



# EURO PENSION BULLETIN

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## EDITORIAL

Will it be necessary to modify the supervision rules even for supplementary occupational pension institutions? The discussion concerning Solvency II also extends to the issue of whether these new rules, aimed, in principle, at insurance companies, should also apply to second pillar institutions. In its directive proposal of last July, the European Commission already announced its intention to assess whether at least some of the principles of Solvency II would apply to supplementary pension schemes in the future. This study should take place during the year 2008, i.e. five years after entry into force of Directive 2003/41, known as the "Pension Fund Directive".

The discussion concerning this type of extension of Solvency II to the second pillar already started some time ago and is by no means over. Will Solvency II necessarily be applied to the second pillar on grounds of equal treatment, in particular with respect to life insurance companies? Or are second and third pillar schemes so different that permanent exclusion from the scope of application of the Directive is justified? These differences primarily concern supplementary pension schemes based on a collective agreement. Finally, one could wonder whether Solvency II would not make second-pillar schemes more expensive to such an extent that they would no longer be attractive. One can only hope that a solution will be found that will not be detrimental to supplementary pension schemes whilst concomitantly guaranteeing the protection of beneficiaries.

Hagen Hügelschäffer  
Original language: French

## Solvency II

### Is it necessary in a tax-financed occupational pension system?

This article aims at discussing whether it is necessary for entities that manage occupational pensions financed with tax revenues to apply solvency regulations.

The conclusion of this article is that solvency regulations should not be applied to occupational pensions that are financed through tax revenues or are credit-insured. The authors consider that solvency regulations are only necessary when the occupational pension benefits are guaranteed, but the guarantee involves no right to tax or credit insurance.

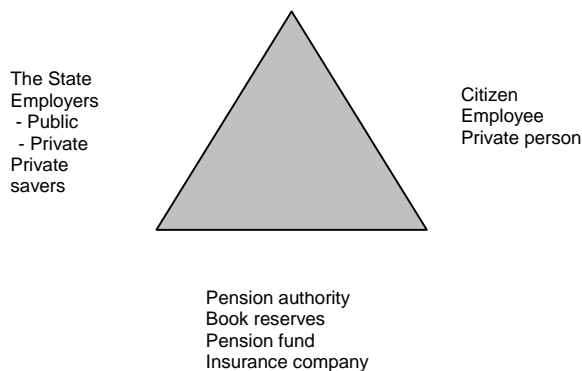
The authors consider that occupational pensions, which are the result of political decisions, rest with the taxpayers who are the final guarantors of them, and that is not reasonable that they should also be encumbered with an insurance premium in the form of contributing to solvency buffers to protect themselves against eventualities of not wanting or being able to honour promised pension commitments.

The article also states that in Sweden, where employees have the opportunity of choosing between a management form with guaranteed pension amount or investment in funds without guarantees, the majority choose the management form that does not have guarantees.

The conclusion is that employees perceive the difference in expected yield between a pension-savings scheme with guarantee and one without guarantee as excessive. I.e., the employee is not willing to pay the price of his or her saving being covered by a guarantee.

### Who are the parties in the pensions market?

At a general level, the parties in the pensions market can be divided into three separate groups.



### 1. Insurance benefits provider

The insurance benefits provider is the entity that undertakes a commitment on the pension, and which finances it. In the first pillar (national pension scheme) the insurance benefits provider is normally the state, and the benefits are financed either through taxation or contributions.

In the second pillar (occupation pensions), the insurance benefits provider is the employer, either public or private, and the benefits can be financed through taxation or contributions. In some systems it also happens that employer and employee share the financing, but the employer should nevertheless be considered to be the one that makes the pension commitments, i.e., is the insurance benefits provider.

In the third pillar, the benefits are financed direct by whoever it is who is covered by the pension benefits.

### 2. Beneficiary

The beneficiary is whoever it is who receives a commitment regarding a pension. In order to be covered by benefits from the first pillar, it is normally necessary to have citizenship and a taxable/pension-

based income. In order to be covered by benefits from the second pillar, it is normally necessary to be employed and to have a pension-based income. Finally, the beneficiary of a private pension can, in principle, be any individual.

### 3. Administrator and manager

Depending on national circumstances, various legal forms can be available for administering or managing commitments on pensions. Irrespective of legal form however, the tasks mainly consist in obtaining information, calculating and paying out benefits, and, to the extent that the system is fully or partly funded, management of pension funds.

To the extent that the system permits competition between various forms of actor, it is important that regulations permit the various forms of actor to compete on equal terms. It is however, not uncommon that both tax and business regulations differ between various legal forms, which then results in the different alternatives not being neutral as regards cost.

### Who needs guarantees?

It can be generally concluded that it is only those in situations in which pensions are expressed as an undertaking to pay a certain amount that there arises a need for ensuring that the undertaking can also be met. One who promises a certain performance should reasonably also carry the risk that the expected performance may not materialise, fully or partly.

On the basis of this argument, four groups can be discerned, which need guarantees:

1. The citizen, if he or she cannot rely on the pension promised by the state. (DB)
2. The employee if he or she cannot rely on the pension promised by the employer. (DB)
3. The employee, citizen or individual who saves for a pension with guarantee. (DC)

The risk that the state may not be able to honour a certain pension commitment in accordance with (1) is today borne by the taxpayers. And the risk that the government may not be able to honour a pension commitment must therefore, in the main, be considered in principle non-existent. The risk that might exist reflects the political limitations of securing funds for fully financing declared pension commitments

through tax increases or redistribution of public funds.

If employees are covered by occupational pensions (2) which the employer promised in the form of a certain level of salary, a need also arises that the employee can rely on the employer being able to fulfil that which was promised. To the extent that the commitment is in some way conditional, for example, inflation-proofing of earned benefits, this is outside what can be considered to be guaranteed, and the risk of inflation-proofing fully or partly not materialising is instead borne by the recipient of the benefit.

If an employee or citizen is covered by an occupational pension or general pension, in which the commitment refers both to inward payment of a certain amount and that a certain amount shall be paid out in the future (3), there is also a need to ensure that the payment out to the employee or citizen of the promised amount can be made.

In summary, it can be concluded that only when there is a guarantee of a certain pension and that at the same time this is not secured through the right of taxation or an insurance guarantee scheme, is there a need for solvency regulations.

#### **Who shall the regulations protect?**

The main aim of the solvency regulations is to ensure that issued guarantees can be honoured. The buffer that the insurance benefits provider is obliged to maintain in order to be able to issue a certain guarantee can be considered a cost for removing uncertainty for the beneficiary that the insurance benefit provider cannot honour an issued guarantee.

#### **Does the state have a vested interest in promoting bonds (government loans)?**

It would appear to be a reasonable observation that the state also has a vested interest in ensuring that pension funding is available for the state's borrowing requirements. The greater the supply of lending to the state, the less expensive borrowing will be for the state. There are primarily two components in the solvency regulations which contribute to increased demand for lending to the state.

Because the regulations are based on market evaluation of the liabilities of the pension institutes to the pension recipients, the need increases for the pension institutes to have access to assets with simi-

lar properties as the liabilities. When there is an increased need to match assets and liabilities, demand for investment assets, such as long government bonds, also increases.

A basic concept in the regulations is also that a high level of solvency shall be required in order to take high financial risk. High solvency is also accompanied by a cost to the occupational pension institute in the form of a need to increase the buffer of risk capital. Another way of expressing this is that through the regulations, the state can ensure that a price difference is maintained for the pension institute between, on the one hand, investing in such assets that have low financial risk, and on the other hand, investing in such assets that have high financial risk.

In this context, it can be said that in earlier regulations, including those in Sweden, the occupation pension institutes' requirements for risk capital have not been dependent on the financial risk that they have taken in their investment activities.

#### **What trends do we see in the pensions market in Sweden?**

In Sweden, during the last ten years or so, the national pension has been contribution-related. The pension is, to a certain extent, in the form of a pay-as-you-go system, with notional accounts, in which a charge of 16 percent of the pension-based salary is reported as earned pension rights. Over and above this, there is a funded component – the PPM system – in which 2.5 percent of the pension-based income is paid in. In the latter system, the individual fully bears the financial risk.

The occupational pension system under collective agreement, which covers about 90 percent of the labour force, is at the same time undergoing a change towards becoming fully premium-determined. Privately employed manual workers have been covered by a fully premium-determined occupational pension since 1966, and the occupational pension system for privately employed salaried workers, which functioned as a guideline for the state and municipal sector, has been fully premium-determined since 2007.

The municipal sector – county councils and municipalities – is thus expected to change to becoming a fully premium-determined system during the next few years. In these occupational pension systems – in which the employee is free to choose the form of pension management – the trend is that those who

make an active choice also invest their pension contributions in forms of pension management that do not have guarantees. The observation is thus that the individual – in a system with freedom of choice – tends to ignore guarantees and instead take upon himself or herself the entire financial risk. The same pattern is also clear when individuals save voluntarily for pensions – the pension savings in the third pillar.

Johan Sjöström / Björn Selander  
Original language: English

### The new French law on information on pension rights

One of the measures of the “Fillon” Law on pension reform of 21 August 2003 concerns the obligation to provide employees with information allowing them to make an informed choice concerning the date of retirement.

Although some other European countries have already adopted similar legislation, in some cases more than 10 years ago, this new measure deserves attention for several reasons. The application of the law in France, which has taken place in the last three months of 2007, brings fundamental changes to the relations between pension schemes, employers and active members. Indeed, this piece of legislation, apparently rather technical and minor at first sight,

may in fact lead to a transformation of the retirement sector in France.

### The context in France

The law applies to all mandatory basic and supplementary schemes, but not to voluntary supplementary schemes.

It is important to understand the specific French context. Firstly, the three pillar model is not particularly well adapted to the French retirement system. We can observe relatively important coverage for workers from mandatory schemes, both basic and supplementary. Indeed, the supplementary schemes (*régimes complémentaires* in French) are included in this first pillar in terms of statistics and regulation since they operate on a Pay As You Go basis as well as the basic schemes. The third pillar is well developed with a wide range of individual insurance products. However, the second pillar is much less developed than in many other European countries.

The basic mandatory retirement system in France is managed by 36 schemes. The chart below gives a simplified representation of this situation. Included in the legally mandatory schemes we find the mandatory supplementary schemes. The largest basic scheme is the CNAV (*Caisse Nationale d'Assurance Vieillesse*) which counts 16.5 million active affiliates. The largest supplementary schemes are AGIRC/ARRCO for private employees (17.7 million) not civil servants (2.47 million). The State has nearly and IRCANTEC for public sector employees who are

	Basic Scheme		Mandatory supplementary scheme(s)	
<b>Salaried workers</b>				
Agriculture	Mutualité Sociale Agricole	+	ARRCO	+
Industry & services (non cadre)	CNAV	+		
Industry & services (cadre)		+		
State and local govt. employees		+		
Employees of special status companies or sectors	EDF/GDF, SNCF, RATP, Notary Clerks, Mines, ..(10)			
<b>Public servants</b>				
State, Armed services, Magistrates	Service des pensions			+
Local government and Hospital	CNRACL			+
State industries	FSPOIE			
<b>Non-salaried workers</b>				
Agriculture	MSA			
Self-employed, trade and services	RSI			
Liberal professions	CNAVPL Medical professions, legal professions accountants, ...(11) CNBF (Lawyers)			
Artists and performers	CNAV	+	IRCEC	
Religious	CAVIMAC			

4.5 million affiliated active members in 3 different schemes (State Public Servants, Local government and hospital workers).

Rules vary widely according to the scheme to which the insured person is affiliated. Indeed, on top of different parameters for calculation of pension rights, there are fundamental differences between these schemes, some of which are points-based, while others are based on annuities.

Before the implementation of the new law, affiliates would receive annual information on their contributions from some schemes, but this information was not consolidated and there was no easy way of estimating future pension rights without turning to a specialised service provider.

#### The measures implemented by the law

Article 10 of the Pension Reform Law of 21 August 2003 defines the duties of pension schemes to provide information to active members. The key points:

- Each person has the right to obtain a statement of his or her individual situation concerning all pension rights acquired in the legally mandatory schemes
- Mandatory schemes and State bodies responsible for pension calculation are to send a statement of individual rights acquired. This statement concerns all rights acquired in these schemes
- A decree sets out the conditions (age and frequency of information) in which each person is sent an overall indicative estimation of the amount of pension that they can hope to receive on retirement. This is the first time that obligatory information concerns future pension rights

Article 10 finishes by laying down the creation of a public body made up of all institutions involved in pension administration, including the State. This body is in charge of the application of the measures according to a timetable defined by decree.

“GIP Info Retraite” is the name of this body which was created in 2004. Composed of all 36 mandatory schemes, the principal missions of GIP Info Retraite are to coordinate and facilitate partnerships, to define implementation solutions for the new law (functional, organisational and technical) and to coordinate information exchange between schemes.

Among the specific objectives laid down was the creation of a universal pension simulator to allow workers to have an idea of their future pension. The internet-based tool is called M@rel (*ma retraite en ligne*: [www.marel.fr](http://www.marel.fr)) and it is programmed with the different calculation rules of basic and supplementary schemes. The user connects to the site and enters information on career history (dates, salary, and family situation) the calculator can then give an approximate idea of future pension. This calculator went online in June 2006 and has received almost 3 million visits to date. It is not connected to any database containing personal records; it calculates uniquely on the basis of the details the user enters and this information is not sufficiently detailed to make an exact calculation (for example, in case of non-linear salary progression during a career). GIP Info Retraite has also created an internet site which provides general information on retirement ([www.info-retraite.fr](http://www.info-retraite.fr)).

The latest and arguably the most important creations are two key documents which contain specific personal information on past contributions and future pension rights. Firstly, the individual statement of rights “*Relevé de situation individuelle*” (RIS) for people aged 35 - 50: which allows individuals to ensure that all career information has been taken into account. The other document makes a global estimate of how much the person should receive in case of retirement at 60 and 65. It is called the “*Estimation indicative globale*” (EIG) and is drawn up for people aged 55 and over: The operation requires some prior exchange between affiliate and the scheme (e.g. validation of military service, family details, number of children).

After the initial phasing-in period, in 2011, the RIS will be sent systematically every 5 years (to cohorts aged 30, 40, 45, 50). The EIG will be sent to cohorts aged 55 and 60. The phasing-in period between 2007 and 2010 is designed to ease the volume of work for the 36 schemes – it is important to note that, before these new measures, for some schemes which were based on the number of annuities, the creation of an individual account was not necessary until just before retirement. The mammoth task for some retirement schemes has thus been to create the individual accounts and to enter complete career data. From the initial volume of about 1.5 million letters sent in 2007, estimates for 2008 are 2.8 million letters, 3.5 million in 2009 and 4 to 5 million each year starting in 2010 when the system reaches cruising speed.

Before this new law, there were no such obligations

to inform workers of future pensions. A worker received an annual contributions statement from each of the schemes to which he or she had contributed, but no consolidated document was produced. Although career mobility is less common than in some countries, 43% of workers aged between 46 and 60 have contributed to more than one basic scheme.

The first batches of letters were sent in September 2007: by the end of this year about 750 000 people born in 1949 will have received an EIG and approximately the same number of people born in 1957 an RIS. The documents were sent in a French blue/green version of the famous Swedish "Orange Envelope".

### How it works

There is a central registry of all individual records which contains relatively little data: Social security number, birth name, first names and names of schemes to which the person has been affiliated. The detailed records of contributions are held by each scheme.

To initiate the process, a query is made in the central registry to generate a list of individuals born in a given year. This file is transmitted to a data collector which then addresses requests to each scheme to which the individual has made contributions. The data transmitted by the different schemes is consolidated by the data collector and saved in electronic form for access by the different schemes. A paper document is generated and sent to the affiliate by the last scheme to which contributions have been made (in the case of the largest schemes, this task is shared between the basic and supplementary schemes according to the month of birth).

If the person receiving the letter has any questions, it is the scheme that sent the letter which is the first line of contact. The scheme that sent the letter has access to the data via an internet portal connected to the data collector (GIP Info Retraite).

### Consequences

It is too early to make an assessment of the implementation of the new measures from a technical point of view. A full evaluation, both qualitative and quantitative, is planned for the beginning of 2008. A number of questions concern the reactions of people who have received documents: Will they react by taking out additional financial products? Will the

household savings rate increase as a result? What about consumer spending? Will retirement issues take on more importance in salary negotiations?

What is the effect on popular confidence in the Pay as You Go system? It is also too early to answer these questions.

To conclude this article, some remarks about the consequences in terms of the relations between different stakeholders in the French pension system. One key change concerns the relation between workers and pension schemes: previously the pension schemes had little or no direct contact with active affiliates. The pension schemes have always been in direct contact with retirees, but links with active members were generally only through employers. This has now changed and it raises the question of the nature of the relationship between an individual and a scheme. Is the individual the client of a supplier, a citizen in a social economy context or an individual in front of a bureaucracy? Is this relation the same for all schemes or will each scheme develop its own specific approach? It will be interesting to watch how this situation evolves.

In terms of the entities which manage the basic schemes, the consequences will certainly be important. As time goes by, more and more basic administrative tasks will be automated – the new law has accelerated this modernisation by obliging schemes to create and update individual accounts. The schemes will now industrialise processes to obtain improved efficiency and this will leave them free to focus on different priorities. Employees will be required to acquire new skills, technical and relational.

Of course, the question of legal responsibility is important: the law requires the schemes to provide information to affiliates and to deal with their questions which, in practical terms, has led to the creation of call centres. What happens if the information is incorrect? Clearly a decision to retire based on an estimated pension has long-lasting financial consequences if the real pension turns out to be lower than the estimate. A further difficulty is to define the line separating information and advice. Imagine a person calling to confirm that the information in a document received is correct. After checking the information a natural question is "What do you think I should do?" and in this situation the scheme is at risk of providing advice to a non-specialist. Training of staff in call centres is therefore of great importance.

Finally, the technical exchange of data has imposed compatibility constraints on IT systems: initially this has meant that schemes have invested heavily to

upgrade IT systems. This will in turn doubtless lead to improved comparability between schemes in terms of cost and level of service, in turn this could start consolidation between actors in the sector.

In conclusion, we see that the new law is a technical measure that is the first step on the way to transforming individual retirement choices into informed decisions on the part of workers. It may well end up transforming the retirement industry in France.

Tim Pullman

Original language: English

### Training for pension scheme governing bodies

EU-Directive 2003/41 regarding pension scheme activities mentions requirements relating to the qualification and experience of occupational scheme trustees. The Directive bases the management of these systems on principles and on the "prudent man" rule. This broad framework, offering pension scheme trustees generous elbow-room, means that qualitative matters such as training and experience attain special prominence.

On the other hand, the need for training is becoming more apparent in view of the number of developments within the sector, including many new investment products and significant changes in company law and financial legislation.

The aim of training members of governing bodies is to improve decision-making affecting pension schemes. By this means the regulation hopes to ensure that board members are well informed and capable of improving protection for members' rights and benefits, of controlling risks, of enhancing profitability, and of promoting proper pension scheme administration.

Some measure of the importance of training may be gained from excellence reports on British and US pension scheme management, according to which the cost of shortcomings ranges from 0.47% to 1%. As far as the Basque Country is concerned, this translates into tens of millions of euros annually and benefits which could be between 15% and 30% higher.

One of the issues that most catches the eye is that board members are so on account of their corporate position or trade-union representatives rather than of their relevant competence and qualification. In short, their position rests on the representation of the interests of members and beneficiaries within a framework of respect for equity and justice.<sup>1</sup>

However, precisely some experts think that because of their corporate and union role, their specifically representative function does exempt them from possessing in-depth knowledge of matters, that are not related to investments, such as pension scheme statutes, members' rights, rules and objectives.

### Basque regulations regarding governing body training.

The new Activities Decree stipulates that all members of the governing body and of the management committee must possess a minimum level of knowledge in supplementary pensions. In order to be duly qualified, at least one of the following requisites should be satisfied: adequate academic qualification (and relevant, in the interpretation of the Basque Government) and either training through courses on pensions or at least three years' experience in the mutual providence sector.

In fulfilment of the Decree, the Basque Government has drawn up secondary regulation regarding training. In essence, in so far as they regulate a basic training module sufficient for qualification and a series of other more advanced modules, the rules contemplate not only basic training but also an itinerary comprising additional training.

The basic module is intended for all those who do not satisfy the other requisites for qualification (academic qualification and/or experience), although other qualified members or technical staff may attend.

The course consists of some sessions of general training and specific training related to the characteristics and principal documents peculiar to the entity in question.

General training covers three areas:

- How funded pension schemes work: chief characteristics and main types of social provision entity;

<sup>1</sup> Myners Report (2001).

objectives; Social Security; organisations and agents involved in their working

- The legal framework (pensions and tax regulation) for top-up pensions and an analysis of the duties and responsibilities of board members
- Investments: general principles; types of assets; scheme assets and liabilities; investment strategies; and the Statement of Investment Principles, which all entities must subscribe to

It is foreseen that twelve hours over at least three sessions will be devoted to this general training.

In addition, one session shall be devoted to specific issues of the scheme.

In all cases, the entity must make available the means to update knowledge in the light of regulatory changes.

The Government is pledged to organise one free, basic course a year. The entity may also organise such courses for its members on its own initiative and with its own resources. The Government will allow entities to use the didactic material devised for its own basic courses.

With respect to the advanced modules, these should study the following areas in greater depth:

- Analysis of good practice and codes of good governance applied to pension schemes
- Basic pension regulation
- Taxation
- Actuarial principles and the design of mutual providence schemes; investment profiles and options; insurance and reinsurance
- The incorporation, documentation, administration and funding of pension schemes
- Communicating with and informing members; pension scheme management; human resources; retribution and top-up provision
- Investments: This is the only module with stipulated contents, very similar to those laid down in the British guidelines

The Government subsidises advanced module courses given by occupational entities and group

entities. The subsidy amounts to 80% of the cost of the course to a limit of 5,000 euros per course. A minimum of 8 members of governing bodies (5 if they all belong to the same entity) must attend the course. Other technical staff may also attend these courses but they will not be taken into account when computing the minimum number of members.

### Financial training

The financial training requires a section of its own because:

- It is the most complex, or at least it is viewed as such. A case in point is asset allocation, which is at the same time complex but fundamental. All experts agree that over 75% of the success or failure of an investment policy rests on asset allocation. In this respect, size really is important too since only the large schemes have access to many kinds of assets which may conform this policy
- The pre-eminence of DC schemes means that this area is of particular importance
- It is perhaps the area which has been subjected to most study and which is most widely applied in other countries

Financial training is beset with difficulties from the start. In general, not only corporate representatives but also, on many occasions, businessmen, professionals from outside the financial sector and many economists think they know more about investments than is in fact the case. So the first thing to be done is to convince people of the need for this training.

Generally speaking, people do not have a clear notion of the combination of return and risk. They think it is possible to obtain profits in excess of those gained from short-term fixed income, or even of economic growth, without ever having to assume the risk of losing money. But this is not possible. It is vital to explain that taking on short-term risk is the only way to achieve significant long-term profitability.

In this regard, one of the main responsibilities of every new governing body member is, with the aid of companions or advisors, to familiarise him or herself with the investment policy's parameters of acceptable risk. At the risk of repeating ourselves, financial risk is the key decision in investment.

However that may be, in addition to specific training, the quality of decision-making is also influenced by other factors. Obviously important is the general academic training or qualification as recognised by the Activities Decree. Other studies also highlight the need for at least one or two governing body members to have specific professional training in pensions and investment if those bodies are really to be able to challenge the proposals of executives and advisors. Finally, context is also important to decision-making. Thus, as well as training, procedures, protocols for action, the quantity and quality of information to be issued, the time taken to weigh up issues and the level of implication are also important.

In short, any improvement in the quality of decision-making depends not only on compliance with official guidelines but also on a wider vision of training and other aspects of good governance.

Jon A. Aldecoa  
Original language: English

### Reorientation of the VBL Report on a change process

Over the last few years, public service supplementary pension schemes in Germany have undergone far-reaching reform and change. In 2001, a collective agreement on old-age pensions for public service employees changed the former defined benefit scheme into a contribution-oriented scheme. Moreover, members now have the possibility of increasing their old-age pensions by means of voluntary additional occupational contracts and of benefiting from state assistance to do so.

The scheme and paradigm change within the public service supplementary pension system provided an opportunity for unprecedented modernisation of supplementary pensions as a whole. As was the case in other EU member states, the latest reforms of the statutory pension scheme in Germany also gave rise to a need for increased supplementary pensions. This need concerns all salary categories, but applies to low-income employees in particular. On the whole, occupational pensions are more widespread in Germany than ever before. Despite that, the protection of citizens within the framework of the second and third pillars still remains too low, in light of the expected drop in the level of statutory pensions.

### A vital and urgent need for information

One of the assignments of supplementary pension schemes is to keep members informed of their personal pension situation. They therefore provide information on all issues linked to retirement and pensions. Within the framework of the voluntary pension savings schemes, VBL successfully markets two products falling within a funded occupational pension scheme. Many members have opted for these products, involving, amongst other options deferred compensation. Until recently, only municipal government employees could benefit from the deferred compensation option, but since 2007, employees of the German *Länder* can also have access to this system, by means of the VBL.

An example of the new assignments of VBL is the processing of state aid within the compulsory supplementary pension scheme in East Germany. After the German reunification, a supplementary pension scheme was introduced in the new German *Länder*. This scheme is administered by its own management body, given that it does not have prior commitments. The years of membership in the supplementary pension schemes of the former GDR are not acknowledged. Since 2004, the East management body is being transformed into a funded scheme, which means that alongside employers paying contributions to ensure the pay-as-you-go system, employees are also paying a contribution to the funded scheme. This payment allows members to benefit from state aid in their contribution effort. In this context, it is particularly important to inform members so that they can exercise their right. Our advice has been successful, as evidenced by the fact that as early as 2004, more than 50% of the members entitled to apply for aid had done so. State aid paid for 2006 amounts to over 12.9 million Euros.

### The customer and stakeholder at the heart of the system

Proximity, customer service, transparency and profitability are now the watchwords for the assessment of administrative bodies. The changes implemented in recent years have encouraged the VBL to take advantage of the opportunity and to make the transition from administrative body to modern service company. Not only has it introduced controlling and risk management and complied with prudential rules set forth by the Federal Institute for Financial Services, but it has also entirely reorganised its key services and is starting to revamp its IT platform and applica-

tions with a view to offering employers, members and pensioners secure, comprehensive service.

### **Implementation of a front office/back office structure and of a broader range of services for participating employers**

The new organisation of the structure lays the foundation for work methods focused on service and on the customer. Since the implementation of the new organisation in February 2007, the service units of the customer management department advise and monitor employers, members and pensioners comprehensively. Case handling is undertaken in the units of the membership and benefits management department. This front office/back office breakdown enhances consultant availability, improves efficiency of operations and introduces work methods that give pride of place to customer requirements.

For some time now, we have focused our efforts on constant support to participating employers. With an enhanced service offering, our aim is to support them in an even more targeted way, to allow them to provide their employees with high-quality occupational pensions. Changes in the professional environment of public bodies, in particular those working on a competitive market, require particularly qualified monitoring by a specialised service. VBL caters for this new employer requirement by means of a significantly broader service offering (seminars, conferences, consultancy visits, telephone consultancy, development of online services).

### **A cultural evolution: our employees as the actors of change**

Alongside the foundations represented by IT and organisation, the VBL evolution strategy focuses on what is arguably the most important pillar of the company: corporate culture. This culture stems from the behaviour of the people in the company, and sometimes dates back so many years that any change requires huge efforts. Any change process necessarily involves feelings of insecurity and concern about the future among employees. These fears need to be addressed by fair and effective communication and information. When company management stays in contact with the staff, this creates a climate of trust, allowing employees to overcome their fears.

culture provides a framework for active participation in the change process.

VBL currently employs approximately 880 people. The extent of the change is clearly apparent when one bears in mind that some 450 staff members accepted a change in position, often calling for new skills. Candidates had to prove their abilities within the framework of a far-reaching selection process. They were carefully trained for their new assignments. Thanks to training seminars, the VBL continues to promote a service-oriented mentality, an obvious feature for any modern company.

Modern management tools, such as management by objectives and new leadership guidelines, have contributed to making this change transparent and current, even within the company.

### **Customer satisfaction as the indicator of a successful change**

When the customer is at the heart of the company, his opinion is the indicator of success. That is why VBL regularly conducts satisfaction surveys to find out how its new orientations are considered by its customers. In 2005, the new members of the voluntary insurance scheme were asked about their perception of the VBL. The result showed that the VBL is considered to be competent and reliable, but that its offers in terms of voluntary pension savings were not well known. Based on those results, information and communication efforts were reinforced by the publication of a newsletter, a revamped website and information campaigns.

Last year, the survey focused on employer opinions, by means of questions to the personnel and payroll departments or to the management of participating employers. Results show that the changes have met with a favourable reaction. Our enhanced communication is already reflected in the employer assessment, although some points still need improving. The change process is still underway, but it has already yielded positive results.

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