

National updates

GERMANY

The new supplementary pension scheme First experiences in the sector of municipalities and churches

A year after the transformation of the top-up public sector occupational pension scheme into a points based system, the time has come to make an assessment. Following the article presenting the new point system published in EPB N° 12 of April 2002, we intend to present in the following article the first results of this reform.

I. THE COMPULSORY COVERAGE

1. The transformation of the scheme

Through the collective agreement on the public sector occupational scheme signed on 1 March 2002, the concerned social partners have opened the door to an unprecedented transformation of occupational schemes. To avoid supporting both the old top-up and the new points based systems for decades to come (current pensions are still being paid out, indexed at 1% every year), the levels of benefits paid on 31 December 2001, the starting date, are considered as "accrued benefits", and transferred to the points based scheme.

To calculate the benefit levels, and to preserve the confidence of members in their scheme, a distinction is made between generations "close to retirement age" (employees over 55),

and those "far from retirement age".

If the transfer of approximately 875.000 pensioners from municipal and church funds was relatively simple, working out the levels of rights accrued by active members under the old system led to a number of difficulties, due to the important number of transfers and their complexity. For the municipal and church sectors, we had to deal with the following situation:

- determination of rights accrued under the old system for 400.000 active members close to retirement age.
- determination of rights accrued under the old system for 2,4 million active members far from retirement age,
- and for 2,1 million retirees

For members close to retirement age, the accrued rights are calculated on the basis of information obtained through their legal pension institutions, while for members far from retirement age, it was necessary to proceed through a calculation fixed on the basis of the law on occupational pension schemes. Assessing the accrued rights of members close to retirement age requires as much time as processing a pension for a new pensioner.

(See page 2)

Editorial

The Europe of the 25 is on the way. However the Union is not achieved and its administration could be hindered by the lack of procedures adapted to a proper governance. More than ten years have been necessary for the present 15 to find an agreement on occupational pension schemes. How much time would have taken an agreement of the 25? Even if some Member States still defend it, the unanimity rule will not allow to run smoothly our institutions in many fields. In the social area, it is difficult to imagine how convergence could be achieved with such a rule. Even at national level, politics rarely agree unanimously on a decision, witness the demonstrations against the reforms presently proposed. Most times the emotional trend opposes the rational one and an analysis of the reactions evinces that people do not really know what is at stake for our society in the long term. That is why it is so important to organise events aiming to explain pension problems. The conference organised on 24 April by our partner CSED is a good example of this information policy.

This conference was an opportunity to overview all the classical subjects underpinning the present pension situation. It particularly focussed on the problem of seniors' employment. It was once more confirmed that solidarity, equity, social justice remained strong principles, necessary to maintain societal balances. That is the reason why many countries have modified their pension systems so that the remaining particularities concern less some specific professional categories than the actual working conditions applied to certain workers, the aim being to offer a fair compensation to the harshness and high degree of risk characterising certain jobs.

Thierry CHRISTOPHOUL
Original language : French

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In short

New CEO at the Pension Management Department of Caisse des Dépôts

On 10 February, Jérôme Gallot, aged 43 was appointed CEO of the Pension Management Department of CDC.

Georges Constantin was given new responsibilities and sends regards to all the association's members.

SAM-Pension (Denmark) has moved

New address since 18 May 2003
SAMPENSION
Tuborg Havnevej 14
PO Box 824
DK 2900 HELLERUP
Tel : +45 7733 1877
Fax : +45 7733 1485
www.sampension.dk

CSED conference

On 24 April 2003, our partner CSED organised a symposium on "pensions for public employees in Europe, differences and convergence".

Hans Söderström presented the Swedish pension reform and Thierry Christophoul gave a written conclusion summarising the speeches of the day.

Pension Forum of Caisse des Dépôts

The 11th Forum will be held in Bordeaux on Friday 7 November (Conference Palace).

Before the reform, the pension funds for municipalities and churches could process about 60.000 new pension claims per year. Considering this capacity, handling all the members would have taken over 6 years. Such delay would not have been compatible with the members' general interest, since all of them wish to know as quickly as possible their future pension situation. The pension funds thus decided to finish the whole transition operation by the end of 2004.

2. Implementation of the new system

In order to set up the new point based scheme, it was necessary to first lay down the legal foundations of the funds' statutes. As soon as the collective agreements have been negotiated, AKA adopted model statutes, (28.03.2002) and these statutes have been used as a basis by the other pension funds.

However the technical and administrative implementations are carried out by the pension funds themselves. For this purpose it was necessary to make all members familiar with the details of the system, although they had already been informed by media and Unions.

During the spring and summer 2002, AKA took the responsibility of co-ordinating the operations and gathering the competence existing within each pension fund of our association. Apart from dealing with several technical problems, it has been necessary to publish (with the support of a professional communication agency) brochures and leaflets to inform members about the change and the advantages of the voluntary insurance. The various pension funds decided by themselves how they could use these documents and adapt them according to the particularities of their members.

During the communication campaign, many information meetings were organised for the members. The pension funds for municipalities and churches have organised hundreds of information events during the second half of 2002. They could thus reach thousands of members. This campaign was furthered by setting up information

desks employing staff from the pension funds who had been specially trained for this mission.

Since then, the operation of informing 2.4 million members about their accrued rights is nearly finished whereas the information operation towards the 400,000 members close to retirement age is presently in process.

3. Acceptation of the new point based system

The first feedback shows that the new supplementary pension system is well accepted because it offers transparency and the opportunity to anticipate the assessment of pension rights. Nearly all members and employers welcome this new system. The information mails sent to all members have made it possible for them to personally assess the impact of the scheme change on their own pension rights.

The most frequent questions concerned mainly the doubt about a possible loss of pension rights. The public wanted to know how the amount of accrued right was determined. Some members who had already been given a simulation of their benefit under the old system, have been disappointed by the level of their new rights when the latter have resulted to be lower than those of the previous simulation. Since then, the pension funds have received quite a lot of claims, mostly standard claims. It is worth noting that all previous simulations were to be considered as an information provided in accordance with the regulations in force on the day of the simulation and subject to any legal change. This reservation has always been explicit in the pension funds' information.

The most typical causes for claims have been taken into consideration in a new negotiation of the agreement between social partners. In a second amendment to the collective agreement of 12 March 2003, the social partners have introduced certain modifications to reduce the negative effects of the reform in particular cases. They have also issued a statement confirming the legality of the measures taken for the transformation of the scheme.

Although the level of benefits has been reduced, the reform of the scheme has generated an increase in the employers' charges. This is due to the global increase of the pension burden but also to the efforts to achieve a higher funding level through the payment of additional contributions in order to avoid dramatic contribution increases in the future. This additional charge raises a problem especially for public services competing with the private sector, like hospitals, transports and energy suppliers.

II. THE VOLUNTARY COVERAGE

The collective agreement of 1 March 2002 has reorganised the compulsory pension system, but it also requires supplementary pension schemes to introduce a voluntary insurance to top up the compulsory occupational system. For their voluntary pension plan, the members can benefit from the provisions of the Reister's Act (financial helps and tax incentives – see EPB N°10 of August 2001).

The social partners have also allowed pension funds to set up pension plans. With this type of product which makes it possible to improve pension rights on a voluntary basis, public sector employees can obtain the same advantages as private sector's ones ; The pension funds have rapidly completed this mission entrusted by the social partners. In a few months, they have created products of voluntary insurance and offered them to their members. To date, a pension plan under the form of pension fund is only proposed by VBL.

1. The insurance products and their marketing

For the voluntary insurance concerning municipalities and churches staff, AKA has set up several working groups in charge of drafting forms and contracts

as well as standard conditions which have now been adopted all over the country. Meanwhile actuaries of the various pension funds have been exchanging about technical business plans for voluntary insurance and all conditions have been fulfilled to obtain the authorisation from the competent authorities for these products.

In the autumn 2002, the members of most pension funds have been informed about the change of the pension scheme but also about the opportunity to subscribe a voluntary pension plan. By that time all pension funds had developed the necessary I.T. means to deal with this new product.

Massive communication actions have naturally entailed a endless flow of information requests. A survey made within AKA has shown that in average 15 % of the members (with picks reaching 30 % for certain pension funds) have actually requested a simulation.

Apart from the specific question regarding voluntary insurance, the pension funds had to face demands concerning more generally the reform of the scheme and the fiscal incentives relating to voluntary insurance.

Members have contacted their pension funds either by mail or by phone or through the information desks. Thus the biggest pension funds had to deal with hundreds of phone calls per day until December 2002. In addition, the members could also attend the information meetings organised within the pension institutions (which we have already mentioned). The decentralised structure of the pension institutions for municipalities and churches and their distribution in the various regions, have allowed them to be very close to their clients ; This has been a great advantage to advise the members and train the staff.

Just like for the private insurance companies, the result is not up to the expectations. At the end of 2002, the pension funds for municipalities and churches had only obtained 55,000 contracts, which represents less than 2 % of its members. The main reason for this insufficient result is certainly the complexity of the provisions regulating the State's helps.

2. Prospects

For year 2002, most voluntary insurance contracts have been received in November and December. This year the number of contracts has considerably reduced.

The number of contracts remains stable over the first months of 2003. It amounts to only 10 to 15 % of the contracts signed in December. However, for the next months, a new increase is expected since a new collective agreement dated 28 February 2003, applying to municipalities, provides for the possibility to convert a part of the salary in pension points. The employees can use a part of the upper gross salary bracket to purchase pension rights, so that this part is neither taxable nor subject to social contributions. This is a way to reduce taxes and social charges on the salary. However this salary forgone system is incompatible with the State's helps applicable to voluntary insurance.

The supplementary scheme's reform and the new provisions concerning voluntary insurance require advice and a certain follow-up for the members. Our institutions have prepared themselves to this new mission with their organisation and their staff ; They are ready to face the new era of the supplementary pensions.

Géza von Puskas
Original language : German

SPAIN - the Basque Autonomous Community

Supplementary pensions – present situation and development prospects

General context

The Department of Justice, Employment and Social Security of the Basque Government has initiated a strategic reflection on pensions in the Basque Country on the basis of the present diagnosis and the future prospects. This article gives a summary of this work.

The Basque Country is ageing rapidly

The Basque Country will undergo a demographic imbalance which will probably be more important than the one affecting Spain at national level.

The Basque Autonomous Community has the lowest fecundity rate in Europe (in average 0.9 child per woman) together with the highest life expectancy. In addition, immigration is less important than in the rest of Spain.

The retiring generations are proportionally larger and if we consider that their pension contributions are higher than the national average, we can easily deduce that the impact of ageing will be more dramatic.

All demographic scenarios, even the most optimistic present a clear modification of the Basque age structure. In fact, if in 1995, people aged over 65 represent 15 % of the population, in 2025 this percentage will reach 25 % and in 2050, 35 % according to the most favourable hypotheses.

The Basque Country has indeed a certain period of time before facing the problem of ageing, but the alteration of the age structure resulting from the Civil War (1936-39) will generate a considerable social challenge.

The enormous pressure of ageing on public finances

A simple element can illustrate the growing pressure which is about to affect the public pension systems.

In 2025, the number of persons reaching retirement age in the Basque Autonomous Community is going to increase by 30 %.

According to probable evolution scenarios concerning the cost of contributory social security pensions, even in favourable demographic and employment conditions (birth rate, immigration, activity rate, unemployment...) the cost will grow from 8.5 % of GDP (present rate) up to 17.4 % in 2050. This cost would reach 27.1 % of GDP in a scenario of stable demographic and employment conditions.

Preservation of the standard of living is not guaranteed

Social Security regulations are not under the competence of the Basque Country which has no power in this field. Its role is passive regarding the measures or lack of measures from the State central authorities.

Presently, the guidelines of the reform drawn up by the State central authorities, which are presently proposed span from the postponement of retirement age (option which is refused by the population) to the consideration of the whole career for the pension calculation. It has been assessed that the pension calculation based on the average salary should reduce the benefits by about 25 %.

Occupational pensions, a tool available to the Basque authorities

The Basque Country has the power to use an important tool which can contribute to definitely minimise the risk of reduction in the standard of living during retirement, as well as the risk of intergeneration conflict : this tool is the supplementary pension system.

The Basque Country holds the legal and fiscal competence as well as the administrative and economic power to define its own model of supplementary pensions.

This competence has been granted by a basic law dated 1983. At this date the Basque Parliament promulgated a Law on the voluntary social insurance entities, by virtue of the powers that the Constitution and the Status of autonomous community has conferred to it, in the field of social protection.

The supplementary pensions must be generalised in order to take up this social challenge.

The assets held by the supplementary schemes represents about 23 % of the Basque GDP, whereas the national assets hardly reaches 4 %. This means that the local context was more adapted to the development of this insurance tool.

However is we consider more closely this development, apart from a few exceptions (although these exceptions may be significant), it relies essentially on individual insurance operating through financial bodies.

The analysis of this model of individual social protection may raise some doubts on several aspects : the degree of coverage for average and low income employees, the irregularity of contributions payment, the adequacy of investments and above all the social efficiency of the numerous tax incentives presently in force.

If supplementary social insurance is to contribute effectively to the preservation of the standard of living of the Basque population, it is necessary to reconsider priorities and incentives. In fact, the whole policy must be reconsidered since the point is to attract and cover the low or average income categories. Those are a real concern for the public authorities. Those who do not have any supplementary coverage are precisely the ones who are most likely to need it.

It is thus necessary to generalise supplementary social protection and give it a scope that it has never had so far.

The new scenario requires new rules since the tools have to be adapted to the objectives

This change in the role of supplementary social protection requires to adapt the legal framework to the new economic conditions, in order to obtain a proper tool able to face the new social challenge.

The rules established 20 years ago in the Basque Country, a pioneer in the field of supplementary social protection, were established in a quite different context. The aim was to propose a solution for the high salary which exceeded the contribution ceiling or for specific professional groups which were not properly covered by the Social Security.

Today the situation is completely different. There is no more need for addressing specific categories, the point is to compensate the pension reduction affecting nearly all the population and more particularly the social classes which presently do not contribute to any supplementary scheme.

The generalisation of supplementary social protection, its accessibility to most workers will only become reality through the occupational schemes of the second pillar based on collective agreements.

However the occupational schemes are not very well-known and have not received significant public help, that is why they are insufficiently developed. It is necessary to change this situation through a new regulatory framework which could give a fresh start to this type of protection, in order to make it attractive both for employers and employees and give it preferential conditions justified by its social role, while simplifying the conditions of access.

A coherent policy aimed to match the objective (generalisation of the supplementary coverage) and the tool (occupational pension schemes) requires to re-define the action plan.

Ambitious quantitative objectives which requires the social partners' participation

The Department of Justice, Employment and Social Security has fixed the objective to cover 70 % of the population within 8 years.

As for the part of income represented by supplementary pensions it considers it would be necessary to fix it to 20 % of the final salary, so that the Basque population could obtain a replacement ratio sufficient to maintain their standard of living during retirement.

The social partners are the main actors who have to achieve these objectives.

Their role is essential to design a supplementary system that together with the Social Security system could ensure to the whole population, sufficient and sustainable pensions according to personal needs and to the requirements of a moving society.

Clara Izurieta

Original language : French

The Basque Country – a few data

Population: 2,098,000 inhabitants - GDP / inhabitant: 19,514 €
 Life expectancy: Males: 74,2 - Females: 82,4
 Working population: 891,200 - Unemployment ratio : 8,3 %
 Activity ratio: 54 %

Development strategy for occupational pensions in the Basque Country

The project of generalisation of occupational pension schemes is based on the following guidelines proposed by the Department of Justice Employment and the Social Security.

1) Promoting the creation of new occupational schemes

The point is to co-ordinate the efforts and focus on measures intending to favour the creation of these systems.

The development of these systems during the maturation period, when they receive contributions and already pay benefit is considered as a lesser priority. Favouring the creation of occupational pension schemes (within a sector or a company) implies:

- The creation of a specific framework which makes a clear distinction with individual systems. It is thus necessary to distinguish their social role (characterised by their objectives and conditions of access) and to provide them a specific legal framework (under a law dedicated only to the second pillar).

- The definition of privileged conditions relying on fiscal incentives or administrative and economic helps which could make attractive the development of these systems.

It is necessary to be very strict regarding the conditions and the objectives of the occupational schemes (coverage, nature of benefits etc.). If we want to stick to these requirements and take into account their social role. It would be unfair and illogical to offer conditions less interesting than those offered by other insurance systems.

For this purpose, concerning taxation, several proposals have been expressed and submitted to debate, They are in perfect coherence with the social objective defined. These objectives must also respect the principle of sustainability regarding public finances, and take into account the workers' interest whatever their income level.

The main idea consists in applying a differential fiscal treatment which makes the occupational scheme attractive.

See page 6 – 1st column

The most relevant measures which will have to be analysed by the competent bodies are as follows :

Distinction of the conditions applicable to the second and the third pillar and modification of the fiscal ceiling applicable to each pillar.

Presently our deduction ceilings are very high (€ 16,000 for a person who contribute to both an occupational scheme and an individual pension plan, and this ceiling can be increased because of age and for contributions in favour of a spouse with no income).

It is necessary to reconsider the part which must benefit from the public help, especially in a context of generalisation of supplementary pensions.

Possibility to deduct contributions, at least 35 %, and more according to the number of dependent children, instead of applying the deduction to the taxable basis, as this is presently the case.

The present possibility for companies to deduct 10 % of the employer's contributions from the corporate tax should be maintained as an incentive to develop occupational schemes.

Apart from the fiscal incentives, some economic helps could be granted for the creation of occupational systems as well as administrative assistance which could contribute to simplify the creation procedure.

2) Establishing confidence in the sectors' or companies' pension schemes

This aspect is essential and consists in promoting simple efficient, transparent and understandable systems, relying on a sound professionalism and a set of minimum guarantees.

In this field, several actions are envisaged. They concern the definition of a minimum information for members and the administration, the standardisation of processes, the introduction of quality and management charters, the generalisation of models

which could facilitate the access for very small companies, and finally the regulation of running costs.

Concerning the guarantee system, the opportunity to set up a public-private fund is envisaged in order to face dramatic situations resulting from fraud and illegal behaviours.

3) Insuring the follow-up of the pension system

The point is to set up a permanent supervision and monitoring tool , a sort of observatory for supplementary social insurance and a system for an institutional and social representation (the Basque Council for social insurance). These tools will guarantee the follow-up and the assessment of the objectives' achievement and will make it possible to adapt as much as possible the means to the objectives.

4) Implementation of a communication strategy, educating citizens and making them more responsible

The project envisages to develop study meetings, debates, as well as co-operation agreements between all the actors involved, both for the creation and the development of occupational pension systems. Know-how should be furthered and the information should be broadly circulated.

IÑAKI ZABALA
Vice-Councillor at the Department of Justice Employment and the Social Security of the Basque Government
Original language : French

SPAIN
BASQUE COUNTRY :
Evaluation in view of
introducing a single Plan
in ELKARKIDETZA

Elkarkidetza comprises two different systems which offer different types of benefits : the older one is called « Plan 86 », the most recent one « Plan 98 ».

Plan 86 is a defined benefit Plan. At the time Elkarkidetza was created, the aim was to provide a complement to the reduced pension that was then granted to civil servants. That is why Plan 86 was launched. It covers all the institutions initially affiliated and the persons employed in them. This plan is now closed to any new subscription.

When in 1993, the Spanish public pension system integrated the civil servants into the General Scheme of Social Security, the public part of the pension rose considerably, so that almost all member institutions decided to stop paying contributions to the supplementary scheme. At this time the system wound up by refusing any new subscription.

Then in 1998, a defined contribution system was set up through collective agreements. It was called Plan 98 to which all institutions participated, whereas Plan 86 was made unavailable.

Today Elkarkidetza manages both systems which present considerable differences.

Plan 86 covers a limited group. Nobody can enter this scheme, but exits can be registered, either for retirement, death or suspension of payment. Most institutions have stopped paying contributions to this plan in 1993.

ELKARKIDETZA		
	Global number of subscribers	
	<u>Plan 86</u>	<u>Plan 98</u>
1990	8.798	-----
1995	8.783	-----
2000	5.970	13.256
2003	5.728	16.118
Some subscribers are in both Plans		

It is worth noting that the cost of the defined benefit system is rather high because of the increase in life expectancy.

This implies a rise in the future contributions and an increase in the reserves necessary to back up past services. To date, these needs have been covered by the good results of Elkarkidetza's investment policy.

In house actuarial studies controlled by an external agency have confirmed that the surplus of reserves still allows to match liabilities in spite of the new actuarial data, without entailing any deficit.

Elkarkidetza gives the possibility to the subscribers to withdraw on a voluntary basis. Anyone can freely and at any time stop paying contributions and interrupt membership. This adds another difficulty to the defined benefit system which is not easy to managed since it is closed to new members.

In addition, Plan 98 registers an increasing number of subscribing employers and employees which is twice the number of those involved in Plan 86.

In such a situation, the Administration Board and the General Assembly have decided that it was necessary to carry out a global evaluation of the defined benefit system. The study was entrusted to a prestigious actuaries' agency.

The point is not only to carry out a traditional actuarial study like the one carried out in house and externally controlled by independent experts, but also to assess the best scenarios concerning Plan 86.

Through this process, the best action will be defined for the future of this plan, from financial, actuarial and legal points of view, while introducing the best coherence between the two systems.

Jesus Maria Larretxi
Original language: French

PORTUGAL

New regulations for pensions since 1 January 2003

The Law n° 32-B/2002 of 30 December (regulating the State budget for 2003) has introduced the following modifications concerning pensions (modification of the pension legislation):

Pension calculation

The formula for the pension calculation remains unchanged ($1/36^{\text{th}}$ of the monthly remuneration, multiplied by the number of pensionable years, within a limit of 36 years), but the calculation is now based on the remuneration after deduction of the contribution to CGA, which implies a reduction of 10 % of the pensionable salary.

Reduction of early pensions

Decree Law n° 116/85 of 19 April has been rescinded. Members under 60, having accrued less than 36 years of service can no longer obtain a full pension except in the case of disability, even if early retirement has been approved by the employer.

Early retirement : since 1 January 2003, a new article (n°37 A), has been added to the Pension Regulation. It provides, on a permanent basis, for new measures allowing members to retire voluntarily with 36 reckonable years, whatever the age. However if the member has not reached the pensionable age (60 in most cases, or different ages for particular cases), the pension will be reduced by 4,5 % for each missing year.

Each period of 3 years completed beyond the 36 years legally required, allows for one year anticipation without any reduction (for example a member having completed 39 years will be allowed to retire at age 59 without pension reduction and a person having completed 42 years will be allowed to retire at age 58 with a full pension. These provisions do not concern members subject to specific schemes

providing for different conditions regarding pensionable age and service time.

Non civil servant members and administrative employees under private contract

Their pension is no longer based on the final salary but on the average of the last three years, after deduction of the contribution to CGA, and without taking into account the Christmas Bonus and the other extra pays.

Application of the new provisions to the pension claims processed on 31 December 2002

Can benefit from the old calculation system :

- All pension files sent before 31 December 2002 by active members services (for inactive members, the date taken into account is the date of reception by CGA) and which call for a decision during year 2003.

- All disability pension claims subject to a medical control to be carried out in 2003.

To benefit from the old regulations, the applicants must have fulfilled in 2002 the conditions regarding age and service time.

Consequently the old system cannot take into consideration any service time and any remuneration referring to periods completed after 31 December 2002.

Vasco Costa
Original language : French

The measures referred to concern members affiliated to CGA before 1 September 1993, who were not concerned by the previous reforms

SWEDEN

Transferability of pension rights

Transferability between Sweden and the EU pension scheme (RRCE)

Swedish EU employees can now choose to transfer their accrued pension rights from 1st, 2nd and 3rd pillar pension schemes to the EU's own system. The right to transfer, since long guaranteed by EC Regulation 259/68, was codified in Swedish law on July 1st 2002.

The new law could potentially serve as a model for a future regulatory framework on cross-border transferability of pension rights, according to some analysts.

In the EC Regulation 259/68 considering Staff Regulations of EU Officials (supplement 8, article 5) a citizen who takes up employment in a Union institution has the right to transfer the value of his/her accrued pension rights to the Union pensions system. Swedish authorities deemed it necessary to introduce a separate law in order to effectively implement this Regulation.

According to this law, the transfer value is either the capitalised present value of the future benefits, or the sum of the contributions paid plus interest rate. A transfer results in the employee's new pension plan being credited with the number of service years corresponding to the amount of capital transferred. The transfer value will not be taxed by Sweden.

When it comes to supplementary pensions, which in Sweden are predominantly arranged by collective agreements between trade unions and employers' organisations, the law leaves it to the social partners to agree on a suitable method of implementing the EC Regulation. In case there is no collective agreement, the responsibility rests with the individual employer.

It is acknowledged that transfers will entail certain costs in the form of less tax revenue. However, these costs are considered to be relatively small. The administrative costs for the Regional Social Insurance Offices are estimated to roughly 100 000 euro annually during the initial years.

While acknowledging the current rules of the Staff Regulations, both the Swedish Parliament and the Government are highly critical of the fact that the actuarial assumptions used in the EU system are not gender neutral. In effect, this means that the net result will be roughly 5-9% lower for women than men with comparable wages.

Pension providers introduce right of transferability

The year 2002 has also seen a rapid increase in the possibility of transfers at national level. During the year, a number of Swedish insurance companies have introduced the possibility to transfer accrued pension rights within 3rd (and in some case 2nd) pillar pension plans. However, the vast majority of pension plan members are still without this possibility.

Furthermore, those who have introduced transferability have circumscribed it with substantial restrictions and fees (in one case, 1% of the accrued capital). KPA, which is the main 2nd pillar pensions provider for the

local government sector, but is also providing 3rd pillar pensions, has not yet introduced transferability at national level.

However, an internal working group is to come up with a proposal on the subject within a few months. KPA has also seen the need to prepare for making transfers to the EU system, according to the new law described above.

See also

EPB n° 8 of December 2000 (agreement between VBL and the pension scheme of the European Communities)

EPB n° 2 of December 1998 (agreement between Portugal and the pension scheme of the European Communities)

Several Swedish parliamentary commissions have studied proposals for a legal right of transferability. They have come to the conclusion that such a right would in the end entail increased costs for the majority of pension holders; costs that outweigh the advantages from a competition point of view. Thus, transferability remains an option that may be offered in the provisions of the different pension plans.

Johan Berglund
Original language: English

In short

Erratum

In EPB N°14 (1st paper issue), the reference of the Danner case was wrong. Please read C-136/00 of 3 October 2002.

Portability working group

The summary version of the Portability report in French and German will be available on the Web-site by the end of June.

Johan BERGLUNG (KPA – Sweden) has joined the working group.

EAPSPI Annual conference

It will be held on 9 and 10 October in London. Three subjects will be analysed :

- The role of public sector pension schemes in urban rehabilitation
- Governance in pension schemes – role of social partners and trustees.
- Pension scheme sustainability, actuarial and economic points of view

European news

European Parliament agrees on the Directive on the activities and supervision of institutions for occupational retirement provision

On 12 March 2003 the European Parliament met in plenary session to vote through the package of amendments on the Council's version of the Directive as adopted under its Common Position of 5 November 2002.

Due to last-minute brokering by the Commission, it is highly unlikely that the content of the Directive will change and there will be no need for a conciliation procedure.

The Commission working closely together with the European Parliament and the Council worked out a compromise text agreeable to all three of them.

On 5 March the Council signalled its intention that it would accept the package.

The dossier will return to the Council for its Second Reading. This should be a formality given the careful steps taken to secure its advance albeit informal agreement to approve the compromise package. This should be completed by the second half of June 2003.

This means that a few formalities aside, the Directive will at some point over the next few months become law and European pension funds will therefore have their EU-wide legal framework.

The Directive does not create a new supervision rule or a new solvability rule for pension institutions within the EU, but it is trying to co-ordinate the national regimes on pensions. The Directive does not affect existing national pension systems; it seeks to strike a balance between different practices across the EU.

Member States retain full responsibility for the organisation of their pension systems and for the role and functions of the various institutions providing occupational retirement benefits. Pay as you go systems are excluded from the scope of this Directive.

In some countries the Directive may affect the life insurance companies, because the Member States can choose to apply the legislation to life insurance companies too.

The Directive holds some positive elements for pension institutions and the members:

- Recognition of the specific situation and the good points of pension institutions: for example there is a primacy for the social partners on the package of a pension scheme; the Member States are permitted to allow a fund the right to offer provisions for survivors and disability cover, if this is requested by employers and employees;

- Legal framework on pensions for countries that did not have this, in which a qualitative supervision is anchored;

- The Directive represents a first step on the way to an internal market for occupational retirement provision organised on an European scale; it makes it possible for institutions to operate across borders; however, if an institution works on a cross-border basis, it may be requested by the competent authorities of the host Member State to apply the rules that also apply to institutions located in the host Member State;

- When an institution has got the right to manage an occupational pension scheme in another Member State, it should fully respect the provisions of the social and labour law in force in the host Member State insofar as it is relevant to occupational pensions;

- As underlying principle for capital investment the Directive sets the "prudent person rule", but it provides for the home state to lay down specific investment rules ensuring that the assets of the fund are invested in the best interests of the members.

The prudential rules laid down in the Directive are intended to guarantee a high level of security for the future pensioners

- There has to be a legal separation between a sponsoring undertaking and the pension institution in order that the assets of the institution are safeguarded in the interests of members and beneficiaries in the event of bankruptcy of the sponsoring undertaking

- The institution which operates on a funded basis for the sole purpose of providing retirement benefits should have freedom to provide services and freedom of investment subject only to coordinated prudential requirements;

- Benefits paid by institutions for occupational retirement provision should generally provide for the payment of a life long pension; payments for a temporary period or lump sum should also be possible;

- Members and beneficiaries should receive proper information; on request they will receive information on the target level of the retirement benefits, the level of benefits in case of cessation of employment, arrangements relating to the transfer of pension rights to another institution in the event of termination of the employment relationship

- Where members bear the investment risk (defined contribution systems) they should also receive information about the range of investment options, the actual investment portfolio, the risk exposure and the costs related to the investments.

Mathieu Scheepers
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Open Forum

**On Global Ageing; the sustainability of old-age
income systems in the EU-15 and other parts of
the world**

A book by JB KUNÉ (actuary AT ABP)

Population ageing was unknown before the middle of the 20th century. Nowadays developed countries are in unprecedented transition to a new era with ageing populations. Ageing will result in a smaller proportion of the population being employed in the decades after 2010/2020. Another primary issue which may harm industrialized economies is whether ageing and particularly pay-as-you-go based pension systems will depress saving and investment.

Changing demography, fewer workers and more retirees, gives rise to much concern on the fiscal sustainability of public pension schemes, health care systems and other social services. As a result pension reform is in discussion in all developed countries. The main features of the debate of the relationships between population ageing, labour supply and saving behaviour are summarized.

Technological development, economic globalisation and institutional changes are long-term processes occurring over the same time period as population ageing and they are of major and decisive influence.

Under the rather optimistic assumptions of some further increase in labour force participation ratios and that 1 ¾ percent yearly growth in per worker production can be realized in the coming half century, it can be demonstrated that per capita consumption of the working age population in the EU-15 increases from 2000 to 2020 by 44.7 percent and that of the 65+-population by 81 percent. Without ageing welfare in the EU-15 by 2020 would have been 4.2 percent higher.

Only with a zero growth rate of labour productivity average welfare will decrease by about 6 percent in 2020, whereas a minor 0.3 percent productivity growth with unchanged labour participation rate suffices to maintain welfare at its present level. On the other hand, a desired per capita welfare increase of e.g. 60 percent over the period 2000-2020 requires an annual productivity growth rate of 2 ¼ percent.

Economic growth under ageing is not an automatic process. To achieve higher welfare growth well chosen packages of reform policy measures are necessary, primarily directed at providing incentives for people to invest in their human capital and to stimulate labour force participation. Increasing scarcity of labour relative to physical capital and subsequent higher wage levels make such shifts also more attractive. It is shown conclusively that the ageing of the population needs not give rise to a slowdown of the economy. It is not demography but economic growth rates that determine the nature of old-age income systems in the 21st century.

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