

The newsletter of the European Association of Public Sector Pension Institutions

## European News

### Public Sector Pensions Review

The Netherlands is chairing the European Union during the second half of 2004. Besides the 'formal' circuit during the chairmanships of the EU there is also an 'informal' circuit. Here the Directors General of the EU-member states, who are responsible for issues relating to the civil servants such as conditions of employment, meet and discuss several items which are important for their actual sphere of activity. In 2004 the demographic changes and, more particular, pensions are on the working program. In Lisbon, the Social Protection Committee (SPC) was already commissioned to conduct a study on the long-term development of the social security system and the tenability of pension systems in particular. However the SPC works on a very broad range of issues, thus far no sufficient focus was possible on pensions. No material was produced that could help governmental managers to enhance sustainability, no sufficient benchmarks or indicators were developed possibly due to the sensitivities in the formal framework. In The Netherlands the Ministry of the Interior and Kingdom Relations is responsible for the functioning of public administration and for issues relating to civil servants. During the Dutch chairmanship, the Ministry of the Interior intends to devote more attention to the sustainability of pension systems operated by governmental employers. This will happen in the above already mentioned informal co-operation, in the so called HRM-group. This activity is the second part of the work indicated in the program concerning the "Demographic challenge". The Irish Chairmanship has produced already the first part of this research program. This study, which has been carried out by the European Institute of Public Administration (EIPA), considers possible solutions of the demographic problems such as increasing the length of working life, reducing early retirement and introducing flexible working practices. The study also provides guidelines for possible future policy-development and reform in the area. The Irish study concentrated more on the demographic aspect, whereas the Dutch study will concentrate on the sustainability of

## Editorial

After the enlargement of the EU in May, the national representatives of the 25 Member States have finally agreed on a text to establish a European Constitution.

This latter would be the corner stone of a future European entity which will be substituted to a huge number of treaties, but will it be finally adopted? In many countries this has generated hot debates and for the citizens consulted by referendum, it may be difficult to have a clear idea of what is at stake. As usual, everyone would like to have at once a perfect text that would fit everyone of the 456 million European citizens. This would mean that the societies where we live are also perfect and have immediately found their balance. One cannot simply ignore 1000 years of history.

This perfection we would like to achieve, citizens also want to have it in the area of social protection, particularly when it comes to secure an income for the old days.

Once again, this issue of EBP shows that there is no ideal pension system and in all countries, managers and politics work together to preserve and develop sustainable systems affordable for future generations.

This permanent search for a fair balance between what is desirable and what is actually possible should also be a concern for citizens who should adapt their demand to the capacity of our societies. If not, an ideal European Constitution just like an ideal social protection would be sheer utopianism.

Thierry CHRISTOPHOUL

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pension plans as such. At the DG meeting autumn 2004 the Dutch Report “Public Sector Pensions Review EU Member States” will be presented on the benchmark findings and possible recommendations.

The aim of the report is to produce a comparative study of the pension facilities in the light of their sustainability and to produce a kind of benchmark. Possibly some indicators might be developed to measure common progress. The study will be carried out by Mercer.

Jan van Sloten (Dutch Ministry of the Interior)  
*Original language : English*

## National updates - UK

### What Happened to the Stocktake

Some of you may recall the announcement in 2001 that a stocktake was to be carried out on the Local Government Pension Scheme in England and Wales. All interested parties agreed on the need to carry out some investigation into the pressures and concerns facing a pension scheme at the beginning of a new century. After an initial period of soul searching four papers were promised covering:-

- Scope for simplification and deregulation;
- Appropriateness of the available benefit package
- Affordability and sustainability
- Benefits administration.

The paper on affordability and sustainability was delayed because of the external market factors leading to some scaremongering popular press stories. World stock markets had lost up to 40% of their capital value since the last actuarial valuation of the LGPS in 2001, and this was giving rise to serious concerns about “black holes” in pension accounts. Not that all the liabilities had to be met immediately, nor was there any prospect of pension funds having to realise their assets. At the same time as small scale private sector companies were closing their final salary pension schemes because of the cost, a degree of pension envy was building up – aimed at “feather bedded” public servants. We have now introduced a requirement for pension funds to publish a Funding Strategy Statement, setting out how they plan to manage their pension liabilities and, by linking the FSS to the Statement of Investment Principles, their investment portfolios over the future. This is intended to bring a degree of realism back to managing pension liabilities for bodies (local councils) which cannot become insolvent.

The discussion papers relating to the stocktake as a whole can be found on the LGPS specific website @ [www.xoq83.dial.pipex.com](http://www.xoq83.dial.pipex.com) . What has been made clear is that the status quo is not an option for the ongoing sustainability of the LGPS, both in terms of the type of benefit package for a changing workforce and cost implications. The website also contains documents relating to changes we have had to make to deal with short term issues, balanced against medium to long term need.

By coincidence the two Government Departments responsible for overseeing pension provision – the Department of Work and Pensions and the Inland Revenue – also announced wide ranging reviews. The purpose of these reviews was to simplify where possible and provide more security to the employers’ pension undertaking. It had been noticed at this time that apart from the statutory public service pension arrangements all other pension schemes were more a declaration of best intent rather than firm guarantee or promise. And this came at a time when the government was trying to move more of the pension burden from first pillar provision to second and third pillar.

Reviews have also been underway of the NHS pension scheme; the teachers pension arrangements; pensions for the police and firefighters; the armed forces; and further future changes for civil servants. This autumn may see the destruction of several forests as people read the various publications. Even with electronic delivery (the UK e-government agenda) most people still seem to prefer hard copy.

The Inland Revenue changes provide all UK pension schemes with the opportunity for radical thinking.

- Current limits on contributions subject to tax relief (15% of salary) will disappear. From 2006 it will be possible to put a sum equal to annual salary, up to a maximum of £200,000, into a pension plan – either employer's or personal or combination of both.
- Current caps on earnings – for post 1989 joiners pension can only be calculated on a maximum salary of £100,000 – will go. There instead will be a lifetime limit on the size of capital built up to provide a pension - £1.5 million from 2006.
- Individuals will be able to take, provided scheme rules permit, up to 25% of the capital value of their pension as a tax free lump sum. So if the annual pension is £10,000, it would be possible to receive a lump sum of £50,000 [25% of the capitalised value, by multiplying pension by 20]; this in turn reduces the annual pension to £5,800 (approx.).
- And for the first time it will be possible to draw a scheme pension after age 55 and continue in full or part-time work, building up more pension.

For public servants, the most telling aspect of the general reviews was the commitment to raise the retirement age of all public servants to 65, and the increase from 50 to 55 as the age when early payment of benefit other than on grounds of ill-health could be paid from a pension scheme. The LGPS already had a 65 retirement age; but it also has a provision whereby early pension is not actuarially reduced if a combination of age and membership total 85 (eg a 60 year old with 25 years service/membership). These will change, and it is proposed to make the changes from April 2005, as part of the process of stabilising costs.

This year we have been faced with the conflicting issues of maintaining stable contribution rates, moving towards the new retirement ages and working on plans for a completely new scheme – LGPS Mk II. As you can all imagine from your own experiences changing retirement age, even in the context of securing the long term sustainability and affordability of the scheme, is not a popular proposal. Doing so against a background of announcements to reduce the number of civil servants adds a further degree of difficulty. We are hopeful that our transitional protections and proposals for a new scheme will win over the argument. One commentator has described the situation regarding the long term stability of the scheme is to undergo relatively minor surgery now or face amputation in the not too distant future.

We are on target to publish a detailed proposals paper by the end of September. An outline target date for the new scheme, and closing down the current scheme is 2007-2008, to coincide with the next valuation due as at 31 March 2007. The process has to start this autumn to enable all the necessary planning and changes to be managed. The success of the transfer will depend on how well local authorities deal with their requirement to issue annual benefit statements to all active and deferred members, and clean up their data, even though only active members will be transferred to a new scheme.

Pension envy is a serious issue. With more private sector schemes moving to DC based arrangement it is easily forgotten the higher public service pension come as a result of historically lower pay than private sector. Many local campaigns have started with individuals threatening not to pay their , local, council tax. But the so called feather bedding is something of a myth. The average LGPS pension is still only around £4000 per year (€5800), to supplement a basic state pension of £4100 per year (€5945 ). No real research has been done on the total family income in retirement. These figures do not suggest a sufficient replacement income for an individual.

At the same time we have to make certain the pension scheme is beyond challenge on discrimination grounds see Council Directive 200/78/EC. Some of the provisions had to be in place by last December (sexual orientation and religious grounds), the major issue (age discrimination) has to be in place by 2006.

Whoever suggested pensions was a dull subject where nothing much happens could not have been around over the last two or three years. In view of the government proposals on reducing posts will I still be here in the next couple of years. At present the answer is yes, but some fundamental questions about the number of public service pension schemes in the UK are still under consideration. Will there be a UK version of the SPPA? Watch this space.

Brian Town (LGPS)  
Original language : English

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## SPPA & Pension Reform in UK

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### BACKGROUND

Being one of the most recent additions to EAPSPI I thought it worthwhile to give some background to the Scottish Public Pensions Agency [SPPA] as well as highlighting some of the pension reforms we are involved in at present.

The Scottish Public Pensions Agency is an Executive Agency of the Scottish Executive. It was previously known as the Scottish Office Pensions Agency which was created in 1993 and employs around 200 staff. Recently relocated in line with the policy of the Scottish Parliament to move public service jobs from Edinburgh, we are now based in a rural location in the centre of the Scottish Borders near Galashiels.

We administer and regulate the National Health Scheme (some 233,000 members and beneficiaries) and teachers' pension schemes (some 171,000 members and beneficiaries) in Scotland, and other smaller occupational pension schemes [such as the scheme covering Members of the Scottish Parliament] for which the Scottish Ministers are responsible. SPPA also regulate the local government, police and fire pension schemes administered by Scottish local authority.

With the creation of the devolved Scottish Parliament, the Scottish Ministers have regulatory authority for the main public service schemes, however the UK Government retains financial responsibility for much of the funding and has an overriding policy of uniformity across the public service schemes in the United Kingdom. We work very closely with colleagues in England, Wales and Northern Island when introducing changes to pension schemes. Although the Scottish public service pension schemes therefore tend to mirror those in the rest of the UK devolution does give us the opportunity to consider distinctive Scottish issues which have been identified in our discussions with employers and staff representatives.

### PENSION REFORM

Over the next couple of years there will be much activity to implement pension changes following decisions by the UK Government. I have outlined the major issues below:

#### **Normal pension age**

Last year the UK Government published the outcome of its consultation exercise on pension reforms and proposed a package of reforms to occupational pension arrangements designed to ensure that people are adequately provided for in retirement, and to encourage older workers to continue to participate in the labour market. The proposed reforms reflect both increasing life expectancy and the fact that many people want to work longer and to increase their retirement income. One of the reforms now to be taken forward is to increase, from 60 to 65, the normal pension age for public servants.

The general policy intention is for the main public service pension schemes to put in place, probably during 2006, new arrangements in which new entrants can participate. Such new entrants will not have access to the existing schemes. It is envisaged that the new schemes would be extended to all staff at a later date, not before 2013, but only in respect of their future service after that date.

The schemes affected by the proposed changes are those covering Firefighters, Police, Teachers, Local Government and National Health Service and the main changes to the schemes can be summarised as follows:

- to increase normal pension age for public service employees to age 65
- because of the physical requirements of the Police and Fire Services to increase the minimum age for their retirement to age 55 [this being the minimum age proposed by Government]
- for those with new deferred pensions, to increase the age for payment to 65
- remove the requirement on schemes to provide an Additional Voluntary Contribution [AVC] facility
- extend the requirement to provide annual benefit statements to all schemes

- employees with at least 3 months service [previously 2 years] will have the right to transfer contributions or preserve their benefits
- schemes which currently have a provision enabling early retirement with accrued benefits/actuarial reduction will require to raise the minimum level to age 55

Although the Local Government Pension Scheme already has a normal pension age 65 it has a facility whereby members can access their pensions prior to age 65, depending on age and length of service, and therefore amendments to the scheme are nevertheless required.

### Taxation

Also in 2006 we will implement the changes recently announced by the UK Government to simplify the taxation of pensions rules:-

- it will no longer be necessary to leave employment in order to access an employer's occupational pension;
- it will no longer be necessary to choose between membership of a personal pension and an occupational pension. Anyone will be able to join any type and any number of pension schemes at any time;
- all occupational schemes will be able to pay a lump sum of up to 25 per cent of the value of the benefits;
- a single lifetime allowance for the level of tax-privileged pension saving (£1.5 Million increasing steadily to £1.8 Million in 2010).
- a light-touch annual allowance for contributions and benefit accretions of £200,000 increased each year by the Retail Price Index figures;
- the minimum age for taking benefits will rise from 50 to 55 by 2010

In common with colleagues elsewhere in the UK, we will need to consider how to implement the changes. For example the provision allowing members to access their pension and continue to work will allow schemes to look at flexibilities to ease the transition from work to retirement. Another option will be to move schemes away from a defined lump sum arrangement to one which allows members the facility to commute some of their pension to a lump sum.

### Civil Partnerships

The EU Directive 2000/78/EC ("The Employment Directive") established a general framework for equal treatment in employment and occupation. It provided that – "*any direct or indirect discrimination based on religion or belief, disability, age or sexual orientation...should be prohibited throughout the Community.*"

The UK Government intends to introduce the provision with effect from October 2005.

Currently same-sex couples currently have no way of gaining a legally recognised status for their relationships and they are denied access to most of the rights that are given to married couples, including access to occupational pension scheme benefits. Couples who enter into this new status will gain a package of rights and responsibilities. It would provide for the legal recognition of same-sex partners.

Changes to the main public service schemes are planned so as to provide access to benefits for the partners and children of same-sex relationships.

### Discrimination on the grounds of age:

The Employment Directive 2000/78/EC also requires that people should not be discriminated against on grounds of age and the intention is to implement this by October 2006.

All pension schemes will have to satisfy themselves that their rules do not contain provisions which might be challenged under the Employment Directive. Any ageist provisions in pension schemes which cannot be justified will have to be removed. For example provisions which fix an age limit for transferring benefits out of a scheme are discriminatory.

Ian Clapperton - Director of Policy  
Scottish Public Pensions Agency  
*Original language : English*

## National updates - Germany

### New Taxation of pensions

After long debates, the new Pension taxation law (*Alterseinkünftegesetz*) has finally obtained the required majority at Parliament so that it will come into force on 1 January 2005 (apart from a few exceptions). A new tax legislation had become necessary because of a case law of the Constitutional Court which decided that the different tax treatments applying to basic pensions and civil servants' pensions was unlawful and that new regulations should be introduced by the end of 2004. The legislator has initiated a fundamental reform on tax legislation which not only concerns the basic or the civil servants' schemes, but other special schemes of the first pillar (such as the scheme for independent professions or the scheme for agriculture workers), as well as occupational pension schemes and life insurance. Finally the *Alterseinkünftegesetz* also contains provisions regarding portability of occupational pension rights and individual pension savings (« Riester-Rente ») even if these matters are not directly linked to taxation (see in this publication the article by Klaus Stürmer on new portability rules).

It is foreseen that this law will generate a significant loss in tax revenues. In 2005 the loss will amount to €1 billion and in 2010 it will probably reach € 5.6 billion. Later the loss will be decreasing because of the effect of benefit taxation. An immediate of system would have been impossible since it would have cost about € 20 billion per year !

The basic principles of this law have already been presented in the last issue of EPB (n°18 of April 2004). Therefore this article will only points out the most important aspects for first pillar schemes (1) and for occupational pensions (2).

#### 1. IMPACT OF THE « ALTERSEINKÜNFTEGESETZ » ON FIRST PILLAR SCHEMES

##### a) Taxation of pensions

As a rule, most pensions will be subject to taxation, a system which is already applied in most European Member States. To avoid a double taxation, the law provides for a transition period starting on 1 January 2005. Thus all pensions in payment and those processed in 2005 will be taxed beyond the threshold of € 19,000 per year for singles and € 38,000 for couples. As this franchise was previously fixed to € 38,000 for singles and € 76,000 for couples, pensions will therefore be taxed at a rate of 50 % as from 2005. This franchise is fixed for life for all pensioners, so that any further increase in pension will not affect this threshold. However most pensioners (about 77 %) will not be concerned by this provision since their pension is lower than this limit. Pensioners with higher benefits will be affected so that the number of pensioners subject to taxation will increase from 2 million in 2004, up to 3.3 million in 2005.

##### b) Transition period for pensioners

In order to insure a smooth gradual taxation of benefits, the part of pension subject to taxation will be increased by 2 % between 2006 and 2020 and by 1 % later, so that the benefit taxation process will be completed by 2040.

##### c) Contributions to first pillar schemes

The transfer to benefit taxation will go together with an exemption of contributions for first pillar schemes, which will be gradually implemented. In 2005, contributions will be tax-free up to 60 % of their amount. This rate will be later increased by 2 %, so that the total tax exemption (limited to € 20,000) will be effective in 2025.

## 2. IMPACT ON OCCUPATIONAL PENSIONS

Like in first pillar schemes, the law provides for a transfer towards benefit taxation system, so that contributions will be tax free (and exempted from social charges) up to 4 % of the basic scheme contribution ceiling (« Beitragsbemessungsgrenze ») i.e. € 2 472 per year. To encourage the development of occupational pensions, this ceiling will be increased by € 1,800 for subscriptions contracted as from 1 January 2005. This more favourable ceiling means to compensate other fiscal incentives which will be removed next year. This supplement of €1,800 will only concern taxes but not the exemption from social charges.

These rules apply to contributions paid to external bodies (administered separately from the sponsoring undertaking), i.e. pension institutions, direct insurance and pension funds. On the contrary, they do not apply to internal occupational schemes, i.e. the support funds and book reserve systems. Contributions paid to pay-as-you-go systems will also be excluded since law requires that contributions be paid to funded schemes. Consequently most pension institutions covered by AKA and VBL, which are PAYG will be excluded and their contributions will still be taxed. In fact, as AKA and VBL represent one third of occupational pensions in Germany, contribution exemption would have generated a considerable loss in revenue. Officially, however, this rule is supposed to encourage the development of funded schemes.

Regarding unisex tables under consideration in the occupational pension field, they will have to be used only for individual pension saving contracts (Riester-Rente), which must apply the principle of equality between men and women for mortality tables and benefits. Occupational schemes are not submitted to this obligation for additional voluntary contributions. They can therefore take into account the different life expectancy of men and women in their actuarial calculations. Regarding the compulsory system, pension schemes must use equal tables for men and women to meet the legal requirements established by the national and the European Courts.

Hagen Hügelschäffer  
Original language : French

### Changes within AKA

Géza von Puskas, Chairman and Director General of the Association of pension institutions for local governments and churches (AKA) retired at the end of July 2004. He has been replaced by Reinhard Graf, member of the Board of the Bayerische Versorgungskammer (Pension institution of Bavaria) who, due to his new responsibilities, is also in charge of the supplementary pension institutions for civil servants and public employees of Bavarian local governments.

Klaus Stürmer has been appointed Director General, after being elected Director of AKA last year. He has had a managing function within AKA for about 10 years.

Géza von Puskas had been Chairman since 1989. He was very much concerned by European law and the European construction. He had participated in the activities of the European Club since 1992 until its transformation into an association. He was actively involved in the creation of EAPSPI as he was Board member from 1997 to 1999 and Chairman in 1998.

## National updates - Germany

### Portability and New Pension Taxation<sup>1</sup>

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#### 1) Introduction

Before the Pension reform, portability was possible only within public sector occupational pension schemes<sup>2</sup>. Transfers were allowed on an individual and contractual basis and the new employer or pension institution had to offer guarantee of solvency.

#### 2) The Pension Reform and the Pension Saving Law

The Reform Law of the general pension scheme and the development of pension savings<sup>3</sup> (Riester Reform) have introduced for the first time in Germany, legal provisions regarding portability of occupational pension rights. Since this law came into force, the employer has to transfer the cash value of the pension savings financed by the employee, towards the new employer or the pension institution of this new employer, provided this latter guarantees the value of the transferred capital. Therefore the employee is entitled to a transfer but only where the occupational pension relies on funded systems financed by the employee.

#### 3) The Pension Taxation Law

It was voted on 11 June 2004<sup>4</sup>. Apart from taxation rules, it also contains provisions regarding portability of occupational pension rights. Such provisions will generate amendments of tax legislation and occupational pension regulations, which will come into force on 1 January 2005.

With the transfer of the capital value, the law intends to improve pension rights portability in the case of employers' change. In an ideal situation, all occupational pension rights accrued during the career will be aggregated. The risk of losing part or all pension rights accrued during short term contracts will thus be reduced. The Law provides that, in the future and under certain conditions, employees will be entitled to portability of their vested pension rights. Therefore, portability is only an individual right of the employees who exercise free movement. The Law clearly sets out that it does not apply to company buy-outs or changes of pension systems.

In the case of buy-outs, the process would be collective. It would be then essential that the existing labour contracts be transferred to the new employer who maintains them. In such a case, labour contracts are not broken, whereas portability can be exercised only if the late labour contract is broken. Thus, buy outs are not concerned by portability provisions.

Only individual mobile employees can, at the end of their labour contract, request the definitive transfer of their pension rights, provided the amount to be transferred is not excessively high (in 2004, the transferable amount would have been € 61,800)<sup>5</sup>. However this right is valid for labour contracts signed after the enforcement of the law, i.e. 1 January 2005. There will be no retrospective effect.

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<sup>1</sup> The present article is an abstract from a report written by the author for the Professional Pension Bulletin (BetrAV) published in 2004, p.346. The writer thanks the editor of BetrAV for his kind authorisation to publish in EBP.

<sup>2</sup> See the article "Portability of pension rights in the public sector – New provisions on Portability within AKA" in this issue.

<sup>3</sup> Bundestag printin (BT-DS 14/5068

<sup>4</sup> Pension taxation law (Alterseinkünftegesetz – AltEinkG) ; OJ 2004 – 1<sup>st</sup> part, p 1427 and followings

<sup>5</sup> This ceiling is the one in force at the general scheme

To exercise their right to portability, employees are submitted to a time limit of 1 year after the end of the labour contract. This time limit is meant to preserve transparency and legal safety.

All schemes are not covered by this law, since portability can be exercised only between funded schemes of occupational pensions.

For pension rights accrued in other systems : full or partial pay-as-you-go, book reserves, or support funds, there is no portability. Portability only exists in the case of change between pension funds or direct insurance<sup>1 2</sup>

In the case of pension funds, pension institutions or direct insurance, the transfer value amounts to the capital accrued in the former system at the time of transfer. Pension rights accrued within funded occupational pension systems have the same treatment as individual pension savings (Riester Pensions) in the case of changing financial institution<sup>3</sup>. The Law considers the total value of the employee's rights. The calculation of the cash value relies on actuarial rules.

The law provides for an information right. If the employee has a legitimate interest (interest recognised in the case of employers or pension schemes change), he/she can request information on the value of accrued rights and cash equivalent transfer value. In the Labour law, in the case of legitimate interest, the employer has the social obligation to inform the employee of his/her occupational pension situation, but the new law expressly introduces more concrete rules. The employee is entitled to the same information from his/her new employer or the new pensions institution, regarding future benefits. In fact, employees can only exercise their right to portability if they are in conditions to assess the amount of rights accrued with the former employer and compare it to the new pension benefits offered by the new employer on the basis of the capital transferred.

The pension taxation law clearly expresses the legislator's position regarding portability : the preservation of the employee's pension rights must generate tax problems neither for the employer, nor for the employee. Therefore, a new provision of the fiscal legislation<sup>4</sup> provides for the tax exemption of the transfer values.

#### 4) Conclusions

The modification introduced in the regulations of occupational pensions are meant to strengthen them. The new portability rules clearly indicate that preference is given to a single benefit paid by a single institution at retirement time. This should encourage young employees to benefit from the opportunities offered by occupational systems as soon as they begin their active life, since it is an essential element of their future pension package.

Klaus Stürmer  
AKA – Munich  
*Original language : German*

<sup>1</sup> it is worth noting that in Germany there are 6 different systems for occupational pensions : book reserves, support funds, direct insurance, pension institutions, pension funds and the specific system of the public sector

<sup>2</sup> regarding the specificity of the public sector, see in this issue the article „New provisions on portability within AKA“

<sup>3</sup> See § 1 / 1 2<sup>nd</sup> sentence n) 10 of the Pension Taxation Law, on pension saving contracts

<sup>4</sup> See § 3 N°55 of Income Taxation Law (new), & art 1, N°2, a) of old Income Taxation Law

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## Portability of Pension Rights in the Public Sector *New Provisions on Portability within AKA<sup>1</sup>*

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### 1. Introduction

Before the Pension Reform of 2001, only the occupational pension schemes of the public sector could provide full portability of pension rights. Such systems relied on agreements between pension institutions<sup>2</sup> and guaranteed that any change of employer within the public sector would have no negative impact on the employee.

Since 1 January 2002, the occupational pension schemes of the public sector rely on completely new bases. The new collective agreements (ATV for the public sector as a whole, ATV-K for municipalities) have brought to an end the old top up scheme based on an evolutionary partial reserve pay-as-you-go system<sup>3</sup>. This latter has been replaced by a pension point system meant to ensure a gradual transition towards funding for 4.8 million affiliated<sup>4</sup>.

According to its financial situation, each occupational pension institution can either maintain the pay as you go system, opt for a fully funded system, or adopt a mixed system. Up to date, only a few large institutions having huge reserves have opted for full funding (particularly churches' pension institutions). The new collective agreement also provides for a voluntary pension saving system allowing public sector employees to benefit from the same fiscal incentives as private sector employees<sup>5</sup> (savings are collected by a funded system and administered by a specific entity, legally independent from the main scheme). As from 1 July 2003 certain pension institutions members of AKA have gathered in another structure in order to administer those funded supplementary schemes.

The new situation of the German supplementary schemes is quite heterogeneous. In such context, the question is how to achieve portability between schemes relying on different financing methods.

### 2. Legal framework

#### 2.1 Collective agreements

Public sector supplementary pensions rely on collective agreements<sup>6</sup> which provide that in the case of employer change, the employee can apply for a transfer of his/her pension towards the new employer's pension institution<sup>7</sup>. When negotiating the reform of the public sector supplementary system, the social partners agreed to maintain transferability for the whole public sector.

#### 2.2. National Law

The Riestler Reform of 2001 has, for the first time, settled the question of portability, establishing a right for the employee to transfer pension rights provided the systems involved are funded and financed by the employees' contributions.

The Pension Taxation Law of 5 July 2004 contains not only rules concerning taxation but also provisions about portability of occupational pension rights, meant to improve conditions of transfers in the case of

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<sup>1</sup> This article is an abstract from a paper written by the author for the Occupational Pension Bulletin (BetrAV) 2004, p. 346.

<sup>2</sup> Portability agreement between the pension institution for the State and the Länder (VBL) and the members of AKA in date of 12.12.1977 in its amended version of 20.11.2001 ; Regulation for portability within AKA of 2.11.1977 in its amended version of 29.05.2001.

<sup>3</sup> In an evolutionary partial reserve pay-as-you-go system, incomes and expenses are not balanced over the budget year like in a pay-as-you-go system, the financial balance is achieved over a longer period of several years. Contributions, capital and capital returns are used to finance the expenses on the period under consideration.

<sup>4</sup> See article by Hagen Hügelschäffer in EPB n°12 of April 2002

<sup>5</sup> See article by Hagen Hügelschäffer in EPB n°10 of August 2002 and article by Géza von Puskas in EPB n°15 of April 2003.

<sup>6</sup> ATV, ATV-K, (1)

<sup>7</sup> § 4 ATV/ATV-K

employer change. However, only new contracts are concerned and only funded pension schemes. Pension rights accrued within full or partial pay-as-you-go systems are excluded<sup>1</sup>.

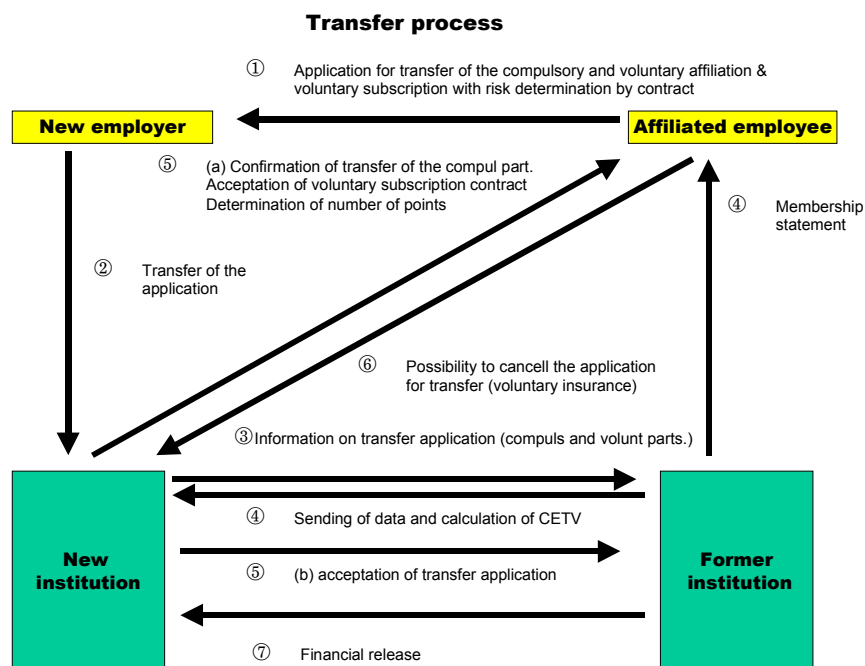
### 2.3 European aspects

The pension institutions members of AKA also had to take into account the European law regarding portability. Earlier this year, the European Commission expressed the intention to introduce a proposal of directive on portability of pension rights. In order to prepare this project, Member States and European organisations represented at the Pensions Forum have received a questionnaire requesting them to set out the actual situation regarding portability of occupational pension rights. The questions concerned portability but also conditions of acquisition and preservation of occupational pension rights. In this context, the new portability regulation of AKA provides for the possibility to establish bilateral transfer agreements within Europe.

## 3. New provisions on portability within AKA

### 3.1 Preliminary remarks

The institutions gathered within AKA knew that, due to their heterogeneous structures regarding supplementary pensions, it was necessary to completely change the portability agreements to fit the new agreements as well as the new national and European framework. In the present situation, the calculation of the cash equivalent transfer value (CETV) is the only way to achieve transfers of occupational pension rights. The pension institutions members of AKA signed the new regulation on portability on 24 May 2004 on the occasion of their annual congress. This regulation came into force with retrospective effect on 1 January 2002.



### 3.2 Transfer on the employee's request

For the compulsory coverage, the collective agreement requires an application for transfer ①. The new employer receives the application and transfers it to the new pension institution ②, which informs the former pension institution ③.

<sup>1</sup> For further details, see article on Portability in Germany in this issue

For voluntary coverage, employees are free to opt for a transfer or maintain their pension rights in the former institution. Portability only concerns individual transfers following an individual change of employers (see later on, explanations on collective transfers).

### 3.3 Employee's rights to portability

Whereas the transfer application is an obligation for the compulsory coverage, the transfer of the voluntary part is optional. In the former top up scheme this right already existed but with no legal framework.

The future legal provision included in the Pension Taxation Law allows this transfer only for vested rights accrued within a funded system. In addition, these rules only apply to contracts signed after the enforcement of the law and they are subject to a ceiling limiting the amount to be transferred.

On the contrary, AKA's portability regulations admit transfers of pension rights even for pay-as-you-go schemes and even if rights are not definitively vested. Amounts to be transferred are not subject to any ceiling. And the Portability regulations can be applied retrospectively.

### 3.4 Information rights

Further to the enforcement of the Pension Taxation Law, employees are entitled to an information on the situation of their future pension benefits and on the amount of the cash equivalent.

For supplementary pensions, this information right is enshrined in the collective agreements. The former pension institution must notify the amount of accrued rights ④. The receiving institution confirms the transfer of the compulsory part and notifies to the employee the number of points granted ⑤a). For the voluntary coverage, employees can first ask information on the amount of their pension rights before applying for a transfer.

### 3.5 Legal conditions

As for the legal conditions of the transfer acceptance, it is necessary to make the difference between compulsory and optional coverage.

For the compulsory coverage, the acceptance of the transfer by the new pension institution implies a change of debtor resulting from a transfer of debt, putting an end to former liabilities. The transferred affiliation is considered as the continuation of the affiliation under the new scheme.

For the voluntary coverage, however, a notification of acceptance is considered as a new affiliation to the new scheme where the CETV becomes the starting capital converted into pension points.

### 3.6 Right to cancel transfer process

The collective agreement requires the insured to transfer their compulsory affiliation. On this occasion, they can also transfer their voluntary affiliation, but they can later cancel this process. Employees can also firstly limit the transfer to compulsory affiliation and request a later transfer of the voluntary part after having considered all the resulting consequences and the amount of the CETV of the voluntary affiliation.

### 3.7 Financial treatment ⑥

Again, compulsory and voluntary affiliations must be distinguished. For the compulsory part, the pension rights, i.e. the liabilities assessed in terms of points are taken over from the new scheme. In this case, the payment of the CETV is involved in the normal process. The number of points and their value are calculated at the end of the month during which the new institution has received the transfer application.

### 3.8 Financial setting off

For practical management, payments will not be processed individually for there may be a huge number of transfers. The AKA regulations provide for a periodical clearing of debts between pension institutions with a deadline for payment of balance outstanding.

### 3.9 Fiscal aspects

To avoid any loss of pension rights which is a fundamental principle established by both the legislator and the social partners, portability must not generate fiscal charges.

During the very first debates about pension taxation, AKA had requested that CETV should not be considered as incomes from a fiscal point of view. A transfer of pension liabilities from an employer to another means a change of debtor. This should not have fiscal consequences. The transfer of cash meant to cover the transferred pension liabilities determined on an actuarial basis must not trigger any taxation, otherwise this would raise a case of double taxation ; In the case of pay-as-you-go schemes, pension rights would be taxed whereas contributions paid during the accrual period have already been taxed. Funded schemes would receive a taxable CETV, which would generate a pension also subject to taxation.

As long as there are different taxation systems for occupational schemes, the practical implementation of portability will generate a significant administrative burden. It will be necessary to take into account the fiscal conditions of each former affiliation (taxation of contributions, of returns or benefits...). The receiving scheme would have to continue in the same way. To apply taxation, it is therefore necessary that the accrued rights at the time of job change be subject to the same fiscal condition in the receiving scheme which will have to keep a track of it until retirement time.

### 3.10 Change of pension institution on employer's decision

The portability provisions ensure mobility and free movement of employees and their pension rights with the possibility to change jobs within a large part of the public sector of municipalities and churches. It is necessary to make a distinction between the employees' mobility and the change of pension institution which only relies on the employer's decision. The pension provisions do not apply in this latter case.

### 3.11 Collective transfers

In the case of companies buy-outs, the transfer is collective. The existing labour contracts are taken over by the new employer and they are maintained with no interruption. To be entitled to pension rights portability, it is necessary to be in a situation of contract breaking off. Consequently the Pension Taxation Law does not apply to collective transfers.

For supplementary pension institutions, collective transfers must not represent a charge for the pension institutions involved. In the case of a pay-as-you-go transferring institution, the remaining liabilities must be sufficiently covered so that the remaining members could support it. The receiving institution can only accept the liabilities represented by the accrued rights if there is a financial compensation under the form of the payment of CETV. This calculation may be rather difficult for an unfunded pension institution. Even for a funded scheme, collective transfers can raise problems because of the necessity to invest in the long term. AKA regulations provides for collective transfer provisions in the case employers and pension institutions have signed an agreement for the preservation of the staff collective interest.

## **4. Conclusion**

The introduction of portability regulation within AKA, achieved after a long period of intensive preparation, has succeeded in including into the same agreements funded, pay-as-you-go and hybrid pension systems, a process which is unique in Germany and even in Europe. The pension institutions members of AKA had launched the initiative well before the Pension Taxation Bill was issued. Occupational mobility of municipalities and churches employees is ensured beyond the requirements of the new Pension Taxation Law.

Klaus Stürmer  
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*Original language : German*

## National updates - Ireland

### New Measures for Firefighters

Following on from the study on firefighters' pension rights published in EPB n°17, I wish to point out some recent pension reforms in Ireland, in force since 1 April 2004.

These reforms do not affect the rights of new entrant operational firefighters in any way.

New entrant (i.e. on or after 1 April 2004) fire officers are affected as follows:

- the earliest age at which pension may be claimed (apart from ill-health retirement) is increased from age 55 to age 65
- there is no longer any requirement to retire at age 65; they may continue in service beyond that age if they wish, subject to suitability and health requirements
- they are not entitled to double their service in excess of 20 years.

These changes do not affect the rights of fire officers who were in service on 31 March 2004.

There have also been some changes in the retirement and gratuity arrangements for retained firefighters. While retirement age remains at 55, retained firefighters serving on 5 November 2002 have the option to continue working up to age 58, provided they pass an annual occupational health test.

There has been an increase, effective from 26 April 2001, in the level of gratuity payable on retirement to retained firefighters. The revised level of gratuity is calculated on the basis of 1/8th (formerly 1/10th) of the inclusive annual retainer in the final year of service for each year of service, subject to

- no gratuity being payable to those retiring with less than 8 years' service and
- the maximum gratuity payable to be 4 times (formerly 3 times) the inclusive annual retainer in the last year of service.

Damian Smyth  
LGSS Ireland  
*Original language : English*

## Focus

### Survivor Pensions in Europe

In June, the Secretariat general of EAPSPI was requested to carry out a survey on survivor benefits in Europe. This survey was limited only to spouses and partners benefits. A questionnaire was sent to all members and observers and answers were provided by 11 countries. The results of this survey, are compiled in a document (in English only) available on request.

The present article means to point out the main features of survivors pensions in the various types of pension schemes (basic, occupational, funded or unfunded). This is not an exhaustive study but only an analysis based on the information provided by the participants.

Participating schemes:

- Belgium : civil servants scheme
- Finland : local government scheme (occupational scheme of the first pillar)
- France : general scheme ; civil servants' ; Ircantec (suppl scheme for non civil servants public employees)
- Germany : (general scheme ; civil servants' ; suppl. scheme for public employees)
- Ireland : general scheme ; local government scheme (LGSS)
- Italy : civil servants' scheme, presently equivalent to general scheme
- Netherlands : general scheme ; suppl. scheme for public employees (ABP)
- Portugal : civil servants' scheme, presently equivalent to general scheme
- Spain : general scheme ; civil servants' ; suppl. scheme for public employees (Elkarkidetza)
- Sweden : general scheme ; suppl. local government scheme (PFA)
- UK : local government scheme – other schemes of Scottish public sector.

The Secretariat General thanks all the subscribers who have participated in this work.

## **SURVIVOR COVERAGE**

In nearly all pension schemes, the survivor coverage is compulsory. However for some of them this has not always been the case, like in Portugal where, until 1973, members could renounce the survivor coverage and contribute only for their personal retirement ; In Ireland (LGPS) the obligation has been introduced gradually between 1970 and 1984 and employees who were serving before the introduction of the survivor coverage could renounce it. In these cases, survivor pension rights must sometimes be counted separately from personal pension rights.

Other particularities:

In ABP (Netherlands), since 1.7.1999, survivor pension rights can be renounced and converted into more personal pension rights.

In the German supplementary schemes for public employees, members (under certain conditions) can choose between survivor coverage or pension splitting. This new possibility allows each spouse to accrue equal pension rights during their common life but it excludes survivor coverage.

Finally in the Swedish premium pension and individual element systems (defined contribution systems), the survivor coverage, called repayment cover is optional.

## **BENEFICIARIES**

One of the main differences between schemes relies on the recognition of survivor pension beneficiaries. Most schemes recognise only the spouse who is or has been legally married to the member. They are mainly statutory schemes. Belgium, France, Germany, Ireland, Italy and Spain are concerned, whereas legally registered partners are recognised as beneficiaries in Finland, the Netherlands, Portugal and Sweden.

Occupational schemes are more open to societal evolution in this field

In Sweden whereas only registered partners are admitted by the basic scheme, the occupational scheme (PFA) also admits cohabitants (under certain conditions)

In Spain, the occupational scheme Elkarkidetza admits unmarried partners, whereas the basic scheme does not.

In UK (public service schemes) at present survivor benefit are still granted only to married spouse, but this condition is expected to change rapidly in 2005 or 2006 (see national updates in UK).

Apart from some cases where marriage is open to same sex couples like in Belgium, the condition of being legally married seems to create a discrimination based on sexual orientation which is contrary to the principle set out in Directive 2000/78. This question can also be debated in the framework of the “modernisation of pension systems in response to changing needs of the economy, society and individuals”. (Council of the EU 21.11.2001)

Divorced spouses can also be entitled to survivor benefits (benefits are usually shared). However often they must not be remarried; in Portugal they must be entitled to an alimony. In Belgium they are beneficiaries only if aged more than 45 or disabled or with dependent children.

In UK ; the Netherlands, Germany pension rights are shared on divorce.

## **QUALIFYING CONDITIONS**

### **Vesting periods**

In some countries (France, Belgium, Ireland) the vesting period simply disappears in the case of death in service, whereas in other countries it remains : 15 years in Spain and Italy, 5 years in Germany, 3 months up to 3 years in UK, although it depends on the cause of death.

### **Duration of marriage (or common life)**

This condition has often been introduced to avoid last minute marriage when member’s death can be foreseen. Minimum periods of the marriage/union are:

- 5 years for Finland and Sweden
- 2 years for France (general scheme – civil servants) – 4 years for Ircantec
- 1 year for Belgium, Germany, Spain (Elkarkidetza),

- no condition in Spain (Basic) and Italy.

In Ireland the condition is not strict but the public employer may refuse a pension if the member dies within one year of being married with no children and death could be foreseen.

Other conditions may apply regarding marriage:

In Finland the survivor must have been married before age 50, for ABP before age 65, in France at least 2 years before retirement age.

In Germany (civil servants) the difference of age between the member and the spouse is taken into account: more than 20 years entails a reduction of pension.

However all these requirements about minimum duration of common life, date of marriage, difference of age often disappear where the member and the survivor had common children.

### Condition of no remarriage

Survivors often lose their pension right on remarriage. This is the case in Belgium, France (civil servants, Ircantec), Germany, Ireland, Portugal.

It must be pointed out that in Germany (civil servants scheme), before stopping payments, a lump sum representing 2 year pension is granted to the survivor who remarries. The same process is implemented in Finland (Keva) widow/er remarrying before age 50 lose their pension but receive a lump sum of 3 year pension.

In some cases remarriage is admitted:

- In Finland, remarriage after age 50 does not affect the pension
- In the French General scheme, since 1.7.2004 remarriage is allowed but the new spouse's incomes are taken into account.
- The same condition applies in Italy.
- Spain (General scheme) has also introduced in 2002 a possibility to maintain survivor pensions on remarriage under certain conditions (means-test)

In occupational schemes,

- ABP admits remarriage but recalculate the survivor pension, removing enhancement,
- Elkarkidetza (Spain) fixes no conditions regarding remarriage,
- In UK, the local government scheme admits remarriage, whereas other public sector pension schemes still stop survivor pensions on remarriage.

This condition of remarriage is interesting to consider. First because widow/ers can opt for free partnership to evade this rule, secondly because on remarriage, the economic situation of the survivor changes, and means-tested benefits can be reduced or stopped naturally.

However in other schemes (mainly occupational funded schemes), it is admitted that the survivor pension rights which have been paid for, are owed whatever the circumstances, only enhancements can be withdrawn on remarriage (ABP).

### Consideration of personal incomes

Incomes are taken into account in

- Belgium (ceiling varying according to family situation),
- France (since 1.7.2004 the General scheme survivor pension has been converted into a differential benefit calculated against a ceiling).
- Finland
- Italy.

## BENEFITS

### Duration of benefits

Apart from the possible requirement of no remarriage, or the consequence of means-test, most survivor pensions are life annuities.

However in Sweden the survivor pension, called adjustment pension, is meant to provide an economic support for a limited time (10 months in the general scheme – 5 years in the occupational scheme PFA, sometimes less if the retirement pension has already been in payment). In the general scheme the 10 months period can be extended until the last child reaches age 18.

## Amount of benefits

Flat rate pensions are granted by basic schemes in Ireland, UK and the Netherlands.

In Belgium the guaranteed pension granted by the public employees system may also be considered as a flat rate benefit.

In France, the differential pensions granted by the general scheme are like flat rate benefits when the beneficiary has no other incomes.

### Percentage of the member's pension rights

It generally spans from 50 % to 70 %.

- 50 % in Finland and France (civil servants – Ircantec), Ireland (LGSS), UK (public sector) Spain (civil servants)– and Portugal (in Portugal 50 % shared by all beneficiaries)
- 52 % in Spain (general scheme – this ratio came into force on 1.1.2004),
- 55 % in Sweden (basic scheme)
- 55 or 60 in Germany,
- 60 % in Italy – maximum 60 % in Belgium
- about 70% ( 5/7<sup>th</sup>) in the Netherlands (ABP)

## Different levels of benefits

In some cases, two levels of pensions can be granted according to social criteria:

- Belgium offers a guaranteed pension if widow/ers are aged less than 45, not disabled with no children (€ 8044 per year) ; Normal survivor pension in the other case
- Germany grants low survivor pension (25 %) in the same condition as Belgian guaranteed pensions and high pension in the other cases (55% or 60 %).

## Additional benefits

### Lump sum

They are granted by Ircantec (France) and LGPS (Ireland) where the member dies in service.

### Higher benefits on a short period

In Germany the high pension amounts to 100% of the deceased member pension rights during 3 months. In UK the short term pension amounts to 100% of member's pay or pension during the same period.

### Effect of family charges

In the general schemes of Spain Ireland and the Netherlands, flat rate or minimum survivor pension are enhanced when there are dependant children (social concern)

Whereas in Finland and Portugal the survivor pension is reduced whenever there are other beneficiaries such as children (competition between beneficiaries – financial concern).

### Enhancement of the calculation basis in the case of death in service

the notional years, points or capital covering the period between death and retirement age are taken into account

- partially (1/3) in the German civil servants scheme
- totally in the German general and supplementary schemes, in Spain (general scheme – Elkarkidetza) Netherlands (ABP) Ireland (LGSS) and some public service pension schemes in UK.

## Calculation of benefits in defined contribution schemes

Only two defined contribution systems participated in the survey. Each of them calculated the survivor pension in a different way:

Elkarkidetza considers the amount of capital and the age of the survivor, whereas the individual element system in PFA (Sweden ) does not consider beneficiary's age (but benefits are limited in time).

## CONCLUSION

It is difficult to have a clear idea of the evolution of survivor benefits since there are so many different qualifying conditions and calculation methods. However, several trends can be observed:

- The traditional moral approach which tends to consider the old structure of the couple (pension only for married spouses, suspended in the case of remarriage),
- The social approach which tends to fix minimum levels, and considers the criteria of age disability, children charges and income ceilings,
- The practical approach which gives the possibility to share pension rights or renounce survivor coverage and intends to offer to members options that may suit their individual needs.

Financial consideration are of course also important in the pension strategy : the “wedding present” of a lump sum on remarriage could actually be a good incentive for remarriage which on the short term may be attractive for the beneficiary and on the long term cost effective for the pension scheme.

Finally it may be interesting to investigate a little further, and since our schemes cover the same type of population we could compare the % of survivor pension cost :

- in comparison with the cost of retirement pensions
- in comparison with the cost of all benefits paid by each institution

If you are interested, please send your figures to the Secretariat General by the end of November, Information from countries which have not participated in the survey will also be welcome.

Any additional information (specially concerning new rules regarding survivors) can be sent to [claudio.dubois@caissedesdepots.fr](mailto:claudio.dubois@caissedesdepots.fr) and could be published in the future issues of EBP.

The Secretariat General  
*Original language : English*

## Study trips

### Basque Representatives in Belgium

On 2 June, a delegation from the Spanish Basque Country composed of members of Parliament and Basque Government as well as civil servants visited the Belgian Ministry of Labour and Social Security in order to study their strategy for the development of second pillar schemes in Belgium.

The Basque Country means to develop significantly the occupational pension schemes and they consider any cross-border experience as an interesting factor in this field.

The following article summarises the guidelines of the Belgian presentation contained in the Report drawn up by the Basque delegation.

#### First pillar

Presently it offers a replacement ratio of 60 % for a 45 year career. It relies on a high level of solidarity guaranteed by a pay-as-you-go system as well as the fixation of minimum and maximum pension levels. Minimum pensions are rather high and indexed on salary evolution.

Older pensions (which often are the lowest) are regularly adjusted.

The actual retirement age which presently is about 57 should be delayed to age 60-65. A reserve fund (the Silver Fund) has been established since the number of pensioners will significantly increase after 2010.

#### Second pillar

##### Features

Lately it covered only one third of the active population. It should gradually cover all workers while remaining optional. Supplementary pensions are externalised (independent from the company accounting) and transferable to other schemes. The payment in annuities is favoured by fiscal incentives.

Risks are limited. It is totally excluded to allow the insured to make their own investment choices. In the defined contribution system, there is a guaranteed return rate which amounts to the inflation rate during the first 5 years and then is equal to the legal interest rate less 0,5 % (presently 3.25 %).

The social partners are involved both in the negotiation and the management of the systems.

The second pillar has often favoured early retirement, but now a minimum age of 60 has been fixed.

#### Information

The information provided to the insured comprise a global information and an individual annual information. The elements provided are the amount of contributions paid by the employer, the part paid by the employee, costs, amount of returns, investment strategy, and any existing rule regarding socially responsible investments. An educational information would be necessary to help people understanding that the indicated capital, which at first sight looks like a big amount, cannot generate very high pensions because of the life expectancy factor.

The administrating body also has a legal obligation of information towards the employer.

#### A new system : the social pension plans

Second pillar schemes were traditionally company schemes limited to large structures intending to cover in priority their managing staff. Sector-wide schemes did not exist. Today it is admitted that sector-wide schemes are more adapted and have more solidarity elements. They can cover small companies and avoid administrative problems. However the new system called “social” can also apply to companies but only in a collective way.

The systems are subject to additional “social” requirements :

- They must cover all the staff with no discrimination
- Be negotiated through collective agreements and administered by the social partners
- Comprise solidarity elements
- Pay annuities
- Redistribute financial yields
- Limit administrative cost

As a compensation for these requirements, they benefit from fiscal incentives such as the exemption from the solidarity contribution which amounts to 4.4 %. They are also free from social contributions, whereas benefits are taxable.

For employees the following conditions apply :

- Pension rights are vested after one year. For periods of membership of less than one year the employee’s contributions can be refunded (not the employer’s).
- Pension rights are transferable (at national level).

In 2001, unions, employers and the government agreed to extend these systems to all sectors. It is foreseen that 2/3 of workers will be covered by the end of next year.

However certain Belgian bodies, while approving the general objectives of the law, point out :

- The technical, administrative and actuarial complexity of the system,
- The fact that portability has not been considered at international level
- The difficulty to manage the information to be provided to the insured
- The requirement of a minimum age to be allowed to contribute.

The Basque delegation wishes to thank Henk Becquaert for his participation in this seminar.

*Article issued from the report established by Jon Aldecoa – original language : French*

.....  
**AKA & VBL visit ABP**  
***From a pay-as-you-go to a funded system***  
.....

In the Netherlands occupational pensions have to be funded. This principle is statute law since 1952. In the public sector there were a few exceptions: pensions for politicians and military staff were not funded. Pension provision for politicians is still a budget item, but the military staff became member of ABP on June 1st 2001. So from that date their pensions have to be funded. A change from a payg system to a funded system means double costs for a long time: paying the pensions and saving for funding.

The State (Ministry of Finance and Ministry of Defence) and ABP agreed on a finance structure to solve this problem and to reduce the costs. The solution is complicated and quite difficult to explain, but it is functioning! Crucial in this solution is a system of loans from the State to ABP.

AKA and VBL from Germany were interested in this solution and ABP explained this solution in a one day seminar.

*Information provided by Mathieu Scheepers*

.....  
**And again the Basque delegation.... visiting ABP**  
.....

ABP is indeed a very attractive place for pension experts. The Basque delegation organised a visit there after their seminar in Belgium. VB, the association representing the sector wide pension funds in the Netherlands was also participating in the information session.

First the Dutch public system was presented as well as the sector wide funds and the company funds. Then the delegation had a presentation of the flexible pension system. And Finally the question of investment was tackled with the asset mix, the diversification of investments, the challenges and risks to be faced to maintain low contributions while guaranteeing defined benefits in a difficult financial environment.

The aim of this visit was to discover concrete experiences in the field of supplementary pensions. Participants were quite happy with the results. The delegation and their hosts could exchange about the way the Basque Country could pick up elements of the Dutch strategy and apply them in their own system. The Basque delegation considers such exchanges as fruitful and wish to thank ABP and more particularly Mathieu Scheepers for the excellent organisation of the seminar.

*Information provided by Jon Aldecoa*

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