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EDITORIAL

The quality of universities and the level of higher education, as the cornerstone of highly qualified jobs, are key factors for the economic prosperity of Europe. Academics and other scientists ensure the high level of European research and training thanks to exchanges that often require several short-term stays abroad for study and research purposes.

These short stays are a problem in particular for young researchers, because of the mobility expected of them. At the beginning of their careers, they are faced with the problem of gaining entitlement to supplementary pensions above and beyond their statutory pensions, given that the term of their employment contracts is not long enough to allow them to comply with the qualifying and waiting periods often imposed by occupational pension schemes. Moreover, there is a lack of reliable and understandable information from employers or pension institutions. Finally, the issue is whether, and under what circumstances, cross-border portability applies to accrued occupational pension rights.

This issue clearly concerns public sector pension institutions given that, in many countries, universities and higher education entities are public institutions. It is necessary to identify solutions to support the mobility of the professionals concerned and to remedy the lack of information. This requires dialogue not only between pension institutions and individual members, but also with higher education institutions and other stakeholders.

Hagen Hügelschäffer
Original language: German

EAPSPI Conference in Helsinki from October 8 to 10, 2008

The 2008 EAPSPI Conference will take place in Helsinki from October 8 to 10. It will be organised by EAPSPI member KEVA, the Finnish local government pension institution. The event will begin on October 8th with an open meeting of the EAPSPI working groups, during which the Legal Expert Commission as well as the “portability” and “taxation” working groups will present the results of their work over the past year. The General Meeting of EAPSPI will then be held, followed by a dinner bringing together all the participants. The next day, the thematic part of the conference will begin.

Demographic developments in Europe

The main theme of the first day of the conference will be Demographic Developments in Europe. First and second-pillar pension institutions are particularly concerned by population ageing throughout Europe, given that they must, on the one hand, cater for increased life expectancy of their members and the ensuing increase in expenditure whilst, on the other hand, ensuring the required stability and security of their pension benefits.

Professor Herwig Birg will address the issue of demographic developments in Europe based on examples selected in various European regions. Professor Birg has been one of Germany's most reputed demographers for many years now. Until 2004, he held a demographics chair at the University of Bielefeld and was the Director of the Institute for

Population Research and Social Policy (IBS) at the University of Bielefeld. In 2001, he was one of the experts consulted during the Government consultation on "Demographic development perspectives in Germany and in Europe and consequences for social security systems."

Not only does the drop in population in Europe have an impact on social security systems, it also involves a risk of lower productivity and overall economic performance. The speech presented by Doctor Jukka Pekkarinen is therefore entitled: "Demographic change as a challenge to public finances in Europe". Dr Pekkarinen is Director-General of the Economics Department at the Finnish Ministry of Finance and Vice-President of the EU Economic Policy Committee. He has for many years been an acknowledged finance expert. From 1992 to 2005, he was the Director of the Labour Institute for Economic Research and taught at the Helsinki School of Economics from 1996 to 1997.

Other presentations will focus on the experience of EAPSPI members. The Dutch institution APG will report on the effects that financial incentives can have on the average retirement age. The Swedish institution KPA will present the move from defined-benefit schemes to defined-contribution schemes. The specific demographic situation of East Germany and possible solutions will be presented by the German institution VBL.

Pensions update

The latest developments in the first and second pillar will be the central theme of the second day of the conference. KLP will present the current first-pillar reforms as well as developments concerning occupational pensions in Norway. CDC will provide an overview of pension reforms in France, in particular the 2008 pensions "rendez-vous". AKA will report on the current status of two infringement procedures instituted against Germany concerning occupational pensions in the public sector. KPA from Sweden, DEHLG from Ireland and SPPA from Scotland will also present their current pensions update, in particular concerning new taxation provisions. The Swiss institution ASIP will report on recent changes with respect to supervision and governance in Switzerland.

The conference languages will be English, French and German. The detailed programme and registra-

tion information are available on the www.eapspi.eu website, in the "current issues" section.

Eva Kiwit, EAPSPI

Original language: German

"Penalized for Being Mobile?" Report on Official Bologna Seminar

In many member states of the European Union, universities are public institutions. University staff are therefore members of public sector pension schemes, whether as civil servants or as public sector employees. The same also applies to a great number of scientists and researchers who work in such institutions. Their pension rights were the theme of an official Bologna process seminar held in Berlin on June 12 and 13. The purpose of the Bologna Process, initiated by the European Union, is to create a common European higher education area by 2010. Within the common higher education area, students, teaching staff and administrative staff in higher education will enjoy mobility with simplified conditions. Notwithstanding their diversity, the higher education systems will have common structural characteristics and equivalences. The objective is also to ensure that European universities are more attractive in the global higher education competition.

The event in Berlin was organised by the German University Rectors Conference, with the theme: "**Penalized for Being Mobile? National Pension Schemes as an Obstacle to Mobility for Researchers in the European Higher Education Area (EHEA)**". Many seminar participants hailed from Research and other competent Ministries of European Union member states or from Universities and Research Institutes and their associations. The European Commission was represented by staff members from the General Directorate for Research.

The seminar was also attended by many researchers and scientists directly concerned by the issue, as well as representatives from research associations. In short statements, they provided striking descriptions, based on their personal experience, of the problems posed by mobility, a natural and necessary component of their professions, in terms of social security and accrual of occupational pension rights.

In particular for young post-doctoral fellows, participation in research projects in different countries is

often a prerequisite for their scientific careers. Very often, they have short-term contracts and are insured by the social security systems of their host countries. But what happens if they lose their jobs or become ill? Are they entitled to social benefits? Which country is responsible for the payment of those benefits?

The reports and other statements emphasised two major issues that were discussed at great length during the event. On the one hand, an obvious lack of reliable, consistent and understandable information. Admittedly young scientists are not often ready and willing to examine the very complex issues linked to their future retirement. Those who do take the time to consider such issues are often discouraged by contradictory and incomprehensible information. It is difficult to find assistance in understanding European Regulation no. 1408/71 – its successor, Regulation 883/04, is by no means yet applicable – or the equally complex issues concerning the conditions required to accrue rights in the various supplementary pension schemes. The ERA (European Research Area) information portal “ERA-MORE” and its network of mobility centres are working to improve the information available, but even these centres are not able to offer advice for each individual case.

The second problem for young scientists and researchers is gaining entitlement to an occupational pension. In many countries, Germany amongst others, occupational pension schemes require qualifying periods of at least five years before rights are irrevocably accrued. This means that young researchers with several short-term employment contracts are often not able to accrue final pension rights. During the discussion on this specific issue, the idea of creating a pan-European pension fund for researchers and scientists was discussed. A representative from Hewitt-Associates insisted on the opportunities offered by this type of fund (and stated, in a separate presentation, that Hewitt was willing to ensure management of the fund). The European Commission also recommended this pension fund in its expert report on developing a single market for researchers (further information at <http://ec.europa.eu/research/era>). There are also other possibilities to avoid losing pension entitlement such as, for example, taking membership periods within the framework of previous employment with other European public research institutions into account to calculate the qualifying periods.

In many European countries, supplementary pensions are regulated by collective agreements that also apply to researchers. In such cases, access conditions to an occupational pension are in the

hands of the social partners or of the parties signing the collective agreement. The collective agreement parties in the German public sector decided in 2002 to implement innovations with respect to young scientists. The VBL (supplementary pension scheme for the public sector) offers an alternative solution to salaried scientists who cannot meet the qualifying conditions owing to the short term of their employment contract. They can choose a funded pension insurance, mostly financed by the employer, granting them rights that are immediately accrued, i.e. without the waiting period. Admittedly, however, too many beneficiaries are still not aware of this possibility, that replaces the usual compulsory insurance only if the beneficiary opts for it within a specified deadline.

In three workshops, the participants intensively debated the issues raised and sought to identify solutions. When the results were presented, several speakers suggested that occupational pension institutions, in particular public sector institutions, take part in the discussion and contribute to identifying ways to improve the situation. Concerning legal status modifications, neither universities nor occupational pension institutions will be able to impose rapid solutions. It is nonetheless important to foster dialogue and to implement enhanced cooperation between occupational pension institutions, university networks and information portals. Exchanges between the European University Association (EUA) and the EAPSPI were suggested, given that many public sector supplementary pension institutions are EAPSPI members.

As emphasised recently by the European Commission in the report of the ERA expert group and in a Commission Communication dated May 23, 2008 (SEC (2008)1911/1912), mobility of scientists and researchers is not only important for their own professional careers, but is also a prerequisite to secure the economic future of Europe as a whole. In my opinion, filling information gaps and removing obstacles to mobility for scientists is a major and clearly worthwhile objective.

Claudia Wegner-Wahnschaffe, VBL

Original language: German

Overview of occupational pensions in Austria, based on the example of ÖPAG

Since 1990, Austrian companies have the possibility of registering their employees with occupational pension schemes. ÖPAG Pensionskassen AG was the first fund on the market to offer occupational pension contracts in order to build up the “second pillar” set forth in the new legislation.

During the first years, this new opportunity was taken up mostly by large companies, but today ÖPAG receives an increasing number of requests from small and medium-sized firms, given that many employers and employees wish to build up an occupational pension as a complement to the statutory pension provision. Over the last few years, in particular since the new legislation for accrual of rights¹, occupational pensions are a good tool for employers to ensure long-term employee loyalty (for example, a qualifying period of up to 5 years can be agreed upon) and to secure the services of qualified employees.

Alongside pension schemes, there are two other forms of occupational pension provision:

• **Direct pension provision – book reserves**

In this case, reserves for pensions are created in the company balance sheet each year, in order to finance occupational pensions. This system involves a risk, namely that of the future occupational pensions being directly linked to the destiny of the company.

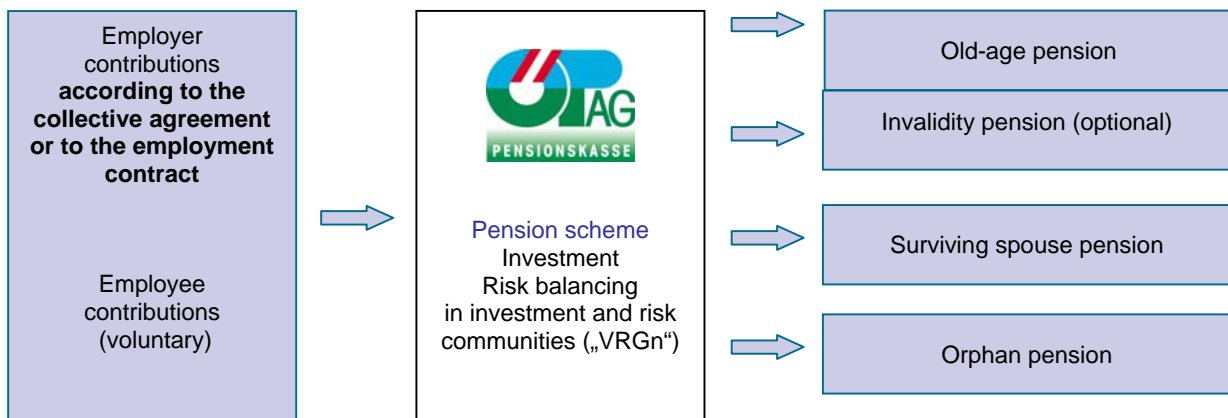
• **Insurance**

This involves, for example, taking out life insurance for long-standing employees, payable when the said employees retire and representing “additional rights”. Since 2005, collective company insurance contracts are also offered.

Pension schemes in Austria

When an employer registers his employees with a pension scheme, the employees as well as their families receive additional benefits above and

beyond statutory scheme old-age pension. At this point in time, approximately 15% of active employees benefit from the advantages of pension scheme membership.



¹ The new rules are in force since 1.1.2003. Employee rights remain accrued even if the employee resigns, is dismissed for misconduct or leaves early. Under the former rules, the rights accrued were forfeited in such cases.

Advantages of pension schemes

Employers and employees who are members of a pension scheme benefit from a host of advantages:

- employees benefit from a lifelong supplementary pension
- professional asset management and investment of pension contributions by experts
- the employer contribution is not subject to social charges and to income tax
- possibility for employees to pay in contributions themselves
- tax breaks for employee contributions within the legal framework
- increased security, given that pension benefits do not depend on the destiny of the company
- deduction as an expense for the employer
- strict separation between the assets of the plc and the assets of the investment and risk communities

Company and inter-company pension schemes

Occupational pensions are available to companies of all sizes, ranging from a large company or group to small and medium-sized firms and even companies with only one employee. To cater for these different needs, there are two different types of pension schemes:

- **Company pension schemes**
work for a single large employer or group. The employer and employees of this single company pay in contributions and only the former employees of this specific company benefit from an occupational pension paid by this scheme.
- **Inter-company pension schemes**
cater for both small and large companies. In an inter-company pension scheme, employers and employees from different companies pay in contributions to an inter-company scheme and will later receive benefits from the scheme. To ensure as much stability as possible for employees, an inter-company pension scheme must have a minimum size. This size is set at 1,000 members with a basic capital of 5 million Euros.

There are currently 6 inter-company pension schemes and 13 company pension schemes in Austria. In total, the Austrian schemes manage assets of over 13 billion Euros.

Legal basis of the pension schemes

The activity of the pension schemes is governed by the **Pensionskassengesetz** (Law on pension schemes) and the **Betriebspensionsgesetz** (Law on occupational pensions).

A pension agreement is signed between the employer and the employee. If the company has a works council, this is done by means of a **company agreement**, otherwise individual agreements are entered into with each employee. Under the said agreement, the employer undertakes to pay in contributions for the employee.

To transpose the agreement signed with his employees, the employer signs a **pension scheme agreement** with a pension scheme, with the same content.

Pension scheme assignments

The main assignment of each pension scheme is to ensure the best possible management of the pension system agreed upon between the employer and his employees. Above all, this involves the management of individual pension accounts, the investment of pension assets, balancing of risks within the different investment and risk communities, as well as payment of benefits.

The objective of the work of a pension scheme is to achieve the best possible profitability by means of long-term investments, whilst minimising the risks. The law on pension schemes in fact requires that the pension scheme manage its business in the interests of the beneficiaries whilst paying particular attention to "security, profitability and need for cash resources".

Pension systems

There are two different types of pension systems to choose from:

- **The defined-contribution scheme**
Employers and employees agree on the amount of the payment to the pension scheme

("contribution"). This can be a fixed amount or a percentage of the salary. Based on the said contributions, the pension scheme calculates the amount of the expected pension, that can vary. In good money market years, the pension will increase much more than in a defined-benefit scheme, but in bad years, there is a risk that is taken by the employee.





In the pension agreement, the employer undertakes only to pay in contributions to the pension scheme, for his employees. The benefits due to the employee are constantly updated based on developments in pension asset investments.

• **The defined-benefit scheme**

The employer and the employee agree on the amount of the pension ("benefit"). Based on the agreed pension amount, the pension scheme calculates the required contribution amount, that can vary. Based on money market developments and on the modification of pension rights, contributions can increase or decrease. In any event, the employer must pay in enough so that the pension scheme is able to provide the promised benefits. In this type of scheme, the employee can count on receiving the agreed pension amount when he retires.

ÖPAG Pensionskassen AG

ÖPAG is the largest inter-company pension scheme in Austria, based on the number of contracts.

	2007 market share	
Membership contracts	41%	
Contributions (current)	30 %	
Beneficiaries	26 %	
Total assets (of the investment and risk communities)	28 %	

Source: Pension Funds Association

The advantages of ÖPAG are, in particular:

- High-performance investment of pension assets. Over a ten-year period, the performance of ÖPAG is approximately 11% higher than the average of the other five inter-company pension schemes (capital gains of ÖPAG between 1998 and the end of 2007: 62.82 %; capital gains of the inter-company pension schemes other than ÖPAG from 1998 to the end of 2007: 52.27 %)
- Strong shareholding
- Know-how and first-class consultancy
- Highly skilled and motivated ÖPAG staff
- Low management costs
- Customer satisfaction and trust
- Long-standing experience (almost 20 years) in consultancy, investment, management, customised contract design and payment of pension benefits

ÖPAG in a provision holding company

The Raiffeisen banking group and the UNIQA insurance company have decided to create a provision holding company, including ÖPAG Pensionskassen AG, ÖVK Vorsorgekasse AG and the consultancy firm PlanPension Vorsorgeberatung GesmbH. The CEO of the holding company will be Andreas Zakostelsky (currently managing director of Raiffeisen Capital Management).

The shareholding structure of the new holding company will essentially reflect that of ÖPAG and ÖVK. The key shareholders will be the Raiffeisen banking group with 45.9% and UNIQA with 41.4%. The rest of the shares will be held by the insurance company Oberösterreichische Versicherung AG, the banking company Schelhammer und Schattera AG, and the banks Oberösterreichische Landesbank AG and Volkskreditbank AG.

As described above, ÖPAG is an inter-company pension scheme that, among other activities, manages individual pension accounts, invests pension assets and pays out benefits. ÖVK is the occupational provision scheme for the Raiffeisen

banking group and for the insurance company UNIQA. It offers all the companies doing business in Austria and their employees, but also self-employed workers, occupational provision plans. PlanPension is a leading provision consultancy firm for companies.

Sonia Geilert & Martina Unterassinger, ÖPAG

Original language: German

Financing of civil servant pensions in the Federal Republic of Germany

Civil servants are entitled to appropriate salary from their employers based on their professional category, even after they retire. To a large extent, the German Federal Government and the Bundesländer (regions) pay civil servant pensions directly from their annual budgets. Most local authorities are members of a local government pension scheme, basically funded on a pay-as-you-go basis, but some of these schemes hold significant reserves. When local government authorities manage civil pensions for their employees themselves, the pensions are predominantly financed by the current budget, as is the case for the Federal Government and the regions, but they sometimes also have reserves.

The extension of civil service assignments in the second half of the twentieth century and the ensuing increase in staff numbers inevitably led to increasing expenditure for civil servant pensions. A further increase is to be expected in the years to come. In light of these developments, the issue of how future expenditure for civil servant pensions will be financed remains a much-debated topic in Germany.

Reserves for future pension expenditure

With respect to the statutory pension scheme, a new concept was implemented at the end of the 1990s, with a view to significantly reducing the burden on the scheme. The result is a lower level of pensions, which is intended to be compensated by increased individual provision with tax incentives. The objective of the law of 1998 reforming civil servant pensions was to appropriately transpose the reforms implemented in the statutory scheme into the civil servants scheme with the same effects, thereby securing the future financing of civil servant pensions. The Federal Government and regions

therefore built up reserves from the savings achieved owing to more moderate increases in salaries and pensions. The increases in active civil servant salaries and in retired civil servant pensions will therefore always remain 0.2% below the increases negotiated by collective agreements, for a period initially defined as 1999 to 2013, later extended to 2017. The level of civil servant salaries and pensions will be lowered by 3% in the long run, and the expenditure for public budgets will therefore be reduced. In a ruling handed down in 2007, the Federal Constitutional Court confirmed that lowering the level of pensions in order to build up reserves was in compliance with the Constitution.

The savings achieved are contributed to the reserves in order to cover future pension expenditure. These special funds can be used only to finance future pension expenses.

The reserves built up by the Federal Government are managed by the Central Bank of Germany as special funds. These reserves are expected to reach a total volume of approximately 30 billion Euros.

Each region has voted its own laws to regulate the issue of reserves for future pension expenditure. Certain aspects of these laws may differ, in particular those concerning reserve investment policy.

Pension funds

Above and beyond the reserves for future pension expenditure, the Law of December 21, 2006 set up a special fund, the "Federal pension fund". This special fund will be used to finance the pensions of civil servants, magistrates and professional military staff appointed as from 2007. The special "Federal Pension Fund" receives regular contributions from the budgets of public employers, the amount of which is determined by actuarial calculation. The long-term objective is full coverage of pension expenditure. This involves enhanced transparency and comparability of payroll costs in public budgets. The idea is to avoid imposing the financial burden on future generations.

Alongside the Federal Government, most German regions now also have pension funds, above and beyond the reserves for future pension expenditure.

The precursor in the implementation of pension funds was the **Rhineland-Palatinate** region. Thanks to a regional law on the creation of a financing fund for the pensions of regional civil servants, a pension

fund has been built up since October 1996. For the civil servants newly appointed after September 30, 1996, amounts determined by actuarial calculations are paid each month into this fund, a public law institution whose head office is in Koblenz. With fund assets, this institution purchases Rhineland-Palatinate region bonds at market conditions, that the region will have to redeem at nominal value. In this way, the cost of the future pensions of active civil servants appointed since 1996 is entirely pre-financed during their active service period. The financial objective is the long-term, complete coverage of expenses for the civil pensions of the region. As of December 31, 2006, the fund held total assets of 864 million Euros.

By means of the 2nd amendment to the Law on the creation of a pension fund, the **North-Rhine-Westphalia** region also built up a special fund to cover its future civil pension expenses. Since January 1, 2006, 500 Euros are paid each month into the fund for each newly appointed civil servant or magistrate in the region. The reserve is also entirely given over to provision, in order to ensure that the expenditure of the region for civil servant pensions will be affordable in 30 to 35 years, when these civil servants retire. Civil pension expenditure reached 3.76 billion Euros in 2001 and is expected to reach 7.15 billion Euros in 2028.

The law of April 30, 2005 on the creation of a provision fund in **Saxony** regulates the financing of civil servant pensions and health insurance for the future beneficiaries whose rights were accrued after December 31, 2004. The amount of the contributions for the different salary categories is stipulated by an order of the regional Finance Ministry, on the basis of actuarial calculations. It is calculated so that subsequent benefits paid out to beneficiaries can be financed durably and exclusively thanks to this provision fund, organised as a public law institution.

Bavaria created its pension fund on January 1, 2008, by means of a law on the constitution of reserves for future pension expenses. For each newly appointed civil servant, 500 Euros should be paid into the fund each month, in order to achieve complementary and durable financing of civil pension expenditure.

In the **Saxony-Anhalt** region, a law of December 6, 2006 on the creation of a pension fund to secure the old-age pension and health benefits of regional civil servants will make it possible to finance future expenditure. For each civil servant who accrued rights after December 31, 2006, the employer contributes a lump-sum amount calculated based on actuarial principles to secure the financing of civil pensions and health insurance expenditure.

In the **Baden-Wurtemberg** region, the pension fund law provides for the payment of 500 Euros per month for each new civil servant appointed as from January 1, 2009. In this region, the objective of the fund is to limit the share of civil pension expenditure in the budget. A basic capital of 500 million Euros will be paid into the pension fund.

Future prospects

It is possible to relieve the burden on public budgets by creating pension funds. The Federal Government and the regions have taken the appropriate measures to achieve that objective.

Gabriela Graf, AKA
Original language: German

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