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Table of Contents

- Simplification of pensions taxation Ian Clapperton, SPPA – United Kingdom	P. 1
- The ruling of the Federal Supreme Court of Justice concerning the conversion of the public and church sector supplementary pension systems Hagen Hügelschäffer, AKA - Germany	P. 4
- New move at ABP Léon Janssen, ABP – The Netherlands	P. 7
- First pillar special schemes in Europe Eva Kiwit, BVK – Germany	P. 10

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EDITORIAL

Our pension schemes are currently in the midst of a continuous change process, that appears to be the only real constant for the future. The beneficiaries of first pillar schemes are not the only ones to face cuts. To be able to meet the challenges of the future, occupational pension schemes have also had to implement changes, either in their organisation structure, like ABP, or in the provisions concerning accrual of rights. These developments have not spared the public sector schemes, that had, in the past, generally distinguished themselves by a higher level of benefits. In principle, such changes concern only the newly hired employees or the rights accrued as from a given reference date. They can, however, also concern employees who have already accrued rights, as shown by the ruling of the highest German Civil Court concerning the so-called "starting credits", presented in this edition.

Even the special first pillar schemes are undergoing change. The civil servants scheme has already lost its special scheme status in Portugal and in Austria. Other countries have implemented less drastic measures by transposing, entirely or partially, the reforms of the general scheme into the civil servants pension scheme. These multifaceted reform approaches in other countries provide a basis for consideration at national level, as shown by the survey conducted by the French Pensions Advisory Council *Conseil d'orientation des retraites* (COR).

Hagen Hügelschäffer
Original language: German

Simplification of pensions taxation

How changing taxation policy has improved pension provision

On 17 December 2002 the Inland Revenue and HM Treasury issued a combined consultation document entitled "Simplifying the taxation of pensions: increasing choice and flexibility for all". There followed a period during which representations were made by all sectors of the pensions industry.

On 10 December 2003 they issued a second consultation document entitled "Simplifying the taxation of pensions: the Governments proposals". This document set out more detail of how the Government intended to implement the proposed new regime for tax-approved pension schemes.

In the 2004 budget, the chancellor announced that he would introduce sweeping changes to the tax regimes that pension schemes were currently regulated by. These changes were introduced through the Finance Act 2004 and applied from 6 April 2006.

This paper highlights the main thrust of these changes and provides examples of how they benefited members of public service schemes in Scotland.

Summary of the Main Points

1. All existing tax regimes to be abolished, including restrictions on pensionable salary, service and contributions.
2. Pension benefits to continue to benefit from the existing tax allowances subject to two new limits.
 - The total lifetime pension saving from all types of pension cannot exceed the lifetime allowance (£1.5 million (1.9 million €) in the year of introduction).
 - The annual increase in the value of pension savings cannot be more than the annual allowance (£215,000 (270.245 €) in the year of introduction), except in the year in which the benefit is taken in full.
3. Flexible retirement to be encouraged by allowing people to claim their pension whilst continuing to work for the same employer and to stay in the pension scheme and build up further pension.
4. The minimum age at which a pension can be claimed to increase from age 50 to 55 by 2010 and the maximum age to be raised from 70 to 75.
5. Pension schemes to be able to pay 25% of the total pension value as a tax free lump sum.
6. No restriction to service length for pension purposes.

The Treasury claimed that the changes would enable 99% of people to save more than was possible under the previous rules, although there was no new incentives to save included in the proposals.

The Proposals in detail

1. All existing tax regimes to be abolished.

There were currently several different tax regimes applying to UK pension arrangements. These were removed and replaced with one new regime that applied to all retirement plans regardless of whether they are occupational or private arrangements.

For example the new legislation removed:

- Limit of 15% of salary on total amounts payable into occupational pension schemes, including purchase of Added Years and Additional Volun-

tary Contributions. Schemes will now be able to allow contributions beyond 15%, up to 100% of salary.

- The rule that pensions cannot exceed 2/3rds of Final Remuneration (as defined by the Inland Revenue), or 40/80ths of Final Remuneration plus a lump sum of three times pension.
- The earnings cap (currently £112,800 (141.761 €)) for those who have joined pension schemes since 1989.
- The limit on contributions to personal pensions (currently 17.5% to 40% of salary dependant upon age).
- The restrictions on contributing to personal pensions whilst a member of an occupational pension scheme.
- The need to retire before drawing your pension from your employer.

2. New Pension Limits

The chancellor confirmed that two new allowances would apply once the new regime was introduced; a lifetime allowance, initially £1.5 million (1.9 million €) and an annual allowance, initially £215,000 (270.245 €)

Both these amounts will be increased each year. The chancellor announced that the lifetime allowance will increase to £1.8 million (2.3 million €) and the annual allowance to £255,000 (320.510 million €) by 2010 as detailed in the table.

For the purpose of valuing defined benefit pensions the Government proposed simple methods to calculate whether benefits will exceed the maximums. For the lifetime allowance a factor of 20:1 will be used to value pension benefits and a factor of 10:1 will be used to determine the annual increase in pension benefits, regardless of the age of the member.

Pension benefits above these levels may be provided, but will be subject to special tax charges.

Q1: How will these allowances be calculated for scheme members and which staff are likely to be caught by the new allowances?

Tax Year	Lifetime Allowance	Annual Allowance
2006/7	£ 1,5 Mio. (1,9 Mio. €)	£ 215 000 (270 245 €)
2007/8	£ 1,6 Mio. (2,0 Mio. €)	£ 225 000 (282 804 €)
2008/9	£ 1,65 Mio. (2,1 Mio. €)	£ 235 000 (295 373 €)
2009/10	£ 1,75 Mio. (2,2 Mio. €)	£ 245 000 (308 024 €)
2010/11	£ 1,8 Mio. (1,8 Mio. €)	£ 255 000 (320 510 €)

A: The Finance Bill specifies that pension benefits will be tested against the new allowances by applying a factor of 20:1 for the lifetime allowance and 10:1 for the annual allowance. These factors assume certain criteria is met, and if schemes are providing benefits outside of this criteria they may have to agree different factors with the Inland Revenue.

Q2: What happens if the £1.5 million (1.9 million €) allowance is exceeded?

A: The excess will be subject to recovery charge (tax) when the benefits are taken. This has been confirmed as 25% of the value in excess of £1.5 million (1.9 million €). The balance of the excess (after deduction of the 25%) may be taken as a pension, or a percentage of it taken as a lump sum and the remainder as pension. Alternatively, the whole of the excess may be taken as a lump sum. In each case a further tax charge will be applied. The tax rate applicable to the excess for a 40% taxpayer is therefore effectively 55% overall.

Q3: What happens if the annual allowance is exceeded?

A: The excess will again be subject to tax in the year the annual allowance is exceeded. This assessment will be made through the normal self-assessment system, so that tax will be paid at the member's marginal rate.

3. Flexible Retirement to be encouraged.

The proposals allow for members of occupational pension schemes to take some or all of their pension and continue to work for the same employer, without retiring. This is a major concession and removes the need for employees to leave work in order to start receiving their pension, although it has to be stressed that any element of pension taken early would be actuarially reduced.

4. Changes to the minimum and maximum pension ages

The chancellor confirmed that the minimum pension age will rise from age 50 to 55 by 2010.

Currently pension scheme members have to take their pension or secure an annuity by the time they reach age 70. This has been changed to age 75 (with a few exceptions) with effect from 6 April 2006.

5. Tax free retirement lump sum

Subject to the £1.5 million (1.9 million €) lifetime pension allowance, it will be possible to take 25% of total pension savings as a tax free lump sum.

If the member also has a personal pension, the lump sum available from that will remain at 25% of the value of the personal pension fund.

6. Service Restrictions

By removing any link to service length in determining the lifetime allowance the Treasury has opened the doors for schemes to allow greater years of service to count towards pension.

Improvements Introduced in Scotland as a result of the changes

Removal of limit of contributions into money purchase arrangements (AVCs).

Introduction of facility to purchase additional pension within the main pension schemes (up to £5,000 (6,284 €) permitted).

Increase in the number of years which may be accrued in the schemes from 40 to 45 years.

Members allowed to take 25% of value of pension savings in main schemes as tax free lump sum.

Members can contribute until age 75 and will receive an actuarial increase to their pension if they do not take pension at normal pension age.

Members may draw down part of pension [subject to actuarial reduction] at any time from age 55 and continue to work and accrue further pension.

Members who retire and take their full pension will not be penalised if they opt to return to work.

Removal of earnings cap from schemes.

Summary

The tax simplification is designed to enhance pension saving and also extend working lives by removing restrictions to pension benefits for the vast majority of workers, whilst still placing an upper limit on tax efficient pension benefits.

Effectively 'limitless' contributions means that staff are able to **save more** towards their retirement **if they wish**, and removing any restriction to service length would facilitate **longer working** lives by **those who wish to stay**.

Extending the amount of tax free cash available on retirement provides a degree of choice that suits some members.

The changes have limited impact on the funding of schemes, and in fact could be designed to reduce funding pressures.

Allowing pension to be taken without retiring will additionally extend the working lives of the older workers and address problems of recruitment, retention of experienced staff, and other employment issues which must be faced in the public service.

Ian Clapperton, SPPA

Original language: English

The ruling of the Federal Supreme Court of Justice concerning the conversion of the public and church sector supplementary pension system

Introduction

On 14 November 2007, one of the major reforms, if not, in fact, the major reform of an occupational pension scheme in Germany reached a significant intermediary objective. In a leading decision, the Federal Supreme Court of Justice approved the conversion of the former top-up scheme for supplementary pensions in the public and church sectors into a new point-based system. In the same decision, the Court ruled that the calculation method of pension points to be credited to the pension account of those employees considered to be "far from retirement" was not, fundamentally, objectionable. These starting credits in points express the rights accrued before the system change. The term "far from retirement" includes all the employees aged less than 55 on 1 January 2002. In practice, this definition concerns more than 4 million members, including 1.7 million members of the Versorgungsanstalt des Bundes und der Länder (VBL) pension scheme, this scheme being the respondent in the proceedings before the Federal Supreme Court. The Court, however, observes that the accrual rate of 2.25% for each year of compulsory membership is contrary to the principle of equal treatment set forth in the German constitution, given that the said rate means that an employee will require more than 44.44 years of membership to obtain a full pension. The result is that the transition provisions are, in fact, invalidated.

Given that the plaintiff has lodged a constitutional complaint with the Federal Constitutional Court, the "scheme change" chapter is still not finally closed, because it generally takes several years for the highest German court to hand down a decision. Finally, the public sector social partners must include this decision in their collective agreements on occupational pensions. This means that the issue will continue to keep the key stakeholders busy for quite some time.

The system change

For more than 30 years, the public and church sector supplementary pension system was organised as a top-up scheme. In light of a certain number of difficulties, in particular of a financial nature, the public-

sector social partners entrusted with supplementary pensions agreed at the end of 2001 to wind up the top-up scheme and to implement a point-based system instead (*cf. I.*) Given that it was necessary to ensure the continuation of a supplementary pension for all employees, albeit in a modified form, transition provisions had to be determined in order to transfer the rights accrued under the former scheme to the new scheme (*cf. II.*).

The path to the points system

From 1967 to 2001, the agreements regulating supplementary pension benefits provided for a differential pension, with a maximum possible replacement rate of 91.75% of the last net salary. Concretely, the supplementary pension scheme served to supplement the statutory scheme pension, up to this maximum amount. In this way, and with a view to equal treatment, the pensions of public sector employees and workers were practically at the same level as the civil pensions of civil servants.

During the last years before the system change, the system had to face increasing financial difficulties that led some schemes to increase their contribution rates rapidly. To a large extent, the additional expenses were caused by increasingly long benefit periods due to increasingly early departure from working life, combined with a concomitant increase in life expectancy. Moreover, the ratio between the number of active members and the number of pension beneficiaries deteriorated continually. This phenomenon was, in particular, provoked by the constant reduction in the number of public sector employees, on the one hand, and by the increasing number of beneficiaries, on the other hand, as the consequence of an extensive hiring policy in the public sector in the past.

Part of the financial burden was due to the developments in tax and social security law and also in the legal provisions applying to the pensions of civil servants and to the statutory pension scheme. That was the weak point of the former system, that ensured pension benefits similar to the civil pension of civil servants and therefore had to refer both to the civil servants scheme and to the statutory scheme. Given that it was, moreover, based on a net benefit amount, it also had to adapt to each development in tax and social security law. The top-up scheme therefore depended directly on developments in four fields of law, thereby making anticipatory financial planning virtually impossible.

During the last years before the system change, the case law of the Federal Constitutional Court also had an impact on the cost factor. Had no changes been made to the law governing the benefits, a series of Court rulings would have doubled employer contributions to the supplementary scheme in the medium term. Irrespective of all these causes, the public ended up rejecting the increasing complexity of the top-up scheme, with approximately 40 amendments to the articles of association since 1967.

In light of the situation, the social partners agreed on a radical change to the system, leading to the winding-up of the former top-up scheme. For the reasons mentioned above, continuing the former scheme for decades until the extinction of all the rights accrued by the members would not have been reasonable and the social partners therefore decided on a global transfer of accrued rights to the new points system. This transfer concerns the rights accrued by all the compulsory members and the deferred members, irrespective of their age. All public and church sector employees are compulsory members. The deferred members are people who left the public service before the normal retirement age with accrued rights, but with no immediate entitlement to benefits. At the time of the system change, there were approximately 4.9 million compulsory members and 2 million pension beneficiaries throughout Germany.

The lump-sum calculation of the rights accrued under the former system

In light of the above figures, the change could take place only by means of a lump-sum process. This concerned the majority of compulsory members, i.e. the members referred to as "far from retirement" who, at the time of the system change, had not yet reached the age of 55. This concerned a vast majority of people, 4.2 million among the 4.9 million compulsory members.

The rights accrued under the former top-up scheme were calculated according to the following method. Where required, it referred to values as of 31 December 2001, the reference date for the conversion (salaries, tax table, social contributions, family status etc.).

- As a first step, the total reckonable salary for retirement was determined, in principle, based on the normal average salary for the three last calendar years.

- As a second step, an upper limit was applied to the total reckonable salary (as was also the case in the former top-up scheme), whilst deducting income tax, social contributions etc. in compliance with the provisions of the articles of association in effect until 31 December 2001. This virtual net salary was then multiplied by the factor 91.75% (= maximum possible replacement rate). The result was then the virtual total pension.
- The following step consisted of calculating, as a lump sum, the statutory scheme basic pension. The statutory scheme pension was calculated by means of an approximation method. To put it simply, it determines the future pension rights uniformly on the basis of 45 years of membership.
- The differential pension was then determined. This is the difference between the total pension and the statutory scheme pension as calculated by the approximation method. To calculate the rights accrued, 2.25% of the differential pension was counted for each year of compulsory membership.
- The amount corresponding to the accrued rights, determined as described above, was then converted into pension points by dividing it by the point value, set at 4 €. The number of points was then credited as a "starting credit" on the member's pension account and expresses the counter-value of the member's rights accrued under the former system.

The Decision of the Federal Supreme Court of Justice dated 14 November 2007

Given that the "starting credits" for more than 4 million people in the "far from retirement" category were calculated using a lump-sum method, complaints, followed by legal proceedings, were clearly to be expected. Admittedly some members, owing to the calculation method, suffered sometimes significant losses that they would not have suffered if the former system had continued without any modification.

Notwithstanding the foregoing, the Federal Supreme Court of Justice ruled that the conversion of the scheme as well as the lump-sum calculation cannot be objected to. In handing down this ruling, the Court departs substantially from the previous decision of a Court of Appeal that was summed up in EPB no. 23 of January 2006. In its 69-page ruling, the Federal Supreme Court of Justice emphasizes that the conversion of the supplementary pension scheme is a

fundamental decision of the social partners, and that owing to the collective bargaining rights guaranteed by the German Constitution, the decision can only be restrictively submitted to judicial control. Thanks to their guaranteed autonomy, the social partners benefit from significantly greater leeway than that of the lawmaker or of the private law occupational pension schemes. Even for the social partners, however, there are limits that should not be overstepped. These limits are established by the fundamental rights and the Constitutional State; they are concretely expressed in the principle of protection of legitimate expectation and in the principle of proportionality. With respect to fundamental rights, the Court assesses the case submitted mainly on the basis of the principles of equal treatment and property guarantee.

On the other hand, the Federal Supreme Court of Justice observes that the accrual rate of 2.25% for each year of service goes against the principle of equal treatment, given that it implies that an employee needs more than 44.44 years of service to obtain a full pension. This means that the Court, in fact, invalidates the rules applied to the conversion. Moreover, the Federal Supreme Court of Justice questions the lawfulness of the exclusive use of the approximation method to determine the pension amount due under the statutory scheme, given that this has deprived members of the possibility of presenting an actual pension notice for the calculation of their future pension. Finally, the Court did not rule on this issue. It did, however, call on the social partners to reconsider this theme during the necessary reworking of their conversion provisions.

The Ruling handed down by the Federal Supreme Court of Justice on 14 November 2007 does not, therefore, mark the end of the conversion of the public and church sector supplementary pension scheme. The decision of the Federal Constitutional Court and the transposition of the ruling by the social partners are yet to come. The social partners, after an in-depth analysis of the grounds for the ruling, will, in the coming months, consider how to transpose the ruling into their collective agreements. Whilst seeking to identify a valid and final arrangement, they will not lose sight of the inevitable additional costs involved, owing to the fact that over 4 million members are concerned.

Hagen Hügelschäffer, AKA

Original language: German

New move at ABP

The process of deregulation that started in the EU in 1985 has led to the loss of a great deal of security. Measures designed to protect the national companies and institutions of member states have had to make way, with the exception of a few rearguard actions, for European tenders. Although not everyone may realise it yet, there are very few genuinely national companies left. National companies have become international, and these international companies are becoming global operators.

The pension industry has not been spared these developments, and nor has ABP, which has built up a strong market position in the Netherlands since its foundation over 85 years ago. In order to increase the robustness of the collective pension system in this new environment and safeguard the interests of members in the long term, structural changes are required.

Situation

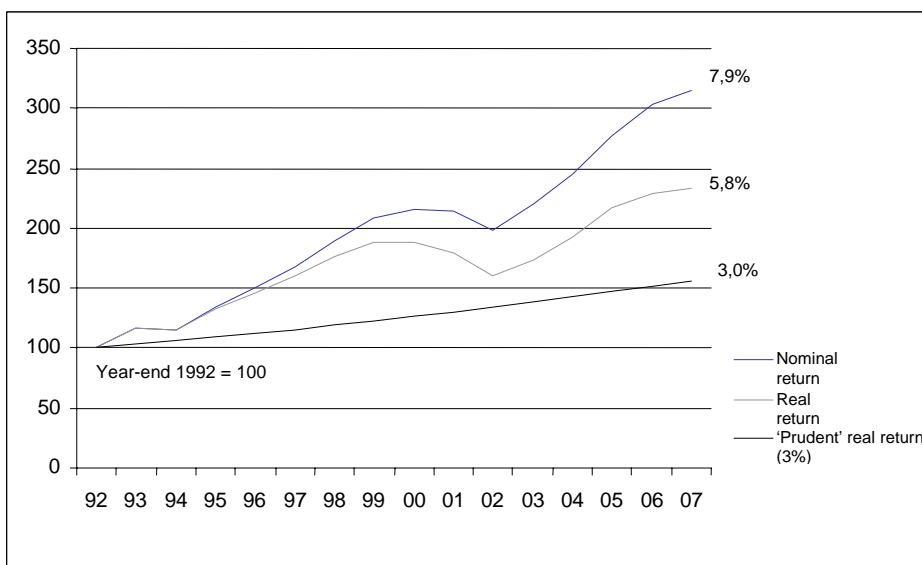
One way in which this can be done is by adopting a new organisation structure in which the administration of pensions is carried out independently of the pension fund itself. The Dutch Cabinet, which wants pension funds to move in this direction, promotes the adoption of this new structure explicitly in the new Dutch Pension Act.

The Dutch Association of Industry-wide Pension Funds. (Vereniging van Bedrijfstakpensioenfondsen, VB) is also in favour of adoption. The reorganisation of fiduciary duties and professional administration in the Netherlands is opening up new opportunities in a united Europe in which pension funds will ultimately have to defend their fully-funded system, which focuses on the long term, against the allure of other systems. At the same time, pension funds will face new forms of competition for members. The massive flows of cash and other weighty interests involved will attract stiff competition from a growing number and wider variety of strong competitors. The recent arrival of the first Chinese insurance companies in Europe serves as a stark reminder that only those pension providers who give modern customers what they want will ultimately survive.

Division

In view of the need for ABP to ensure that it (and the Dutch financial industry as a whole, in view of its leading position on the Dutch market) is in the best possible position to face the future, the employers' and employees' representatives on the Board of Governors of ABP decided in 2007 to split up ABP, then a self-administering pension fund, with effect from 1 March 2008. This decision took courage and vision. Stichting Pensioenfonds ABP (the pension fund for the public and education sectors) continues to exist, as does the Board of Governors of ABP, with its associated councils and committees, and

Cumulative returns 1993 - 2007



nothing has changed as far as duties and responsibilities towards members are concerned. What is new is that since 1 March 2008 all activities, with the exception of support services for the Board of Governors and Directors, are being carried out by ABP's new administration agency. Apart from pension administration and investments, clear communication with members and stakeholders on all aspects of the scheme and its funding is vital.

Broad support

The new structure allows the administration agency to focus exclusively on the tasks it has been assigned, creating innovative opportunities for it to serve the interests of participants. Alliances or mergers may take place with others, and the new administration agency may in principle take on other clients. Such a move would increase pressure and would only be successful if the company's performance is strong enough to provide it with a strong foundation, making it better able to combat competition. There are new incentives to develop experience and expertise, overheads can be cut and at the same time services can be increased. This brings us to the heart of the matter. Many independent international studies have shown that collective pension systems such as the one used for employees in the Netherlands are by far the cheapest way to finance effectively a decent old age for all members. This strength can now come into its own. Being bigger makes it possible to spread risk more widely and therefore more effectively, and robust organisations hold the best position in today's turbulent financial markets.

With 2.7 million members and assets of €217 billion, ABP is one of the three biggest pension funds in the world.

International track record

ABP has been active on the international market for many years, starting long before it was privatised in 1996 by moving into international investment with the specific aim of capitalising on opportunities to achieve good and stable returns for members in the long run. In 1990, it opened its first office for North American investments in Boston. The office moved to New York in 1998, when a number of American and Dutch investment experts joined the team. In the same year, a new office was opened at Amsterdam's Schiphol International Airport that focused chiefly on investing, and an investment office was set up in Hong Kong in 2007.

Cutting edge

The creation of the new administration agency has encouraged ABP in its ambition of taking its investment policy forward. The administration agency is now responsible for a great deal of ABP's innovation and development, which has been done in-house for many years. This reduces spending on intermediaries and third parties, while at the same time enhances the organisation's own knowledge and understanding of developments at the cutting edge of the international financial markets. The newly formed administration agency intends to come up with initia-

Investment portfolio returns (%), based on actual US dollar hedge

	Weighting – 2007 portfolio	2007 return	2006 return
Fixed-income investments	40.4	1.9	0.9
Equities and alternative investments	55.2	5.2	17.0
<i>Equities</i>	38.4	5.3	13.5
<i>Real estate and real-estate funds</i>	9.2	(9.4)	35.7
<i>Private equity</i>	3.4	29.4	29.8
<i>Infrastructure</i>	1.0	21.0	41.3
<i>Commodities</i>	3.2	31.0	(18.5)
Other investments (mainly hedge funds)	4.4	13.2	9.5
Total	100.0	3.8	9.5

tives for new kinds of investments in order to obtain higher returns, and in so doing ABP wants to make additional use of the possibilities offered by a pension fund's long term horizon. One recent innovation is the active application of elements of Environment, Social and Governance (ESG) criteria throughout the portfolio, starting with the equity portfolio. The administration agency has also moved into sustainable investments, such as CO₂ emission allowances, clean technology, energy re-use and sustainable forestry, as well as into totally new areas such as music rights. These and other ways of innovating and diversifying the portfolio should help boost ABP's long-term returns.

Constant innovation

A challenge will be to continue striving to ensure that the investment portfolios and their specific risk/return profiles are compatible with ABP's obligations towards members. Stricter criteria will be applied as the population of the country ages. Confronting this issue is vital for pension funds since their members range so much in age and changes in the proportion of working members to pensioners may increase tensions.

Ripe for export

Although ABP has been active internationally for some time now, its pension activities have been restricted to the Netherlands, because until recently ABP was a self-administering sector, or industry wide, pension fund. The recent separation of ABP into a pension fund and an administration agency therefore opens up new possibilities.

Having said this, ABP first international pension contacts date back to 1990. For many years it has been associated with international initiatives, such as EAPSPI and the Brussels-based European Federation for Retirement Provision (EFRP), which was set up in 1981 to focus on European pension schemes.

The present Dutch Cabinet, as well as a number of key financial players in this country are now convinced that the Dutch pension system could also benefit people outside the Netherlands and that is ripe for export. This is in keeping with the aims of the new Holland Financial Centre in Amsterdam, an initiative promoting co-operation within the financial community.

Top ten equity investments

			€ million	%	
1	(1)	Exxon Mobil Corp	1,163	1.4	United States
2	(2)	Royal Dutch Shell Plc	767	0.9	United Kingdom
3	(-)	Koninklijke Philips Electronics N.V.	761	0.9	Netherlands
4	(8)	Vodafone Group Plc	601	0.7	United Kingdom
5	(3)	BP Plc	601	0.7	United Kingdom
6	(5)	General Electric Co	581	0.7	United States
7	(-)	ENI SpA	567	0.7	Italy
8	(-)	ING Groep N.V.	554	0.7	Netherlands
9	(10)	Microsoft Corp	540	0.7	United States
10	(-)	Petroleo Brasileiro SA	502	0.6	Brazil
Total - top ten equity investments			6,637	8.0	
Total equity portfolio			82,323	100.0	

Suffering

Pensions along the lines of the Dutch system could play a role in countries where 2nd pillar (occupational) pensions are not well developed (i.e. are much too expensive and not transparent). A delegation from the Treasury Board of Canada recently visited a number of organisations in the Netherlands, including ABP's new administration agency, as part of a study into a planned switch to capital funding in Canada. With the exceptions of Denmark, the Netherlands, Sweden and the United Kingdom, in many European countries the least occupational pension schemes are not fully funded at the moment. As the populations of those countries age, their older citizens will suffer where financial bottlenecks may arise. Our system, based on solidarity and collectivity, will remain stable thanks to mandatory participation. This might become highly desirable in a continent where financial security is becoming harder to find.

Léon Janssen, ABP
Original language: English

First pillar special schemes in Europe

In most European countries, special schemes for civil servants and specific professions of the public sector exist or have existed. The article looks at the historical reasons and the organisation of these schemes as well as at the reasons for deregulation measures.

The article is based on a questionnaire of the Conseil d'orientation des retraites ("Pensions Advisory Council", COR) distributed and answered among EAPSPI's member institutions. COR is a French organisation created in 2000, reporting directly to the Prime Minister but independent. It is a forum for studies and consultation in the area of retirement, bringing together all stakeholders involved: members of parliament, representatives of the State, experts, trade union representatives, families and retirees (39 members in all). The work of the COR is considered a reference in France.

The mission of the COR is, in particular, to carry out, at least every five years, long-term financial projections for the mandatory pension scheme, to produce information on the pension system and the effects of reforms and also to follow changes in the standard for living of active workers and retirees.

The following member institutions of EAPSPI out of nine countries were involved in the questionnaire:

APG, Netherlands
AKA, Germany
CGA, Portugal
ELKARKIDETZA, Spain
EPSV, Spain
INPDAP, Italy
KEVA, Finland
KPA and SPV, Sweden
SPPA, Scotland
VBV, Austria

Special schemes for civil servants

Specific retirement systems for civil servants exist in most countries involved in the questionnaire. In Sweden, all employees within the state sector are members of the same retirement scheme. In Portugal and Austria, the special schemes for civil servants were closed for new entrants in 2005.

The existing special schemes are either basic retirement schemes (Finland, Germany, UK, Spain) or supplementary schemes providing an additional level to the basic scheme for the entire population (Netherlands, Sweden).

Apart from civil servants, there are specific retirement schemes for certain sectors that formerly were part of the civil service such as the railways and postal service in Italy, Telefónica in Spain but the latter one has been integrated into the general scheme. In the Netherlands, there are supplementary specific schemes e.g. for railway, electricity and postal workers or the gas industry.

Historic reasons

The idea of a (separate) pension scheme originates from the civil servant's fiduciary relation to the state and was or is supposed to enable the civil servant an appropriate administration and retirement without economic difficulties. On the other hand, civil servants mainly used to receive lower wages than private workers with comparable skills and as a compensation were given higher social benefits or in former times receiving pensions at all. Usually, the

civil servants pension schemes are older than the general schemes.

Importance in the retirement system as a whole

The special schemes for civil servants do play an important role in their respective country's retirement landscape but they are, naturally, a lot smaller than the general scheme. In Portugal the general scheme was about seven times bigger than the former civil servants scheme in terms of number of active members and pensioners. In Germany, there are 1,7 million civil servants compared to 50 million (active and inactive) members of the general scheme. A similar situation can be found in Spain, where there are about 450,000 members and 590,000 pensioners in the special scheme compared to 19.3 million members and 8.3 million pensioners in the general scheme.

Demographic situation

Like the general schemes, civil servants pension schemes are facing demographic changes. In the UK, after the public sector pension schemes have been amended to ensure sustainability in the future. Ensuring sustainability was the aim of the creation of pension reserve funds in Germany at federal level and in some of the Länder in order to face the demographic situation. In the Netherlands and in Finland, the special schemes are also able to maintain a balance regarding their demographic situation. Reforms have dealt with the demographic situation of the schemes (see below).

Different rules

Calculation methods of the general and of the special schemes are the same or have been harmonised in Finland, Portugal, Austria and the Netherlands.

In the UK and Germany, the civil servants scheme is a final salary scheme which are supposed to resemble a combined basic and supplementary pension. In Spain, indexing and the pension ceilings are the same for all schemes. The calculation, yet, is different. In the general scheme, the calculation is made on the basis of the real salary, up to a limit. In the civil servants scheme, the calculation is based on the "basic salary" of the category which is usually lower than the actual salary. The retirement age may differ, too but usually only for soldiers or policemen.

Reforms

There have been reforms in mostly all countries since 2001. An important issue has been raising the retirement age (UK in 2007, Finland in 2005, Germany in discussion as to civil servants) to take into account the demographic situation including the increasing life expectancy as well as to support ageing employees' ability to cope with their work. Other reforms included lowering the pension rate (Germany: gradually from 75 % to 71,75). As already seen, in Austria and Portugal the special civil servants scheme has been integrated into the general scheme. In Spain, there have not been in-depth regulatory reforms in recent years, e.g. of the benefit calculation or contribution payments, and they are not expected in the near future.

Conclusion

There are special schemes for civil servants in many countries –being basic or supplementary schemes. All of these schemes are facing challenges in order to maintain sustainability in the future. The solutions to these challenges may differ in each country according to their specific needs and backgrounds.

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