

The newsletter of the European Association of Public Sector Pension Institutions

Focus

Edito

Pension institutions and information right

General context

At the end of 2004, the Secretariat General initiated a survey on the information provided by our pension institutions. The results prove that this subject is of serious concern and that most on-going information processes have been recently reviewed and are expected to be improved in the years to come. In fact, if, at the beginning information was only on request, or at the discretion of the institution, it now tends to be better organised and subject to stricter constraints. Such a trend follows a double objective.

- It should guarantee the transparency of institutions management in order to meet governance requirements and develop confidence among members, and
- it should bring greater responsibility to the clients so that they would be in position to anticipate their future income and make the right choices at the right time to obtain adequate pensions.

These objectives are in line with those set out in the Open Method of Co-ordination

If most obligations rely on national legal framework or on collective agreements, the European Commission has also begun to get involved in this matter.

- Directive 2003/41 of 3 June 2003 relating to activities and supervision of institutions for occupational retirement provision, has established the principle of information to be given to the members and beneficiaries and has set out minimum information requirements.
- A report from the Commission on Privately Managed Pension Provision dedicates a full chapter to information rights and indicates that "The development of privately managed schemes requires a good level of information so as to enable people to make the right choices, to monitor their accumulated rights and prospective pension entitlements and to assess the quality of the management of their schemes (including for instance the level of administrative charges)". This paper presents a few examples of information processes set up in Member States.

While the debate about the ratification of the constitutional Treaty if going on in the Member States, the European citizen has to face geopolitical evolutions which are rather worrying. The post war equilibrium set up in Yalta is coming to an end and the rise of Asia sets out a new context that nobody seems to be able to control.

There is a serious worry about how national social systems will face this evolution, particularly in countries where they have been rather generous. Where unemployment is high especially for young people and senior activity rate is low, feelings of social insecurity easily lead the citizen to withdraw into self protection within national frontiers.

History has taught us that such behaviours could freeze the evolution of certain societies and pave the way for horror and dictatorship. How can we pretend to be concerned by the future and keep the eyes turned towards the past? How could we maintain billions of people out of the world of comfort and security which is ours? It is not possible to ask them to cover in a few years the way that our old Europe has gone through for several centuries. A world wide solidarity is necessary and requires some sacrifices from the richest. This is a challenge that the present generations must take up.

Shall we achieve for our children the better world that we are dreaming of ?

Thierry Christophoul
Original language : French

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- A seminar will be held on 9 November 2005 about Transparency in Pensions systems with a particular focus on
 - “Regular information on current and prospective pension rights from different sources (individual pension forecasts);
 - Tools for planning for one's retirement provision;
 - Education on financial products ('financial literacy');
 - Standards for providing information on financial products for retirement provision.”

It thus appears that several actors are involved in this evolution to improve information in order to give a chance to members to better plan their future incomes and take the necessary steps as soon as possible. Such evolution will have concrete effects in the very short term.

Members participating in the survey

9 institutions of different nature and from various countries have answered the EAPSPI survey :

Basic schemes

Belgium : the Ministry of Finances, Pensions Administration : statutory defined benefit scheme

Portugal : statutory defined benefit scheme administered by the CGA

France : CNRACL statutory defined benefit scheme for local government staff

Occupational schemes

Germany : pension scheme for public employees based on collective agreements and administered by AKA and VBL

The Netherlands : defined benefit scheme for public employees, ABP

Sweden : KPA for local governments, supplementary scheme of hybrid nature (both defined contribution and defined benefit) based on collective agreement

UK : several defined benefit schemes for public sector employees administered by SPPA in Scotland

Ireland : statutory scheme administered by local governments (answer from one representative local government : FCC)

Spain : Elkarkidetza, voluntary supplementary scheme of 2nd pillar (defined contribution)

The Secretariat General wishes to thank all these schemes for their participation

The target of this article is not to present into detail all information processes, but to observe the general trends and point out some interesting experiences. Note that the countries mentioned mainly refer to the schemes listed above and occasionally to inter-scheme systems.

The legal framework

In most countries, the information right relies on a more or less extended legal basis,

In Belgium, Portugal, France (basic schemes) the present legal obligation consists of providing information upon members' request. The Belgian legislation provides time limits for the provision of information and requests a specific application form; the applicants must be at least 55 years of age. Ireland must also provide information on request. Portugal only indicates the number of pensionable years accrued.

In Germany, Sweden, the Netherlands, (occupational schemes) the provision of information is regular and automatic (once a year) and relies either on a law or on national collective agreements. ABP (NL) also sends pension statements to deferred members every 5 years.

In Scotland there is no legal obligation but the provision of annual individual statements could become mandatory. Finally in the Spanish optional occupational scheme, there is no obligation, but the information process is quite developed and annual statements are provided.

The trend : by the end of 2006 the information obligation is expected to be stricter in Sweden and the Netherlands. The provision of annual statements will become mandatory in Scotland in 2006, and is likely to be a legal requirement in a few years in Ireland.

In France, the Pension Act of 2003 stipulates that from 2006 on, citizens should be regularly informed on their pension rights situation, for all schemes towards which they have contributed

Nature of the information

It can be either a general information with an educational impact, or a personal information so that individual can check if their future pension is “adequate” or not.

General information

It is targeted to members and to employers.

Most pension schemes provide general information either through brochures and leaflet or through internet on their scheme's web sites. The objective is to give clear, simplified indications on the way the scheme works, how the pension rights are built up and the guarantees offered by the system. Particular efforts are made to use plain and simple language. In funded schemes, information is provided about investment policy and occasionally about socially responsible investments.

Annual reports and financial reports are often available from web-sites.

Pension institutions also organise information courses and workshop for the employers. ABP has set up an Employer Advise Desk. The information is generally provided on work places.

Pensions institutions participate in information events where they have direct contact with their members and can answer questions.

General information can be delivered at any time but more particularly when a new member is joining the scheme or when there is a change of regulation.

Individual information

Some institutions have set up special hot line or call centers to deal with members' questions

E mails are also more and more used as a communication means with members. Portugal has set up a system recognising the subject of questions and providing automatic e mail answers.

The scope of the information provided differs from one country to another.

The lowest level concerns the number of reckonable years including bonus years granted in addition to actual service years (mostly basic defined benefit schemes).

However certain countries can provide more precise assessments or have developed more extended information systems covering several schemes. This type of information can be provided on request, through annual statements or by Internet.

A few examples:

- Belgium : the "Info Pensions" Service established in the framework of the "Social Insured Charter" covers the three main pension institutions (for private sector workers, self employed and public sector employees) a *co-ordinated* information is provided upon request to members aged over 55, taking into account the rules governing overlapping of several pensions paid by the various schemes.
- In the Netherlands : the annual statement indicates the number of contribution years, the amount of contributions paid during the year, the salary on 1st January, the amount of accrued rights under the form of a lump sum (transferable) or under the form of an annuity (including personal rights, survivor rights and disability rights). It indicates how survivor rights can be converted in personal rights and gives the amount of these extra pension rights. Finally, in the framework of early retirement (flexible pension) it also sets out the various pension levels according to the choice of retirement age. It also informs about the indexation method. The elements provided concern both the basic and the occupational pensions.
- In Sweden, the annual statement indicates the amount of occupational pension rights accrued at the beginning and at the end of the year. This information is completed by a "Prognosis" mentioning the pension level at age 65. These elements are based on the information provided by the employer, by the General scheme and the Premium pension fund (share of pension based on savings invested according to individual choices). Information on the basic pension is also provided by the State on an annual basis.
- In France, a consolidated information will have to be provided to all insured who will have a complete overview of their pension rights, including all basic and supplementary pension schemes. They will have an assessment of their future pension. In 2006, this information will be automatically sent to the insured aged over 50, and this process will be gradually extended to younger members.

The trend :

The most developed information patterns tend to rely on inter-connected systems including all schemes in order to provide a reliable assessment of future whole pension packages. The information delivered by mail mainly concern the rights accrued at the date of the request or statement, However, hypotheses can also be taken into account like it is the case of Belgium.

Electronic systems

If pension statements are a good way to inform passive members, electronic systems are more and more used and allow member to make their own simulation by themselves directly or indirectly through their employer. Electronic systems can provide:

- information on present situation
- projection at a later date according to certain pension choices
- projection at a later date according to employment choices

Information on the present situation simply means the amount of pension at the date of the simulation with no projection of future service years. Some schemes stick to this option since they consider that future rights can be affected by reforms and a projection under the current legislation would give a wrong image of future incomes, likely to deceive members and bring on legal problems (ABP). This position implicitly suggests the recognition of a crucial principle : accrued rights must not be affected in any way by any reform. This means that new measures can only affect future rights and rights accrued prior to the reform must be integrally preserved.

The schemes which defend this position also intend to protect themselves against any possible claim from members who might bring proceedings against the pension institution administering the simulation systems.

Projection at a later date according to certain pension choices : this can be the case in schemes which offer additional contributions or options, the simulator is a good way to anticipate results and know how much extra contribution you have to pay to obtain a determined level of benefits at a point in time. Simulators also allow to find out the different levels of pensions according to various possible retirement dates. This is important at a time when fixed retirement age tends to disappear and a lot of scheme have introduced actuarial factors (reduction or enhancement percentages according to age and career situation). Some systems indicate the amount to be paid to buy extra years, or terms (France for purchase of study terms and validation of terms completed in the public service but under private contract).

Projection at a later date according to employment choices

Anticipation of future pension rights is crucial for employees who have to decide about a change of working schedule. Switching to part time for several years can have quite an important impact on the pension level. It is thus necessary that members could anticipate the whole consequences of their employment choices.

As previously mentioned, projection of future pension rights entails a risk, which explains that some pension schemes are reluctant about such practice. It is therefore important to fix the respective responsibilities of the pension institution and the user.

Some pension schemes provide no connection between their simulator and their data-base (project in Portugal, "Pension Modeller" in Ireland, simulator for members at KPA), so that all information is provided exclusively under the user's responsibility to avoid any proceeding risks. Some others clearly indicate that their responsibility is not engaged and that simulation are not pension promise (AKA, KPA).

It is worth noting that simulators could be used to know the actuarial equivalent of pension rights (Cash Equivalent Transfer Value). This information is to be handled with caution because, if not financially literate, members could be misled, however in the framework of cross border portability such information might be important. Simulator might be used to convert CETVs in pension claims when joining another scheme, so that employees could make their decision about the opportunity to transfer or not...

A few examples

Among the institutions which have participated in the survey, we note that simulators are available for the employees in Sweden, the Netherlands and Spain; in France, for the employers only . In Germany, calculators are often available on the homepages of pension institutions. Simulators are in project in Portugal and France (for the employees). They will be operative by the end of the year in Ireland which intends to adapt the Pensions Modeller of the State civil service pension scheme.

- KPA (Sweden) offers 2 simulators : one for employers, based on current data retrieved from KPA's systems which gives an exact calculation. The employee can request a simulation according to certain options such as changes in the working schedule.

Another simulator, less precise and based on data provided by the employee is directly accessible by all members. It provides an information on the total pension package. In Sweden a co-operation between the State and all the pension institutions has started and a special web-site is under construction, "My Pension", where it will be possible to get information from all the schemes that a person has been affiliated to, including the basic pension and the premium pension. A prognosis for the future will also be available.

- In the Netherlands, ABP offers to its members a secured site called "myABP" which gives access to personal data on encrypted pages. This system makes it possible to complete simulations according to the various options provided by the scheme (additional contributions for the flexible pension system, conversion of survivor rights into personal pension etc.) ABP's brochures can also be downloaded.
- In Spain, since 2002, Elkarkidetza provides simulators to its members. They are accessible with a personal code sent upon request. Members can see the evolution of the capital accrued and project the future capital as well as the resulting pension according to retirement date. The projections are based on elements of the scheme database and actuarial hypotheses previously defined.
- In Germany, at AKA and VBL, simulations can often be done on the homepage of pension institutions; especially for calculating the future pension of the voluntary insurance. They only concern the supplementary scheme for public employees. The simulator indicates the accrued pension rights under the form of points or the total amount of the monthly pension. The user enters information relating to salary and retirement age. The simulator provides, the level of pension at a point in time and the level of pension in the case of additional contributions over a certain period.
- In France, employers have access to a simulator system allowing to calculate pension levels, the amount to be paid to validate study years (or terms) or service completed under private contract.

Conclusion

The development of information is a necessary element of the educational process which intends to make the insured more responsible for his/her own rights and more informed about external factors such as economic or demographic elements.

The information requirements are different according to the country's legal framework and also according to the nature of schemes and benefits: Defined Benefit (DB) and Defined Contribution (DC) schemes do not provide the same type of information. Benefits of DC or NDC schemes may be entirely guaranteed (like point systems with fixed value) or may depend on capital markets, in each case the information to be given will be different especially projected information. Some countries consider that in final salary schemes, information on pension levels given to young members would not be relevant. But at what age will it be relevant? If the information is given too late, time might be too short to make other pension arrangements... Thus, it will be difficult to establish the same requirements for all schemes although common principles could be shared.

Another aspect of the information question is the cost that it entails. In the Netherlands, pension funds have the right to ask for a compensation of costs resulting from the compulsory provision of certain information. Almost each institution has a service for claims and questions or a call centre they also organise information sessions or seminars. Few of them can precisely assess the cost of members' questions. The development of electronic means (simulators) could be a way to limit this cost in the long term although they represent an important financial effort at the beginning.

Although pension institutions develop the provision of individual information to members, they usually limit themselves to objective data and avoid any personal advice. In short they are not commercial bodies and do not mean to influence any decision regarding possible extra coverage.

At a time when information provision practice is changing rapidly, new systems are set up and new requirements are expected, it would be interesting to organise exchanges within our association to present our own pension statements, or our simulation programmes and information projects. The Secretariat General has received very interesting pension statements from several institutions. The language is of course an obstacle that is why these documents have not been circulated among our members. However if several members are interested in the subject a seminar could be organised so that each representative could present his/her scheme information documents or electronic simulators. If interested please contact the Secretariat.

Claude Dubois
Original language : English

Pension events

"Pensions, Labour Market and Family Responsibilities"

This was the title of a seminar organised on 14 and 15 April by the European Training Centre for Social Affairs and Public Health CEFASS, Milan (I), the external branch of the European Institute of Public Administration EIPA, Maastricht (NL). This seminar gathered participants from 14 European countries (including two New Member States, one candidate country) with very different backgrounds. The seminar discussions were characterised by two main particularities:

- The limited number of participants (25) turned out to be quite an advantage as it allowed direct communication, discussions in small-scale working groups without microphones and interpretation as well as very active exchanges of national experiences.
- The majority of participants were women.

The following issues had been lively discussed:

□ "Active Ageing"

This subject was considered against the background of the demographic crisis highlighted by the recently published Green Paper of the EU Commission on demographic changes (see: http://www.europa.eu.int/comm/employment_social/social_situation/green_paper_en.html). According to this document, in 2030 roughly two active people (aged 15-65) will have to financially support one inactive person. The EU's fertility rate is expected to fall to 1.48, i.e. well below the level needed to replace the population (2.1 children per woman). Speakers reminded the necessity to develop the employment rate for senior citizens for several reasons: avoid labour scarcity, retain experience and reduce pension costs. This supposes the underlying condition of overcoming age discrimination and organising adapted training so that older workers could meet new skill requirements.

It was underlined that the "Active Ageing Strategy", as presented by *Olivier Bontout* from the European Commission (DG EMPL), is related with employment and pension systems, but also with health and equity, so that the effort to support this evolution should be part of an integrated policy. Promoting *age diversity* at work is one of the ways to increase employment rates. This has been done successfully in Finland (e.g. the "Experience is a treasure" campaign) and in the United Kingdom (e.g. the "New deal 50 plus" programme).

□ Pension Reforms and Good Practices

The Dutch and the French pension systems were presented with a special focus on reforms and measures taken to improve sustainability: switch from final salary to career average model (see the Dutch ABP Pension Fund), extension of working lives, introduction of funded schemes (in France for civil servants).

Peter van der Gaast, CEO Europol Pension Fund (NL) and former Chairman of the Council Working Party on EU Staff Policy and Pensions, demonstrated the results of the research carried out by the Mercer consultancy firm for the Dutch Council Presidency: General *wage restraints* might have a greater impact on sustainability of pensions than reforming pension schemes. Mr van der Gaast advocated stronger capitalisation stating that this approach would countervail the "après nous le déluge" attitude. He described the new approach of the *World Bank* which is suggesting a multi-pillar pension system composed of five basic elements:

- a non-contributory "zero pillar" that provides a minimal level of social protection (safety net),
- a "first pillar" system linked to varying degrees of earnings,
- a (mandatory) "second pillar" relying on individual accounts,
- (voluntary) "third pillar" arrangements that can take many forms (individual, employer sponsored) and
- a "fifth pillar" based on informal intra-family or intergenerational transfers towards the elderly, of either financial or non-financial nature. Such system is a typical practice, for instance, in Southern European countries with strong family structures.

It was reminded that in its recent Report "Old-Age Income Support in the 21st Century" (24 February 2005), the Worldbank has generally moderated its enthusiasm for funded mandatory individual pension schemes, after a positive stance in its 1994 report.

During the seminar, the main outcome of the EIPA-CEFASS research carried out for the Irish Presidency in 2004 was presented. According to this research, the *new Member States* have made particular reform efforts to increase the coverage of labour-related and private pension systems (so called second and third pillar pensions), thereby transferring a portion of pension contributions to mandatory, individual savings accounts. Five new Member States have established *mandatory* second pillar schemes for their public and private employees (Bulgaria, Estonia, Hungary, Latvia and Poland). The seminar gave also the opportunity to present several "good practices" for the administration of pension funds, the "golden rule" being "not promising what pension schemes cannot afford". This led to the concept of transparency, accountability and assessment of liabilities regarding all different types of pension schemes.

□ Implication of Family Responsibilities

This subject was a great concern for most participants. It was made clear that in the future the notion of family care will concerned not only children but increasingly the elderly. This question is to be considered regarding employment and pensions as those who will take the responsibility of family care (mostly women) will have to take leaves or opt for part-time employment contracts with heavy consequences on future pension levels (incomplete, broken career, actuarial reduction factors).

Patricia Frericks from the University of Utrecht (Dept. of Interdisciplinary Social Science) gave an overview on the situation of part-time and occupational schemes coverage for men and women in several countries, which evinces the unfavourable situation of women. It was pointed out that the difference between the remuneration of men and women is one of the main problem which generally guides family choices regarding who in the couple will stop working or reduce occupational activity. The availability of care infrastructure as well as national cultures are also important factors in the parents' behaviour regarding employment.

Pension rights for family carers seem to be better protected in countries which offer good basic pension based on residence, whereas in employment related schemes women's pension rights are more affected. The evolution towards an increasing role of occupational benefits in the pension package could also have a negative effect on carers' pension rights. Finally the increase in service time required to obtain a full pension (French Reform) is also likely to have an impact on the general level of women's pension.

The question of pension credit to be given to family carers was also considered with the French example (pension credit up to 12 terms per child in the case of parent leaves, recently introduced by the French reform – this measure was regarded in the light of the Norwegian experience where the pension system offers up to 7 years pension credit per child, with no significant effect on parents' behaviour). To stop working for the sake of providing family care, employees need sufficient incomes; to come back on the labour market they need a proper updating of occupational skills. This confirms that pension issues are only one part of the problem of an adequate employment policy for women.

The frequency of divorces is also an important factor to take into account in women's pension as long they have lower salaries and shorter careers, at the date of divorce they have often accrued less pension rights than their spouse. Sharing pension rights upon divorces (Germany, NL, UK, Ireland) is an interesting practice although it is not widely spread. An obstacle may be the difficulty to assess pension rights in some schemes.

□ Final Panel Discussion

In the panel discussion, *Peter Korecky* from the European Federation of Public Service Union EPSU Brussels, pointed out that state pensions cannot be replaced by funded pension schemes, but second and third pillars will serve as supplements. A EU Single Market for cross-border portability of pension rights is not existing and prudential surveillance of pension schemes are matters still subject of national

competence ("principle of subsidiarity"; see CEPS report on 'Cross-Border Portability of Pension Rights from April 2003). Providing a global view of social security systems, *Franz Terwey* from the European Social Insurance Platform ESIP emphasised the achievements of the European social model in comparison to 40 Mio. Americans living in poverty. He compared the economic growth with a car engine and the social policy with the brakes. If the engine is powerful but the breaks are not good, the driver takes a big risk, just as a society cannot develop economic growth without caring about the poorest, otherwise it takes a serious social risk with possible consequences on its economy. Ms *Chris Verhaegen* from the European Federation for Retirement Provision EFRP stressed the over all trend towards "defined contribution" pension schemes and favoured the sex neutrality of pension plans. Ms *Claude Dubois* from EAPSPI (European Association of Public Sector Pension Institutions) insisted on the role of educational information and the necessity to make people more aware of external factors such as demography and economic growth. People have to realise that - at least at mid- and long-term - they are not "victims" of a reform but they are submitted to an on-going adaptation process of pension systems.

In conclusion, although sustainability of pension systems is a major concern, social and family policy implications also need to be seriously taken into consideration since they are tightly related not only to equity and gender equality but also to demographic developments, and in this regards they are also likely to have a significant impact on economic growth and therefore indirectly on pensions. There was a broad agreement that a *holistic and integrated policy approach* is needed for the reforms in the Member States. Reform measures should be mutually supportive and be aimed at improving both the financial, social and employment aspects of pension systems. The various stakeholders should cooperate: Officials from the Ministry of Social Affairs and from the Ministry of Finance, for instance, should communicate and cooperate at an early stage. Since pension policy concerns many areas, work must be co-ordinated across departments.

This is not an official record of proceedings; specific remarks are not necessarily attributable

Roger Hessel, EIPA-CEFASS
Original language : English

Open Forum

What about women's pensions? *Concepts and European developments*

Within the last decades two developments can be observed in all European welfare states: (1) individualization of pension entitlements and (2) retrenchments in public pension schemes (both contribution based and residency based) generally combined with shifts towards private pension schemes. Full pension entitlements presuppose a substantial participation in the labour market, i.e. life course norms were and still are based on ideal (male) labour market participation. It is true that the participation rate of women in the labour market rises and that this is important to gain social rights due to the fact that they are in one way or another related to labour market participation.

However, this one sided perspective on the labour market is inadequate in two respects:

- Firstly, to think that further commodification is a sufficient solution for women's lower pensions is wrong due to labour market discrimination. Also part-time employment should be evaluated more critically taking into consideration the negative outcomes for pensions. In addition, complete commodification of care cannot be realised.
- Secondly, calculation norms of pension systems are based on (male) ideal labour market biographies.

However, it is the system as a whole that differentiates between sufficient and insufficient life courses.

We observe movements of 'modernization', however, the practical outcomes are ambivalent. On the one hand there are good concepts.

Care credits were introduced in countries that lack residency based pensions as for instance in Germany, Austria, France. The Netherlands have a residency based basic pension and introduced a life course scheme that should facilitate to combine work and other activities as, for instance, care. Such concepts may be good in theory and partly even in practice, but there is no doubt that practices are not 'best'.

The reason is that such measures are only part of the whole.

If countries discuss about developing basic pensions based on the Dutch model, one should be aware of negative aspects that could be avoided as in this case the calculation basis (*Franchise*).

If care credits are evaluated as good for women one should be critical about the conditionality (are they only given if women exit the labour market), the practical circumstances (do parents have a choice, are care facilities available) and the factual outcomes of such credits in the system as a whole.

In addition, such care credits are normally limited to the public schemes while full pensions more and more depend on additional pension schemes. Finally, even if such mother-friendly measures are introduced, the system's development as a whole may contradict such concepts as the French example shows in rising its calculation norm.

Improving pension systems necessarily asks for a holistic approach in a twofold sense.

- Next to the value of paid labour market productivity one needs to consider other values including solidarity. Economy does not exist in its 'purity' (how to solve the 'prisoners dilemma' concerning fertility, education and so on?).
- Measures are part of the whole and to understand their effects one needs to see the interrelations. To name some: are there care facilities that make it possible for parents to keep on working, is the national culture accepting working mothers as reliable employees or are they rather considered as bad mothers? How do tax subsidies effect labour market participation and pension outcomes ? are calculation norms proportional, what about the mix of different pension schemes and how are they linked?

What should be stressed is that there is no good and bad, no black and white but better combinations and worse ones. A 'good' measure to improve women's pension situation is not good per se but needs to be embedded in the system as a whole.

Patricia Frericks (University of Utrecht)
Original language : English

National updates - Italy

The state of the supplementary pension system in Italy

In August 2004, Italy's Parliament passed an enabling law delegating the government to implement a measure on the supplementary pension system and changed the requirements to access seniority pensions under the public pension system.

In particular, according to this measure, starting in 2008 the age to access seniority pensions will no longer be 57 but 60, and will eventually be raised to 61 in 2010 and 62 in 2014. To qualify for this pension, an applicant will have to meet the mentioned age requirements and 35 contribution years or 40 contribution years and no age requirements. The age to access old-age pensions is unchanged, as it will continue to be 60 for women and 65 for men.

These rules concern workers who fall under the earning-related system, i.e. the system whereby pensions are calculated on the basis of the last yearly salaries and at an annual rate of return of 2% (thus, replacement rates are approximately 70% with 35 contribution years and 80% with 40 contribution years). This system applies to workers who had at least 18 contribution years as at 31/12/1995.

Workers who started their career after 1995 will have their pensions calculated in accordance with the contribution-based system. This involves the annual revaluation of the accumulated contributions on the basis of the growth rate of nominal GDP, with the final pension credits converted into an annuity through transformation actuarial coefficients determined in accordance with life expectancy. The reform law of 1995 allowed these workers to qualify for a pension at the age of 57, with transformation actuarial coefficients rising hand in hand with age so as to equalise the total amount of the pensions that could be received, in theory, on the basis of life expectancy. The measure passed last year reduced this flexibility to a significant extent, setting the pensionable age for men and women under the contribution-based system also at 65 and 60, respectively. Men have a limited flexibility, as they can retire at 62 but only with 35 years of contribution.

The transition to the contribution-based system for younger workers entails a substantial decrease of replacement rates. These will fall by approximately 15 percentage points compared with those of the earning-based system, also in view of the expected changes in the coefficients to convert pension credits into annuities due to the extension of life expectancy.

To compensate for this decrease, the reforms of the 1990s introduced supplementary pensions in the Italian pension system. These supplementary pensions were based on a funded system of a private and voluntary nature which included occupational pension funds, set up by trade unions and employers' associations in each sector, and open funds established by private financial operators (open-ended funds).

In addition to these types of fund, in 2000 new individual pension accounts were introduced by insurance companies, thus blurring completely the line existing until then between the second and third pillar in the social security system.

Despite the success of some occupational funds – the largest is that for workers in the engineering sector, with more than 300,000 members – membership in the supplementary pension system 10 years after law 335/1995 designed its outline is limited. Data provided by the Commission that supervises pension funds (Commissione di vigilanza sui fondi pensione - COVIP) show that total members enrolled in the different types of supplementary pension funds, not including pension insurance policies, are slightly more than two million and that participation by young people is very limited. The membership rate of salaried employees is overall lower than 10% while that of self-employed workers is even lower.

Thus, the government has set out to increase workers' participation in the supplementary pension system, as there would be no other way to make up for the loss of coverage by the public pension system.

The key points of the enabling law passed by the Parliament are the default choice in the absence of a response (*silenzio-assenso*) for the automatic transfer to a pension fund of a worker's severance indemnity (TFR) set aside by his employer, the attribution of the same legal status to all the types of supplementary pension funds, the increase of tax incentives. Currently, discussions are under way on the delegated decree that the government will have to issue no later than August of the current year.

The main source of financing for supplementary pension funds for employed workers is the employee severance indemnity (TFR), namely the amount of money that workers are entitled to receive upon termination of their employment. Such severance payment is equal to the sum of funds set aside every year, equivalent to 6.9% of the annual salary, as revalued at a pre-established rate. All or part of the annual amount set aside is diverted to a supplementary pension fund, in case the worker accepts to join any such plan.

The delegated decree calls for the transfer of the TFR to a supplementary pension fund on the basis of the default choice (*silenzio-assenso*) mechanism: once the government has approved it, a worker will have six months to enrol in one of the three different types of supplementary pension system. In the absence of a decision, the worker's TFR will still be transferred to one of the three types of supplementary pension system. Only in case of express rejection will the employer continue to manage the TFR.

The default choice mechanism has resulted from a compromise between the initial intention of the government to make mandatory the transfer of the TFR to the supplementary pension system and the opposition of trade unions and employers' associations to the mandatory approach.

By moving from the current voluntary participation to the default choice approach, the government intends to increase workers' migration to the supplementary pension system, particularly young people's.

The success in terms of increased acceptance of the new formula, which was adopted as a result of the opposition of the trade unions, might be jeopardised by the pressures of smaller enterprises, as these stand to lose the most from the transfer of the TFR, which is for them a source of low-cost funding. In fact, these can "convince" workers not to join a supplementary pension plan to limit the loss for the enterprise determined by the transfer of the TFR.

Much will depend on how the government will compensate these companies for their loss, considering also that the measure to be enacted will have to indicate how this compensation should be financed.

A key aspect of the enabling law is the equivalency of the three different types of supplementary pension, stressing what was already partially provided for by legislative decree 47/2000, especially from a tax point of view. The equivalency is not limited to the transfer of the TFR alone, but to the possibility to transfer any employer contribution. Furthermore, the constraints set by the current law on the transfer from occupational funds to the other types of pension funds are expected to be repealed.

Recently, the main trade unions and employers' associations approved and issued a "common position paper" whereby, in case of automatic transfer (default choice in the absence of a decision by the worker) the government should provide for the transfer of the TFR to the occupational funds or to the type of fund indicated in the labour agreement. Moreover, this paper requested that the "portability" of the employer's contribution, a feature provided for by the enabling law, be provided for by the labour agreement. Basically, the paper requests that, as far as the transfer of the TFR is concerned, preference be given to occupational funds over the other funds.

The government's delegated decree originally considered the three types equivalent, but changes are expected to be introduced.

An incentive to join the new system should derive from an improvement in tax laws. The law delegates the government to review the tax rules on supplementary pension funds so as to increase the tax deductibility of the contributions to supplementary group and individual pension funds and to review the taxes on the investment income generated by the assets managed by pension funds.

It is not yet clear what the government intends to do. The areas under review concern the re-definition of the limits of the tax deductibility of contributions, the abatement/elimination of the taxes on the funds' investment income, which is currently 11%, and the application of a flat tax rate (15%) to annuities instead of a marginal tax rate.

It should be noted that, given tax-deductible contributions and a progressive taxation system, the current rules on the deductibility of contributions favours high income brackets over low income ones and that the enabling law does not change this situation. Instead, it would be appropriate to provide some tax relief to low-income workers, who tend to save less.

The enabling law does not extend the default choice mechanism for the automatic transfer of the TFR to public-sector employees but defers this matter to an ad hoc law. This is further confirmation of the difference between public-sector and private-sector employees in the area of supplementary pensions.

The problem is that public-sector employees receive an end-of-service allowance, which is different from the TFR, and that it is financially difficult to change these allowances into TFRs and then transfer such TFRs to a supplementary fund.

The cost of any such arrangement would be excessive, especially in light of the current situation of the public budget.

Maurizio Benetti, Director of INPDAP's Studies
Original language : English

National updates - Spain

Applying Directive 2003/41/EC to Basque Mutual Provident Societies

Introduction

Directive 2003/41/EC regarding the activities and supervision of institutions for occupational retirement provision must be transposed to national legislation before 23 September of this year. The Basque Country enjoys exclusive powers in this matter and must adapt its regional legislation to this new framework.

Setting to one side the possibility of offering cross-border services, a difficult feat for institutions whose operations are limited territorially, the main interest of the Directive resides in its establishment of a management, organisation and operating standard for Europe. It should also be remembered that the

Directive treats institutions, not benefits, which are the business of the social and labour authorities in each Member State. Thus, the application of this Directive will be as a complement to the development of the Basque Country Complementary Pensions Plan, since its aims are different.

Nor does the Directive tackle issues like the portability of rights or taxation, issues which are being studied in other EC ambits.

Organisation of the process

Even though the updating of regulations is the job of the Administration, the fact that many points in the Directive require interpretation and that numerous sections contain several options has led the Administration to discuss how to handle its application in tandem with the industry, represented by our Federation.

Thus, over a period of nine months information has been gathered, a working document has been drafted, and five committees have been set up. After three months of activity, these committees have reached a series of conclusions which may be considered a pre-agreement between industry and Administration. It is necessarily only a pre-agreement since, in the last instance, it is the Administration which will settle the details.

The committees were organised around the following subjects:

- The Supervision Committee, considering issues such as assets valuation.
- The Member Information Committee.
- The Funding Committee, considering pension liabilities.
- The Investments Committee.
- The Co-ordinating Committee, responsible too for cross-border matters.

Conclusions of the process

The conclusions reached may be summarised as follows:

This regulation is not only applicable to occupational schemes, meaning those arising from collective bargaining in companies, but also to co-operative societies schemes and schemes for the self-employed and professionals to the extent that professional ties are maintained between them. The regulation is not applicable to schemes with fewer than 100 members.

Rules are established regarding qualification and training of organs of governance. Worth highlighting is the fact that, although there may be professionals working for a scheme and responsible for its effective management, the members of the Governing Boards must accredit some minimum knowledge obtained by means of specific courses, which must be completed during the first year of their appointment. Furthermore, responsibility for deciding investment policy cannot be delegated but must be assumed by the Governing Board.

Minimum contents are stipulated for the Management Report. These include both financial matters and issues related to the evolution of the scheme's main variables in relation to its collective, its benefits, and its regulatory and statutory framework.

As for member information, the regulation stipulates the issuing of an abbreviated report, with various minimum contents, information about vested rights, according to the nature of the pension scheme, and the way those benefits are received. On request, a member will have the right to consult the statutes and the statement of investment principles.

As for assets valuation, the market value is established as the general benchmark, but with three significant qualifications. Firstly, fixed income on held to maturity portfolios will be admitted, just as they are permitted in IAS 39. Secondly, stabilisation reserves, that is to say, free reserves which may be applied to reduce benefits volatility, are permitted. Thirdly, during a long transition period (8 years) it will be possible to apply the acquisition cost yardstick, so that schemes will be able to show smoother results during the critical period when, as forecasted by the Provision Plan, new schemes will be set up.

It becomes obligatory to formulate a Statement of Investment Principles, in the terms of the Directive. The Statement's contents have been worked out in a technical report annexed to the agreements. This technical report spells out the significance of the Directive's requirements, at the same time as it takes

into account current practice in those countries where such an obligation already exists. This Statement must specify the use, where authorised, of derivative instruments.

The regulation must also set out in detail the minimum information which should be communicated to the Supervisory Administration. This consists basically of the management report, the annual accounts, the investment principles, the actuarial report, where applicable, the auditor's report and any portfolio mandate or underwriting contracts, should they exist.

When calculating technical provisions, the interest rates must reflect the earnings of the institution's assets, earnings on high quality bonds, and a reasonable estimate of future returns on the investment. This estimate of future returns is deemed prudent if the equity risk premium is no greater than 4%. Profitability for real estate investments has also been admitted so long as it does not exceed 3% of real return rate.

It becomes obligatory to draw up a recovery plan when there is asset shortfall during a period of three years or when assets represent less than 90% of technical provisions. In this regard, it is accepted without qualms that it is impossible to always be totally funded. In short, there is no wish to further threaten the existence of defined benefit pension schemes.

As for investments, they are completely liberalised. Confirmation is given of the prohibition on investing more than 30% of assets in non-regulated markets. This throws the door wide open to investment in risk capital and real estate.

As for derivatives, their use is restricted to reducing investment risk or making efficient portfolio management easier. There has been much discussion over the meaning of efficient management. In the end, the conclusion was that derivatives may be used if the transaction can be made directly through underlying assets and falls within the limits for asset allocation laid down in the Statement of Investment Principles. Moreover, derivative contracting must follow the same procedure as for other investment decisions.

Finally, a register is created where all the agreements and contracts with custodians of portfolio securities must be recorded. This register must be permanently available for inspection by the Administration.

As for cross-border activity and taxation, action will be taken in line with the regulations determined by the State which are currently being drafted.

Jon A. Aldecoa
Federación de EPSV's de Euskadi
Original language : English

National updates - Germany

Transposition of Directive 2003/41/EC in German law *Impact on supplementary pension institutions for public employees*

In its action plan for financial services of 1999, the European Union fixed the objective to apply the principle of free movement of capital and services to funded occupational pension schemes (Communication of the Commission of 11.05.1999 COM (1999) 232). In line with this objective, Directive 2003/41/EC of the European Parliament and of the Council of 3 June 2003 on the activities and supervision of institutions for occupational retirement provision has been voted (JO EC L235 p.10). This directive implies legal constraints for Member States applicable to pension providers in order to guarantee the protection of members and their dependants covered by funded occupational pension.

Transposition in German law

The legislator does not operate through a one off provision but through several stages phased over a period of time. The provisions more specifically applicable to the supplementary pension schemes for public employees have already been transposed with effect on 01.01.2005. The German legislator has

voluntarily given priority to this part of the transposition to give as much time as possible to the supplementary pension schemes of the public service. A transposition process provides that the concerned institutions must be in conformity by 23.09.2010.

The application field

The Directive about the activities of supervision of institutions for retirement provision do not apply to the whole pension scheme for public employees but only to its section of voluntary insurance. This part can be financed either by the employer or by the employee. It is meant as an optional complement of the compulsory pension insurance financed by the employer, to compensate the foreseeable reduction of future pensions and to ensure a sufficient replacement rate. The occupational pension is composed of two parts : the main one is a compulsory pension insurance, the additional one is a voluntary insurance, the provision of the directive apply to this latter part, since it is obligatorily funded. In fact, almost all supplementary pension institutions of the public service and churches are concerned, in particular VBL and the local and religious pension institutions covered by AKA since they all offer a voluntary funded scheme to their members.

Legal provisions

The supplementary pension institutions are obliged by law to establish separate accounts for the voluntary insurance. All of them have anticipated this obligation by separating compulsory and voluntary contributions since the beginning.

Assets and liabilities of the voluntary insurance must be administered and organised independently from the compulsory insurance with no possibility of transfer. This rules is already in force within the supplementary pension institutions of the public service well before the transposition of the directive.

The law also provides that the legislation applicable to the administration of the private sector pension institutions will also apply to the voluntary insurance section. It mainly concerns rules regarding funding (solvency) and investments. The statutes of the supplementary pension institutions for public employees already stipulates that investments must be done in accordance with the rules applied to private sector pension institutions. Over the next years, the institutions will also have to apply the solvency ratio provided by law (with an additional buffer fund of 5 % of the total funding coverage). Already now, the statutes of the public pension institutions foresee to build up in the medium or the long term an additional buffer of at least 10 % of the coverage capital.

Regarding the legal obligation presented above, the supplementary pension institutions of the public sector come under the insurance supervision : the Federal State for VBL or the Länder for local institutions, which guarantee the application of the above mentioned obligations.

Federalism

Due to the German federal organisation, Länder generally have extended legal competence in the fields that they cover. Insurance supervision is one of these fields. Länder can therefore make decisions stricter than the rules established by the federal legislator, but always in line with the requirements of the European directive.

Transposition for private companies providing occupational pensions

As said before, the German legislator has finalised the transposition of the European Directive only for the supplementary pension institutions of the public service. The transposition of the directive for private pension institutions will come under another law. At this stage the bill has just been presented.

Conclusion

The statutes of public sector supplementary pension institutions were already in conformity with the main requirements of the European directive before its transposition into national law.

Christian Anton (AKA)
Original language : German

National updates - UK

Time-out for Pension Reform

The recently published report of the Pensions Policy Institute (PPI) "*Occupational pensions provision in the public sector*" [<http://www.pensionspolicyinstitute.org.uk/news.asp?p=114&s=2&a=0>] makes for interesting reading and comes at a time when the proposed public service pension reforms in the UK have stalled.

One could suggest that the timing of the report has been particularly opportune for the UK Government – who ever comes out top in the general election on 5th May, because it reinforces the message that public service staff are doing very well out of their pension provision at a time when those employed in the private sector are finding their own pension provision to be less secure.

What does the PPI report tell us?

- public service pension benefits are worth an additional 5% - 20% of salary compared to the private sector
- public service pensions are more secure
- in the public service you are more likely to have a defined benefit arrangement; the private sector will likely have defined contribution provision
- employees in the public service are more likely to be in an occupational pension scheme.
- even after proposed reforms, public service pensions will still be better.
- the average pension age in the private sector is 65 compared to 60 in the public service.

I could go on and list several more benefits of the public service pension provision but to do so would just further drive home the message that public service pension provision in the UK is really very good and can stand up to comparison with others. Most people accept this as a fact. Even public service trade unions are in agreement with this belief and they are prepared to fight tooth and nail to hold on to what they have – and who can blame them. The trade unions look upon their pensions as the gold standard – defined benefits, final salary, pension at age 60 (65 is the Local Government Scheme but with a provision called rule of 85 to allow pension from age 60), indexation fully linked to inflation, and so on. And all with a guarantee from the government against scheme failure.

But is it as simple as the PPI seems to suggest?

It is all very well to argue for the public service pension reform when you have proof that they have above average provision but on the other hand I suspect that many public servants would make the point that their salaries are below those of the private sector. It is likely that many public servants would take the view that since they are paid less than private sector counterparts it is only reasonable that they should have decent pension provision as compensation.

How do the salary levels compare?

The report from PPI also looks at levels of pay and concludes:

- there is no conclusive evidence that there is generally lower pay in the public service
- the public sector does have a higher proportion of low paid workers
- total remuneration in the private sector is more valuable for those on higher pay levels
- lower paid workers in the public service are more likely to have pension provision.

Not surprisingly the issue of low pay has been reported on by others: For example Claudio Lucifara and Dominique Mears concluded in their paper "The Public Sector Pay Gap in France, GB and Italy" [http://cep.lse.ac.uk/piep/papers/meurs_lucifara.pdf] that low skilled public sector workers are paid higher wages with regard to their private sector counterparts.

Further the "EPSU Collective Bargaining Conference" in 2004 stated that "low pay is relatively less of a problem in the public services than in the rest of the economy". EPSU is the federation of more than 185 independent trade union organisations representing more than 8 million workers in public services in Europe.

A contrary view however can be obtained from trade unions. One example comes from the Public and Commercial Services Union who represent most civil servants in the UK and state that "the civil service is a low paid sector". They go on to add "there is a much higher proportion of low paid staff in the civil service and 39% of civil servants earn less than £15,000 compared to 22% of all UK non-manual employees".

Without getting overly involved in low pay arguments I suspect that the issue of pay depends on a range of circumstances and the individual perception (which part of the public service you are employed in [eg teacher or nurse, etc] - your age - your grade - possibly even where you work : inner city, rural, etc).

For example in the organisation that I work for, over 75% would be classed as being at the lower end of the wage scale but all of these staff do not necessarily perceive themselves to be low paid by comparison with the private sector. Perhaps you have to answer the question – could I do better elsewhere?

There is no doubt that the lowest paid public service staff do earn below the national UK average but once you enter the management grades your salary will be more comparable with those in the private sector. At a time of low unemployment with ample opportunities for employment, people have a choice of career freedom to transfer their labour and government as an employer will be less inclined to be persuaded by perceived low pay arguments from their own employees.

So there we have it! To summarise the PPI report:

- public service staff have good pension provision
- it compares favourably with the private sector
- public service pay at the lower end of the scale is no worse than the private sector
- although a larger proportion of the public sector have salaries at the lower end of the pay scale

Where does all this take us?

You will all be aware of the UK Government proposals to reform public service pension reforms against a backdrop of increasing longevity and ever rising costs. The Pension Commissioner added to the debate by stating that it will be a case of “working longer, paying more or getting less”. [<http://www.pensionscommission.org.uk/publications/2004/annrep/index.asp>]

The government proposals were basically that the normal pension age for most public servants should be based on age 65 by 2006 for new staff and by 2013 for existing staff.

Throughout 2004 and into 2005 all schemes were in the process of reviewing their pension arrangements in consultation with trade unions with a view to introducing the necessary regulations, however because of the ever increasing threats of industrial action the UK Government stepped into the fray and announced that there would be fresh negotiations on the proposals. The trade union opposition to the proposals has been unanimous – NO to age 65, NO to the removal of rule of 85 in the LGPS, NO to any alternative to final salary benefits and NO to increased contributions. The government took the view that they did not wish to have industrial action during the election campaign and convinced the unions that there would be meaningful negotiations before any decisions were made. This was at the end of March and since then we have been in a state of limbo with little discussion between the parties.

These negotiations will get underway very quickly after the general election but the new government’s first job will be to determine the pension policy and set the framework and context for discussions with trade unions.

One thing is clear however. The report by the PPI will play a very important part in the UK government policy and the negotiations. Armed with the facts on longevity, the costs of public service pensions to the Treasury and now an independent set of facts on how public service pensions compare to the private sector, it will be difficult for the trade unions to sway the government away from the original proposals.

Watch this space!

Ian Clapperton (SPPA)
Original language : English

European Association of Public Sector Pension Institutions

Association under the French law of 1 July 1901, registered at préfecture de la Gironde - Bordeaux – France – n°2/25493
N° SIREN : 420 148 892 - N° SIRET : 420 148 892 00011

Registered Office & Secretariat General :
co Caisse des dépôts - 3, rue du Vergne - F 33059 BORDEAUX CEDEX

☎ Contacts : Thierry Christophoul & Claude Dubois
☎ + 33 (5) 5611 4254 - Fax + 33 (5) 5611 4863 - infos@eapspi.org - www.eapspi.org