, showing how the information is transmitted in practice to the French citizens via the different media available (Blue envelope), the objectives to be reached, the criteria to be followed and the implemented procedures. The presentation ended with some results from surveys made in order to ascertain the fulfilment of the planned objectives and with some open questions about practical and structural problems emerged that still need to be solved.

After the first two presentations, the conference continued with three different panels. Two of them dealt with information, advisory services and Client Relationship Management (CRM)

whereas the last one was dedicated to Pensions' Update.

Panel 1: Information, advisory services and CRM - Transformation underway

This panel gathered the contributions from three different speakers focussing particularly on the strategic approach.

Jean-Michel Bacquer from Caisse des Dépôts (France) made a short presentation of CDC Pensions Division as well as of the history of the French pension information legislation, followed by the idea CDC maintains of opening itself to the client by optimising a multi-channel relationship managed via CRM functions. The problems of the also mentioned opening of individual retirement accounts were shown as well as the idea CDC has about opening up to further partners, such as other schemes and public sector employers.

Mia Liblik of KPA Pension (Sweden) first explained the Swedish pension system, which is rather complex and completely open to competition between different institutions (banks, insurance companies). Afterwards, she gave more detailed information about the occupational pension market. The complexity of the system implies a difficult information provision to the client due to different factors, such as the range of competing institutions, the multiple possible individual choices among different products and the often low financial knowledge. Furthermore, she presented examples of the compulsory pension information (Orange envelope) as well as some more detailed data on KPA Pension information activities (Green envelope). Mia Liblik outlined more details of KPA's marketing strategy and its brand building (being very important in the competitive Swedish pension market). She concluded that pension products in Sweden could be compared to fast developing consumer goods located into a brand market where making rational and in-

formed choices is rather difficult due to the long-run nature of the product and the information needs and overloads.

Ian Clapperton of the Scottish Public Pensions Agency gave details about current and potential customers of SPPA and the different information means used when contacting active members and pensioners for different reasons. He outlined that web services were the way forward although SPPA faces the general problem that any IT development is quite expensive and that investment in public service pensions in the UK is nowadays limited. Therefore, SPPA is also using other communication channels, like letters to specific cohorts, the annual benefit statement or the cooperation with the employers and the trade unions. He ended with ideas SPPA has for the future to come. Most of them are based on the use of web-based solutions that are still to be developed.

Panel 2: Information, advisory services and CRM: Implementation issues

In contrast to the first panel, this panel focused on practical questions arising from the concrete implementation of CRM.

Johan Janssens of SdPSP (Belgium) first introduced the Belgian pension system, and the Belgian Generation Pact concluded by the Belgian government in 2005. He outlined the efforts Belgium is making in order to have a common pension-related ICT and data platform, allowing to have integrated applications. The aim is to achieve a customer oriented organisation from which everyone (i.e. politicians, customers=citizens, employers and pension institutions) will benefit.

Véronique Brousse introduced her institution CNAV (France), the basic scheme for private sector employees, as the largest French pension scheme. The French retirement system is rather complex, and adequate information to the person close to retirement is a must. It starts with a personal estimation at the age of 55 that is being implemented, and it is followed

by tele-services, face to face meetings and further measures.

Nathalie Wolczanski, who represented German pension provider BVK, started by giving a brief introduction to the German pension system before explaining the customer orientation of BVK via the goals they have and the measures they have enacted in order to achieve them. The example of the evolution of the former call centre into a client centre was a good example of the changes implemented into BVK's organisation, as one of the measures enacted to improve the communication with scheme members. She furthermore presented the marketing policy and goals and measures of key account management.

Dr. Johannes Ziegelbecker, CEO of the Austrian Bundespensionskasse (BPK) presented his rather young institution that has been established in 1999. BPK is now working for 60 plan sponsors and has got more than 200.000 active members. The contribution level of 0.75% of the salaries is quite low. One of the main characteristics of BPK is the low-cost outsourcing-strategy followed since the very beginning that allows them to have a very lean organisation. Since 2010, they have carried out a large communication project after an important increase of active members in 2009.

Pensions' Update

The conference ended with seven presentations gathered together under the title: "Pensions Update". In this panel, the speakers outlined recent developments in their schemes respectively in their country.

Eva Kiwit of AKA (Germany) introduced the challenges for deferred compensation in the German local sector after the judgement C-271/08 of the European Court of Justice (ECJ). Deferred compensation is ruled by a collective agreement in the public sector. For big local employers, the ECJ-ruling imposes calls for tender at EU level in order to provide such service, though social partners have de-

fined the pension providers within the collective agreement. There are still many uncertainties on the subject because of the coincidence of public procurement and occupational pension schemes ruled by collective agreements.

Philippe Nys from Belgium first presented his organisation ONSSAPL, being the National Office of National Security for Provincial and Local Administrations, as well as the schemes it manages. Afterwards, he outlined the future foreseen problems and the reforms to be enacted in 2012 or shortly afterwards. He furthermore presented a new system which balances solidarity with attribution of responsibilities to individual administrations. The principles of the new system were displayed together with an example and some points still to be decided.

Régis Pélissier of CDC started with some economic data and an overview about the French pension reform, which gave floor to its main provisions: postponement of the legal retirement age, reduction of public-private sector differences, information about pension rights. At the same time, he commented on some issues at stake: fairness of the reform (long careers, women), financing of the pension schemes, and unification of schemes.

Ian Clapperton of SPPA (Scotland) explained that in the UK, the Independent Public Service Pension Commission undertook a major revision of the public service pension provision. As a result of its reports (interim report of September 2010 and final report expected in March 2011) measures have been taken by the government, e.g. changes to tax relief reducing annual allowances, changes to inflation proofing (move towards CPI indexation instead of using RPI), two years wage freeze for public service, plans to increase the state pension age and the age 75 limit. The new reforms are likely to be introduced during 2011 to 2013.

Bjørn Hamre of KLP (Norway) showed the difficulties of managing pensions in a world of

low long-term interest rates by displaying recent and old economic historical data which underlined the problem that especially DB schemes are bearing substantial risks. As a result of the problems, new asset classes are being taken into consideration (infrastructure, power plants, clean energies) as alternative investments. He finally suggested that counter-cyclical funding regulations should be enacted.

Wim Moes of APG (The Netherlands) presented the so-called Dutch "Pension revolution", stemming from three different key issues: Increasing longevity, low interest rates and enhanced volatility. The Dutch PAYG first pillar does not seem to be seriously affected but the funded second pillar has big coverage ratio problems, being below the legally required minimum funding level of 105%. Before the end of 2010, measures should be taken if the financial and economic situation does not improve drastically. Otherwise the system would not be able to cope with the situation and a heavy burden would be laid on future generations.

Wolf R. Thiel of VBL (Germany) finished this panel by giving an update to the issue "Mobile researchers - A challenge for supplementary pension provider" that stands for the discussion to establish a specific occupational scheme for pan-European researchers. This, however, could have serious consequences for the rest of the European public sector pension schemes. The European Commission apparently wishes to promote a European pension fund for researchers, even if this could lead to higher costs for employers and lower returns for employees.

The presentations can be downloaded from EAPSPI's website. Go to eapspi.eu/Events/Conference on 22 October 2010.

[Aitor Emaldi](#)
[Elkarkidetza](#)

Information, advisory services and customer relationship management or how do we manage customer expectations at SPPA

This report reflects the presentation of Ian Clapperton at the EAPSPI conference in Paris in October 2010.

As a scheme administrator I want to talk about the delivery of customer service, not the policy. Therefore my plan today is to give you a flavour of what we do in Scotland to address customer service issues and also some of our ideas for improving our service in the coming years.

Today, the customer, knows his rights, and if he doesn't get what he expects, when he wants it, he complains. Nowadays the customer expects answers immediately, not tomorrow. It is not just the scheme member who has a customer expectation.

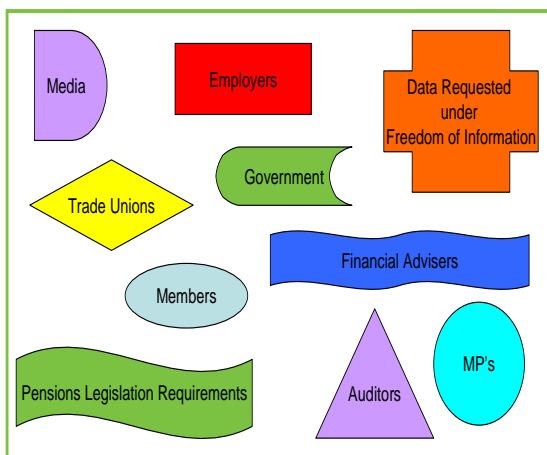
Every year SPPA manage 150,000 phone calls or letters from customers, and that does not include emails, web hits, personal visits to the Agency.

Web services are the way forward, but IT has to be developed and this costs money. Investment in public service pensions in the UK is limited and administrators do not necessarily have access to sufficient funds to develop the web services they would like. A full web interface requires that member data is up to date and this is not always possible when employers can take up to one year to get annual returns submitted. System functionality is not always what you would like, and administrators sometimes have to work around the problem and settle for something less than they want.

So how do we handle the huge number of customer enquiries and manage their expectations?



POTENTIAL CUSTOMERS



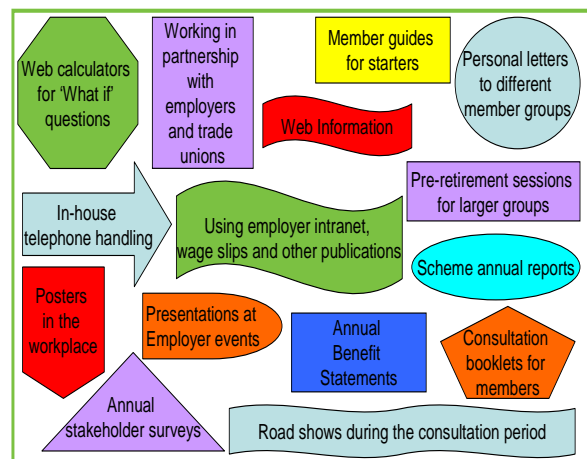
But at the same, despite being required to manage customer expectations, administrators are increasingly bound to do so with less resource. Good communications can be costly. If we did everything recommended as being "good practice in communications" our budgets would be struggling to cope.

Active members

We use a range of measures to make sure that members are kept informed.



ACTIVE MEMBERS



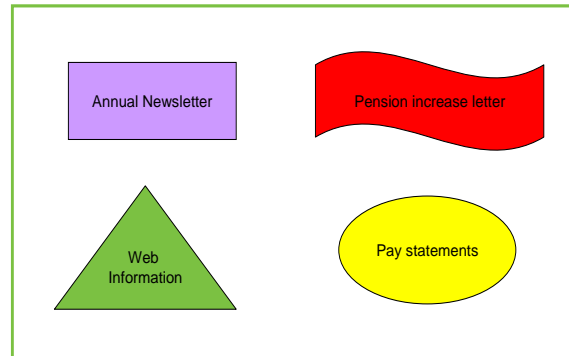
As you see, there are a raft of measures we take to try and keep the member informed. I will not have time to speak to them all, but some are worth mentioning

- The web. We do not have a full member interface yet, therefore we have to manage with making sure that all generic scheme information is up to date, with "what if" calculators to enable the member to obtain estimates, etc based on what he thinks is his right circumstances. These are very helpful when a member wants to know how much it would cost to buy additional pension, or to work out the reduction that would apply if he took pension early, for example. Our main problem with developing the full web interface is that more than half of our members have different contracts [multiple records] because of the way that their employment is organised, and to get an accurate position the member would have to access the web for each contract - some have over 30 contracts! Not an ideal solution.
- Letters to specific cohorts are something we use to alert certain members to a problem affecting only them. This is a very worthwhile way to make sure that the right people get the right message. For example, a letter to high earners alerting them to changes which may result in a tax penalty.
- Annual benefit statements are an important part of our business. Not only does the member feel that his pension is being looked after, but it avoids requests for estimates and projections. The other aspect of statements is that it gives the member the opportunity to check that his records are up to date.
- By working in partnership with employers and trade unions we have another route to the member. Our partners communicate with their members face to face, by email, circular, on a regular basis and this helps us get messages across. Inserting a brief message on wage slips is a simple way to get an important message to everyone.

Pensioner members



PENSIONER MEMBERS



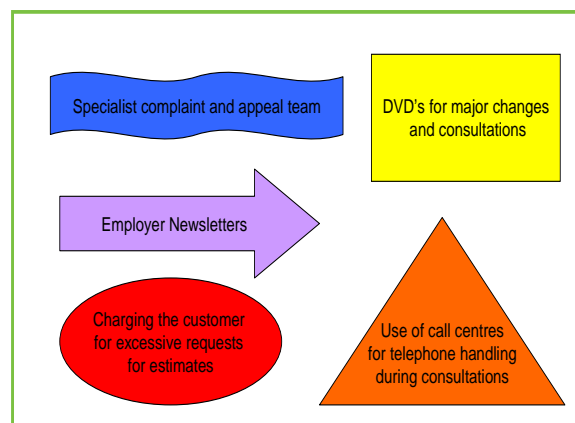
For our pensioners, unfortunately we actually use a different IT system, and this means another piece of development.

At present we issue communications by hard copy but this is an expensive option. On the other hand many pensioners prefer hard copy. We limit our communications to, pay statements only when the pension changes or to advise when the pension is to be increased each year plus an annual newsletter which provides information about the Agency, advice concerning death benefits, tax changes, and so on.

Stakeholder initiatives



STAKEHOLDER INITIATIVES



We have tried to be as proactive as possible in communicating with members and the use of a DVD to create awareness of major changes to the pension schemes. The DVD was issued to employers to pass on to employees and at the same time we loaded it to our web and alerted members via wage slips to its presence.

As an Agency we believe in dealing with enquiries ourselves and we do not employ call centres to handle telephone calls. It generally means that enquiries are more quickly and correctly handled.

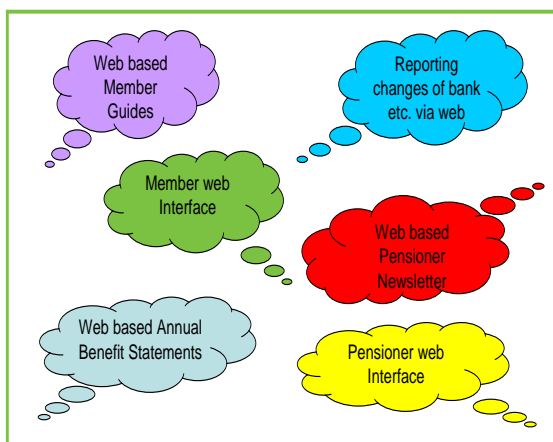
One thing we have done is to try and limit what the member can request. If he has had an annual benefit statement or an estimate in the last 12 months, we will not issue another. If he insists, we charge an administration fee.

The way forward

As mentioned earlier, web services are key to providing better communications, and at the same time to make savings in budgets. We are continuing to develop plans for a member and pensioner web interface which would provide a self service facility but this will take time. However as a minimum from next year we plan to use the web for the following:



THE WAY FORWARD



There is no reason why active members cannot access the web for the scheme guide or for pensioners to access their newsletter via the web. All employees should have web access and most pensioners will be able to do likewise. We know that other schemes, for example in Denmark have done this, so why not us. It will be interesting to see what the customer reaction is.

Equally why should we issue annual benefit statements by post when a simple wage slip announcement could be made advising the member that their statement is now available online? By providing members the opportunity to access their statement on the web, there could be a significant cost saving. And by providing links from the statement to SPPA we may be able to encourage members to provide us with change of address notifications, etc.

In conclusion, SPPA understand the importance of good communications, but do recognise that it requires investment to become a fully electronic organisation. We have benchmarked ourselves with peers across Europe and rest of the World in an effort to identify best practice. I hope that with the benefit of benchmarking results and with investment we will be able to provide a much improved interactive service to our stakeholders, however in the meantime we like to think that our efforts are just about managing customer/stakeholder expectations.

Ian Clapperton
SPPA

Mobile researchers: challenge and opportunity for supplementary pension institutions

Occupational pensions and mobility, a recurrent issue on the European agenda

Given that EU member states have not yet been able to agree on portability of pension rights within the framework of a directive on occupational pensions, the Commission has put the issue of mobility back on the agenda in its Green Paper on Pensions. There can be no doubt that the freedom to work in any European country is one of the fundamental freedoms of the European citizen. The more occupational pensions become an indispensable part of old-age pensions for European citizens, the more the existing occupational pension schemes could be an obstacle to professional mobility. Admittedly professional mobility is not yet a mass phenomenon in Europe. But in light of demographic change and of globalisation, increasing mobility will be essential on the European market, if the EU intends to remain a key player in international competition. Irrespective of future developments, mobility is already a significant requirement in certain professions, in particular in sciences, research and health. In these sectors, most employees work for public law institutions. That is why public sector supplementary pension institutions must also find answers to the mobility challenge.

A European partnership for researchers

Mobility is an essential requirement for recruitment of young researchers which is crucial for the European Unions to meet the challenges of the future. It is therefore not surprising that in its Green Paper, the Commission takes scientists as the typical example of the need to handle the consequences of professional mobility in respect of pension provision¹. Developing and building the European Research Area is a pan-

European theme and the European Commission has been working for some time on the issue of how to attract young generations of scientists. The member states of the European Union have therefore agreed on a partnership for researchers, proposing various measures to improve working conditions for scientists in Europe. Alongside themes such as "more attractive working conditions and improvement of training for scientists", the Commission is also focusing on "social security" and on "supplementary pensions for researchers".

In its first Communication on a partnership for researchers, the Commission had already presented the idea of a pan-European pension fund². Researchers would be members of this fund throughout their scientific careers, irrespective of the country they work. In summer 2009, the Commission ordered a Feasibility study of a pan-European pension fund for EU researchers, and the results were published in July 2010³. The results come as no surprise: the fund is said to be feasible and to be wanted by employers. The study also acknowledges, however, that in quite a few European countries, participation in the fund would be problematic for the large group of salaried scientific staff in the public sector.

In Germany, the vast majority of scientists are public sector employees or employed by research institutions supported by public funding. These scientists, whose employment contracts are subject to social insurance contributions, are mostly members of VBL for their supplementary pensions (with the exception of Hamburg and Saarland). In France, Belgium, the Netherlands, Great Britain, Ireland and Sweden also, many scientists are members of a public sector supplementary pension scheme. The same applies to researchers in Swiss universities. The creation of a new pan-Euro-

¹ Green Paper "Towards adequate, sustainable and safe European pension systems", Footnote 28, page 12 in the English version, point 3.3.2 Mobility of Pensions

² Communication from the European Commission of May 2008, COM(2008)317

³ http://ec.europa.eu/research/era/areas/researchers/researchers_en.htm

pan fund for scientists would therefore be a significant development for a certain number of EAPSPI members.

The feasibility study of a pan-European pension fund for researchers

The study examines the technical, legal and financial aspects of creating a pan-European pension fund for researchers as a cross-border pan-European pension scheme. Its findings are in favour of the creation of an occupational pension scheme corresponding to those referred to in Directive 2003/41/EC, the IORP Directive on Institutions of Occupational Retirement Provision. Alongside such a pension fund, the study also examines, as a possible instrument, a life insurance contract as understood by Directive 2002/83/EC on life insurance. Finally, the study examines other solutions such as cross-border asset pooling or a uniform financial product design.

Belgium, Ireland and Luxembourg were considered as possible sites for a cross-border fund. The study offers an interesting overview of already existing cross-border products in different branches and in particular of the legal framework conditions in the member states for cross-border pension funds. This inventory almost seems to attract more attention than - for example - the aspect, of whether creating a pan-European fund would really be useful for the majority of employers of scientists. The Advisory Committee of the Commission, to whom the study was presented after three intermediary reports, included not only employees of the General Directorate for Research, but also colleagues from the Directorates-General for Internal Market and Services, Taxation, Employment and Social Affairs. During the discussions concerning the Green Paper on Pensions, the Commission indicated that it wished to encourage cross-border pension products because the number of pan European funds in various sectors in existence today, at 78, is too low⁴.

⁴ IPE magazine, February, 2010 page 7

Other chapters of the study discuss the possible governance structures, estimate the costs of creation or management, and summarise framework conditions from the viewpoint of labour law, social law and tax law, or the prerequisites for pan-European funds in general in ten EU member states (B, D, E, F, GB, I, IRL, NL, PL, S). Concerning management, the study proposes a three-tier model. The first level would be contact through an internet portal which provides information. The next level would be a service centre for the enquiries which cannot be answered through the internet portal. The last level would consist of fund managers who take care of contacts with employers and financial operators and who manage accounting, payment of pension benefits and all complex enquiries.

In conclusion, the study observes that the different framework conditions in the member states do not represent a significant obstacle to the creation of a pan-European fund. It would be possible to meet the different national legal requirement by instituting national sections of the pension fund. Costs would decrease with the increasing number of fund members. For employers, the cost of a model with a standard configuration would be almost 10 times lower than the cost of a model with variable benefits. The study does not contain any concrete proposals concerning the management of fund investments. But this depends on the extent to which pooling applies or to which the investment is managed by segregated fund management in the national sections.

Participation of employers or researchers who are already members of an occupational pension scheme

As already mentioned, the study detects a demand for a pan-European fund for researchers, but draws attention to the difficulties raised by researchers who are public sector employees. To determine the level of demand, the consultancy firm had placed a questionnaire on the internet aimed both at private sector companies and at public research institutions and universities. 75 employers in total

answered the questions, including 19 % private companies, 49 % universities, mostly from countries in southern Europe, and 32 % public research institutions or international organisations.

Regarding participation of researchers employed in the public sector in the special fund, the study refers to "possible or significant problems" in eight of the ten focused European states⁵. The issue here is to ascertain whether public employers in these countries would be willing to participate in a new fund, given that the creation and maintenance of an occupational pension fund involves costs that these employers, or the public sector, already bear for the existing systems. Above and beyond the increased cost for public sector employers, there would be another obstacle to membership of the researchers in a new fund, namely that in many systems there is a mandatory legal obligation for employees to be members of an occupational pension scheme. It has been debated therefore to oblige the institutions or states affected to at least give researchers the choice of membership of an occupational pension scheme.

Although this choice-based approach is understandable, it does not solve the problem of the mandatory schemes. How could one justify that other professions, which are also rather mobile, such as health professions or technical professions, would not have that choice? Being organised within the framework of mandatory schemes is a typical feature of collective schemes, which contributes significantly to the cost-effectiveness of occupational pensions. A risk community needs to reach a certain size to take the advantage of risk-sharing. The big advantage of these systems is precisely their low cost. For employers, membership of several schemes would involve more administrative work and a higher financial burden. This issue concerns not only the public sector, but also the occupational pension schemes of major enterprises in the private sector. Moreover, article 20, point 1 of the IORP Directive regulates cross-border activity "without prejudice to national social and labour legis-

⁵ Feasibility study, page 68

lation on the organisation of pension systems, including compulsory membership and the outcomes of collective bargaining agreements..."

Why a special fund does not guarantee unrestricted professional mobility

The study itself, however, mentions another rather significant aspect explaining why participation of researchers in a special fund could be problematic, namely the good level of pension benefits offered by public sector schemes in most cases (in particular the defined benefit schemes). Why would a researcher, if he/she has the choice, opt for a new system when the existing system offers a significantly higher level of pension provision? Does increased portability (insofar as it can be achieved) justify a lower level of pension at the end of the day?

There are other arguments that show that creation of a special fund does not increase mobility *per se*:

1. Very few scientists stay in research throughout their whole careers. Any change in their job could result in their membership of other occupational pension schemes.
2. Most scientists do not stay mobile throughout their careers. Where do we place the dividing line that separates access to a specific scheme? Dividing the scientific staff of a given employer among several occupational pension schemes could give rise to infringement of equal treatment principle and contribute to unrest among employees.
3. Compulsory membership of the special fund for employers is legally impossible. Maintaining two funds simultaneously involves significant additional charges for employers who already invest in a scheme. These will be detrimental to the pension benefits of researchers in the long run.
4. The less members they have, the more expensive special funds are. The more

expensive a pension fund is, the lower the level of pension benefits.

Cases where occupational pension provision can be an obstacle to professional mobility

The issue is to promote the mobility of scientists. To be able to make alternative proposals, it is certainly worthwhile to take a close look at emerging problems. In what situations may a job change have negative effects on researchers' occupational pensions claims?

In principle, frequent job changes can result in loss of pension rights in the following cases:

- a scientist often works with short-term employment contracts, meaning that he/she will later have to claim the benefit of many small pension rights in many different institutions;
- the employment contracts are often so short that the required vesting or pre-qualifying periods set forth in the regulations are not reached (resulting in pension gaps);
- lack of information or lack of awareness of accrued pension rights leads the scientist not to claim rights which in fact exist.

It is difficult to assess the frequency of these cases. There is a genuine risk of forgetting membership dating back several decades. The increasing number of enquiries from young researchers shows that their professional careers are increasingly marked by a series of fixed-period contracts in different institutions and countries. Although scientists are a highly qualified customer group, many feel lost due to the complexity of old-age pension provision issues (also see the brochure of the German University Rectors Conference: "Mobility without Security?", 2009). Professional mobility can, therefore, give rise to negative impacts.

How mobility can be encouraged within the framework of existing schemes

The objective is the following: "*Pensions as flexible as any researcher*". As mentioned, creating a pan-European fund for scientists would be worthwhile only for employers who do not yet offer an occupational pension, and not for employers who already invest in existing schemes. It is, however, possible and sensible to improve the situation of researchers and their professional mobility within the framework of these systems. This calls for cooperation among the European pension institutions concerned. Examples of possible fields for such cooperation are:

1. Mutual transfer of the cash equivalent value (portability);
2. Removal of pension gaps by mutual recognition of membership periods;
3. Improvement of the information and consultancy offer for scientists.

Cash equivalent transfer value

Owing to increased mobility requirements, the international career of a researcher involves frequent changes of employer during an extended period within the professional career. It is therefore entirely possible for a given researcher to accrue pension rights with over ten institutions, which could be considered as a factor discouraging this type of career. By **transferring the cash equivalent value** from the previous scheme to the new scheme, it would be possible to reduce the number of pension institutions involved. This would allow scientists to better concentrate their pension capital, although there would still be several institutions affected. Incidentally, this might be an advantage in these times of volatile financial markets.

In principle, such transfers can be undertaken only for vested and funded rights and in compliance with the applicable conditions of national law. Many experts consider that portability involves a great deal of administrative work and that it is therefore costly. Given

that national framework conditions are very different, the objective of introducing portability throughout Europe is likened to solving a Rubik's cube. But looking at transfer conditions in EU member states, one finds many compatible systems which could or already implement transfers of pension capital.

Here are just a few aspects of current transfer practices:

In Austria and Great Britain cross-border transfers are accomplished. Cross-border transfers are also legally permitted in the Netherlands provided that, among other conditions, the new scheme does not offer more generous terms for buyout than the Dutch scheme⁶. If the new scheme provides such terms, the requirements of the Dutch scheme could be met by excluding payment of the capital in the contract between the new scheme and the member. In this way, it would also be possible to meet the objective of effectively reserving the capital provided for the time of retirement. There are also detailed conditions for the tax provisions applicable to transfers⁷.

Within Germany, cash equivalent transfers for vested rights are also allowed for determined ways of occupational pension. The fact that German law does not specifically regulate cross-border transfers and that it provides for extended protection in case of insolvency of the employer has sometimes been considered in specialised literature arguments against the legal possibility of cross-border transfers from Germany⁸. On the other hand, if the occupational pension scheme is managed by a pension fund (Pensionskasse) as VBL is, the employer has got direct claims against the pension fund and the law does not provide protection ensured by the pension assurance association (Pensionssicherungsverein). Concerning transfers between pension funds,

protection by insolvency insurance is therefore not a convincing counter-argument, given that the transfer between pension fund does not give rise to loss of protection in the event of insolvency of the employer. Uncertainty that still exists concerning tax treatment of cash equivalent transfers should be settled soon, hopefully in favour of portability.

Since the Green Paper on Pensions, capital transfers have become a current issue. Compared with harmonisation of rules governing acquisition and preservation of pension rights by means of a European directive, capital transfer could appear to be a less drastic solution for funded schemes. It would be difficult to create a regulation applicable for all the schemes. It would probably be a good idea to first let compatible schemes gain experience in this field (preferably within the framework of voluntary transfer agreements or standards), before generalising them according to the best-practice principle within the framework of a subsequent European regulation. Scientists would be a suitable pilot group to gain experiences on this field and pension institutions would have the advantage of reducing costly management of mini pension rights for a relatively large group of people.

As mentioned, this approach is not suitable for pay-as-you-go schemes, because there is no capital to be transferred. Transfers cannot be used either in countries, or for schemes, which have a final account system (meaning that the last scheme pays the entire pension to the beneficiary and receives a pro-rata amount from each of the other participating schemes). They may even be legally forbidden. **Transfers are therefore not possible in all schemes and all countries, but they can be part of the solution to improve professional mobility.**

Recognition of membership periods

Membership periods within an occupational pension scheme in the European research area could be added together, so that employees with short-term employment contracts could meet the conditions for pre-qualifying periods and other conditions of the same type

⁶ Dutch Pensions Act (DPA), see Hans van Engelshoven, International Pension Portability: The Dutch Approach Reviewed, INTERTAX Volume 38, 2010, S. 532 et seq.

⁷ See Hans van Engelshoven, page 543

⁸ See Keese, Christian, Die Besteuerung der betrieblichen Altersversorgung und ihr gemeinschaftsrechtlicher Rahmen in „Steuerrecht in Forschung und Praxis“, Verlag Dr. Kovac, Hamburg 2009, page 240 et seq., 242 with other references

governing final accrual of rights. Such regulations would have an impact only for schemes which apply pre-qualifying periods. Times could be added together by **mutual recognition of periods worked** so as to meet the required time frames. An example of this type of approach: mutual recognition of membership periods by supplementary pension institutions of the communal and church sector and by VBL in Germany. It should be taken into consideration that this solution requires modifications of legal provisions or byelaws and that in many countries only the legislator or the social partners will be able to implement such changes. At the end of the day, this approach would be comparable to the coordination set forth in Regulation EC 883/2004 for the state pension schemes. It would, however, also result in higher costs for the occupational pension schemes, and for employers.

Improvement of the information offer for scientists

Access to information and therefore assessment of the future pension claims are and will remain key aspects of pension provision. It is precisely for mobile employees that it can be difficult to obtain such information. This can be due to language barriers, but even more so to the different schemes which the people concerned need to be familiar with. As an example: an American researcher spends two years with a university in Germany to take part in a project in her field of competence. She then goes to Switzerland for two years, followed by a further two years in Sweden to work on other research projects where she can contribute her specialist skills.

The greater the number of pension providers in the career of a researcher, the higher the risk that certain accrued rights will not be claimed, either owing to lack of knowledge or due to the expected insignificance of the rights. This means that the old age pension will be reduced. It is true that many occupational pension institutions provide annual insurance certificates or similar information. If, however, the current address of the beneficiary is not known to the institution, the relationship with the beneficiary falls into oblivion over the years. The issue of

information concerns not only access to beneficiaries, but also the quality of information on accrued rights.

It would be conceivable to create an information portal on the occupational pensions of scientists. Thanks to the European Initiative EURAXESS, there is already an established information portal for mobile scientists within Europe. In most EU member states, there are national EURAXESS service centres which offer arriving and departing researchers information on various topics. This network would make it possible to prepare and link targeted information concerning occupational pension schemes.

Another possible instrument facilitating mobility could be a Tracking Service System, which is also mentioned by the Green Paper on Pensions. The disadvantage of such systems lies in the fact that data entry and storage are costly. Given that only a small number of member states such as France and Sweden are currently experimenting such tracking systems, the objective of a pan-European tracking system appears very ambitious. One may wonder whether occupational pension institutions are willing to implement such costly data exchange, only for the relatively small group represented by mobile scientists.

First steps: drawing the occupational pension guide

In agreement with stakeholders in the scientific sector (amongst others, the German Federal Ministry of Education and Research), VBL is currently launching a project to assess the current conditions and consequences of researcher mobility in terms of occupational pensions in the European research area. First of all, there will be a complete **"Map" of occupational pensions for salaried scientists with research institutions in Europe funded by public budgets**. Compared to the studies conducted until now, this map will list the existing pension institutions, with the most significant characteristics of the schemes, such as the type of insurance, the products,

portability, funding and the essential legal basis. As soon as this inventory has been completed, the "Guide" will be made available to scientists on the Internet.

The map can serve as a starting point to remove obstacles to mobility of researchers among existing occupational pension schemes. Once the necessary information is available, we will be able to compare the legal bases and see how cash equivalent transfers can be implemented, or identify other forms of cooperation in the fields mentioned. This will allow us to prepare concrete proposals and to debate them. In principle, these proposals will not be restricted to the EU, but could also concern researchers in third countries with great significance in the research landscape.

Web information for scientists in Germany

Concerning the information offer for scientists, it should be easy to obtain quick improvements. For researchers who wish to work in Germany, the German EURAXESS service centre with the Alexander von Humboldt Foundation and VBL intend to cooperate to extend the information offer on the theme of pensions. Researchers should be able to obtain a comparatively quick overview of their pension provision in Germany. This means that the American researcher in our example, who receives a two-year limited-period employment offer with a gross annual salary of X through University Y in Germany, can find information on the EURAXESS pages on the value of the pension rights she will accrue during this period. The idea is not to receive intensive training on the pension system in Germany, but to obtain an approximate figure concerning the rights accrued for a subsequent pension (forecast).

The issue of whether this forecast calculation is able to provide solid and reliable information has to be examined. On its web page, VBL already uses several forms of forecast calculation and wishes to propose a prognosis more focused on the needs of scientific staff. Naturally, these forecasts can only be non-binding estimates, given that no pension rights

exist at the time a person is hired. Moreover, such forecasts for occupational pensions are meaningful only if an assessment of expected rights within the first pillar can be undertaken.

When a scientist leaves to go abroad, **binding information** on accrued rights can be obtained only by means of an insurance certificate drawn up by VBL and by the German statutory pension scheme. For the time being, a forecast with access to "genuine" data is not possible. It is precisely owing to the complexity of the state pension scheme and of occupational pensions that information should remain relatively simple and provide only an overview. It remains to be seen whether "genuine" information on future pension rights would be meaningful for young scientists. Owing to possible modifications in benefit systems, such information could be really binding only as from a certain age. The younger the beneficiary, the more a simple forecast estimating the level of the future pension and of supplementary provision will be sufficient.

Vision: a modular system to estimate future pension rights

If the "Infopilot" in this form turns out to be workable, we would need to see whether this approach can be adopted to other pension in Europe. If our American researcher spends two years in Switzerland and another two years in Sweden after her employment contract in Germany, she will be able to obtain a similar forecast. The greater the number of institutions offering this service, the more the researcher will be in a position to assess the pension rights accrued during her stay in Europe. To achieve this, it would not be necessary to undertake a complicated ex-change of data.

Conclusion

Mobile researchers are important for Europe. A pan-European pension fund would not in itself eliminate obstacles to mobility. Depending on the structure and organisation of such a fund, problems related to transfers and to different

benefit schemes will remain. Moreover, many European countries already have occupational pension schemes for scientists that work well. It is entirely possible to foster mobility within the framework of these schemes. The member institutions of EAPSPI could work together to contribute to that objective. It is also true that scientists are not the only category concerned by such issues. It is therefore not only in their

interest that public sector supplementary challenge of professional mobility.

Claudia Wegner-Wahnschaffe
VBL Germany

Ways out of the current crisis – Solutions to the pension challenge of European public sector pension Institutions

London – 10 November 2010

Background

This event was the second in a series of conference held in London and chaired by the Department for Communities and Local Government, to consider and discuss common issues and problems facing public sector pension institutions across Europe. To varying degrees, all schemes faced similar problems relating to improving longevity; rising costs and Government's seeking to reduce the cost of running their public sector pension schemes. The pressure on schemes to reduce their costs is considerable and common across Europe but as the day unfolded, it became clear that different Member States were developing, or had already developed, different strategies to resolve common problems.

Introduction

Terry Crossley, Head of Workforce Pay and Pensions Division at DCLG and responsible for the Local Government and Firefighters' pension schemes, opened the day's proceedings by welcoming those attending. Those attending

included members of EAPSPI; representatives from Government Departments responsible for public service pension schemes in the UK and a number of people with direct interest in the Local Government Pension Scheme including participating employers and trades unions.

After his welcome, Terry Crossley briefly explained the specific issues facing the new Coalition Government in the UK on public service pensions and gave an update on the work of the Independent Public Sector Pensions Commission, chaired by Lord Hutton, which was established in July 2010 to report on the affordability, sustainability and fairness of public service pension schemes in the UK. He went on to contrast this with the difficulties facing most occupational pension schemes in the private sector and the problems that the disparity between the two sectors was causing. Terry Crossley concluded by wishing everybody a good conference.

The UK Dimension

The first presentation of the day was given by Bob Holloway from DCLG. He started by giving a brief account of how the "three pillar" system of pension provision operated in the UK and

explained in greater detail the reasons behind the disparity between the public and private sector. In particular, Bob Holloway highlighted the need for private sector employers to drive down their costs, including pension provision, as one of the main reasons why private sector pensions had decreased so much in value compared to those offered in the public sector. This situation has led many commentators to say that public service pensions in the UK are “gold plated”, but in reality, it is the poor provision of occupational pensions in the private sector that gives the misleading impression that public sector pensions are too generous and unaffordable.

Bob Holloway then summarised the work of Lord Hutton’s Independent Public Sector Pensions Commission and, in particular, described the public sector pensions’ landscape, the issues of affordability, longevity and adequacy. The Government’s response to the increasing cost to the taxpayer of paying for public sector pensions included:

- Introducing a new pension vehicle (NEST) for employers who do not operate their own occupational pension scheme;
- Guaranteed protection for the State Pension;
- Indexation change from Retail Price Indexation (RPI) to Consumer Price Indexation (CPI);
- Consultation on discount rate adopted by public service pension schemes;
- Consultation on “Fair Deal” (policy to protect public sector workers contracted out to private sector companies), and
- Establishing Lord Hutton’s Commission.

Bob Holloway explained that Lord Hutton had published his interim report to Government in October 2010 and that the main recommendations to government were to end defined benefit arrangements in the public sector based on final salary and to move to career average ar-

rangements. Lord Hutton was clear, however, that there should be no move to defined contribution arrangements and that the Government should take steps to improve private sector pensions to something like the level available in the public sector. He was clear that there should be no “race to the bottom”.

The presentation concluded with some general thoughts with perhaps the most important being whether public sector pensions, as we know them, will survive the fiscal consolidation policies of most European Governments.

Experience from other European countries

Ireland (David Owens – Department of Finance)

David Owens explained at great length the background to the pensions crisis in Ireland and gave as the main reasons, increased longevity; insufficient contributions; the changing balance of active members to pensioners and the sheer cost of pension promises made to date. He also questioned whether the Irish economy was strong enough to generate the returns needed to meet current and prospective commitments. Events in Ireland since the conference would indicate that his view was absolutely correct!

The Irish response to their pension crisis included the imposition of a public service pension levy ranging from 5% for those earning less than £15,000 to 10.5% for those earning above £60,000. The levy only affected active scheme members. At the same time, a pay cut was imposed on public sector employees ranging between 5% and 20%, depending on level of salary. David Owens then went on to explain the new single scheme that is to be introduced in Ireland later this year for new public servants.

The Netherlands (Wim Moes – APG)

In the Netherlands, Wim Moes explained that the biggest problems were longevity, low interest rates and volatility of the investment markets. A graph was used to illustrate the rate of

improvement in longevity and Wim Moes explained that whereas up to 2005, the rate of future improvement was based on historical trends, after that date, future prognoses have also been taken into account. Similar graphs were also used to demonstrate how low interest rates had fallen and the impact this had on public service pension schemes in the Netherlands. For example, a 1% increase in interest rate results in a 16% fall in the value of liabilities but only a 4% fall in the value of assets. The overall affect would be a 12% reduction in funding levels. On the issue of volatility, Wim Moes explained that in August, July and September 2010, volatility in the markets had resulted in fluctuations in funding levels of 88%, 98% and 94% respectively. In conclusion he described several ways in which these issues could be resolved in the Netherlands but as a general conclusion, he hoped for a return to stability.

Germany (Hagen Hügelschäffer – AKA)

Hagen Hügelschäffer firstly outlined the main features of the German old-age pension system that is characterised by a still important state-run, compulsory first pillar, which provides approximately 85% of the old-age income of an average pensioner, whereas the second and the third pillar are less important with only 5% respectively with 10%. Being a pay-as-you-go scheme, the first pillar scheme faces the same problems as in many other countries, i.e. the increasing longevity and decreasing birth rates that would have ended in higher contributions rates of the employers and the employees. Therefore the German legislator has passed a set of reforms during the last decade in order to stabilise the contribution rate of currently 19.9% at a mid-term horizon on the one hand and to ascertain an adequate level of pensions through the promotion of occupational pension schemes and individual pension savings on the other hand. These reforms will lead to a growing importance of second and third pillar pension provisions and therefore to an assimilation to the multi-pillar schemes in other European countries.

Besides the first pillar scheme, also the occupational pension scheme of the public sector underwent a fundamental reform almost 10 years ago. This pension scheme is the largest one of the second pillar in Germany with 5 million participants and more than 2 million pensioners. Due to financial problems that have been amplified by a severe reduction of the staff in the public service after the Reunification and the jurisdiction of the Supreme Court in the end of the 1990s, the social partners of the public sector decided to close the former (relatively generous) top-up scheme and to replace it by an average-career point-based scheme as from 1 January 2001 – similar to the recommendation of Lord Hutton 10 years later. In contrast to many other pension reforms, the social partners agreed on transferring all acquired rights into the new point-based system. Hence they avoid having two pension schemes for many years or even decades. In order to compensate the reductions of this reform, participants now have got the possibility to increase their pension rights by means of voluntary tax-deductible or state-aided contributions.

Slovenia (Anja Strojín Stampar – Kapitalska družba)

Anja Strojín Stampar opened her presentation by giving some background on the Slovenian economy. She said that the country enjoys prosperity and stability with relatively low public debt. But following several years of robust growth of GDP (average 4%), the economy experienced a sharp 8.1% drop in 2009. More recently, there have been signs of recovery but the main problem remains weak consumption in the private sector. In common with other European countries, the Slovenian Government is taking steps to eradicate public sector deficits using a range of measures including freezing public sector salaries and reforming labour market practices and the pension system.

Sweden (Björn Selander – KPA)

Björn Selander started his presentation by explaining KPA's business activities and how their

market covered local authority municipalities, county councils and regional and municipal companies. This was followed by a very detailed and helpful description of the three pillar system operated by them, that is, the Allman pension; the Tjänstepension and the Private Pension.

This was followed by a helpful summary of what happens under different economic and financial scenarios:

Financial boom

Markets and the media press KPA to boost the equity proportion to maximise yield. This is permitted under solvency rules. But companies that protect their guaranteed commitments by eliminating risk on the liability side get poor results and media criticism.

Financial crisis

Solvency rules require sharp reduction in equity exposure. Companies with high equity exposure are compelled to sell to realise capital losses and this in turn causes stock market values to fall even more.

Björn Selander concluded his presentation by offering some answers to the problems raised by the crisis. He said that Sweden's problems were the result of what was happening outside of the country and that the Government were not taking any steps to eradicate the public sector deficits. This was being left to the social partners. He thought that the change from DB to DC schemes would continue with even more pressure to reduce administration costs. His final remark was that the Swedish system should last in the long term perspective provided that the EU authorities do not interfere too much!

Spain/Basque (Aitor Emaldi – Elkarkidetza)

Aitor Emaldi gave a very detailed and technical appraisal of Elkarkidetza Pentsioak which is best understood by looking at a copy of his presentation on the EAPSPI web site.

More generally, he forecast that the outlook in the near future looked grim. Compared to a 24 year average return of 8.62%, in 2008, Elkarkidetza returned -7.3%. This has to be seen against a Spanish budget deficit of 11.4% of GDP and an unemployment rate of over 11%.

The solutions of the Spanish Government are similar to those being adopted elsewhere. These include a reduction in direct investments; a reduction in public sector salaries; a freeze in pensions from 2011 and cuts in other areas of government expenditure, for example, nursery care and expenditure on certain healthcare items.

Aitor Emaldi concluded his presentation with a form of words which attracted wide support and agreement from all those attending:

“We are managers of an occupational pension institution, neither politicians nor trade unions. We have a background based on experience of implementing “administrative” changes, some of them rather drastic, and can only recommend some of them that we consider favourable for the system and its members, the population of the nation where our institution is located. Hence, we can say pensions are something that affects all citizens present and future, members of the system or not, and a second pillar funded scheme seems a need in the present and future situations, in any of the foreseen scenarios.”

Portugal (Vasco Costa – CGA)

The day ended with a humorous, yet thought provoking presentation from Vasco Costa which covered the nature, size, governance and sustainability of CGA. Of all the major European countries, Portugal is probably the furthest ahead in implementing its reform programme. Vasco Costa summarised various aspects of the CGA scheme by looking at the “before” and “after” situation. For example, the qualifying conditions for a pension have changed from 60 years and 36 years of service to 65 years and 15 years of service. On early retirement, the situation has changed from 36 years of service

to 30 years of service at age 55. Employees' contributions increased from 10% to 11% and employers' from 10% to 15%. In addition to these pension scheme changes, public sector wages have been reduced.

Conclusion

The day ended with a round table discussion chaired by Terry Crossley. The overwhelming view from the floor was that all European countries faced very similar issues and problems but that there was no "one size fits all" solution to them. Each member state must be allowed to

develop its own reform package to reflect national issues and their own pensions' framework. The closing remarks from Wolf Thiel, Chairman of EAPSPI and President of VBL, echoed what Terry Crossley had said and very much hoped that we would all meet again very soon to see how we were all getting on in resolving the pensions crisis.

Bob Holloway
Department for Communities and Local
Government