



# EURO PENSION BULLETIN

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## EDITORIAL

The financial crisis is currently the focal point of public debate in all countries. Over the last weeks and months, securities have been destroyed to an inconceivable degree, in all financial centres. Many reputed companies and even entire sections of certain national economies have been caught up in this downward spiral, to the extent that one could ask the question of where old age pension schemes in general, and those of the public sector in particular, now stand. The answer to that question depends mainly on the financing of each scheme. As a positive aspect in this context, the result of a survey conducted by UK pension association NAPF in January 2009 shows that pension provision still enjoys a high degree of confidence. 82 % of pension scheme members say they will make no change to their current pension arrangements. A further 7 % say they will even increase their contributions.

It is precisely in such trying times on financial markets that pay-as-you-go schemes show their advantages, but despite that, one cannot deny their disadvantages, in particular their fragility owing to demographic developments. The impact of the later on social security systems was the main topic of EAPSPI's annual conference in Helsinki which was rounded out by the members' reports among the "Pensions Update" section of the conference.

Hagen Hügelschäffer  
Original language: German

## Demographic developments in Europe at national and regional level

### Summary of the Presentation at the EAPSPI-Conference in Helsinki, October 9, 2008

The fact that the population of a continent, country, city or neighbourhood increases, decreases or remains constant depends on the interaction of four demographic processes. Births and immigration to a given location increase population numbers, whereas deaths and emigration decrease the population. In immigration countries, the annual number of immigrants is approximately equivalent to the number of births, or even exceeds the number of births, as is the case in Germany. In some regions, there is three to five times greater inflow from other regions or countries than from births.

All four components of population development - number of births, number of deaths, immigration and emigration - clearly depend on the age pyramid. That is why we need to use age-standardised indicators for all international and intertemporal comparisons. It is particularly important to consider the total fertility rate. This rate indicates the number of live births per woman in a given region.

In the second half of the 20<sup>th</sup> century, the total fertility rate for the world population dropped from 5.0 live births per woman to 2.7, and this downward trend is continuing. In Europe, the fertility rate dropped from 2.7 to 1.4 live births per woman during the same period. Europe is the only continent that annually records more deaths than births. Without the compensation provided by immigration, the population of

Europe would have dropped constantly since the 1990s.

The fertility rates show greater differences in an international and interregional comparison than in an intertemporal comparison. For the period 2005-2010, the number of children per woman is 1.8 in Northern Europe, 1.6 in Western Europe, 1.4 in Southern Europe and 1.3 in Eastern Europe. Within European countries, the fertility rates differ more from one region to another than from one nation to another.

International and interregional differences are much lower for mortality rates and life expectancy than for birth rates. For the period 2005-2010, life expectancy is 79.0 in Northern Europe, 79.9 in Western Europe, 79.4 in Southern Europe and 68.6 in Eastern Europe (average figures for men and women).

The most significant effects of demographic change are ageing, shrinking and internationalisation of population due to migratory flows. These three effects differ much more from one region to another than from one nation to another.

For the social security system (pension, health and long-term care insurance), population ageing, as measured by median age, for example, is the decisive factor. In Europe, the median age in 2005 was 38.9. It was 38.8 in Northern Europe, 40.5 in Western Europe, 39.8 in Southern Europe and 37.5 in Eastern Europe.

Based on the demographic projections of the United Nations, the median age in Europe will increase from 38.9 to 47.3 by 2050. It will increase from 38.8 to 43.7 in Northern Europe, from 40.5 to 46.7 in Western Europe, from 39.8 to 49.3 in Southern Europe and from 37.5 to 48.3 in Eastern Europe.

The low fertility rate accounts for four-fifths of the increase in the median age, only one-fifth being due to the increase in life expectancy. Given that the drop in the fertility rate and in the number of births in the last four decades is irreversible, the number of parents and therefore the number of births will continue to drop, given that those who are not born cannot have children. Demographic ageing is ticking like a clock, and for more than a half-century, it will be impossible to stop.

In regions with above-average fertility rates and population increases thanks to immigration of younger people, demographic ageing is lower than in regions with a below-average fertility rate and a drop in population. Demographic ageing is amplified in

regions with immigration of older people and emigration of younger people.

Vienna, Brussels, Southern Sweden, West Midlands and Inner London rank among the regions with lower ageing.

Regions in Slovakia (Bratislavsky), Poland (11 of 16 regions) and Romania (3 of 8 regions) rank among the regions with particularly significant ageing.

Among the regions with above-average ageing, we find the Italian regions of Puglia, Basilicata, Calabria and Sardinia. In Spain, this concerns the regions of Galicia, Principality of Asturias, Cantabria, Basque Country, Castile and Leon, Extremadura, Ceuta and the Canaries. In Germany, ageing is particularly significant in the new Länder, most notably in Brandenburg, Mecklenburg-Vorpommern, Dessau, Halle, Magdeburg and Thuringia.

To analyse the consequences of demographic ageing for the social security system, the old age dependency ratio (= population aged above 60 as a percentage of population aged 20 to 60) is an important indicator. In Europe, the old age dependency ratio will more than double by the middle of the century. The drop in the young age dependency ratio (= population below the age of 20 as a percentage of population aged 20 to 60) will be significantly less than the increase in the old age dependency ratio, which means that the sum of these two dependencies will increase significantly.

If we take Germany as an example, it is clearly impossible to prevent ageing, whether it be by increasing the birth rate or by immigration of younger people. To stop the increase in the old age dependency ratio by means of immigration of young people, Germany would need a positive balance in the migratory flow of 188 million people by 2050. The alternative would be to increase the fertility rate to approximately four children per woman, which is clearly utopian.

Prof. Herwig Birg, Germany

Original language: German

## Update from Scotland

### Summary of the Presentation at the EAPSPI- Conference in Helsinki, October 9, 2008

#### The Reforms

Public service schemes have all been forced to make changes. There have been two main reasons for reforms:

- UK Government Policy
- Tax Simplification

Looking at the first reason for change, UK Government Policy, there were several key factors for the government to consider before they decided that public servants have to work longer. The normal Pension age for Public Service employees is to be 65.

#### Why

1. Cost of public service schemes
2. Life expectancy is increasing
3. The private sector has normal pension age of 65
4. Turner Review Conclusion: (Pay more or work longer or both)
5. State Pension Age is 65

#### Changes to Public Service Schemes (Age)

As a result of this change in policy, all public service schemes have now introduced changes to the normal pension age for members. In most schemes the existing members are being allowed to retain their original pension age, but new members have to accept a longer working life.

Some schemes are offering existing members the opportunity to transfer to new arrangements, with improved benefits but with the normal pension age of 65.

	Existing	Revised	Implemented
Local Government	65	65	Rule of 85 being gradually withdrawn from 2006
NHS <sup>1</sup>	60	65	April 2008
Teachers	60	65	April 2007
Police	50	55	April 2006
Fire	55	60	April 2006
NB - Members in NHS, Teachers, Police and Fire Schemes before the changes were introduced retain right to the earlier retirement age			

In the case of local government the rule of 85 which allowed members to retire at age 60, is being phased out.

Most schemes have a pension age of 65, but police and fire have earlier ages because of the type of job.

#### Tax Simplification

Looking at the second reason for pension reform, the simplification of taxation, the old rules were confusing and very restrictive, and had not been overhauled for 50 years.

Some of these restrictions, faced by schemes and members, which have now been removed were:

- Limits on amounts payable increased from existing 15 % to 100 % of salary or £ 215,000 per annum.
- The rule that pensions cannot exceed 2/3rds of final pay or 40/80ths of final pay plus a lump sum of three times the pension is removed.
- An earnings cap (currently £ 112,800) for those who have joined pension schemes since 1989 is removed.
- Restrictions on contributing to personal pensions whilst a member of an occupational pension scheme is removed.
- The need to retire before drawing your pension from your employer is withdrawn.

<sup>1</sup> National Health System

Schemes have been able to improve benefits as a result of the simplified rules on taxation. The main changes to the tax rules are:

- Pension benefits will continue to receive the existing tax allowances subject to two new limits.
  - (i) The total lifetime pension saving from all types of pension cannot exceed the lifetime allowance (£ 1.5 million).
  - (ii) The increase in the value of pension savings cannot be more than the annual allowance £ 215,000.
- 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.
- Pension schemes will be able to pay 25 % of the total pension value as a tax free lump sum.
- No restriction to service length for pension purposes.

The lifetime allowance is the total that someone can save in their pension pot and still get tax relief. If someone saves too much, then they suffer a hefty tax penalty.

To calculate the value of a pension pot in a final salary scheme is merely a case of multiplying the pension by 20 and adding any lump sum. If the answer exceeds £ 1.5 million then the member is liable to tax on the excess.

The same applies to the annual allowance if your contribution does not exceed £ 215,000 (or 100 % of salary) then there is full tax relief, otherwise there is a penalty.

Both the lifetime allowance and annual allowance will be revalued in line with inflation.

Members who take 25 % of the value of their pension saving as a tax free lump sum will in turn receive reduced pension.

For public service schemes, the tax changes have meant that they can introduce a range of benefit improvements:

**Changes to Public Service Schemes (Tax)**

	NHS	Teachers	Local Gov't	Police	Fire
Removal of limit of contributions into AVC (3rd tier)	√	√	√	√	
Option to purchase additional pension	√	√	√	√	√
Increase in number of years that can be accrued	√	√	√		
Option to commute 25% of fund to tax free lump sum	√	√	√		√
Flexible retirement option	√	√	√		
Salary Cap removed	√	√	√	√	√
Actuarial increase for members who work longer	√	√	√		

The option to buy additional pension allows members the chance to purchase up to £ 5,000 to be added to their pension. The cost depends on age.

For police and fire schemes their options are less because they generally do not want or allow members to remain after normal pension age.

The flexible retirement option allows members the opportunity to take part of pension early but keep working. Their pension would however be actuarially reduced.

The Taxation changes bring a range of benefits for members and employers. Some of these are:

1. More choice for pension saving
2. Flexibility around retirement
3. Encourage members to work longer
4. Improve retention of experienced workforce
5. Opportunity to pay more into pension savings
6. Choice to take increased tax free lump sum
7. Simplify tax rules on contributions and amount of pension saved up to overall "pension saving" of £ 1.5 million.

### Reform of Public Service Pensions

More importantly perhaps, the combination of increasing the normal pension age for public servants and the simplification of taxation, result in less cost to the employer, ultimately the government.

#### Conclusion

1. Costs to employer reduced (for example Teachers):
  - 0.65 % on account of age changes
  - 0.90 % on account of taxation changes.
2. Schemes have become more sustainable.
3. Cost sharing arrangements have been introduced to “cap” employer costs and pass increased costs (for example – mortality rates) to members.

The recent valuation on the teachers scheme established that without the changes, the cost to employers would be at least 1.55 % higher. Similar results were identified with the NHS scheme.

The government required public service schemes to demonstrate sustainability and that objective is being achieved.

By agreeing cost sharing with the trade unions, the employer costs are capped, with the higher costs arising from improved life expectancy being passed to members.

Ian Clapperton, SPPA

Original language: English

### Pension Watch

Tim Pullman, who works in the Research and Development Department of the Pensions Division of Caisse des dépôts, has contributed a personal article which describes the work underway to put in place a coordinated system of information collection, retrieval and management for the 2,000 members of the Division.

#### The Pension Watch project and the strategic plan

2008 saw the beginning of a project the Pensions Division of the Caisse des Dépôts aimed at structur-

ing information, both external and stored in the institution, in order to make it more easily available to decision makers.

The Division is currently implementing a three-year strategic plan called CAP2010 (CAP stands for *Conforter nos gestions, Anticiper les nouveaux mandats, Piloter la performance*).



Adopted at the end of 2007 and officially launched in the three facilities of the Pensions Division in June 2008, the plan is designed to continue the modernisation process initiated in 2004, when the last three-year plan was put into place.

In order to implement the plan, CAP2010 has been separated into ten different projects grouped around four main themes:

- Customer relationship
- Human resources
- Organisation, Process and governance
- Development

One of the projects in this last theme concerns the implementation of Pension Watch<sup>1</sup>, an information gathering and analysis system designed to produce strategic intelligence for management in the Pensions Division. The project will provide essential input in decision-making processes, as well as ensuring that information is shared between managers and that precious resources are used efficiently in the information gathering process.

#### Different skills, different locations, different needs

The Retirement Division employs more than 2,000 people in three different production units in France (Bordeaux and Angers in the west of France and Paris). Certain general management functions (Finance, Control, IT, R&D...) of the Division are located in central Paris. The units in Bordeaux and Angers were set up 20 years ago and each unit has operational responsibility for the administrative management of different schemes. In fact the Pensions Division manages more than 50 different mandates which range from large pension schemes to different professional indemnity and compensation funds. The pensions division grew four years ago when a third production unit responsible for the management of

<sup>1</sup> “Veille retraite” in French.

the special social security scheme for French miners joined the division.

The schemes that are managed are diverse and thus involve different institutional stakeholders. The three different units each have contacts with different actors. One challenge of the Pension Watch project is to provide relevant information to managers in very different contexts and with different needs.

### Launch and early stages of the project

In order to make the most of this diversity, it was decided to use a network to ensure capture, circulation and coverage of key information in different parts of the Division. In the autumn of 2008, a high-level steering committee was put in place to oversee the implementation of the new system. The R&D department, created at the end of 2006, has been entrusted with the management of the project and the animation of the network. This department already provides information on European and international issues, regarding legal and regulatory questions, information on possible partnerships and legal and academic research. Since the very beginning, the management of information in the department was seen as a strategic issue and one of the first projects after its creation was the construction of a simple IT platform to allow easy access to shared resources.

During the autumn of 2008, the project was launched with an initial meeting of the steering committee. The process for implementation of the network was chosen and three different actions were initiated:

- Firstly, the organisation of a series of structured interviews with managers (80 people have been interviewed) in the different business units of the Division. The aim is to identify needs and resources in order to draw up an overall plan for the project which will identify the internal resources which will be involved in the information gathering and monitoring operations. It will also define the sources of information, the actors that should be monitored and the priority themes for each unit.
- A second action concerns the construction and animation of a network of correspondents within the Division which will collect and analyse the information on those themes identified in the previous action.
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Clearly, the project is potentially complex, not only because of technical questions, but also because it concerns the way that information is communicated between human beings. The steering committee is well aware of these points and decided to carry out a series of surveys about the organisation of business intelligence in different types of institution, both in the private and public sectors. Cultural issues are obviously important and the management of information varies according to the business sector and the national culture of the operator as well as the specific company culture; what works in one context will possibly not function at all in another. We have learnt a great deal from the private-sector financial and insurance sectors in France since the stakes are high in this knowledge-intensive sector of the economy where access to up to date information by senior managers is a basic question of survival.

### Defining the outputs

In order to satisfy stakeholders' high expectations, we are defining different products, each suited to a particular purpose. Already, structured input on European and international issues is provided by the R&D unit, notably using material from EAPSPI working groups and seminars, etc. Requests from other units often concern assistance with benchmarking actions – as a public-sector institution, CDC is constantly in search of ways of improving the service provided, in terms of efficiency, price and quality. One of the questions under review is the idea of setting up a knowledge centre to provide practical and methodological assistance in benchmarking activities. Sometimes it is useful to try to make comparisons across national boundaries; our contacts with EAPSPI members give us access to a wide range of possibilities.

### Some conclusions to the initial stages and the way ahead

The past few months of work on this part of the project has been a rich learning experience and my previous position in the company working in European affairs has been an advantage as it provided with clear evidence of the importance of "soft" (e.g. cultural) questions in organisations. The implementation of this network in the Division is a challenge and the management of the network is one of the key success factors in the project.

The technical questions are both complex and exciting. One major problem is to try to assess the importance of certain concepts which may seem today to be science fiction, but which might, in the coming five years announce the arrival of a new age of the Internet. One example is the Web 3.0, or the Intelligent

Web, which involves the Internet acquiring "intelligence" which, according to specialists, will, in the next few years, allow the Web to understand and satisfy the needs of people and machines. In order to design an information monitoring tool that will not become obsolete in the short term, it is important to get to grips with the new concepts today and ensure that systems are able to evolve without major redesign; this involves taking into account such arcane concepts as "ontology" and "metadata tags". Another, more practical development already visible is the increasing availability of RSS<sup>2</sup> feeds on certain websites, transforming a previously time-consuming activity and making the monitoring process extremely simple.

In the Pensions Division, our Internet and Intranet sites are currently being extensively redesigned and modernised and the new systems will equip the Division with state of the art platforms for both internal and external communication involving collaborative technologies. Another part of the CAP2010 plan is devoted to setting up a knowledge base to allow more efficient processing of client questions, often by telephone. The Pension Watch project will exploit some of these new exciting possibilities for information management.

However, at the end of the day, I believe that technological progress is only one issue among many that will help the project to take shape. The real critical success factor concerns the workers in the Division and the information they hold, collectively and individually.

Tim Pullman, CDC  
Original language: English

### How does KLP deal with the ongoing financial crisis?

In the Norwegian market we have seen a significant drop in the value of the Oslo Stock Exchange quoted financial enterprises. The share price of one of KLP's major competitors, Storebrand, has been down to NOK 10,50 from around NOK 40 early September in 2008.<sup>1</sup> Accordingly, DnBNOR, Norway's largest bank, with life insurance daughter company Vital, has seen a loss in value from around NOK 60 per share to NOK 22 in December 2008.

<sup>2</sup> Rich site syndication.

<sup>1</sup> The article was written on December 19, 2008. 1 EUR is equivalent to about 9,3 NOK in mid-January 2009.

Such losses in market value may form a serious threat not only to operating business, but also to the independence of the companies. The shareholder's year end dividend expectancy fades away, and a premium in the event of a takeover attempt gains ground.

For KLP Insurance these problems are remote. As the leading provider of occupational pensions to the Norwegian public sector and associated organisations, Kommunal Landspensjonskasse (KLP) is a mutual company owned by its pension customers. This form of incorporation lays the foundation for letting the added value benefit the customers, both directly through reversion of surplus and indirectly by strengthening the company's reserves and solidity.

### KLP's equity structure

As stated in the KLP Articles of Association, the members are obliged to pay equity contributions in so far as this is necessary to provide KLP with satisfactory financial strength. The contribution is determined in relation to the premium reserve and is calculated separately for each individual group (pension) scheme by the Board of Directors of KLP for the relevant calendar year. Accordingly, KLP has two equity classes: Paid-up equity by the customers, and regular equity fund from retained earnings.

Equity contributions may be used to cover a loss or deficit on ordinary operations, and no return may be paid without taking due account of the operating result for the year.

Equity contributions may only be refunded in the event of a transfer of the customer relationship from KLP and subject to the prior approval of the Financial Supervisory Authority of Norway. Any refund will equal the member's share of the actual accumulated equity contributions at the date of cessation calculated on the basis of the member's share of the company's total technical provisions.

### The business

In 2007, KLP delivered solid results with value-adjusted returns of 6.7 % and book returns of 7.5 %, a nominal result for the year of NOK 5.1 bn. Of this, NOK 3.6 bn was reverted to the customers' premium fund. Furthermore, the result allowed full reserving for longevity as well as strengthening of so called 'supplementary reserves'. Total assets at the end of the year were NOK 195 bn. Total solvency capital

amounted to more than NOK 25 bn. Things looked promising in early 2008.

At the end of the third quarter of 2008, KLP delivered an accumulated value-adjusted return of - 3.2 %, and a book return of + 0.4 %, but was maintaining its strong solvency, though total solvency capital was reduced to NOK 14.5 bn.

KLP's obligations to pay future pensions are calculated on the basis of a guaranteed return on the investment of insurance funds of 3.2 % (guaranteed rate). If the book return one year does not amount to 3.2 % the difference must be covered in the first instance by using supplementary reserves which are established precisely for this purpose. However, negative return (below zero) must be covered by the company's equity.

As on 30 September 2008, KLP showed a deficit of NOK 2.819 bn in accounting terms in accordance with the applicable accounting principles. This is due to the fact that supplementary reserves may be used only in allocations at the end of the accounting year and cannot therefore be used to cover guaranteed interest in the course of the year.

Were the accounts as of 30 September presented as annual accounts, the interest deficit between 0.4 % and 3.2 % would have been covered by the supplementary reserves and the accounts would have shown a book surplus of NOK 581 million.

The distribution of assets in the collective customer portfolio after nine months was:

Short-term bonds 20.4 %; money market 5.9 %; long-term and hold-to-maturity bonds 36 %; lendings 9.8 %; property 11.6 %; and short-term equities 16.3 %. Including derivatives the equity exposure amounted to 7.2 %. Since then the equity positions have been further reduced.

KLP has built up its insurance fund on the basis of lower guaranteed interest than its main competitors, which is a relative strength for the company. Nevertheless, in an extremely troubled financial market as 2008, the main target will be to deliver a positive book result, thus protecting the equity capital.

#### **Dynamic, prudent asset management**

The Norwegian pension system is based on the obligation of full coverage of technical provisions at all time. With a 95 % DB scheme market in Norway and guaranteed interests, this forms considerable

challenges in a volatile and bearish global financial market.

KLP is practising the principles of CPPI (constant proportion portfolio insurance) which is a capital guarantee derivative that embeds a dynamic trading strategy in order to provide participation to the performance of a certain underlying. This is designed to ensure that a fixed minimum return is achieved either at all times or more typically, at a set date in the future. Essentially, the strategy involves continuously re-balancing the portfolio of investments during the term of the product between performance assets and safe assets using a set formula or mathematical algorithm.

Principal protection is achieved by adjusting the exposure to the performance assets such that the underlying portfolio (i.e. the mix of safe assets and performance assets) is able to absorb a defined decrease in value before the value of the portfolio falls below the level required to achieve principal protection.

By November 2008, KLP has reduced assets ten times and acquired assets two times in 2008 according to the rules set for the model in use.

#### **The main problem: Long term low interest level**

When the global financial crisis started in the US early September, the Norwegian key policy rate (kpr) was 5.75 %, followed by two 0.5 % reductions in October and November.

On December 17, the Norges Bank's Executive Board decided to reduce its key policy rate by 1.75 percentage points to 3.0 %. The strategy is that the key policy rate should lie in the interval 2 - 3 per cent in the period to the publication of the next Monetary Policy Report on 25 March 2009, unless the Norwegian economy is exposed to new major shocks.

This bias may escalate a problem for Norwegian life insurance companies providing DB pension schemes with an annual guaranteed return of between 3 % and 4 % - also on the background of the extraordinary low global kpr interest level (USA 0.25 %, EU 2.50 %, GB 2.0 %, JPN 0.3 % aso).

A 2009 equity market still influenced by the world economic recession, lasting low interests to help out an insufficient credit market and increasing unemployment and decreasing real estate values would altogether form a considerable problem for guaranteed pension schemes.

### Finally: Oil price and currency

The Norwegian economy - and society - has gradually become dependent upon a stable oil- and gas market. In the fiscal budget for 2009 one third of the revenues comes from petroleum activities. The projection is based on an oil price of NOK 500, which should indicate near 80 dollars per barrel. The "Government Pension Fund - Global" is still a considerable buffer with its over NOK 2,200 bn under management, but it's vulnerable.

The StatoilHydro ticker accounts for one third of the Oslo Stock Exchange market value, and the share price has dropped nearly 50 % since its highest level in May in 2008.

For the time being the Norwegian currency is very weak. It is difficult to see the substantial reason, apart from the fact that the Norwegian krone is a small currency in a nervous global interest- and money market. From a normal exchange rate 1 EUR = 8 NOK, the Euro now costs over 20 % more. To avoid unpredictable risk, the KLP strategy is 100 % currency hedging on global fixed income and 90 % on equities.

Björn Hamre, KLP Insurance

Original language: English

## PENSION REFORM CHALLENGES FACED BY EUROPE

This article summarizes the speech delivered by Mr Jean J. Pfitzmann during a round table organized by the French National Assembly on September 16, 2008, to which EAPSPI was invited. The purpose of this event, chaired by the Minister of Labour and Social Relations, the President of the National Assembly and the Secretary of State for Solidarity, included, among other matters, clarification of the lessons learned in the process of reforming pension systems in other European Union countries since also in France, reforms and further evolutions of pension schemes and continuously discussed.

Against this background, it is important to understand at least the basics of 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 supple-

mentary. 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 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) and IRCANTEC for public sector employees who are not civil servants (2.47 million). The State has nearly 4.5 million affiliated active members in 3 different schemes (State Public Servants, Local government and hospital workers).

With respect to the challenges for the pension systems, the countdown has started in all European countries, and it must be noted that here, like elsewhere, there is a lot of talk but very little action. Today, there is one retiree for every three to four workers. By 2050, there will be one retiree for every two workers.

In addition, developments on the labour market, in some countries like Great Britain or in central

Europe, can become a source of concern given that periods of inactivity lead to missing contributions. Also, more and more poorly paid jobs are being created. In Germany, in spite of a semi-socialist government, a system in which social security contributions are minimal (1 €-Job) has been implemented. It should also be noted that the retirement age is in fact decreasing, as there are always more people who stop working as soon as they possibly can. This means that European pension systems must inevitably be reformed, even at the expense of votes in terms of politics. Models outside of the sphere of influence of politics must be found. In this context, one could develop a mixed system wherein experts would submit proposals that Parliament could oppose only if it is able to prove the validity of its viewpoint. Politicians constantly think of their future and of the next election, and dealing with pension matters results in too much antagonism for them to be able to make fully rational decisions. This is the case in Germany where it has been decided to raise the retirement age as from the year 2031, which is clearly too far in the future, at least in the view of

experts and mathematicians. This solution is therefore too politicized.

The present trend is to try to create interdependence between the different pension contributions, with systems based on less contributions and, as a result, less benefits. There could also be a system based on two or three pillars including pay-as-you-go. The big danger of the pay-as-you-go system is population ageing, but one cannot believe that the funded system would solve all the problems either, as real dangers also exist in the form of inflation, returns and guarantee on investments, as is presently the case. A combination of both systems is therefore necessary.

The decrease in State pension benefits is quite often corrected by compensation from an occupational pension scheme. These are often solutions specific to members of a sector such as policemen, firemen or construction workers. On the other hand, pension savings can also be private savings subsidized by the State and by taxation, as is the case in Germany. It must also be noted that the present trend is, as far as contributions are concerned, to decrease the contribution of employers. Employers consider, in the context of globalization, that global competition is becoming increasingly stiff, which could lead to relocation of activities. There are also attempts to create basic prevention. It is then up to the member to create his/her own pension.

But in fact, one of the most convincing solutions is to extend active life, implying later retirement. I would like to take the example of Denmark to illustrate this point. The Danes have created a minimum cover, financed on a pay-as-you-go basis, and not depending on contributions at all. This State pension scheme has been supplemented by two funded pension schemes. Moreover, the Danes had the courage to raise the retirement age from 65 to 67, but in the very long term. It was decided that the system will be revised every five years, but outside of the influence of politicians. Mechanisms were created by legislation for that purpose, to give power to actuaries, experts, financiers and lawyers, outside the sphere of influence of politics.

In Great Britain, a basic cover together with a supplementary pension has been introduced. However, a specific point is worth noting: it is possible to exit the supplementary pension scheme if the member considers that he is providing for his own retirement.

In the Netherlands, the system is based on a uniform State pension, which is the general trend in Europe, with a second pillar based on collective agreements within sectors. This system offers cover to 91% of employees. Since the 2002 reform, the Dutch have discovered that funded systems are exposed to financial risks, as they must have seen during the last few months. That is why they increased the solvency of pension schemes. In the past, there were substantial tax benefits for people electing to take early retirement; this is today no longer the case as the Dutch are encouraged to retire later.

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