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Nefndasvið Alþingis
Björn Þorvaldsson
Efnahags- og viðskiptanefnd
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Meðfylgjandi er annars vegar úttekt sem Evrópusambandið lét gera hjá aðildarríkjunum: *Study on pension schemes of the member states of the European Union, December 1999* og hins vegar rit frá Eurostat: *Statistics in focus, théme 4 - 00/1999.* Í úttekt Evrópusambandsins er yfirlit yfir lífeyriskerfi aðildarríkjanna en í viðauka, töflu 4, er sérstakt yfirlit yfir heimildir lífeyrissjóða til fjárfestinga. Í riti Eurostat, töflu 3, er að finna sundurliðun fjárfestinga lífeyrissjóða árið 1997.

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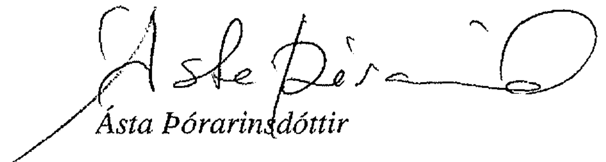

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Statistics

in focus

INDUSTRY, TRADE AND SERVICES

THÈME 4 – 00/1999

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Statistics on Pension Funds

August Götzfried

"At the dawn of an european pension fund industry"

Part II

The present report on pension funds concentrates on financial indicators of pension funds. It is the follow-up of a first report which presented indicators such as the number of funds, their employment and their members.

CONTRIBUTIONS AND OTHER FINANCIAL INDICATORS OF AUTONOMOUS PENSION FUNDS

Table 1: Profit and loss account of autonomous pension funds, 1997 *(Mio ECU)*

	Turnover (Total pension contributions)	Investment income	Other income	Total payments on pensions	Gross change in technical provisions (reserves)	Total operational expenses
EU-15	:	:	:	:	:	:
EUR-11	:	:	:	:	:	:
B	:	:	:	:	:	:
DK	65	631	4	272	102	4
DE	15 639	9 514	733	21 747	11 989	601
EL	:	:	:	:	:	:
E	3 567	2 348	243	1 070	4 515	357
F	:	:	:	:	:	:
IRL	:	:	:	:	:	:
I	1 237	:	:	612	:	:
L	:	:	:	:	:	:
NL	8 499	39 398	1 996	10 738	21 961 [1]	4 493
A	736	262 [2]	5	108	:	15 [3]
P	:	:	:	:	:	:
FIN	-	-	-	-	-	-
S	345	:	:	:	:	:
UK	19 400	90 231	487	38 747	163 216	2 626
IS	326	325	3	154	:	13
N	867	791	14	353	971	29
CH	21 132	9 369	16 979	17 490	0	0

(¹) Net of reinsurance.

(²) Only income of pension schemes (Nur Veranlagungserträge der Veranlagungs- und Risikogemeinschaft).

(³) Pension fund - Incorporated enterprises limited by shares.

Source: Eurostat.

The highest contributions are reached in absolute terms in Switzerland, the United-Kingdom and Germany, followed by the Netherlands, Spain and Italy. Contributions per active members rank from around 6 500 Ecu in Switzerland to around 4 500 Ecu in Austria and Denmark and 1 300 Ecu in Spain and Italy, these ratios being clearly influenced by the standard of living and state of development of the pension funds industry in the different Member States.

The ratio of investment income on pension contributions is very heterogeneous. The proportion is 1 to 1 in Island and Norway and less in Germany, Spain, Austria and Switzerland, while in some countries, the investment income is much higher than the contributions. In Denmark for example the investment income is almost 10 times higher than the contributions and in the Netherlands and the United-Kingdom almost 5 times higher. This indicates already a certain maturity of the national pension funds industry.

Pension payments per retired persons members rank from more than 20 000 Ecu in Switzerland and Denmark, to around 6 000 Ecu in the Italy, Austria and the Netherlands, down to less that 4 000 Ecu in Island. The amount for Spain is however rather high.

In 4 Member States, pension payments exceed the level of contributions; these are Denmark, Germany, the Netherlands and the United-Kingdom with ratios of respectively 4.2, 1.4, 1.3 and 1.9. In other member States, pension payments are still well covered by contributions. They represent from 15% of contributions in Austria to 30% in Spain and around 40% in Ireland and Norway. In Italy they reach almost 50% of contributions while in Switzerland they already amount to more than 80%. These ratios are also influenced by the accounting rules that are not harmonised at European level.

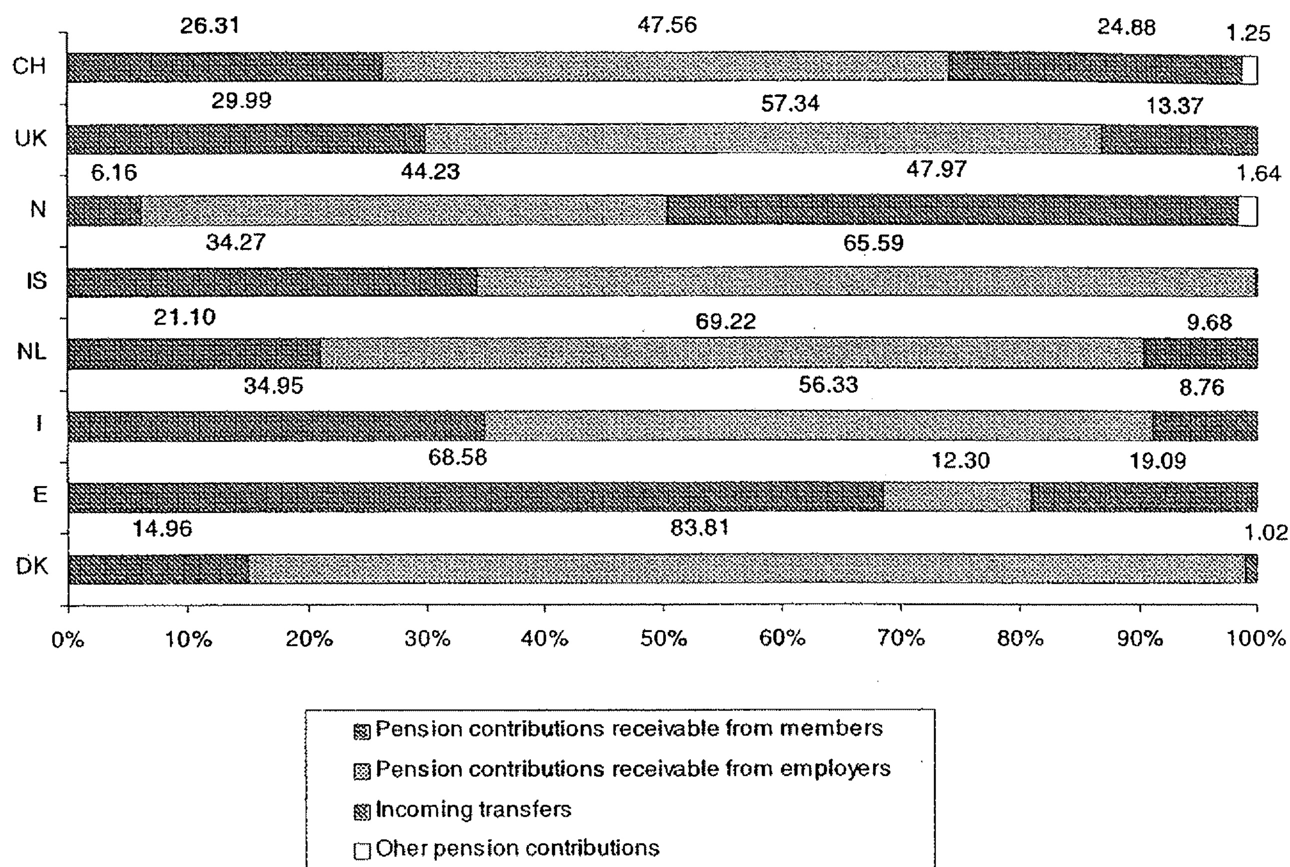
Table 2: Breakdown of contributions of autonomous pension funds, 1997 *(Mio ECU)*

	Turnover (Total pension contributions)	Pension contributions receivable from members	Pension contributions receivable from employers	Incoming transfers	Oher pension contributions	Pension contributions to defined benefits schemes	Pension contributions to defined contributions schemes	Pension contributions to hybrid schemes
EU-15	:	:	:	:	:	:	:	:
EUR-11	:	:	:	:	:	:	:	:
B	:	:	:	:	:	:	:	:
DK	65	10	55	1	0	:	:	:
DE	15 639	:	:	:	:	:	:	:
EL	:	:	:	:	:	:	:	:
E	3 567	2 446	439	681	1	81	3 229	257
F	:	:	:	:	:	:	:	:
IRL	:	:	:	:	:	:	:	:
I	1 237	432	697	108	430	807	:	:
L	:	:	:	:	:	:	:	:
NL	8 499	1 793	5 883	822	0	:	:	:
A	736	:	:	:	:	:	:	:
P	:	:	:	:	:	:	:	:
FIN	-	-	-	-	-	-	-	-
S	345	:	:	:	:	:	:	:
UK	19 400	5 818	11 124	2 593	-134	:	:	:
IS	326	112	214	0	0	105	222	0
N	867	53	383	416	14	:	:	:
CH	21 132	5 559	10 051	5 257	265	0	0	0

Source: Eurostat.

Pension contributions are in most Member States received from employers with shares ranking from 44% in Norway to 84% in Denmark. The exception is Spain where only 12 % of total contributions are received from the employer and as much as 69% are received from members.

High levels of incoming transfers are noticed in Spain, Switzerland and Norway where they represent respectively 19%, 25% and 48% of total contributions, this indicates a certain level of labour mobility between employers.



Source: Eurostat.

INVESTMENTS OF AUTONOMOUS PENSION FUNDS

As supplementary pension funds are expected to grow in the short and medium term as a result of Member States policies to reduce state pension schemes, the volume of investments of pension funds is also expected to increase very considerably. In the reform of the national supplementary schemes, it will be very important to try to improve the returns on these investments, as this will help reducing costs of pension provision and of employment in general. The structure of investments could also be expected to change if EU policy action will provide for more flexibility in the choice of investments and facilitate investments abroad. This as well as the single European currency will to lead to more cross border investments which in turn will increase availability of capital in the European Union both to the benefit of job creation and competitiveness of EU industries.

STRUCTURE OF INVESTMENTS:

Table 3: Breakdown of investments of autonomous pension funds, 1997

	Land and buildings	Investments in affiliated enterprises and participating interests	Shares and other variable-yield securities	Units in undertaking for collective investment in transferable securities	Debt securities and other fixed-income securities	Participation in investment pools	Other investments	Total investments
	%	%	%	%	%	%	%	*Mio ECU*
EU-15	:	:	:	:	:	:	:	:
EUR-11	:	:	:	:	:	:	:	:
B	:	:	:	:	:	:	:	:
DK	5.33	1.67	19.10	0.00	69.05	0.00	4.86	**4 840**
DE	:	:	:	:	:	:	:	**105 158**
EL	:	:	:	:	:	:	:	:
E	0.47	:	13.51	1.23	69.03	:	15.77	**21 307**
F	:	:	:	:	:	:	:	:
IRL	5.95	:	58.55	: [1]	26.54	: [1]	8.95	**34 464**
I	14.11	2.42	2.13	:	51.90	:	29.45	**11 756**
L	:	:	:	:	:	:	:	:
NL	5.26 [2]	0.05 [3]	37.82 [4]	:	29.51 [4]	:	27.37 [5]	**352 311**
A	0.68	:	1.46	86.65	6.71	:	4.49	**2 995** [6]
P	:	:	:	:	:	:	:	:
FIN	-	-	-	-	-	-	-	-
S	5.15	:	24.92	:	51.98	:	17.96	**5 917**
UK	3.84	:	70.50	4.00	16.42	2.12	3.12	**909 459**
IS	0.18	:	10.92	3.87	84.10	:	0.93	**4 305**
N	2.71	-	19.60	-	64.89	-	12.79	**9 322**
CH	16.57	0.00	18.54	0.00	30.64	12.93	21.32	**182 740**

(1) Not separately identified.

(2) Assessed (taxation value).

(3) Market value as far as possible (loans to affiliated enterprises e.g. are valued according to nominal/redemption value).

(4) Market value.

(5) Includes mortgage loans and other long term loans, which are both valued according to nomimal/redemption value..

(6) Only fixed assets of pension schemes (Nur Anlagevermögen der Veranlagungs- und Risikogemeinschaft).

Source: Eurostat.

In most countries the preferred investment is in debt securities and other fixed-income securities with shares on total investments reaching up to 84% in Island. In the United-Kingdom, Ireland and the Netherlands however, the largest share of investments is allocated to shares and other variable-yield securities with 71%, 59% and 38% respectively. Austria concentrates most investments in Units in undertaking for collective investment in transferable securities with an 87% share on total investments. Switzerland is certainly having the most balanced portfolio with only preferred investment in debt securities and other fixed-income securities reaching 30%. Switzerland is also the country with the largest share in investments in lands and buildings: 17%, all of which are in lands and buildings occupied by the pension fund for its own activities.

LOCATION OF THE INVESTMENTS:

Concerning the breakdown of investments according to the location of the investment the data availability is still scarce. Irish pension funds only invest 60,4% of their equities in the country, 10.3% in United-States, 9.1% in United-Kingdom and 7.8% in remaining Europe and 4.4% in the Pacific Basin Area. Spanish autonomous pension funds already invest 4.4% of their portfolio other euro-zone countries and 1.6% in other EEA countries (!Does not sum up, only to 89.3%). Again, if EU policy making leads to more freedom in investments, it can be expected that more cross-border investments will occur, data availability on this subject is hence expected to increase.

CONCLUSION

This first reporting on supplementary pension funds will be followed by further reports based on the EU annual Statistics on pension funds. Eurostat indeed intends to continue the collection of business statistics on pension funds on an annual basis. More analysis on 1998 data will therefore be published in spring 2000.

➤ ESSENTIAL INFORMATION – METHODOLOGIAL NOTES

The present edition of Statistics in focus has been elaborated on the basis of the results of a first voluntary data collection from all EEA countries and Switzerland. This data collection has been carried out on still non-harmonised basis as neither EU accounting legislation, nor EU business statistics legislation do yet exist on pension funds. Better quality and harmonisation are however expected in the future when the statistics on pension funds will be integrated in the Structural Business Statistics Regulation.

Throughout the publication:	
The sign - stands for "Not existing"	The sign : stands for "Not available"

F:

In France, for example, occupational pensions are so far only provided by life insurance enterprises, with services such "capitalisation" but also with "occupational pension" products. A legislation is however being drafted to open the market for pension funds as such, but its adoption can not be expected in the short-term.

EL:

No data is available, as Greek private pension funds are not supervised.

IT:

Most data refers to 1996.

The figures for autonomous pension funds refer to 536 schemes out of 623 funds: Autonomous pension schemes (471 out of 558, 1996 data), occupational pension schemes (4 schemes, end of 1998 data), open pension funds - fondi pensione aperti (61 funds, end of 1998 data).

The figures for non-autonomous pension funds are provided only for 41 schemes established within non-financial companies out of 216 non-autonomous funds (1996 data).

L:

Luxembourg has only so far one pension fund registered, the data on this enterprise is considered confidential and has therefore not been provided.

A:

The legal form of pension funds in Austria is incorporated enterprises limited by shares, they manage the rights to benefits of members (contributing and beneficiaries) of pension schemes (Veranlagungs- und Risikogemeinschaft). There is therefore a separate accounting for the incorporated enterprises limited by shares (profit and loss account) and for each of the pension schemes (Veranlagungs- und Risikogemeinschaft) (special report). Data has been provided for one or the other as merging the information would lead to misinterpretation of results. If not specified otherwise the data published concerns the pensions schemes (Veranlagungs- und Risikogemeinschaft).

S:

The data provided refer to only 10 of the biggest funds, they stand for about 99% of the funds.

UK:

The data on income, expenditure and balance sheet are sourced from Occupational Pensions Board (ONS) inquiries.

The investments are valued at market value.

CH:

All data provided from Switzerland is referring to 1996.

➢ SOURCES

Country:	Source:
DK	Finanstiisynet
D	Statistisches Bundesamt
E	Dirrecion General de Seguros
IRL	Central Statistical Office
IT	Commissione di Vigilanza sui Fondi Pensione
NL	CBS Central Statistical Bureau
A	Österreichisches Statistisches Zentralamt
P	Instituto Nacional de Estatistica
FIN	Ministry of Social Affairs - Health
S	Finansinspektionen
UK	ONS / Occupational Pensions Board
IS	The Financial Supervisory Authority of Iceland
N	Statistik Sentralbyrå / Kredittilsynet
CH	Office Fédéral de la Statistique

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STUDY ON PENSION SCHEMES OF THE MEMBER STATES OF THE EUROPEAN UNION

December 1999

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Presentation of the study on Member States' pension schemes

At the experts' meeting on supplementary pensions of 6 November 1997, some delegations asked that a study of Member States' pension schemes be undertaken. These delegations stated that such a study would facilitate multilateral discussions in a field marked by a high degree of divergence.

The attached draft document responds to this request. The study is a simple description of national pension schemes, with an emphasis on supplementary schemes and the regulatory framework into which they fit in each Member State. The document is based on data provided by the Member States themselves as well as on work carried out by the Comité Européen des Assurances and the OECD.

The main objective of the study is to inform delegations of the pension systems in place in other Member States. It should also assist the Commission and the Member States in the drafting and negotiating of the proposal for a Directive on the prudential regulation of pension funds announced in the Commission Communication of 11 May 1999[1]. It could in particular be used to identify the retirement institutions which, in each Member State, should be covered by the proposal for a Directive.

1 Towards a single Market for the Supplementary pensions (COM/99/134).

1. Austria

1.1 Pillar 1 – Flat-rate/social security pensions (pay-as-you-go/funded)

1.1.1 Introduction

The principal form of pension provision in Austria is the State pension. With few exceptions, all Austrian citizens are compulsorily insured under the State scheme. This is the responsibility of several different organisations, for example the Pension Insurance Agency for Wage Earners.

1.1.2 Funding

The State pension is funded on a pay-as-you-go basis, with the contribution rate being dependent on the professional group. In 1997 the employer's contribution for employed persons (with the exception of civil servants) was 12,55% and the employee's contribution was 10,25%.

1.1.3 Retirement age and amount of pension

The retirement age for men is 65 and for women 60. For men from the age of 60 and women from the age of 55 there is the option of a premature old-age pension (early retirement). However, the retirement age for women is to be increased gradually from 60 to 65 or from 55 to 60, respectively. Taking retirement before the standard retirement age (60/65) entails a reduction in the pension.

The amount of the pension is calculated as a percentage of the basis for assessment which is dependent on the insured period. The 180 months with the highest contributions are taken as the basis for assessment. The level of the pension varies between 27% (with 15 years of contribution) and 80% (with 45 years of contribution) of the basis for assessment. The maximum contribution basis for 1998 was ATS 42.000 (Ecu 3.052,26) and for 1999 it is ATS 42.600 (EUR 3.095,86).

The pension reform of 1997 means that in future State benefits are to be moderately reduced to take greater account of the insurance principle, the actual retirement age is to be increased and pensions for civil servants are to be reduced.

1.2 Pillar 2 – Occupational schemes (funded)

1.2.1 Introduction

In Austria it is possible to join an occupational pension scheme voluntarily. 11% of the working population are covered by an occupational pension agreement. Conditions for establishing occupational schemes are laid down in the Company Pension Fund Act. Employees under contract (= employees of the local and regional authorities employed under private law) may be included in company pension commitments, but not civil servants (= employees with contracts of employment under public law).

The establishment of a pension fund for employees under contract relates only to the practical implementation of this option; as already stated, the inclusion of employees under contract was already permitted and possible.

In company pension schemes the age threshold for drawing a company pension should be in line with EU regulations and therefore the age of eligibility for a pension should be the same for men and women in these contractual agreements.

1.2.2 *Providers of pension products*

Companies, company and intercompany pension funds and life insurance companies have the right to manage occupational pensions. Commitments by companies where company pensions are funded by reserves (direct entitlement to benefits) are covered in some cases by securities.

- Firstly, the employee receives benefits (insolvency loss payment) equivalent to a certain amount (12 or 24 monthly contributions) for his/her direct entitlement to benefits. The purpose of this act is to secure the employee's entitlements (financially) in the event of the employer becoming insolvent.
- Secondly, if the employer becomes insolvent the securities cover may only be used to satisfy the claims of the employees as a result of their direct entitlements to benefits, unless they have received payments from the "insolvency loss payment fund".

Pension provision funded through pension funds or life insurance policies is based on the capital cover method. These systems are described in detail in the following sections.

1.2.3 *Supervision and regulation of pension funds and life insurance*

1.2.3.1 Supervision and regulation of pension funds

The body responsible for supervising and regulating pension funds is the Federal Ministry of Finance, V/14 division. The legal basis for this is the Pension Funds Act. Supervision is essentially based on the following documents: quarterly report on asset investment, annual accounts and accounting reports for the pension fund and the investment and risk associations, actuarial audit report of the auditing actuary, business plan together with an actuarial opinion by the auditing actuary. Any other information which is required could be requested from the pension funds by the Federal Ministry of Finance. Although on-site inspections are possible, they have so far not been undertaken.

Operating a pension fund requires a licence from the Federal Ministry of Finance.

Pension funds always have two actuaries working for them, whose appointment may be refused by the Federal Ministry of Finance if there are reasons for excluding them (e.g. lack of qualification or professional experience). The actuary is employed by the pension fund. He is responsible for drawing up the business plan, calculating the actuarial reserves on the basis of the business plan and similar actuarial matters. The auditing actuary is an independent expert who is responsible for auditing the actuarial conduct of the pension fund. The business plan and any changes to it have to be confirmed by the auditing actuary and authorised by the Federal Ministry of Finance.

The claims of those entitled to expect a pension and those entitled to benefits are managed in separate investment and risk associations. These investment and risk associations have to be run independently of the assets of the pension fund plc and are afforded special protection in the event of insolvency. This arrangement ensures that even if the public limited company is liquidated the claims of those entitled to expect a pension and entitled to benefits are secured. As the pension is paid by the pension fund the employer's insolvency risk cannot have any effect.

Specific rules apply in some cases to the auditing of pension funds. The role of the auditor is more or less the same as in commercial law. There are special rules of disclosure which apply as a result of the separation between the plc and the investment and risk associations. The Pension Funds Act provides special rules for the auditing actuary and the audit has to be documented in an audit report which is subject to standard rules laid down in a regulation.

Pension funds are subject to a solvency margin. According to the provisions of the Pensions Fund Act, the minimum equity must be 1% of the mathematical reserves.

The investment of pension funds is regulated by law. At least 40% of the assets have to be invested in bonds, mortgage bonds, credits, loans, etc., denominated in euro (since 1 January 1999, where none of the currencies of EMU member states is worth more than foreign currencies). This category also includes investments in capital funds where the fund provisions make it compulsory for more than 50% to be invested in the above mentioned assets. A maximum of 40% of the assets may be invested in stocks and similar securities. Within this ceiling, a maximum of 25% of the assets may be invested in stocks and securities if they are denominated in foreign currency. Investments in buildings and property are allowed up to a maximum of 20% of the assets and within this ceiling 10% may be invested in buildings and property located abroad. The total foreign component (securities and buildings and property) is limited to a maximum of 45% of the assets. There are additional upper limits for specific individual risks. There is no currency-matching requirement. The investments have to be valued at their market value. A fluctuation reserve has to be created to offset the gains and losses from the investment and from the technical result. Precise rules are laid down in the Pension Funds Act governing allocations to and liquidation of the fluctuation reserve and the ways in which it is managed.

1.2.3.2 *Supervision and regulation of life insurance companies*

The body responsible for supervising and regulating life insurance companies is the Insurance Supervisory Authority, Group V/D in the Federal Ministry of Finance. The basis for this is the Insurance Supervision Act, in which the Life Insurance Directives are also translated into Austrian law. Supervision is based on documents submitted by the life insurance companies, in particular the annual accounts, the report of the actuary in charge and additional statistical data, especially periodic reports on the capital investments.

On-site inspections are made on a regular basis.

Every insurance company which offers life insurance has to appoint an actuary, and a deputy, who is responsible for that division of the business. The actuary in charge has to prepare an annual report for presentation to the Insurance Supervisory Authority together with the annual accounts.

The actuary in charge also calculates the technical provisions according to actuarial rules in accordance with the actuarial tariff basis submitted to the Insurance Supervisory Authority. This actuarial basis represents part of the company's business plan.

The solvency margin for life insurance companies currently also applies to group insurance, which comes under the Second Pillar of pension provision, and has to be created in accordance with the regulations of the Insurance Supervision Act on the basis of the Life Insurance Directives.

The investment of assets by life insurance companies is subject to the quantitative restrictions of the Insurance Supervision Act, which lays down ceilings as a percentage of the cover requirement for certain types of assets. Other limits are set for special individual risks.

Commitments which amount to more than 7% of the cover requirement have to be at least 80% currency-matched. This provision will be become much less relevant with the introduction of the euro.

1.2.4 *Taxation of pensions in the case of pension funds and life insurance companies*

1.2.4.1 *Taxation of pensions in the case of pension funds*

Employers' contributions to pension funds are deductible as an operating expense within certain limits. In contribution-based systems this limit is 10% of the total wage or salary, in benefit-based systems the entitlement must not exceed 80% of the last amount earned. The employee may

make contributions of his/her own up to the same amount as the employer and these are tax-deductible to a limited extent as special expenses (maximum income ATS 700.000 per annum, maximum amount ATS 40.000, of which only 25% is allowed). In addition, insurance tax of 2,5% of the contributions is payable. Interest and capital gains are not taxable. Pension benefits resulting from employers' contributions are subject to "normal" taxation.

1.2.4.2 Taxation of pensions in the case of life insurance companies

The employer can deduct up to ATS 4.000 per employee per annum for tax purposes for contributions to group insurance.

Contributions by the insured to pension insurances are only tax-deductible as special expenses (see above) if a pension has been agreed which is payable for at least the lifetime of the insured. Insurance tax for pension insurance is 4%. Income from pensions becomes taxable from the time when the total of the premiums collected exceeds the capitalised value of the pension commitment at the time of transfer.

1.3 Pillar 3 – Personal pensions/individual agreements

Individuals can arrange for private pensions on a voluntary basis. Life insurance companies offer personal pensions on terms which are suited to the requirements of the individual.

2. Belgium

2.1 Pillar 1 – Flat-rate/social-security pensions (pay-as-you-go/funded)

2.1.1 Introduction

It is compulsory for all employees, civil servants and self-employed persons to belong to one of the State pension schemes. Civil servants are covered by a special State scheme, and employees and self-employed persons by a social-security scheme. The National Pensions Office is responsible for calculating and paying employees' pensions. Under the self-employed scheme, applications are processed by the National Insurance Institute for the Self-employed, while the National Pensions Office handles the payments. Civil servants come under the Finance Minister's Pensions Office for processing of applications and the Central Fixed Expenditure Department for payment. The National Social Security Office handles collection and distribution of the funds.

2.1.2 Funding

In 1998, the employee's contribution was 7,5% of salary and the employer's contribution was 8,86%, to which a government subsidy was added. The salary on which the contributions are based is not subject to a ceiling. Contributions for the Widows and Orphans Fund, healthcare and a special contribution to the National Social Security Office are deducted from civil servants' salaries. Civil servants' pension benefits are borne by the budget.

2.1.3 Retirement age and amount of pension

The retirement age is set at 65 for men and 61 for women. For women, however, it will be gradually increased to 65 years between now and 2009. Early retirement is possible from age 60 onwards, subject to proving a certain period of work which currently stands at 22 years and will be gradually increased to 35 years between now and 2005.

Under the employees' scheme, the full pension for unmarried persons is set at 60% of their gross earnings for their working life. That rate is increased to 75% for married persons if the spouse is not entitled to a pension. A full working life is 45 years (for a man) or 41 years (for a woman) (to be increased to 45 years by 2009): the least favourable years over and above those figures are not taken into account. Entitlement is based on 1/45 of the pension (1/41 for women) for each year taken into account.

There is a minimum pension (for a full working life, as of 1 October 1997, the minimum pension stood at BEF 424.824 for a couple and BEF 339.972 for a single person. There is also a minimum per working year) and a maximum pension (since 1981 the pension calculation has taken remuneration into account, subject to a certain ceiling: BEF 1.386.533 for 1997). Civil servants' pensions are calculated on the basis of the last five years' contributions. They are therefore much higher than those of ordinary employees. The self-employed scheme differs from those for employees and civil servants, particularly in regard to the methods used to calculate and finance the pensions.

2.2 Pillar 2 – Occupational schemes (pay-as-you-go/funded)

2.2.1 Introduction

These are non-compulsory pension schemes covering 31% of the working population. It is very often the employer who puts an occupational pension scheme in place and who determines its terms and conditions. If the employee makes a personal contribution to finance the pension plan, however, and if the plan covers all the employees, the scheme in question must be set up:

- either under a collective agreement if the company has a works council or a health, safety and workplace improvement committee;
- or, if no such structure exists, via an amendment to the staff regulations.

An employee who already has a contract of employment binding them to the employer is not required to become a member of this scheme unless the plan is established via a collective agreement; however, any employee joining the company after such a plan is created is required to become a member.

The pensions provided must be financed by means of a funding system. Paying pensions by charging them to the employer's overheads has not been allowed since 1985 other than as a hangover from the past. The employee's contributions vary depending on the scheme. On average, such an occupational pension scheme enables the beneficiary to have a pension equal to 60% of gross earnings, including the pension received from a pillar-1 scheme. For tax reasons, it is not possible to exceed 80% of the gross earnings of the last year worked. By virtue of the law of 6 April 1995, the pension commitment cannot contain any discrimination between men and women in respect of years of service provided after 17 May 1990 (other than differences warranted by the respective life expectancies of men and women). In particular, the retirement age in supplementary pension schemes must be the same for both sexes (pillar 2).

2.2.2 Providers of pension products

Occupational pension schemes are administered by specialist pension funds or insurance companies. The law does not permit employers to allocate book reserves to pensions.

2.2.3 Supervision and regulation of pension funds

Insurance companies and pension funds are regulated by the Ministry of Economic Affairs and the Insurance Supervisory Body. The latter is responsible for supervision, which it carries out by means of documentary verification and on-site inspections.

An actuary must be appointed. That actuary's duties include reporting to the Insurance Supervisory Body on the operating reserves and advising the pension fund managers in relation to financing, operating reserves and reinsurance. The method used to calculate the minimum operating reserves is defined in the regulations and must comply with a number of criteria. The operating reserves are calculated on the basis of mortality tables and a maximum interest rate of 7%.

An auditor is responsible for examining the annual report and reporting thereon to the Insurance Supervisory Body. Pension funds are subject to specific accounting rules. Assets are valued on the basis of their market value.

Since 1985, pension funds have been subject to a solvency margin requirement in relation to death and invalidity benefits; that margin is based on the capital risks insured. A draft bill currently under consideration seeks to extend that requirement to the pensions operations of the pension funds that assume performance obligations; when the bill is passed, the solvency margin will be a percentage of the pension fund's reserves. The draft bill is at present before the Minister of Economic Affairs.

The requirement for pension funds to invest 15% of their assets In Belgian government bonds is no longer enforced, and the aforementioned draft bill will formally abolish it. The bili substantially modifies the pension funds' investment rules to bring them into line with those applicable to life insurance companies by virtue of the 3rd directive.

The securities used to cover the operating reserves must be denominated in or convertible to the currency of the commitments.

Pension funds are generally non-profit-making associations which cannot become bankrupt in the legal sense of the term. If they run into financial difficulties, the regulations impose a recovery plan on them, along with other measures.

2.2.4 Taxation

Contributions to occupational pension schemes are tax-deductible for both the employee and the employer. Capital-sum pensions are taxed at a flat rate of 16,5% and annuities are taxed at the standard rate[2].

2.3 Pillar 3 – Personal pensions/individual agreements

Individuals have the opportunity to take out personal pension plans managed by insurance companies or banks. The terms and conditions applicable to such pension plans are determined on the basis of the individual requirements. These private pension schemes operate on a funded basis. Premiums paid into life insurance policies are tax-deductible under certain conditions.

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2 This is known as the EET scheme. The contributions paid into occupational pension schemes are tax-exempt, as are the interest that accrues and the capital gains realised under such schemes during the holder's working life; income tax is applied to the pensions paid upon retirement.

3. Denmark

3.1 Pillar 1 – Flat-rate/social security pensions (pay-as-you-go/funded)

3.1.1 *Introduction*

The State Pension is compulsory for all Danish citizens. It is administrated solely by the State. The State Pension is supplemented by a compulsory statutory supplementary pension scheme for employees, which is known as the labour market supplementary pension (ATP). ATP is managed by a separate fund and includes all employees, who work more than 9 hours a week, and people temporarily out of work, and on a non-compulsory basis also early retired people, and people with a disability pension.

3.1.2 *Funding*

The State pension is a pay-as-you-go pension scheme financed through indirect and direct taxes. The ATP supplementary pension is funded solely by the compulsory contributions from the employer and employee. Individual contribution amounts are graded according to the weekly hours worked by the employee.

3.1.3 *Retirement age and amount of pension*

All Danish people who have lived in Denmark for 40 years between the age of 15 and 67 are entitled to full State pension from the age of 67. It consists of a basic amount and some additional amounts, which are given on the basis of other income. ATP can be paid out from the age of 67. The paid out amount is calculated on the basis of accumulated individual contributions.

3.2 Pillar 2 – Occupational schemes (pay-as-you-go/funded)

3.2.1 *Introduction*

The Danish system of supplementary pensions is in general based on the defined contribution system. The employee and the employer pay a fixed amount of the salary each month. Thus, the variability of the return on the accumulated contributions is the risk of the employee not the employer.

In general occupational supplementary pension schemes are by collective agreements compulsory for the employee. The compulsory scheme can be based on collective agreements between employer organisations and employee organisations or on agreements made with the individual companies.

Traditionally only white-collar workers and certain civil servants have been included in occupational pension schemes. This has changed in the late eighties and nineties with the labour markets collective agreements in 1989 and 1991. Now 80% of the work force has a supplementary pension scheme. Self-employed persons are not covered by the occupational pension schemes. The contribution from the employers and the employees to the pensions is in general 9–15% of the salary.

Furthermore there is a civil servant occupational pension scheme. It is a pay-as-you-go pension scheme administrated by the state. The amount paid at retirement is calculated on the basis of seniority.

The general retirement age lies between 65 and 67, but it is possible to retire from the age of 60. There is a tendency towards early retirement.

3.2.2 *Providers of pension products*

Pension schemes are administrated by pension funds, life insurance companies or banks on a funded basis. There are two types of pension funds national occupational pension funds with the ability of covering all employees and company pension funds covering only a small a amount of companies. The company pension fund is sort of a mutual company. Pension funds have no management connection with their sponsoring companies.

About 2/3^{rds} of occupational schemes are within life insurance companies. The rest are within pension funds or banks. Usually occupational pension schemes have an element of life insurance in them. It is common that 1/3rd of the contributions are used for insurance.

3.2.3 *Supervision and regulation of pension funds*

The regulatory and supervisory body of life insurance companies and pension funds is the Financial Supervisory Authority. The Financial Supervisory Authority has the right to perform on-site inspections and file-base supervision on the basis of annual accounts, the audit book, and the report on the register of assets etc.

Pension funds are submitted to management requirements and fit and proper conditions. The conditions for appointing administrators or trustees and the roles and powers of these are set in the articles of association of the pension fund.

An actuary must be appointed by the pension funds management. The role of the actuary is to ensure that the pension fund establishes appropriate technical provisions, review the actuarial content of the pension fund's activities and secure that the technical provisions are at all times in accordance with the requirements laid down by the law. Furthermore, the actuary is responsible for any contact to the Financial Supervisory Authority including annual reports and requests of information from the Authority. The actuary is entitled to request from the board of management all such information as is necessary for the performance of his functions.

The auditor of pension funds has the same role and powers as auditors of insurance companies. There are no specific accounting standards that are designed for pension funds. However, certain rules for asset valuation do exist. Fixed income securities are valued at amortised purchase price. Other assets are mainly valued at their market price. From 1998 all assets – except fixed income securities – will be valued at market price. From 2002 fixed income securities will also be valued at market price.

Pension funds, like life insurance companies, are subject to the rules in the Third Life insurance directive[3]. That means that these companies are subject to the same rules as regards to the solvency margin and technical provisions. Concerning the investment restrictions a maximum of 50% may be invested in "high risk assets" – these include domestic equities, foreign equities and unlisted securities. At least 80% currency matching is required. In case of EU currency, up to 50% of liabilities can be covered by assets denominated in euro. Self-investment is not allowed.

3.2.4 *Taxation*

Contributions to an occupational pension scheme are not considered in the employee's taxable income. However contributions to lump-sum pension can affect tax progression. The return on tax-privileged pension contributions is not considered as taxable income for the owner of the pension scheme as long as the commitment is not paid out as benefit. However, the return on

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3 Directive 92/96/EEC

most forms of pension capital is taxable under the Danish Real Interest Tax Act (as from 2000 Yield on Pension Capital Tax Act). The tax treatment of payments from life and pension schemes depends on whether the scheme is an annuity or lump sum scheme. Annuity payments are taxed as personal income; lump payments are taxed at 40%.

3.3 Pillar 3 – Personal pensions/individual agreements

It's possible for individuals to arrange a voluntary pension. In Denmark there exist individual pension schemes administrated by the employer and individual pension schemes, which have no relation to the labour market. These pensions can have an element of insurance connected with them and are administrated by pension funds and life insurance companies.

There is no difference in the supervisory or tax treatment of pillar 2 and pillar 3 schemes.

4. Finland

4.1 Pillar 1 – Flat-rate/social security pensions (pay-as-you-go/funded)

4.1.1 Introduction

Every citizen resident in Finland is compulsorily insured under the basic State pension scheme (the so-called national pension) from the age of 16. The pension is only paid to pensioners that do not have an occupational pension scheme or whose occupational pension is low (the statutory occupational pension and the national pension are viewed as a whole). The Social Insurance Institution administers the scheme.

4.1.2 Funding

The State pension is funded on a pay-as-you-go basis. As of 1997 the employer contributes from 2,4% to 4,9% of the salary. There is no maximum salary up to which contributions must be paid.

4.1.3 Retirement age and amount of pension

The retirement age for men and women is 65. If the pension is deferred the pension is increased by 1% per month. Early retirement is possible from the age of 60. The pension is reduced by 0,5% for every month before the age of 65.

Full pension is received when the pensioner has been resident for 40 years. The pension will be reduced for every year of residence less than 40 years. The amount of pension does not only depend on years of residence, but also place of residence, family status and income from occupational pension schemes. As of 1997 the full pension is for single persons EUR 5.094 p.a. and for married persons EUR 4.466 p.a.

4.2 Occupational schemes

4.2.1 Introduction

4.2.1.1 Compulsory occupational schemes (pillar 1 in Finland)

Membership of an occupational pension scheme is compulsory. The occupational pension system is regulated by law. Different schemes apply for different categories of persons. Employees enter the compulsory occupational scheme, if they have been employed for 1 month and either earn a monthly salary of at least EUR 189 or work at least 20 hours per week.

There are occupational pension schemes on both pay-as-you-go and funded basis. The financing of the occupational scheme for employees is a mixture of pay-as-you-go and funded. Occupational pensions for self-employed and agricultural workers are financed on a pay-as-you-go basis. As of 1997, the total contribution of the employee and the employer for the compulsory pension was on the average 21,2% of the salary (21,5% in 1998). The employee contributes 4,5% of the salary (4,7% in 1998). The employer pays the remaining part of the contribution. There is no maximum up to which contributions must be paid.

The retirement age for men and women is 65. Early retirement is possible. The pension is reduced accordingly. In voluntary occupational schemes the employer may reduce the retirement age from 65 to 55 years.

The amount of benefit is calculated on the basis of years of occupation. The pension starts growing from the year of 23. For the years before 1.7.1962 an employee acquires a pension rate of 0,5% p.a. For the years following 1.7.1962 the pension rate is 1,5% p.a. From the age of 60 an employee acquires a pension rate of 2,5%. Thus, the maximum pension is 60% of the pensionable salary. The pensionable salary corresponds to the average salary of the last 10 years of occupation. There is no upper limit for the amount of pension received.

4.2.1.2 Voluntary occupational schemes (pillar 2 in Finland)

It is possible for the employer to set up voluntary occupational pension schemes. As regards voluntary pensions, the employer is responsible for at least 50% of contributions. The additional pension systems play a minor role in Finland (in 1997 the technical reserves of the pension institutions referred to in section 4.2.1.1 amounted to FIM 202 billion, whereas the technical reserves of the additional pension arrangements referred to in this section totalled FIM 40 billion). The pension foundations and funds carrying on additional voluntary pension insurance in Finland are as a rule closed, i.e. they do not accept new insurers. The pension liability of most of these institutions has already begun to decrease. Most of the pension foundations and funds are rather small and the major part of the total pension liability is concentrated in a few institutions. The pension institutions have been allowed a transitional period for the coverage of their technical reserves until the year 2010.

4.2.2 Providers of pension products

Compulsory occupational schemes (pillar I) must be arranged in one of the following pension institutions: pension insurance companies (6), pension funds (8) and pension foundations (42). An employer may set up a fund or foundation of its own if the scheme has at least 300 members.

Voluntary occupational pension schemes (pillar II) may be arranged in pension funds (15) and foundations (about 150) and in life insurance companies. An employer may set up a fund of its own if the scheme has at least 300 members and a foundation if the scheme has at least 30 members.

4.2.3 Supervision and regulation of pension funds

(This section only deals with the additional voluntary pension cover and the term pension fund in the text below refers to an additional pension foundation or an additional pension fund.)

The supervisory body, falling under the administrative sector of the Ministry of Social Affairs and Health, of insurance companies and pension funds is from 1.4.1999 the Insurance Supervision Authority. However, the Ministry of Social Affairs and Health is as before responsible for e.g. drafting of legislation concerning these insurance institutions as well as for intergovernmental issues related to this. The Insurance Supervision Authority has the power to deny a certain action, deny issuing permission to operate as a pension fund, order a penalty and has the right to attend the audit. Supervision of pension funds is done on the basis of annual accounts, actuarial statement and the statistical information received every year. The Ministry of Social Affairs and Health has the right to inspect the pension fund at any time and attend certain meetings as an observer.

The management of pension funds is not submitted to any special management requirements.

The actuaries of pension funds are to be authorised by the Ministry of Social Affairs and Health. The actuary is responsible for the measurement of liabilities and giving a statement of which impact the liabilities will have on assets.

The calculation of the technical provisions is done by the actuary, but acceptance of the Ministry of Social Affairs and Health is needed. The method includes prospective reserving of accrued pension rights (the so-called ABO-method, or Accrued Benefit Obligation -method, is used). Premiums are yearly charged as much as is needed for changes in reserves. The interest rates used at the moment maximised to 4,5%, although 4,25% is the most common rate (4,20% in 1999). In the near future the interest rate will be lowered gradually to 3,5%. Concerning the mortality predictions a Gompertz-type model is used. The parameters of the model are based on national-level mortality studies made for the statutory employment pension scheme.

The auditor of pension funds is subject to special rules. The valuation of assets is based on their acquisition price or current value. Shares and real estates, as well as bonds with certain restrictions, can be valued at their acquisition price in the balance sheet. A pension fund cannot normally become bankrupt unless the employers behind it also become insolvent, since the employers have an unrestricted liability to pay the expenses of the pension fund. If one or more employers become bankrupt, the pension fund's position as a creditor of the bankrupt's estate is prior to (until the year 2011) its other creditors.

Pension funds are not submitted to any solvency margin or guarantee requirements. There are certain rules for the investment of assets. The Decrees concerning pension foundations' and pension funds' coverage of the pension liability came into force on 31 December 1995. The purpose of these Decrees is to diversify and decentralise the assets covering the pension liability in order to reduce risks relating to investments. The Decrees prescribe maximum amounts for different kinds of assets. For instance, real property may not exceed 40% and quoted shares 30% of the cover. Investments In the European Economic Area were limited to a total of 30% of the cover so that e.g. the maximum permissible proportion of quoted shares is 20%. Derivatives may be used for hedging purposes. The currency matching requirement is 80%.

In 1991 and 1995 new coverage requirements were made of pension foundations to the effect that the pension liabillty for retired persons hall be covered wholly by the year 2004 and that for active persons by 2010. There are no other solvency requirements in force at the moment for voluntary occupational pension funds.

Additional group pension insurances under pillar II that are arranged in life assurance companies are governed by the EU provisions concerning life assurance companies.

4.2.4 Taxation

The employer's contributions to occupational pensions are tax-deductible. The contributions of the employee are tax-deductible up to 10% of the annual salary (1997). The benefits are taxed as normal income. The conditions for this treatment are that the pension is not paid out before the age of 58 and that the contributions do not exceed the maximum tax deduction limit of EUR 7.500 p.a. This limit can be exceeded, if the employee gets a certificate from the tax authorities. The maximum tax deduction limit is then increased to EUR 8.333 p.a. Premiums paid by a private individual into a life insurance savings policy (except the aforementioned pension policies) cannot be deducted from taxable income. The proceeds from the insurance are considered as taxable investment income after deduction of the premiums from the capital sum due. The remaining amount is taxed at 28%.

4.3 Pillar 3 – Personal pensions/individual agreements

Individuals can arrange for private pensions. Insurance companies administer these. The conditions of the private pension are fixed up to the individual requirement. Private pension schemes are operated on a funded basis.

5. France

5.1 Pillar 1 – State pension scheme (pay-as-you-go)

5.1.1 Introduction

All employees are compulsorily covered by the social-security pension system, which provides schemes in three categories: private-sector employees' schemes (general scheme, agricultural workers' scheme), public-sector workers' and similar schemes (special schemes, including those of the RATP, SNCF, EDF/GDF, civil service, etc.), schemes for self-employed persons (artisans, shopkeepers, farmers, professionals, etc.). The general social-security scheme is managed by the National Old-Age Insurance Fund (*Caisse nationale de l'assurance vieillesse et des employés salariés* (CNAV)). The other schemes are managed by other social security departments.

5.1.2 Financing

The financing method, based on the pay-as-you-go principle, varies according to the scheme. In 1997, total pension contributions amounted to 16,35% of salary, with 8,2% paid by the employer, a further 1,6% also paid by the employer, with no upper limit, and 6,55% paid by the employee.

5.1.3 Retirement age and amount of pension

The retirement age and amount of pension also vary depending on the scheme. Virtually all basic schemes and the special schemes for public-sector workers (whose basic and supplementary schemes are combined) are schemes based on years of pensionable service. With the exception of the miners' scheme, these schemes guarantee a fraction of the income used as a basis for contributions. The general scheme guarantees employees aged at least 60 who have completed 155 insurance quarters a fraction (50%) of the average annual salary on which contributions were based during their 15 highest-paid years. The basic schemes for artisans, shopkeepers and agricultural workers are aligned on this method. Under the terms of a reform initiated in 1993, the qualification period is to be extended from 150 to 160 quarters, thus enabling a pension to be paid at the full rate of 50% from age 60. In addition, the period used to determine the average annual salary used as a basis for calculating the pension is to be extended from 10 to 25 years. These two measures, first implemented on 1 January 1994 and applicable to the generations born from 1 January 1994 onwards, will be introduced gradually.

5.2 Pillar 2 – Occupational pension schemes (pay-as-you-go/funded)

5.2.1 Introduction

In France, it is compulsory for all private-sector employees to belong to an occupational pension scheme. These schemes, which operate on a pay-as-you-go basis, guarantee employees a supplementary pension proportionate to their salary. Non-managerial staff are covered by the ARRCO scheme, and managers by the AGIRC scheme.

The AGIRC and ARRCO schemes are financed on the pay-as-you-go principle. Contributions to ARRCO amount to 6,5% of salary, with the employer paying 3,75% and the employee 2,5%. Contributions to AGIRC are somewhat higher, with both the employer and the employee paying 8,75% of salary.
The amount of the pension is calculated using a points system. The contributions are converted into points and the amount of the pension depends on number of points obtained. The difference

between the ARRCO and AGIRC schemes resides in the amount of the pension as a proportion of income.

The combined amount of a private-sector employee's basic pension and compulsory supplementary pension varies considerably depending on the employee's career profile and earnings level. It is in the region of 70% of the average wage for blue-collar and white-collar workers.

It should be noted that it is the intention of France to bring the ARRCO and AGIRC schemes within the scope of Regulation (EEC) No 1408/71 coordinating social security schemes. The Regulation is due to be implemented on 1 January 2000.

There are also some voluntary supplementary schemes. These are occupational schemes or, usually, company schemes, and their benefits supplement the compulsory basic and supplementary schemes. They are organised collectively and cover all the workers in the firm or in a certain group (e.g. managers). They may represent commitments on company balance sheets, be managed by institutions providing additional pensions (scheme discontinued in 1994) or – in the main – give rise to contracts being taken out with bodies covered by the Insurance Directives. However, a small proportion of private-sector employees are covered by such schemes.

Lastly, there are some voluntary occupational plans for civil servants and certain self-employed persons and farmers which are also managed within institutions covered by the Insurance Directives. Self-employed workers also have specific schemes which operate on either the pay-as-you-go principle or the funding principle.

5.2.2 Pension providers

The compulsory supplementary pension schemes are managed by pensions bodies which are members of either ARRCO or AGIRC. These pensions bodies are themselves jointly managed by the employer and employee organisations. Management of the voluntary occupational pension schemes is either autonomous or delegated to insurance companies.

5.2.3 Supervision and regulation of insurance companies and pension funds

The supplementary pension schemes are regulated by the Social Security Minister. The supplementary pensions bodies are supervised by the Audit Office (Cour des Comptes) and the Social Affairs Inspectorate. As pensions institutions are financed in accordance with the pay-as-you-go principle, the prudential rules and supervisory methods are not comparable to those applied to occupational pension schemes operating on the funding principle. For provident institutions and mutual societies subject to the Mutual Insurance Code, the regulatory authority is the Social Security Minister and the supervisory body is the Supervisory Body for Mutual Societies and Provident Institutions. For life assurance companies subject to the Insurance Code, the regulatory authority is the Minister for Finance and Economic Affairs (Treasury Department) and the supervisory body is the Insurance Supervisory Body.

5.2.4 Taxation of pensions

Employers' and employees' contributions to these occupational pension schemes are tax-deductible. From a fiscal standpoint, the benefits are deemed to be part of personal income.

5.3 Pillar 3 – Personal pension plans/individual agreements

Individuals may contribute to personal pension schemes according to their own requirements. These products are marketed mainly by life assurance companies. Under regular-premium life assurance policies, which are very clearly defined, individuals are granted tax relief in respect of the premiums.

6. Germany

6.1 Pillar 1 – State Pension Provision in the form of a Flat-Rate Pension (pay-as-you-go)

6.1.1 Introduction

For the bulk of the population in Germany there is collective compulsory insurance which is provided by various federal and regional pension institutions. Workers, farmers, etc. are compulsorily insured under different pension schemes. Some self-employed people, such as tax consultants, lawyers, doctors, etc. are insured compulsorily in pension schemes provided by professional associations. These associations have the legal constitution of a public-law institution or corporation. Employees who are insured with a professional association are exempted from compulsory insurance under the state scheme.

6.1.2 Funding

The state pension is funded on a pay-as-you-go basis. Under the statutory pension insurance scheme for wage and salary earners the contribution rate is 19,5% of the employee's income; the employer and the employee each pay half. In 1999 the monthly limit for assessment of contributions was EUR 8.500/7.200 in the old/new Länder. Pensions for civil servants are funded exclusively by the State. The benefits provided by professional associations are funded on the basis of certain modified principles. Usually the employee and employer contribute on an equal basis, as with the state scheme. For unemployed people their contributions to the state pension scheme are paid from funds from the Federal Labour Office, which in turn come from contributions to unemployment insurance.

6.1.3 Retirement age and amount of pension

The legal retirement age is 65. However, the law allows certain groups of people (women, the unemployed, the seriously disabled, people who have paid contributions for many years) to draw a pension early. A reduction in the pension if it is drawn early is being gradually introduced. The possibility of early retirement is being standardised for men and women in the long term.

Under the statutory pension insurance scheme all those who are compulsorily insured are entitled to a pension calculated on the basis of the years of contribution and the level of the contributory income. The pension of a person with 45 years of average earnings is about 70% of the current average net income. Depending on the number of years of service, civil servants receive about 75% of their last gross salary

6.2 Pillar 2 – Occupational Pension Schemes (pay-as-you-go/funded)

6.2.1 Introduction

Occupational pension schemes which supplement the state pension in Germany are based on the initiative of the employers. The schemes are offered voluntarily. Occupational schemes based on collective agreements are rare, in other words the employer is not normally obliged by statutes or collective agreements to set up a company pension scheme. The proportion of employees covered by an occupational scheme varies considerably from one industry to the other. In the public sector all wage and salary earners are covered by occupational schemes.

There is no fixed age at which an occupational pension becomes payable. As a rule, however, payments begin at the latest at the age of 65.

6.2.2 *Providers of pension products*

In Germany there are four different forms of occupational pension provision: direct entitlement, pension funds, support funds and direct insurance. In large enterprises direct entitlement is the main way of financing pension schemes. Direct insurance is, however, becoming more and more popular for small enterprises. About 50% of the labour force are covered by occupational pension schemes but the numbers are falling. As far as employees are concerned, the larger the company, the more likely you are to receive a supplementary pension.

The most common form of occupational pension is *direct entitlement*. In this case, when benefits are paid by the employer they are paid directly to the employee from company funds. For this purpose the employer sets up appropriate provisions in the balance sheet during the qualifying period. The provisions reduce the taxable profit without having an adverse effect on the company's liquid assets. Once the entitlement becomes due, the provisions have to be liquidated, which has the effect of increasing profits; the direct payments, on the other hand, reduce the profits. Unlike pension funds, no capital is accumulated externally, but instead it remains within the company. There is no legal separation of assets. Investment of the company's assets is not subject to any restrictions but it is compulsory for the company to insure against insolvency. Although the employee does not make any contributions, he/she acquires a legal right to benefit from the scheme while the employer bears the investment risk. This type of occupational pension scheme can therefore be described as a defined-benefit scheme.

Pension funds are legally independent entities which are usually established by one or more employers with the aim of accumulating capital to pay future pensions. Capital is accumulated within the pension fund and is subject to insurance supervisory regulations. The employer's contributions are considered as business expenses. With this form of occupational pension scheme employees often have to make contributions. Employees acquire a legally protected right to benefit from the scheme and it can therefore be described as a defined-benefit scheme.

Direct insurance is established when the employer takes out life insurance with an insurance company in favour of the employee. The employer, as the insured party, is responsible for payment of the premiums and these payments can be claimed as business expenses. The employee has the option of paying in additional premiums. The insurance companies are covered by the Law on Supervision of Insurance Companles and come under the scope of the Third Life Directive with respect to solvency margins and restrictions on investments. There is no additional insolvency insurance.

Support funds do not confer any legal right to benefits of a certain amount. For this reason support funds are also not subject to insurance supervision and insolvency insurance is compulsory. Some support funds are additionally covered by the employer through reinsurance with a life insurance company or a pension fund. Owing to the lack of legal entitlement, payments by the employer to the support fund are not fully deductible as business expenses until the benefits become due.

6.2.3 *Supervision and regulation of pension funds*

The regulatory body for life insurance companies (including pension funds) is the Federal Ministry of Finance and supervision is the responsibility of the Federal insurance Supervisory Office or the relevant regional supervisory authority. Supervision of the pension funds is based on examination and, if necessary, approval of the documents to be submitted. These include the articles of association, the general insurance terms, the technical operating plan with the rules for calculating the premiums and premium reserves, including the calculation bases and mathematical formulae used, as well as the specific calculations which are conducted at regular intervals and all external and internal accounting documents. On-site inspections of the entire business operations of pension funds are possible. Any amendments to the articles of association, the general insurance terms and the technical operating plan have first to be

examined and authorised before becoming effective. Pension funds that are of major economic importance (deregulated pension funds) are exempt from the prior authorisation requirement in respect of the technical operating plan and the general insurance terms for new policies and are treated as undertakings covered by the Third Life Assurance Directive.

The management of pension funds is subject to certain regulations. When appointing members of the boards, actuaries and trustees certain requirements have to be satisfied with regard to professional qualification and trustworthiness.

There is a mandatory appointment procedure for actuaries of pension funds. They must ensure compliance with the relevant statutory provisions for the calculation of premiums and technical provisions (premium reserve), checking at the same time whether it is guaranteed that the contracts can be fulfilled at any time on a permanent basis and that sufficient funds are available to cover the solvency margin. Furthermore, they must submit proposals as to how the fund members can have a reasonable share in the surplus and these have to be agreed with the competent supervisory authority (this does not apply to deregulated pension funds).

Calculation of the premium reserve for pension funds is the same as for ordinary life insurance companies. However, their specific character means that special features are allowed, depending on how the basic contract is set up, such as average contributions, balance sheet adjustments and collective assumptions of risks. The maximum interest rate for calculation of the premium reserve is currently still 4%. Special probability tables are available to suit the particular requirements of pension funds.

Pension funds are in principle subject to the same requirements concerning accounting and auditing as life insurance companies, although in individual cases exemptions and relief are provided in view of the nature and scope of the business in question.

Although the Third Life Directive does not actually cover pension funds, essential elements of this Directive are also applied to pension funds in Germany because they provide services which are comparable with those provided by ordinary life insurance companies. This means that pension funds are basically covered by the same regulations as life insurance companies. As from 1999 pension funds will, in particular, have to meet the same solvency requirements as other life insurance companies. The solvency margin will then be up to 4% of the premium reserve or 0,3% of the risk capital, where the minimum guarantee fund is exceeded.

As far as the investment of assets is concerned, a quantitative approach is used in most cases. Capital investments are only allowed if they comply with the requirements of the Law on Supervision of Insurance Companies. Restricted assets can only be invested, depending on the type of insurance business and the structure of the company, on the basis that maximum security and profitability is achieved with a reasonable mixing and spreading of investment, while maintaining the liquidity of the insurance company at all times.

A number of assets, which the law classifies as higher-risk investments, may only be included in the restricted assets up to a certain percentage. In view of the complexity of the existing arrangements, in this study it is only possible to point out the main aspects: for interests in companies which are located in the EC there is an upper limit of 30%, which may be extended by 5% to a maximum of 35% by claiming a specific opening clause. Once the opening clause has been used, it cannot be used for other investments.

A specific quota of 10% applies to interests relating to one company.

The quota for property and real estate funds is 25%, for investments in non-member countries the quotas are 6% for non-EU shares and 5% for non-EU bonds. Where the restricted assets cover technical provisions resulting from risks covered in the European Community or from life insurance policies taken out in the Community, a maximum of 5% of the "premium reserve stock" (separate part of the restricted assets) and 20% of the remaining restricted assets may be placed in countries outside the European Community.

In principle there is a currency-matching requirement but this does not apply provided neither the premium reserve stock assets nor the remaining restricted assets to be invested exceed the quota of 20% of commitments in a particular currency respectively.

6.2.4 Taxation

Where pension funds or direct insurance are used to finance occupational pension schemes, the payments or premiums paid by the employer are tax-deductible as business expenses. As far as the employee is concerned, they are considered as taxable income. They are taxed at 20% up to a ceiling of DEM 3.408, which may be as high as DEM 4.200 in exceptional cases. In the case of direct entitlements or entitlements through support funds the benefits due are fully taxable as subsequent wages. The employee is not taxed during the qualifying period.

6.3 Pillar 3 – individual Provision

In principle any form of private assets may be used to secure a reasonable standard of living in old age, although there are, of course, differences in the appropriation, period in which the capital is tied up, opportunities and risks. In addition to life insurance policies, shares and share-based investment funds, it is primarily real estate and other investment funds, fixed-interest securities and long-term bank deposit accounts which are suitable for pension provision. Property, which directly covers a major part of the cost of living in old age and is inflation-proof, is by far the most important form of private provision. Real estate represents two thirds of private assets, compared with life insurance, for example, which represents only 7%. In 1993 about 80% of employee households had a life insurance policy.

A significant part of the standard of living in old age is already secured by private assets. For the present generation of pensioners, the total of all benefits from the state pension, occupational pensions and private old-age, surviving dependants and disability provision is broken down as follows (status 1995):

- about 8% corresponding to amounts paid out by life insurance companies in the event of a claim, and
- about 14% corresponding to pensioners' income from monetary and property assets, i.e. interest, dividends, rental income and the rental value of residential property which they use themselves,

  making a total of about 22% from private provision (3rd pillar);

- about 7% corresponding to pensions from occupational schemes, including supplementary provision by the public sector (2nd pillar), and
- just over 70% corresponding to income benefits from the state pension, civil servants pension scheme, Farmers' Pension Funds and statutory accident insurance (1st pillar).

7. Greece

7.1 Pillar 1 – state pension scheme (pay-as-you-go/funded)

7.1.1 Introduction

The state pension scheme forms part of the wider social security system that covers the entire labour force against the risks of old age, sickness, invalidity, unemployment, etc. it is governed by a number of statutory and compulsory rules under which either the basic pension or a supplementary pension (basic component and supplementary component, both compulsory) are granted.

The independent funds cover:

- private-sector employees (general scheme – IKA – and special schemes, in particular for employees in the banking and press sectors, etc.)
- public-sector employees and those treated as such (in particular, special schemes for the civil service, public enterprises, etc.)
- the self-employed (standard scheme for craft workers, shopkeepers, automobile workers, special schemes for the professions)
- seamen, and
- farmers.

Special supplementary pension schemes (statutory and compulsory) cover all the above categories of workers (employed and self-employed) except seamen and farmers.

The main scheme providing the basic pension for employees is IKA. The corresponding supplementary scheme, which is both statutory and compulsory, is TEAM and covers all IKA members who do not contribute to another supplementary scheme.

7.1.2 Financing

The general state pension scheme and the supplementary pension scheme are financed on the pay-as-you-go principle. In 1998, the IKA contribution, for persons insured before 31 December 1992, was 20% of annual salary, of which 13,33% was paid by the employer and 6.67% by the employee; the monthly ceiling was set at Ecu 1.680 (GRD 524.250). Following the 1992 reform, for persons insured for the first time as from 1 January 1993, the contribution is 30%, of which 13,33% is payable by the employer, 6,67% by the employee and 10% by the State. There is no longer a ceiling on the salary used as the basis for calculating the amount of contributions. The contribution rate for TEAM, the supplementary pension scheme, is 3% for the employee and 3% for the employer.

7.1.3 Retirement age and amount of pension

For persons insured before 31 December 1992, the retirement age is 65 for men and 60 for women. Following the 1992 reform, the retirement age for persons insured as from 1 January 1993 is 65 for both men and women. It is possible to take early or deferred retirement.

The pension amount is made up of a basic pension and a supplementary pension. For persons insured before 31 December 1992, the basic pension, representing a percentage of the notional reference wage, ranges from 70% to 30%, in inverse proportion to the size of the wage. The notional wage is the one laid down for each of the 28 classes of insurance matched by the average gross wage in the 5 years preceding retirement (the classes of insurance set a ceiling above which the average gross wage in the last five years is not taken into account for calculating the pension). For persons insured as from 1 January 1993, the pension amount is based on the number of years of insurance. Each year is equivalent to 1,714% of the income conferring pension entitlement. Wages during the last 5 years are taken into account to calculate the pension. The amount of the supplementary pension is calculated on the basis of the number of years for which contributions were paid. Both the basic pension and the supplementary pension are increased for dependants.

(Source: MISSOC Situation at 1 January 1998 and developments)

7.2 Pillar 2 – occupational pension schemes (pay-as-you-go/ funded)

7.2.1 Introduction

In Greece, occupational pension schemes are optional and are not very common, given that they cover only 5% of the working population. Only the large national or multinational companies offer occupational pension schemes. The amount of the pension depends on the pension plan taken out. Contributions are determined in accordance with the type of plan; most of these schemes are financed solely by the employer, however.

7.2.2 Pension providers

Occupational pension schemes are usually managed by life assurance companies under a deposit management contract.

7.2.3 Supervision and regulation of pension funds

The supervisory body for life assurance companies is the Ministry of Development. Supervision is carried out by means of documentary verification, but on-site inspections are also possible.

7.2.4 Taxation of pensions

Employees' and employers' contributions are deductible from income. Capital gains and interest are tax-exempt. Pensions are taxed in the same way as an individual's normal income. Employers' contributions to life assurance policies are tax-deductible up to a limit of 5% of annual wages. The benefits paid under such policies are tax-exempt.

7.3 Pillar 3 – personal pension plans/individual agreements

It is possible to take out a personal pension plan with a life assurance company on terms and conditions agreed between the parties.

8. Ireland

8.1 Pillar 1 – Flat-rate/social security pensions (pay-as-you-go/funded)

8.1.1 *Introduction*

The State pension system in Ireland consists of a compulsory contribution scheme and a non-contributory scheme.

8.1.2 *Funding*

The Irish State pension system is funded on a pay-as-you-go-basis through current tax revenues.

8.1.3 *Retirement age and amount of pension*

At the age of 66, Irish citizens are entitled to a contributory pension, based on social insurance, of IEP 83,00/EUR 105,93 per week and an additional IEP 52,50/EUR 66,60 per week for a qualified adult dependent. Those who do not have sufficient social insurance contributions to qualify for the contributory-based pension and who satisfy a means test are entitled to a non-contributory pension of IEP 72,50/EUR 92,06 per week with an additional allowance for a qualified adult dependent of up to IEP 41,20/EUR 52,31. Increases are also paid in respect of dependent children.

The rates of pension payments are increased in line with annual Budgetary improvements.

8.2 Pillar 2 – Occupational schemes (pay-as-you-go/funded)

8.2.1 *Introduction*

The Irish occupational pension system consists of different types of voluntary schemes. There is no legal obligation for an employer to set up an occupational pension scheme, even though it is becoming more and more common. At the moment, 52% of all employers in Ireland provide an occupational pension scheme for their employees. 50% of the working population is covered by occupational pension insurance. The Government is committed to increasing supplementary pension cover, over time, to 70% of the workforce.

The occupational pension system includes both defined benefit and defined contribution schemes. The maximum pension limit set by the Revenue Commissioners for schemes to be approved is 2/3rds of final taxable remuneration provided there has been 10 years' service at normal pension age. This maximum is reduced for service less than 10 years. The maximum applies to both defined benefit and defined contribution schemes.

In defined contribution schemes employees normally contribute an amount related to salaries or wages while the employer will contribute the balance of the cost necessary to meet the benefits promised. In non-contributory schemes the employers contribute the full cost.

8.2.2 *Providers of pension products*

Normally investment funds (pension funds) administrate whole schemes which means pension schemes including several companies. These private schemes are on a funded basis. Public service schemes run on a pay-as-you-go basis.

8.2.3 *Supervision and regulation of pension funds*

The regulatory body of life Insurance companies and pension funds is the Department of Enterprise, Trade and Employment. Life assurance companies are regulated and supervised under the Insurance Acts and Regulations on their overall life assurance business, which would include any pension arrangements provided by the companies. Such pension arrangements can be in the form of personal pension policies, payment of annuities or group pension policies.

The Insurance Regulations are based on the EU Life Assurance Directives and set down provisions, in relation to life assurance business in general (including pensions business), for the diversification of assets, the prudent valuation of assets and liabilities and the holding of a solvency margin. The calculation of the technical provisions is done on the basis of Actuarial standards and principles, in accordance with Article 18 of the EU Third Life Assurance Directive. Each life assurance company must appoint an Actuary who has statutory responsibility for undertaking an annual actuarial investigation of the life assurance company. Life assurance companies are subject to normal Companies Act requirements in relation to the audit of accounts.

Occupational pension schemes which are not insured schemes are regulated by the Pensions Board in accordance with the provisions of the Pensions Act. However, group pension schemes provided by life assurance companies are regarded as occupational pension schemes and, therefore, the Pensions Act applies to such schemes in addition to the Insurance Regulations. Life assurance companies can also manage, independent of their life assurance business, assets on behalf of a private occupational pension scheme and the Pensions Act would likewise apply in such cases.

8.2.4 Taxation

In Ireland the contribution from employers and employees to occupational pension schemes are tax-deductible. The investment income and capital gains are exempt from taxation. Furthermore, lump-sump payments are to some extent tax exempt. Pensions beside lump sums are subject to conventional income tax.

8.3 Pillar 3 – Personal pensions/individual agreements

Individuals can arrange for private pensions to make provisions for their own retirement and for their dependants on their death. Tax treatment of these schemes is similar to the treatment of occupational schemes.

9. Italy

9.1 Pillar 1 – Flat-rate/social security pensions (pay-as-you-go/funded)

9.1.1 Introduction

The reform process begun in 1993 with law No. 421/1992, and clarified in 1995 by the law of 8 August 1995 (No. 335), radically changed the public pensions system by defining the scope and objectives of the system's three components: assistance, basic pension, supplementary pension.

The reform gradually extends the general scheme's rules to the various pension schemes, with regard to both contributions (rates and ceiling) and benefits (age and calculation criterion).

9.1.2 Funding

The introduction of the contributory system for pensions calculations (see 9.1.3) was accompanied not by the adoption of a real funding system but merely by "fictitious funding". The individual amounts only exist from an accounting perspective: the system continues to operate on a pay-as-you-go basis, since the contributions paid each year are used to pay the benefits allocated.

The contribution rate is set at 32,70% of the annual remuneration, 8,89% of which is paid by the employee. A remuneration ceiling for contributions has also been introduced. In 1997, that ceiling stood at around Ecu 70.754,595. It is revised each year in line with the variations in the cost-of-living index.

9.1.3 Retirement age and amount of pension

The contributory system has been adopted for benefit calculation. The benefits are the result of the product of the amount of the contributions paid throughout the beneficiary's working life (revalued in line with the GDP variations over the previous 5 years) and actuarial factors calculated on an ad hoc basis, which vary depending on the age of the beneficiary.

The retirement age is flexible, between 57 and 65 years. Now that the contributory system has been adopted, this means that the factors used to convert the amount of the contributions to a pension will be more favourable for those who are older, given that they have a lower life expectancy. The pension is provided on the basis of at least 5 years' contributions.

9.2 Pillar 2 – Occupational schemes (pay-as-you-go/funded)

9.2.1 Introduction

The new regulations on supplementary pensions were ratified by the legislative decree of 21 April 1993 (No. 124), modified by law No. 335/1995.

As pension funds have contractual status, the institution is created on the basis of collective negotiations. The law allows supplementary schemes to be created at several levels: company or group of companies, industrial sector, groups of companies at a regional level. The establishment of a pension fund is not compulsory, and membership of the fund is also voluntary, even for the employees.

To ensure that everyone involved in the productive process has proper access to cover, the new law makes provision, in addition to funds of a contractual nature, for "open funds" set up by banks, insurance companies or brokerage firms, to which employees for whom ad hoc funds have not been created can belong.

The legal status of the pension funds excludes them from the purview of the third "life insurance" directive.

Pension funds must be managed on an individually funded basis. The criterion used to calculate the employee's benefits is simply that of the defined contribution. The defined-benefit formula is also accepted for the self-employed. Schemes based on book reserves and pay-as-you-go schemes are not allowed.

Responsibility for financing the pension funds rests with the employer and employee organisations. The level of the contributions and the possibility of using a portion of the amounts earmarked for career-end compensation (TFR)[4] are determined as prescribed by law. Employees initially recruited after 28 April 1993 must apply the entire TFR contribution (6,91%) to financing of the pension fund put in place.

The benefits are calculated on the basis of the amount of the contributions paid and the yield achieved by the fund. It is also possible to make provision for a guaranteed rate of return. The retirement age is that of the basic scheme, but benefits can be paid at an age up to ten years lower than the normal retirement age if contributions have been maintained for at least 15 years.

Beneficiaries may take up to 50% of their total pension amount as a lump sum.

The benefits may be revalued periodically and it is also possible to make provision for benefits to be paid in the event of invalidity and/or widowhood, provided that cover for such benefits is provided by an insurance policy.

Withdrawal from a pension fund before the right to benefits has been acquired is permitted when:

- the fund's membership conditions are no longer met (resignation, dismissal). The amount representing the individual's accrued benefits can either be transferred to another fund or paid directly to the employee;
- the fund's membership conditions are still being met, but the employee decides to change funds. The amount representing the individual's accrued benefits cannot be returned to the employee, but must be transferred to the other pension fund.

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4 Career-end compensation, known as the TFR ("Trattamento di Fine Rapporto"), was previously used to enable employees to build up an annual reserve fund financed by the employers via a contribution equal to 7,41% of salary. The fund, which is revalued each year on the basis of the variation in the cost-of-living index, is managed by the employer throughout the employee's working life, and an employee can only receive benefit in the form of a lump sum upon retirement. It therefore also constitutes a form of "self-financing" for the company.

9.2.2 Asset management

The funds are not authorised to manage the assets directly. They are required to enlist the services of an external entity (bank, insurance company, brokerage firm or unit-trust management company), with which they must enter into a special agreement.

The funds entrusted to management must then be deposited at a bank distinct from the fund manager, which shall be required to carry out the latter's instructions after verifying their legitimacy.

9.2.3 Administrative management and supervision of pension funds

The administrative and supervisory structures must be composed of equal numbers of representatives elected by the employees and representatives appointed by the company. If the pension fund is set up solely by employees (as in the case of self-employed workers), they are represented by the relevant structures.

In any event, pension fund administrators and supervisors must meet conditions of competence and integrity similar to those established for brokerage firms.

Pension funds are subject to the scrutiny of a Supervisory Commission which has validatory, management control, inspection and disciplinary powers. The Commission has established specific accounting regulations for pension funds.

It is not stipulated that an actuary must be appointed to the fund, and calculation of operating reserves is not imposed. This is mainly explained by the fact that the defined-contribution system has been adopted.

Decisions regarding the financial management of the fund's assets are entrusted to the fund's administrators in accordance with criteria established by the law. Those criteria relate mainly to the spreading of risks and any problems arising out of conflict of interest.

The management of the funds is systematically monitored by the Supervisory Commission, which can give permission for the investment limits to be exceeded on a temporary basis.

9.2.4 Taxation

1) in relation to contributions

The contributions paid to a pension fund are non-taxable, provided that they are below the following limits:

- the employer's contribution: 2% of annual earnings, subject to a ceiling of EUR 1.291.142. A "solidarity contribution", set at 10% of the employer's contribution, is also collected for allocation to the general basic pension scheme;
- the employee's contribution: 2% of annual earnings, subject to a ceiling of EUR 1.291.142;
- the portion of the TFR allocated to the fund is totally non-taxable.

The employer's and employee's contributions are non-taxable if a portion of the TFR at least equal to that of the contributions has been allocated to the pension fund. This means that if the employer and employee organisations fix the contribution rate at 1% of remuneration, they must also pay at least 1% of the TFR into the fund. For the employees, therefore, the maximum contribution that can be paid into a non-taxable pension fund is equal to 10,9%;

- self-employed person's contribution: 6% of annual earnings, subject to a ceiling of EUR 2.582.284.

2) in relation to benefits

Only 87,5% of the benefits received in the form of an annuity are taxable, and lump-sum benefits also qualify for reduced taxation.

3) in relation to the pension fund itself

All funds are subject to a tax fixed at EUR 5.164.569 per annum, which is reduced to 50% for the first five years of the fund's operations. A tax equal to 0,50% of the value of the real-estate assets is also applied.

9.3 Pillar 3 – Personal pensions/individual agreements

At the present time, pillar 3 relates exclusively to benefits provided through individual insurance policies, but a draft bill is under consideration with a view to creating "Individual Pension Plans" which could also be administered by banks and brokerage firms.

The tax treatment applied to insurance policies is no doubt less favourable than that applied to pension funds. The premiums are taxed at the rate of 2,5%, and 19% of the premiums paid are tax-deductible, subject to an annual ceiling of EUR 1.241.142.

60% of the benefits taken in the form of an annuity are subject to income tax, while benefits taken in the form of a lump sum (almost all) are subject to a special tax: 12,5% applied to the difference between the premiums paid and the lump sum received.

10. Luxembourg

10.1. Pillar 1 – Flat-rate/social-security pensions (pay-as-you-go/funded)

10.1.1 Introduction

The social-security pension scheme applies to citizens who are in work or who have taken out a policy voluntarily. The maximum amount for contributions and benefits is five times the statutory minimum wage, which today corresponds to a monthly amount of LUF 231.374. The pensions provided under this scheme consist of an element based on the contributions paid previously and a lump-sum element.

10.1.2 Funding

The scheme is based on the pay-as-you-go principle. The State, the employer and the employee each contribute an amount equal to 8% of the annual salary, making a total of 24%.

10.1.3 Retirement age and amount of pension

The retirement age is set at 65 for both men and women. It is possible, however, for an employee who has maintained contributions for 40 years to receive a pension from age 57 onwards. A scheme member who can show 40 years of effective or additional reduced cover periods can claim an early pension from age 60 onwards. The pension is reduced by half, or even withdrawn, if the pensioner is engaged in employment which pays more than one-third of the statutory minimum wage, set at LUF 15.425 per month. The pension is paid in full with effect from age 65, regardless of whether the recipient has another source of income. It is also possible to defer the retirement age to 68, in which case the amount of the pension will be increased by an actuarial factor.

The amount of the pension depends on the number of years on which it is based and the contributions paid. The proportionate additions accrue at the rate of 1,78% of the qualifying earnings. The flat-rate additions after 40 years of contributions amount to 22% of the reference amount. The flat-rate additions are applied at the rate of one fortieth per year of cover, and their total number cannot exceed 40. The pensions are indexed to the cost of living and adjusted in line with pay trends. On average, the pension is equal to 60 to 70% of the last salary in respect of which contributions were paid. This rate is reduced for high salaries, on account of the contributions ceiling.

10.2 Pillar 2 – Occupational schemes (pay-as-you-go/funded)

10.2.1 Introduction

At the present time, occupational pension schemes are only implicitly regulated by the tax laws. 17,2% of the working population (1995 figure) are covered by such occupational pension schemes, which are not related to their salary. Most are fixed-benefits schemes, but fixed-contributions schemes also exist. The retirement age is left to the employer's discretion and is often higher than that of the general scheme.

10.2.2 Providers of pension products

Occupational pension schemes are managed by life insurance companies, pension funds or the companies themselves through the book-reserves system. Pension funds are not common, however, due to the unfavourable tax treatment they receive and the fact that, from a prudential standpoint, they are treated in the same way as insurance companies; this is why the book-reserves system is the most widely-used solution. Moreover, schemes of this type are not required to insure against insolvency.

10.2.3 Supervision and regulation of pension funds

The regulatory authority and supervisory body for life insurance companies and pension funds is the Insurance Commissioner's Office. Supervision is carried out by means of documentary verification, but on-site inspections are also possible.

The pension fund managers must meet certain conditions with regard to competence and integrity. Appointment of an actuary is mandatory. The actuary must certify the operating reserves. The operating reserves are calculated on the same principles as those used by life insurance companies.

The auditors are not subject to any particular rules, and special requirements only apply to pension funds with limited liability company (*société anonyme*) status.

Pension funds are not subject to any particular solvency margin requirement. A number of rules nevertheless apply to investment of the assets, which must be diversified. In addition, a number of restrictions apply to the location of the assets, although there is no specific requirement regarding the currency in which investments are denominated.

10.2.4 Taxation

Employer's contributions are deemed to form part of the overheads and are therefore tax-deductible. All premiums paid on behalf of an employee are treated as notional income of that employee. The employee's contributions are only tax-deductible within certain very narrow limits. Pensions are taxed on the same basis as other income. Lump-sum payments receive preferential tax treatment: those made in connection with a directly-held insurance policy or an independent pension plan are tax-exempt, those made in connection with a pension scheme operating on a book-reserves basis are taxed at a special rate.

10.3 Pillar 3 – Personal pensions/individual agreements

Any individual can take out a personal pension plan, usually with a life insurance company.

11. The Netherlands

11.1 Pillar 1 – Flat-rate/social security pensions (pay-as-you-go/funded)

11.1.1 Introduction

All residents of the Netherlands are compulsory insured under the State pension scheme. People who work in the Netherlands, but are non-residents are also compulsory insured if they are subject to wage tax. The scheme is administrated by the Social Insurance Bank.

11.1.2 Funding

The State pension scheme is a pay-as-you-go pension system. Only the employee pays contribution, the employer does not pay any contributions to the State pension scheme. The contributions are accumulated in a separate fund – the AOW Fund – and pensions are not supplied through the government budget. Recently the government has set up support funds with funds from the government budget. These funds, included accumulated interest, will be used to supply the AOW fund with additional funds not before 2020.

The contribution from employees as of July 1st 1999 is 17,9% of earnings with a tax exemption of EUR 3.993. The maximum salary up to which contributions must be paid is EUR 21.861. Social insurance contributions are deducted from the employees' earnings together with tax. For receivers of a social security benefit, the premium is deducted from the benefit. Non-workers and self-employed receive a tax assessment. The obligation to contribute begins at the age of 15 and ends at the age of 65.

11.1.3 Retirement age and amount of pension

The retirement age for men and women under the State pension is 65. There is no provision under the State scheme for early retirement or deferred retirement. Outside the legal framework early retirement funds have been developed. These funds have mostly been set up under collective agreements on a pay-as-you-go basis but are being replaced by more flexible pension plans on a funded basis.

The old age pension is dependent on the pensioner's status and not related to earnings ("flat-rate"). As of July 1999 single persons get EUR 9.273 (holiday allowance excluded) per year, co-habiting persons get EUR 12.791. A lone parent with a child younger than 18 years receives EUR 11.503. These are the maximum amounts paid after 50 years of insurance, that is 50 years of residency. The pension is reduced by 2% for every year below that period.

11.2 Pillar 2 – Occupational schemes (funded)

11.2.1 Introduction

In the Netherlands there is no legal obligation for employers to set up a pension scheme. Pension obligations must be placed outside the employers' company by establishing or joining a pension fund or by concluding an agreement with an insurance company. According to the Act instituting compulsory participation in an industry wide pension fund (BPF), the Minister of Social Affairs may declare participation in an industry wide scheme compulsory for all employees of the same branch of industry and self-employed workers of that sector to participate. Such a declaration is initiated by a request from the representatives of both employee and employer organisations (social partners in that sector). Companies with a company pension scheme can be exempted

from this compulsory participation. In 1991 91% of the working population was covered by occupational pension insurance.

The level of contribution depends on each individual scheme. The employer and employee usually both pay contributions. In certain schemes only the employer pays contributions.

Occupational pensions supplement the State pension scheme. The majority of pensions are final salary schemes. As a rule, the pension is 70% of the last earned income with an insurance period of 40 years and an accrual of pension rights of 1,75% per year. The State pension is included in the 70%. The retirement age is in principle the same as for State pension, i.e. 65 for men and women, although more and more pension schemes offer the possibility to retire earlier.

11.2.2 Providers of pension products

The occupational pension schemes are on a funded basis. According to the Pension and Savings Fund Act (PSW) three ways of administrating pensions exist: by company pension funds, by industry wide pension funds or by insurance companies.

Company funds (OPF) are funds set up for the use of accumulating funds only for the purpose of one company or a group of companies. 45% of the 874 company funds are fully reinsured (with an insurance company, 55% are not or only partly reinsured).

Industry wide pension funds (BPF) are funds – with or without compulsory participation – set up to accumulate capital for a specific sector of industry. 81% of the 79 industry wide pension funds are not or only partly reinsured, 19% of the industry wide pension funds are fully reinsured.

Group life insurance is a life insurance contract between the company of the employer and a life insurance company. In the Netherlands there are approximately 30.000 occupational pension schemes provided by life insurance companies.

Pension funds have to operate in accordance with the so-called Actuarial and Technical Business Memorandum to be allowed to be self-administrated. If this is not the case the pension fund is obliged to take out a group life assurance policy by way of reinsurance of the group pension risks it has accepted.

The typical pension scheme administrated either by pension funds or life insurance companies is defined benefit.

11.2.3 Supervision and regulation of occupational schemes

The regulatory body of life insurance companies is the Ministry of Finance and for pension funds the Ministry of Social Affairs and Employment. The supervisory body for life insurance companies and pension funds is the Insurance Supervisory Board. Supervision of pension funds is file-based. On site inspections are allowed.

There are not yet special management requirements for managers of pension funds. Recently a bill was sent to parliament to enable the Insurance Supervisory Board to set rules for the expertise and integrity of managers of a pension fund. After passing this bill the Insurance Supervisory Board will be able to prove their expertise and integrity in case of their appointment. Representatives from employees and employer or their organisations form the board of directors in a pension fund, on a basis of parity.

There is no mandatory appointment of an actuary of pension funds, but the Insurance Supervisory Board is authorised to raise objections against an actuary. The actuary's role in case of self-administration is to certify the actuarial report to the Insurance Supervisory Board at least every five years. The calculation of the technical provisions of pension funds has to be done in a sufficiently prudent manner.

The auditor is not submitted to any special rules. The responsibilities include auditing and certification of annual report to the insurance Supervisory Board. There are no special accounting standards applied for pension funds. The basis for valuation is book value, although shares and real estate is valued at market value. Fixed income investments are valued at face or market value.

There are no legal solvency margin requirements for pension funds. However, the Insurance Supervisory Board does request a buffer fund according to the actuarial principles. Of course, pension funds must be pre-funded, i.e. the assets must at least equal the technical provisions. The pension funds in the Netherlands are subject to a 5% self-investment-limit. Investments must be made according to the prudent man principle. There is no currency-matching requirement.

11.2.4 Taxation

Contributions from the employer and employee are tax-deductible. Returns on investments of pension funds are tax exempt. Pension funds are exempt from corporation tax which is levied on profits. Insurance companies are liable to pay corporation tax. The reason for this difference in taxation is the fact that pension funds have to limit themselves to the second pillar in order to make solidarity possible. Where pension funds deviate from this solidarity principle, moves are underway to make them also liable to taxation.

Pensions are taxed as normal income.

In case of a collective pension scheme provided for by an employer, the pension scheme has to comply with the definition of collective pension schemes as laid down in the Wage Tax Act in order to enjoy tax relief for the employee's and employer's contributions, which is as follows: a collective pension scheme is an arrangement whose exclusive or almost exclusive purpose is to provide old age pensions for employees and former employees, and also provide a pension for their spouses (or unmarried partners under certain conditions) and children (under 30 years), whether natural or adopted. The pension must not exceed what society considers reasonable in relation to length of service and level of salary. It can also cover disability.

11.3 Pillar 3 – Personal pensions/individual agreements

Individuals can arrange for private pensions. The 3rd pillar only contains individual agreements without a link to the employer/employee relation. These pensions are obtained from life insurance companies.

Premiums for deferred annuities can be deducted from taxable income. Annuities are taxed as normal income.

11.4 Additional information

Financial problems or bankruptcy of the sponsoring company or the fund itself

In order to protect pension rights the Dutch Pension and Savings Funds Act is based on the principle that the accrual of pensions should occur through a separate legal body independent of the employer. This separate legal body is either a pension fund or an insurer. By way of this legal obligation, the accumulated pension rights of employees are preserved to a maximum in case of financial problems or bankruptcy of the employer.

In case the pension scheme is administered by a pension fund, the bankruptcy of the employer will lead to the termination of labour contracts and no further accumulation of rights. In case of a (mandatory) industry wide pension scheme the bankruptcy of an employer will usually have no negative consequences for the indexation of pensions. In case of a company pension fund, it will depend on the situation of the fund whether or not indexation will be possible after the bankruptcy of the employer.

In case there are insufficient means to finance the entitlements accumulated up to the date of dismissal, this will have consequences for the level of the entitlements. The Insurance Supervisory Board obliges pension funds to establish a buffer fund in order to meet temporary deficits.

When such temporary deficits exit, the rights and obligations of the members and former members and other interested parties may be adjusted so that the financial balance is restored. This is expressly intended as an instrument for restoring the fund to a healthy financial situation and not as a management instrument at the disposal of the management of pension funds. This regulation may therefore not be taken into account in the financial structure of the fund.

An insurer is obliged to uphold the insurance of the promised and insured entitlements if the employer has fulfilled his obligations to pay the premiums. In case of bankruptcy of the employer, the labour contracts with the employees will be terminated and there will be no further accumulation of rights.

A bill was sent to parliament to prevent the postponement of the financial burden to the future.

In case of bankruptcy or suspension of the employer the Unemployment Act provides in payment of the pension premiums by the social security agency to the insurer of pension fund for a maximum period of one year.

Minimum funding

A pension fund is obliged to keep a buffer fund and the size of this buffer fund is determined by the extent of the riskiness of investments.

For insurers there is a legal solvency requirement, according to the Life Directives.

12. Portugal

12.1 Pillar 1 – state pension scheme (pay-as-you-go/funded)

12.1.1 Introduction

The state pension scheme is administered by the Social Security Management Agency and the five regional social insurance centres. Membership of the scheme is compulsory for all employees and the self-employed. Foreign residents may also opt to join the scheme.

12.1.2 Financing

The state pension scheme is financed on the pay-as-you-go principle. Nevertheless, in 1989 the state established a capitalisation fund to provide financial stability for the pay-as-you-go system. Certain tax revenues have been transferred to the fund, which derives its income from the proceeds of financial investments and the transfer of any surpluses from the social security budget.

The employer contributes 23,75% and the employee 11% of the annual salary. The self-employed pay either 25,4 % or 32%, depending on whether they have chosen to contribute only to the basic compulsory pension or to the supplementary pension as well.

12.1.3 Retirement age and amount of pension

The retirement age is 65 for both men and women. Early retirement or deferral of retirement are possible.

Fifteen years of contribution are needed to qualify for the old-age pension, which is earnings-related. Each year of contribution entitles the beneficiary to 2% of his wage, calculated on the basis of the best 10 annual wages earned during the last 15 contribution years. The minimum pension is 30% and the maximum pension 80% of the average wage. In 1997 the minimum pension was EUR 149 per month.

12.2 Pillar 2 – occupational schemes (pay-as-you-go/funded)

12.2.1 Introduction

Occupational pension schemes are not very common in Portugal. Employers are not obliged to set one up but, if they do, every employee has the right to become a member. At present 15% of the working population is covered by an occupational pension scheme.

When an occupational pension plan exists, the employer normally pays the full amount of contributions.

12.2.2 Pension providers

Usually companies set up a pension fund or group life assurance contract to capitalise the sums contributed.

Decree-Law No 415 of 25 October 1991 governs the present system for setting up pension funds, access to and carrying on of the activity of managing these funds, and the general principles concerning the financial management of funds.

It also defines pension funds as an independent asset without legal personality the sole purpose of which is to manage one or more pension plans.

Since pension funds have no legal personality, it is up to the management company, pursuant to Decree-Law No 415, to act in the name of and on behalf of the member, affiliated and beneficiary organisations and, as manager of the fund and its legal representative, to deal in movable or immovable assets, deposit monies in the fund's bank account and exercise all the rights directly or indirectly connected with the assets of the fund.

The managers of the funds may be insurance companies legally engaged in life assurance in Portugal or pension fund management companies, i.e. companies created solely for this purpose in the form of limited companies.

In addition, the items representing the assets of pension funds must be lodged with one or more credit institutions established on the national territory and designated by "the trustees".

12.2.3 Supervision and regulation

12.2.3.1 The supervision of life assurance companies

The Portuguese Social Insurance Institution (Instituto de Seguros de Portugal: ISP) is responsible for supervising life assurance companies and is required to take account of the rules laid down by Community Directives and relating in particular to:

- the report and accounts
- the representation of the technical provisions, and
- the solvency margin.

Supervision is carried out by means of regular inspections at the insurers' premises and by the verification of the documents and tables sent by the insurers during each financial year.

12.2.3.2 Supervision and regulation of pension funds

Pursuant to Decree-Law No 415/91, "in the exercise of its powers, the ISP shall be responsible for the supervision of pension funds". The main objective of this supervision is to guarantee that each pension fund fulfils, in conformity with the rules in force, its duty to finance the relevant pension plan, namely the payment of pensions laid down by the plan, or the purchase of the necessary annuities. Supervision must therefore cover pension fund management companies and the funds themselves.

Supervision of management companies

The procedure for supervising pension fund management companies comprises a check on the existence of rigorous criteria suited to the specific nature of the activity in question, without ignoring the pre-eminently social objective of pension funds. As part of the supervision of management companies, it is crucial to analyse their organisation and their operation, in particular the system of internal control, in order to check whether the operations carried out for each pension fund can be accurately and transparently identified.

This analysis takes the form of regular inspections of management companies with a view to examining the financial, administrative and IT procedures applied and checking the documents and tables sent to the ISP by the management company during each financial year.

Supervision of pension funds

The pension plans financed by a pension fund may provide only for the payment of a pension for early retirement, old age, invalidity and survival. It is nevertheless possible to pay part of the pension in the form of capital or to convert it, within certain limits, into another type of pension.

The minimum age at which one can qualify for an old-age or early retirement pension under the pension plan is 55, unless other conditions have been agreed by collective labour agreements.

At any time, the size of the fund must be equivalent to at least the current value of the pensions being paid and the current value of the liabillties reflecting the services rendered, calculated on the basis of ISP Rule No 21/96 of 5 December 1996 (mortality tabie TV 73/77, interest rate 4,5%, current unit credit financing method).

The financing of the fund is guaranteed by the contributions paid by the member organisation(s) and, where appropriate, by the members (when they finance contributory pension plans – in this case they are called contributory pension funds), by the income derived from investing the fund's assets and by the capital gains obtalned from operations involving these assets. The contribution amount is determined by actuarial calculations, with periodic reviews of the basic forecasts.

Each year the management company has to draw up an actuarial report which is sent both to the member organisation and to the ISP. It is not compulsory to appoint an actuary, but this requirement appears in the draft amending legislation.

There are no special rules for the auditors of pension funds. However, they are subject to special accounting rules laid down by the ISP.

Assets are valued by reference to the market value. Assets which are not quoted on an regulated market are valued on the basis of a prudent assessment of their probable sale value. Special rules apply to immovable property.

The apportionment of investments must also obey certain rules; in particular, the rules of diversification and risk spreading must be observed at all times.

Type of assets	*Maximum percentage*
Deposits, certificates of deposit and investments on the interbank money market	30
Bonds and commercial paper, with the exception of public debt instruments	
Units of a participatory nature	60
Immovable property (land and buildings)	30
Mortgages and loans to members of closed funds	45
Shares, securities of a participatory nature, negotiable instruments other than	25
those mentioned above, with the exception of public debt or venture capital	50
instruments, and other money market and capital market instruments	

The above limits relating to bonds and shares apply to amounts invested in investment funds, in proportion to the amounts invested by the investment fund in the category of assets to whlch these limits refer.

There are also some rules concerning the diversification of assets, for exampie no more than the following percentages of the fund's assets can be invested:

- 5% in instruments issued by a single company and in loans granted to a single borrower (this limit may be raised to 10% provided that, where more than 5% of the assets are invested, the instruments and loans in question do not exceed a total of 25% of the fund's investments);
- 20% in instruments issued by firms (or in loans made to firms) which, either by themselves or jointly with the fund manager, hold a dominant position or form part of a group (this limit includes deposits made with credit institutions in which there is an identical relationship);
- 25% in land and buildings or other real property used by firms which are the fund's sponsors or by firms which, together with the sponsors, hold a dominant position or form part of a group;
- 10% in one or more plots of land or buildings that are sufficiently close together to be considered a single investment;
- 20% in foreign monetary instruments;
- 10% in bonds, whether or not quoted on the stock exchanges of a non-OECD country, and commercial paper;
- 3% in shares and securities of a participatory nature, whether or not quoted on the stock exchanges of a non-OECD country, or in negotiable instruments not included above, with the exception of public debt or venture capital instruments and other money market and capital market instruments;
- 50% in land and other immovable property, mortgages, shares in real estate companies and units in real estate investment companies.

Loans granted to one and the same borrower who is a member of a closed pension fund may not exceed 15% of the amount assigned to him.

Investment in shares issued by a single company may not exceed 10 % of its share capital.

The total amount of shares held by all the pension funds managed by the same management company must not confer on the latter more than 20% of the voting rights in a company and must not enable it to exert any special influence on the management of a company.

The solvency margin applicable to pension fund management companies is identical to that which applies to life assurance companies.

12.2.4 Taxation of pensions

Employees' contributions are tax-deductible up to a certain limit. Employers' contributions are taxed as income in the hands of employees unless the employee has no acquired rights over these contributions. Nevertheless, even in that case, the employee may deduct the employer's contributions from his own income (cancellation effect). The contributions paid by the employer are treated as operating expenditure and are tax-deductible up to a certain limit. Capital gains are tax-exempt. Pension payments are tax-exempt up to a certain limit.

12.3 Pillar 3 – personal pensions/individual agreements

Employees can join personal pension saving schemes or private pensions or take out life assurance policies to supplement their pension. Conditions are agreed between the parties.

13. Spain

13.1 Pillar 1 – state pension scheme (pay-as-you-go/funded)

13.1.1 Introduction

The state pension scheme forms part of the social security system, which covers all risks. It guarantees the beneficiary not only a pension but also social service benefits throughout retirement, including accommodation services. It is compulsory for employees and self-employed persons to belong to this scheme; the members of an occupational body may opt for its welfare insurance.

The state pension scheme is managed by the National Social Security Institute (INSS). The Social Security Office collects contributions.

13.1.2 Funding

The state pension scheme is financed on a pay-as-you-go basis. Social security contributions are used to finance the state pensions budget. The employer pays 30,8% and the employee 6,4% of the annual salary. These rates include contributions for shared risks, unemployment, the income guarantee fund and vocational training. There is a lower and upper limit on contributions.

Supplementary benefits, aimed at guaranteeing a "minimum pension" for the beneficiary who has paid into the scheme, and assistance benefits are levied directly from the state budget.

13.1.3 Retirement age and amount of pension

The retirement age is set at 65 for both men and women. Early retirement is possible, in which case the pension is reduced by 8% for each year of early retirement. Early retirement from the age of 60 is available only to persons who joined the social security system prior to 1967. On the other hand, the retirement age can be postponed, in which case the pension is increased by 2% for each additional year worked.

The pension amount is determined on the basis of two interdependent elements:

- the basis of calculation, which is determined by the contributions basis (salary earned during working life) for the 15 years preceding the date of the pension application;
- the pension rate, which is applied to this basis of calculation, which is itself divided into three parts:
  - 15 years of contributions, 50% of basis of calculation;
  - between 16 and 25 years of contributions, 3% more for each additional year;
  - between 26 and 35 years of contributions, 2% more for each additional year.

If the insured person has paid contributions for 35 years or more, the pension rate reaches 100% of the basis of calculation, but may not exceed this ceiling.

The minimum contribution period will increase to 15 years on 1 January 2002. It is at present 8 years.

13.2 Pillar 2 – occupational pension schemes (pay-as-you-go/funded)

13.2.1 Introduction

Occupational pension schemes, in particular pension funds providing pension plans, are relatively new and still developing. These schemes operate on a voluntary basis and cover 15% of the working population. Any employee who has been with a firm for two years can join an occupational pension scheme paid for by his employer – pension fund. Certain categories of employee can receive different treatment if this occupational pension scheme is managed by a life assurance company – insurance contract.

Agreements between companies and employees may include provisions making it compulsory to include a pension fund and/or the conclusion of an insurance contract. Internal funds and other similar instruments implying that the company remains the owner of reserves constituted under these agreements are prohibited. An exception is made, for a transitional period, for credit institutions, and insurance and investment companies.

Employees are free to decide whether or not to join this kind of pension scheme. The contributions or premiums, which may be paid by the employer and the employee, are governed by collective agreements.

13.2.2 Pension providers

Life assurance companies, mutual providence societies and pension funds are authorised to manage company pension schemes. The direct payment of pensions and the constitution of provisions on the liabilities side of the balance sheet are prohibited, except, as stated above, for financial institutions. All these schemes must operate on the funding principle. As pension funds have no legal personality, these pension schemes must be administered by a management body established in Spain.

13.2.3 Supervision and regulation of pension funds

Life assurance companies and pension funds are regulated and supervised by the Finance Ministry (Insurance Division). Pursuant to Law No 39/195 of 8 November 1995, private companies (apart from financial institutions) may not finance their pension scheme internally, but are required to delegate this to external operators by means of life assurance schemes and/or pension funds. Pension funds are supervised by means of documentary verification, but on-site inspections are possible.

As pension funds have no legal personality, they must combine two structures, a management structure and a structure acting as trustee of the pension fund, each of which is subject to special legislation. Pension plans (indicating the contractual nature) and pension funds (indicating the assets element) are subject to the control of committees consisting of representatives of the plan's promoter, participants and beneficiaries.

It is compulsory to appoint an actuary. He must review the pension fund's actuarial mechanism at least once every three years (every year if an aggregate cost evaluation method is applied). He must also certify the technical provisions and solvency margin and report to the Finance Ministry on his findings.

The technical provisions for defined-contribution schemes are not calculated in the same as those for defined-benefit schemes. For the former, contributions are capitalised. In actuarial terms, defined-benefit schemes offer two possibilities. One option is profit-sharing, where a fraction of the total benefit payable at retirement age is booked annually to a special account in proportion to the estimated number of years to run within the scheme or on the basis of the salary at the time of retirement. The other is cost-sharing, where the cost of benefits is divided equally throughout the period during which the contributor pays into the scheme. This cost is constant or

variable, depending on wage trends or other variables. For both types of scheme, the interest rates used are 6% maximum. No particular mortality table is applied.

A plan to revise these features is under way. The interest rate would be limited to 4%, the mortality tables recast and collective capitalisation would no longer be permitted.

The auditor is not subject to any particular rule. His task is to verify the accuracy of the management and pension fund accounts, and to analyse the profit and loss account. Assets are valued at their market value.

When they bear the risks themselves, pension funds must respect a solvency margin of 4% of the mathematical reserves and 0,3% of the risk capital in relation to death and invalidity risks. A minimum solvency margin of EUR 224,148 is also applied to defined-benefit schemes when the risks are borne by the fund itself and not by an insurance company.

The investment policy of pension funds must respect the general rule of diversification. Investments are limited to 5% of the total securities in circulation of the company in question. An amount equal to 90% of the pension fund assets must be invested in quoted securities, deposits, immovable property or mortgage loans. A minimum of 1% of the assets must be invested in current accounts or on the money market. There is no particular requirement as regards the currency in which assets must be denominated.

The sum of a fund's investments in the shares of a given company and of the risks assumed by the fund by virtue of loans granted to this company or guaranteed by it must not exceed 10% of the fund's total financial assets. This limit also applies to securities issued and loans contracted or guaranteed by different companies in the same group. These limits do not apply to certain issuers, such as the State.

13.2.4 Taxation of pensions

Reference should be made to Law No 40/1998 of 9 December 1998 on personal income.

Pension funds: Contributions paid by the employer and employee are tax-deductible. Capitai gains are tax-exempt. Pensions are taxed in the same way as other income; pensions provided, in the form of capitai, are partly tax-exempt.

The premiums paid under life assurance contracts can no longer be deducted from taxable income.

The proceeds generated are deemed to be investment income and are taxable as such after deduction of the premiums from the capital or income due.

For tax purposes, the benefits from company pension schemes – pillar 2 – under life assurance are deemed to form part of personal income.

Mutual providence societies: When the insurance contracts fulfil the conditions of pension plans, they are taxed in the same way as pension funds.

13.3 Pillar 3 – personal pension plans/individual agreements

Individuals may take out personal pension plans on terms to be determined between the parties. These private pension schemes can be managed either by life assurance companies or by pension fund management companies.

Personal pension plans are not subject to the prudential rules which apply to life assurance but to those governing pension funds. These plans must not bear any risks and therefore do not have to meet any solvency requirements. The defined-contribution arrangements are the only ones authorised.

Voluntary pension plans are another option to supplement pensions. These pension plans, which may be defined-contribution or defined-benefit plans, are subject to the prudential rules applicable to pension funds.

These private pension schemes may be managed by life assurance companies (authorised to manage pension funds) or pension fund management companies.

Lastly, subscribing to personal life assurance contracts is another possibility.

14. Sweden

14.1 Pillar 1 – Flat-rate/social security pensions (pay-as-you-go/funded)

14.1.1 Introduction

State pensions for old age consists of a compulsory basic scheme combined with a compulsory funded individual savings scheme. The National Social Security Board administers the basic scheme while the Prefunded Pensions Administration will administer the savers choices and the insurance element of the individual savings scheme – the prefunded pension system.

14.1.2 Funding

In the basic scheme pension rights will accrue for 16% of earnings during a person's entire working life (the lifelong earnings principle). Qualification for pension rights starts at the age of 16. There will be no upper age limit.

All income after deduction of basic pension contributions will qualify for pension. However, only income up to a limit of 7,5 higher base amounts (= SEK 278.250 for 1998) will carry pension rights. 16% of the contributions paid in will be used to finance pensions to eligible recipients during the same year (the pay-as-you-go-principle). Pension rights corresponding to paid-in contributions will be registered for all individuals. The aggregate pension contributions will represent net claim and will be adjusted every year in accordance with the general earnings trend. When a person retires, this "claim" will represent his or her aggregate adjusted pension rights under the pay-as-you-go system. The pensions paid out under this system are called *income-related pensions.*

A buffer fund, the state owned National Swedish Pension Fund, will deal with temporary liquidity fluctuations in the pay-as-you-go system.

The rest of the contributions paid in will be funded and form part of the *prefunded pension system.* This is a short description of that system.

In addition to the 16% in the pay-as-you-go system 2,5% of a person's income – defined according to certain criteria – will be transferred to individual prefunded pension accounts. The person insured can choose an investment manager for his or her prefunded pension. The funds may be invested in *Swedish mutual funds* and *foreign collective investment undertakings* with the right to engage in fund activities in Sweden according to the Swedish Mutual Funds Act. If the individual investor abstains from making an active choice, the assets will be invested in a *special sub-fund at the state owned National Swedish Pension Fund.* This sub-fund is to be managed by a newly-established fund board. It is basically to follow the same investment provisions as mutual funds. For individuals who prefer a state mutual fund the board will establish a separate mutual fund in which savers can chose to invest.

Mutual funds legible for participation in the prefunded pensions system are – with some exceptions – funds established through the rules laid down in the UCITS directive (85/611/EEC). However, it is also possible for a fund management company to manage other types of funds, so called index-funds, that a person choose as an investment vehicle in the prefunded pension system.

Management companies with their registered office in another country within the EEA, which carry out activities in accordance with the UCITS Directive, have the right to engage in fund activities from their home country within the framework of the premium pension system. Management companies from countries outside the EEA, which have been granted a licence by the FSA to engage in fund activities in Sweden, may also participate in the system. With respect to management companies domiciled outside the EEA, the requirements for a licence to engage in operations in Sweden are that operations can be assumed to comply with the requirements for sound fund activities. This requirement also applies to the funds offered by these managers.

The National Swedish Pension Fund has an obligation to keep accounts. Every year the balance-sheet and the profit and loss account of the Fund is to be adopted by the Swedish government. Also yearly, the government evaluates the management of the Fund.

14.1.3 Retirement age and amount of pension

Pensions can be claimed from the age of 61. There is no upper age limit for retirement. There is also no upper limit for gathering pension rights.

The basic system adjusts pension rights to keep in line with the general earnings trend, and pension payments will keep pace with nominal changes in income in relation to the norm (1,6%). At the same time the value of pensions will follow the development of average income for the working population. This will ensure greater compatibility with the national economy.

A buffer fund, the state owned National Swedish Pension Fund, will deal with temporary liquidity fluctuations in the pay-as-you-go system.

The amount available from the prefunded pension will then depend on the performance of the investment strategy the pensioner has chosen.

14.2 Pillar 2 – Occupational schemes (pay-as-you-go/funded)

14.2.1 Introduction

Occupational pensions in Sweden are based on collective agreements between employer and employee organisations. Approx. 90% of employees are covered by occupational pensions. These pensions are similar to state pensions in the sense that they are compulsory in the area covered by the relevant agreement. The occupational pension is a commitment by the employer and this commitment must be safeguarded in a satisfactory way.

The retirement age for men and women is generally 65 years. In a defined benefits scheme the pension received is calculated on the basis both of a final salary to a base amount and of the years worked. Occupational pensions also include funded systems, both as a supplement to defined benefits schemes and – most notably since the Swedish Labour Union agreed upon such a scheme with the employers' organisation – as schemes including individual investment choices.

14.2.2 Providers of pension products

The employers can safeguard the occupational pensions in three different ways:

Life insurance (occupational pension insurance) or mutual benefit society is an occupational pension scheme where the employer transfers the fulfilment of his commitment to an insurance company or a mutual benefit society and in return pays a premium.

Book reserve is a system where the employer makes an allocation to an account (provision) in the balance sheet. That allocation should normally correspond to the pension liabilities, but the employer is always responsible for the commitment even though the allocation is to small. The pension provisions must also be safeguarded by a pension guarantee in form of credit insurance, a state guarantee or a municipal guarantee.

A pension foundation is founded by the employer. Its sole purpose is to safeguard pensions. The employer allocate funds to the foundation for future pension payments. The responsibility for the commitment always remains with the employer (and thus the financial risk connected to the allocation of the foundations capital). The employer can be compensated by the foundation for his pension payments under the condition that, even after such a compensation, the capital of the foundation is not less than the total pension liabilities.

Public sector occupational schemes are managed by municipal or government bodies. As a rule these schemes are based on the pay-as-you-go principle.

14.2.3 Supervision and regulation of pension funds

The regulatory and supervisory body of life insurance companies and mutual benefits societies is the Financial Supervisory Authority. These bodies are regulated through the national implementation of the insurance Directives.

Book reserves are implicitly supervised through the mandatory credit insurance.

The government regulates the pension foundations that are supervised by the regional council in the region where the foundation is established. There are no managerial requirements. The employer and employee each elect half the board of a pension foundation.

There is no mandatory appointment of an actuary. The calculation of the technical provisions of the pension foundations are performed by the Financial Supervisory Authority. The mortality tables are in accordance with actuarial practise in life insurance.

The auditor of the pension foundation is responsible for checking the evaluation of the pensions provisions and the sufficiency of assets.

Pension foundations are not submitted to any solvency margin requirements. There are no special rules governing the allocation of the foundations capital. Statutory provisions state that capital should be invested in a satisfactory way. There is no currency-matching requirement. In this connection it is important to remember that the risks (financial and actuarial) connected to these pensions remain with the employer, and not with the foundation.

14.2.4 Taxation

Contributions from the employer are tax-deductible. Interest and capital gains are tax exempt. Payments of pension insurance premiums are tax-deductible. However, formal requirements must be met, e.g. old-age pensions cannot normally be paid out before the age of 55.

14.3 Pillar 3 – Personal pensions/individual agreements

In addition to occupational pensions individual or private pensions can be organised through insurance companies or banks – or directly in the securities markets. These private pensions are on a funded basis. Contributions are determined according to individual requirements. Besides traditional life insurance the insurance policy can also be unit-linked or individual pension savings.

Unit-linked means life insurance where the premiums according to the insurance contract are invested in *Swedish mutual funds* or *foreign collective investment undertakings*. The supervision of these institutions is the supervision of insurance companies.

According to the Act on *Individual Pension Savings* a person can – through the assistance of an institution that has been licensed as a *pension savings institute* – put personal savings in a bank account or invest them in Swedish mutual funds or foreign collective investment undertakings or any other market paper. Authorisation as a pension savings institute can only be granted institutions that has been licensed as a securities institution under the Securities Business Act. Securities institutions are Swedish securities companies (limited liability companies), Swedish banking institutions licensed under the Securities Business Act to conduct securities business and foreign enterprises which conduct securities business through a branch in this country. That Act has been harmonised with the EC Directive on investment services in the securities field (the so-called Investment Services Directive, 93/22/EEC).

Pension savings institutes also come under the supervision of the FSA. When carrying out the supervision of the pension savings institutes the Authority shall ensure that pension savings activities develop in a sound manner. Many of the rules of supervision for securities institutions, which are harmonised with the Investment Services Directive, also apply to the supervision of pension savings institutes. Powers of intervention are among these.

As far as tax rules are concerned, new rules for employers deductibility for costs of pension against income have recently been decided in Sweden. In this connection, the rules for taxation of pensions have been surveyed.

15. United Kingdom

15.1 Pillar 1 – Flat-rate/social security pensions (pay-as-you-go/funded)

15.1.1 Introduction

In the United Kingdom, the first pillar consists of the State basic pension and a supplementary pension scheme – the State Earnings Related Pension Scheme (SERPS). Both pension schemes are financed on a pay-as-you-go basis and managed by the State. The contributions go into the National Insurance Fund from which current pensions are paid. It is possible to 'contract out' of SERPS through membership of an occupational pension scheme or a personal pension scheme which meets certain criteria.

15.1.2 Funding

The basic pension is compulsory for employees and self-employed workers with earnings above a specified threshold. People who are not in employment can be credited into the scheme and those in employment whose earnings are below the threshold may make voluntary contributions.

SERPS is compulsory for all employees who are not contracted-out into an occupational or personal pension scheme and have earnings above a specified threshold (the lower earnings limit). Both the employee and employer make contributions. In 1999/2000 employees pay contributions at the rate of 10% of their earnings between the lower and upper earnings limits (EUR 98,95[5] = GBP 66 and EUR 749,60 = GBP 500 per week respectively), and employers pay contributions at the rate of 12,2% of their employees' earnings above EUR 124,43 = GBP 83 per week. Those who are contracted-out of SERPS pay a reduced rate of contributions. People cannot accrue entitlement to SERPS during periods of self-employment or when they are not in work.

15.1.3 Retirement age and amount of pension

Under the State scheme the pension age for men is 65 and for women 60. From 2010 women's pension age will be gradually increased to bring it up to 65 by 2020. An individual must contribute or receive credits for at least 90% of their working life to receive full basic pension. Those who have contributed for between 90% and 25% of their working life receive a reduced rate pension. Individuals who have contributed for less than 25% of their working life do not qualify under UK legislation alone. Such periods may, however, be aggregated with periods completed elsewhere in the EEA and, if the total period exceeds the 25%, a pro-rata UK pension may be payable under Regulation (EEC) No 1408/71.

Basic State pension is EUR 100,07 per week for single members and EUR 159,96 for married couples. In addition to the basic pension, an employee entering the workforce today will receive, on retirement on earnings-related SERPS pension based on 20% of earnings on which contributions were paid between the lower and upper earnings limit, averaged out over the whole of the working life.

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5 Conversion rate 10.8.99 (GBP 1 = EUR 1,4992)

15.2 Pillar 2 – Occupational schemes (pay-as-you-go/funded)

15.2.1 Introduction

Pillar 2 provision in the United Kingdom can in a sense be seen as compulsory for all employees, since if an employee is not a member of a contracted out occupational or personal pension scheme they are covered by the supplementary pension scheme SERPS. However, as SERPS is an integral part of the social security scheme it has been described as part of Pillar 1. Occupational pension schemes are operated by employers on a voluntary basis. The majority of schemes are set up under trust law and are the responsibility of appointed trustees. Around 46% of the employed working population are members of occupational schemes.

Retirement age usually follows the State pension age, but early retirement may be an option. The level of benefit paid will vary between schemes, but tax regulations limit occupational pension benefits to a maximum of 2/3^{rds} of final salary. For individuals who joined their scheme on or after 1 June 1989, final salary is subject to a cap, currently EUR 135.827,52 (GBP 90.600).

The employer is free to choose whether to set up an occupational pension scheme. An employer may sponsor more than one scheme, each of which will be operated independently. Employees who work for the employer may join the occupational pension scheme on a voluntary basis, although membership may be restricted to certain categories of employees. Pension rights must vest after 2 years of membership, but schemes may allow immediate vesting.

Occupational pension schemes may be defined benefit or defined contribution. The level of contributions to the scheme varies between schemes. The tax rules for occupational pension schemes require the employer to pay a minimum of 10% of total contributions, but it is normal for the employer to contribute more than the employee and the employer may pay all contributions. The tax rules also limit employee's contributions to 15% of annual earnings or, for those who joined a scheme after 1 June 1989, to 15% of an annual earnings cap, currently EUR 135.827,52.

Employers who operate an occupational scheme for their employees can opt their scheme out of SERPS provided that it meets certain legislative requirements.

15.2.2 Providers of pension products

The majority of occupational pension schemes are set up under trust law. The trust fund must be maintained separately from the assets of the sponsoring employer. Most private sector schemes are funded. Those that are unfunded are generally set up for high earners whose earnings exceed the "cap" on salary in tax approved schemes mentioned in 15.2.1, but funded unapproved schemes are also common for high earners.

The trustees of defined benefit schemes must generally appoint a scheme actuary and auditor and will normally appoint an authorised asset manager. The asset manager may be an investment management company, a bank or an insurance company.

Insurance companies, banks, building societies, friendly societies and unit trusts may also offer pension products in their own right. These are typically defined contribution personal pension schemes.

15.2.3 Supervision and regulation of pension funds

Occupational pension schemes are regulated by the Occupational Pensions Regulatory Authority (Opra).

Opra's principal activities are to ensure, as the regulator, that schemes comply with legislation governing their operation and, as the Registrar of Occupational and Personal Pension Schemes, to maintain a register of such schemes. Scheme auditors and actuaries are under a duty to inform Opra of breaches of the law. Opra may carry out on-site checks whether or not a complaint has been received, but it does not ask for regular reports on schemes on which no adverse report has been received.

Most private sector trust based defined benefit occupational pension schemes must comply with the minimum funding requirement – a discontinuance test designed to give scheme members a reasonable assurance that if the sponsoring employer becomes insolvent, the scheme will be able to deliver the accrued rights.

The assets of occupational pension schemes are invested according to the prudent man principle. There is also a 5% limit on self-investment in the sponsoring company, except in the case of certain very small schemes. There is no currency matching requirement.

The occupational pension system is supported by the Pensions Compensation Scheme which has recently been introduced. The aim is to provide compensation in certain circumstances where the assets are insufficient to pay benefits.

Life insurance companies are regulated by the Financial Services Authority (FSA). The FSA also regulates banks, building societies, friendly societies and investment management companies. All firms which sell and market personal pensions must be authorised under the Financial Services Act and are subject to conduct of business regulation.

The FSA seeks to ensure firms' compliance with regulatory requirements through reporting requirements and inspection visits by compliance teams.

The Investors Compensation Scheme meets compensation claims where a firm is unable to meet its liabilities.

15.2.4 Taxation

An individual making payments into an occupational or a personal pension scheme, a free-standing additional voluntary contribution scheme (FSAVCS) or making additional voluntary contributions into an occupational scheme receives tax-relief for the contributions. The condition is that the schemes have been approved by the tax authorities. Both premiums paid to life-insurance companies and contributions to pension funds are tax-free and assets within the plan earn investment income on a tax-free basis. Benefits arising from the pension schemes are taxed. However, a tax free lump sum may be taken at retirement. Contributions made by the employer also attract tax relief. Employer contributions into an unapproved scheme are treated as income of the employee.

15.3 <u>Pillar 3 – Personal pensions/individual arrangements</u>

Both employees and the self-employed can set up personal pensions. Employees may do so as an alternative to joining their employer's pension scheme and/or as an alternative to SERPS. The maximum contribution that can be paid into a personal pension is 17,5% of annual earnings at age 35, rising on a sliding scale with age so that someone aged 61–74 can contribute up to 40% of annual earnings. The maximum annual salary on which contributions can be paid is currently EUR 135.827,52. Peoplecannot generally make contributions into a personal pension scheme and an occupational pension scheme at the same time.

However, members of occupational schemes may make extra contributions to individual arrangements either through additional voluntary contribution schemes (AVCS) organised in conjunction with their employer's scheme or through free-standing additional voluntary contribution schemes (FSAVCS) offered by providers independently. Contributions to an AVCS or a FSAVCS, when added to any contributions the employees is making to an occupational scheme, cannot exceed 15% of annual earnings, also capped at EUR 135.827,52.

15.4 Welfare reform

As part of its programme of welfare reform, the Government has announced proposals for innovations in pensions in its consultations on the *stakeholder pension scheme*, the *state second pension* and *pooled pension investment (PPI)*.

Stakeholder pensions are designed to give people who do not have access to an occupational pension scheme and for whom a personal pension may be unsuitable (because they are on a modest income or have irregular work patterns) the opportunity to contribute to a funded supplementary pension scheme.

The second state pension will focus on those for whom SERPS gives least help, and for whom private second pensions are not an option, because they have low earnings or are caring for children or disabled people or are themselves disabled. This will be of particular benefit to women. The state second pension will become a flat-rate scheme for those on lower earnings once stakeholder pension schemes have become established.

The PPI is a new vehicle for pension investment which could be used by occupational, personal or stakeholder pensions. It is designed to make pensions easier for employers and individuals to understand.

Annex: Tables

TABLE 1: Flat-rate/social security pensions

Country	Nature of the system(s)	Pay-as-you-go/funded Contribution method(s)	Benefit: Flat-rate/ earnings related	Benefit: Connection to pillar 2
1. Austria	Compulsory state pension for all employees, self-employed and civil servants.	Pay-as-you-go. Employers' contribution 12,55%, employees' contribution 10,25% of annual salary.	Dependent on the amount of contribution.	None.
2. Belgium	Compulsory State pension – covers all employees, self-employed persons and civil servants.	Pay-as-you-go: financed through contributions of the employer (8,86% of salary), the employee (7,5%) and a State subsidy (2.2%).	Depends on amount of contributions.	No.
3. Denmark	1. Compulsory State pension. 2. Compulsory ATP – supplementary pension.	1. Pay-as-you-go – no direct contribution financed through direct taxes. 2. Contribution amounts by both employee and employer are graded according to the weekly hours worked by the employee.	1. Flat rate plus additional amounts related to other income form pensions. 2. Related to amount and timing of contribution.	1.Yes, supplementary pensions from 2nd or 3rd pillar can reduce State pension. 2. No.
4. Finland	Compulsory State pension.	Pay-as-you-go – financed through contributions of the employer (2,4%–4,9% of annual salary).	Related to amount of contribution, family status, years and place of residence.	Yes, other pensions can reduce State pension.
5. France	Compulsory state pension.	Pay-as-you-go: financed by contributions from the employer (9,8% of salary) and the employee (6,55%).	Depends on amount of contributions.	No.
6. Germany	Compulsory state pension.	Pay-as-you-go – employer and employee each pay 9,75% of salary.	Dependent on the amount of contributions paid in and years of contribution.	None.
7. Greece	1. Compulsory state pension. Basic general and special statutory schemes for employees, the self-employed, civil servants and the like, seamen and farmers. 2. Compulsory statutory supplementary schemes for employees, the self-employed, and civil servants and the like.	Financed on the pay-as-you-go principle: the employee's contribution is 6,67% of annual salary, and that of the employer is 13,33%. For persons insured for the first time as from 1 January 1993, an additional contribution of 10% is payable by the State.	Depends on amount of contributions. The amount of the supplementary pension depends on the years of contribution and the number of dependants.	No.
8. Ireland	Compulsory State pension	Pay-as-you-go –financed through taxes.	Flat-rate with additional amounts.	No.
9. Italy	Compulsory State pension.	Pay-as-you-go principle. Contributions amount to 32,70% of salary, with 8.89% paid by the employee.	The benefits are the result of the product of the contributions and the actuarial factors calculated on the basis of the beneficiary's age.	No.

10. Luxembourg	Compulsory State pension: only available to those whose earnings are below the social-security threshold.	Pay-as-you-go principle. The employee, the employer and the State each pay 8% of salary.	Depends on amount of contributions.	Yes. Earnings or supplementary pension above a certain limit can reduce the amount of pension.
11. Netherlands	Compulsory State pension.	Pay-as-you-go – only the employee pays contributions of 17,9% of the annual salary to a maximum of EUR 21.861.	Related to years of residency.	No.
12. Portugal	Compulsory state pension.	Pay-as-you-go – the employee pays 11% and the employer pays 23,75% of annual salary.	Related to average earnings in best 10 years of contribution.	No.
13. Spain	Compulsory state pension.	Pay-as-you-go: financed through contributions of the employee (4,7% of annual salary) and of the employer (23,6% of annual salary).	Depends on average salary during the 15 years prior to retirement.	No.
14. Sweden	1. Basic scheme. 2. Prefunded pension scheme.	1. Pay-as-you-go – financed through a contribution of 16% of earnings. 2. Individually funded system financed through 2.5% of earnings.	1. Related to life earnings and years of employment (because of maximum amount per year). 2. Related to premium paid.	1.+2. No.
15. UK	1. Compulsory Basic State Pension. 2. SERPS – additional pension for employees earning over EUR 98,95 per week and who are not contracted-out of the state scheme.	Pay-as-you-go – employee currently makes contribution of 10% weekly earnings between EUR 98,95 and EUR 749,60 and employer of 12,2% of employee's weekly earnings above EUR 124.43.	1. Flat-rate – related to years of contribution with a minimum number. 2. Related to earnings throughout working life between lower and upper limits.	Yes, supplementary schemes meeting certain requirements can contract out of SERPS.

Source: CEA, OECD, information given by the Member States

TABLE 2: Occupational pensions

Country	Nature of the system(s)	Providers of pension services/ Products	Contributions	Pension products – defined benefit/ defined contribution/ hybrid schemes
1. Austria	Voluntary – no obligation for the employee or employer. 11% of the working population are covered.	Life insurance companies, pension funds and enterprises through creation of reserves (only tax-deductible to a limited extent, certain level of insolvency insurance).	No general rules, fixed according to the particular scheme.	Schemes using pension funds and life insurance companies are funded; pensions, which are financed through reserves, are partly funded. Defined-contribution and defined-benefit pensions are both common.
2. Belgium	Partly voluntary: any employee joining the company after a pension scheme has been set up is required to join. If no scheme exists, the employee has a free choice. 31% of the working population are covered by this type of scheme.	Pension funds, life insurance companies. Operating on a book-reserves basis is not allowed.	No general rule. Contributions determined individually for each scheme.	Funded. Mainly defined contributions.
3. Denmark	Compulsory – collective agreements. 80% of the working population is covered by occupational pension insurance.	Pension funds, life insurance companies and banks.	Contribution from employee is 12% on average.	Funded, mainly defined contribution.
4. Finland	1. Compulsory – law – the employer is obliged to set up an occupational pension and the employee is obliged to be a member. (pillar 1) 2. Additional voluntary schemes. (pillar 2)	1. Insurance companies and pension funds. Fewer than 300 members of scheme – compulsory to use insurance company. More than 300 members – the employer may set up his own pension fund. 2. Additional voluntary pension foundations must have at least 30 members and pension funds 300 members.	1. Contribution ranges from 14% to 29,8%. The employee pays 4,7% (in 1998), the employer the remaining part. 2. The premiums are almost entirely paid by the employers, although in some pension arrangements there is also an employee's contribution (mostly 0–3% of the yearly wages).	1. Mixed pay-as-you-go or funded depending on industry. Defined benefit. 2. As a rule funded and defined benefit.
5. France	1. Membership of the ARRCO/ AGIRC schemes is compulsory by law. As a result, the entire working population is covered by an occupational pension scheme. On 1 January 2000 these schemes fall within the scope of the Community Regulation coordinating social security schemes. 2. It is possible to subscribe to supplementary schemes on a voluntary basis.	1. The pensions organisations (that are members of the ARRCO or AGIRC schemes) are managed by the employers' and employees' organisations. 2. The voluntary pension schemes are usually managed by life assurance companies.	1. The contributions due under the ARRCO schemes amount to 3,75% of salary for the employer and 2,5% for the employee. The contributions to the AGIRC schemes are slightly higher. 2. There is no general rule for personal schemes.	The compulsory element (ARRCO/ AGIRC) operates on the pay-as-you-go principle. Pension amounts above the compulsory minimum are financed in accordance with the funding principle.
6. Germany	Voluntary. Based on the initiative of the	Companies through creation of reserves, support funds	No general rules, fixed according to	Funded (except for support funds).

	employers. About 50% of the working population are covered by an occupational pension scheme.	(compulsory insolvency insurance), pension funds, life insurance companies.	the particular scheme.	Defined benefit.
7. Greece	Voluntary – at the employer's discretion. 5% of the working population are covered by an occupational pension scheme.	Mainly, life assurance companies; to a lesser extent, pension funds.	No general rule. Contributions determined individually for each personal scheme.	Funded. Defined benefits.
8. Ireland	Voluntary – 50% of the working population is covered by occupational pension insurance.	Investment funds (pension funds).	No general rules – fixed in individual scheme. However maximum pension rules set by tax authorities.	Funded. (Civil servants – pay-as-you-go.) Mainly defined benefit.
9. Italy	Voluntary on the part of both the company and the employee.	The assets collected by the pension funds must be entrusted to life insurance companies, banks, brokerage firms or unit trust management companies. Pension funds are not allowed to manage their assets themselves.	No general rule. Contributions determined individually for each scheme.	Funded. Defined contributions.
10. Luxembourg	*Voluntary – This type* of scheme is only available to those whose earnings are above the social-security threshold; 30% of the population are covered by such an occupational pension scheme.	*Life insurance companies*, pension funds or the companies themselves through book reserves (no compulsory insolvency insurance).	*No general rule* – Contributions determined individually for each scheme.	Funded. Defined benefits.
11. Netherlands	Partly voluntary – the Ministry of Social Affairs has the right to make a scheme compulsory on request of social partners. 91% of the working population is covered by occupational pension insurance.	Company funds, industry wide pension funds or life insurance companies.	No general rules – fixed in individual scheme.	Funded. In general defined benefit.
12. Portugal	Voluntary –15% of the working population is covered by an occupational pension scheme.	Pension funds managed by life assurance companies or pension fund management companies.	No general rules – Contributions are laid down in personal schemes.	Funded. Defined benefits.
13. Spain	Voluntary – 15% of working population is covered by an occupational pension scheme.	Life assurance companies, pension funds, mutual provident societies (as a general rule, the constitution of provisions on the liabilities side of the balance sheet is not allowed).	No general rule – Contributions laid down in each personal scheme.	Principle of funding. Mixed system.
14. Sweden	Compulsory – collective agreements. 90% of the working population is covered by occupational pension insurance.	Companies through book reserves (with compulsory credit insurance, a state guarantee or a municipal guarantee), pension foundations and life insurance companies.	No general rules – fixed in individual scheme.	Funded. Defined benefit. (Civil servants schemes are funded on a pay-as-you-go basis.)

15. UK	Voluntary – around 46% of the employed working population are members of occupational pension schemes. (Though as explained in section 15.2.1 SERPS is effectively a compulsory scheme for employees.)	Most schemes are currently set up by employers under trust law. Banks, insurance companies, asset managers, accountants, actuarial advisers and building societies can provide pension services.	No general rules – fixed in individual scheme.	Funded maximum income limit of EUR 115.929 for occupational pension schemes on a funded basis – occupational pension schemes funded on a pay-as-you-go basis exist for those above the income limit). Generally defined benefit.

Source: CEA, OECD, information given by the Member States.

TABLE 3: Supervision authorities and principles

Country	Supervision and regulation authority	Supervisory principles – pension funds
1. Austria	The body responsible for supervising and regulating life insurance companies is the Federal Ministry of Finance, V/D division and for pension funds V/14 division.	Supervision is file-based, on the basis of annual reports, actuarial statements and the statistical information received periodically or annually. On-site inspections of life insurance companies are made regularly; for pension funds they are possible but not commonly used.
2. Belgium	Supervisory body and regulatory authority for life insurance companies and pension funds: Ministry of Economic Affairs and Insurance Supervisory Body.	The supervision of pension funds is carried out by means of documentary verification. Although always possible, on-site inspections are rarely carried out.
3. Denmark	The regulatory and supervisory body of life insurance companies and pension funds is the Financial Supervisory Authority.	The Financial Supervisory Authority performs on-site inspections and file-base supervision on the basis of annual accounts, the audit book, and the report on the register of assets etc.
4. Finland	The supervisory body of insurance companies and pension funds is the Insurance Supervision Authority. However, the Ministry of Social Affairs and Health is responsible for drafting of legislation concerning the insurance institutions, and for intergovernmental issues related to this.	Supervision of pension funds is done on the basis of annual accounts, actuarial statement and the statistical information received every year. The Ministry of Social Affairs and Health has the right to inspect the pension fund at any time and attend certain meetings as an observer.
5. France	The regulatory authority for life assurance companies is the Finance Ministry and their supervisory body is the Insurance Supervisory Commission. The regulatory authority for the provident institutions and mutual societies covered by the Mutual Insurance Code is the Social Security Minister and their supervisory body is the Supervisory Commission for Mutual Societies and Provident Institutions. The supplementary schemes are regulated by the Social Security Minister and supervised by the Audit Office and the Social Affairs Inspectorate.	As the pension schemes are financed in accordance with the pay-as-you-go principle, the prudential rules and supervision methods differ from those applicable to occupational pension schemes operating on the funding principle.
6. Germany	The regulatory body for life insurance companies and pension funds is the Federal Ministry of Finance. Supervision is the responsibility of the Federal Insurance Supervisory Office or the relevant regional supervisory authority.	Supervision of the pension funds is based on examination and, if necessary, approval of the documents to be submitted. These include the articles of association, the general insurance terms, the technical operating plan with the rules for calculating the premiums and premium reserves, including the calculation bases and mathematical formulae used, as well as the specific calculations which are conducted at regular intervals and all external and internal accounting documents. On-site inspections of the entire business operations of pension funds are possible. Any amendments to the articles of association, the general insurance terms and the technical operating plan have first to be examined and authorised before becoming effective.
7. Greece	The supervisory body for life assurance companies and pension funds is the Development Ministry.	Supervision is carried out by means of documentary verification, but on-site inspections are also possible.
8. Ireland	The regulatory body for life assurance companies is the Department of Enterprise, Trade and Employment. Occupational pension schemes are regulated by the Pensions Board.	Supervision of life assurance companies under the Insurance Acts and Regulations. Supervision of pension schemes under the Pensions Act.
9. Italy	The regulatory authority for life insurance companies and pension funds is the Ministry of Industry (Insurance Division). The supervisory body for life insurance companies is the ISVAP. That of the pension funds is the Pension Funds Supervisory Commission.	The Commission has validatory, management control, inspection and disciplinary powers.
10. Luxembourg	The regulatory authority and supervisory body for life insurance companies and pension funds is the Insurance Commissioner's Office.	Supervision is carried out by means of documentary verification, although on-site inspections are also possible.
11. Netherlands	The regulatory body of life insurance companies is the Ministry of Finance and for pension funds the Ministry of Social Affairs and Employment. The supervisory body for life insurance companies and pension funds is the Insurance Supervisory Board.	Supervision of pension funds is file-based. On site inspections are allowed.
12. Portugal	The regulatory and supervisory body for life assurance companies and pension funds is the Instituto de Seguros de Portugal.	Supervision of the pension funds is by means of documentary verification. On-site inspections are possible.

13. Spain	The supervisory body and regulatory authority for life assurance companies and pension fund is the Finance Ministry (Insurance Division).	The supervision of pension funds is by means of documentary verification. On-site inspections are possible.
14. Sweden	The regulatory and supervisory body of life insurance companies and mutual benefits societies is the Financial Supervisory Authority. Pension foundations are supervised by the municipal council in the region where the pension foundation is situated.	Supervision of insurance companies and mutual benefits societies is done on a file basis. On-site inspections are possible. Supervision of pension foundations is done mainly through annual reporting.
15. UK	The regulatory body for occupational pension schemes is the Occupational Pensions Regulatory Authority (Opra) and for life insurance companies Financial Services Authority (FSA).	As the regulator, Opra's principal activities are to ensure that schemes comply with legislation governing their operation and, as the Registrar of Occupational and Personal Pension Schemes, to maintain a register of such schemes. On-site checks may also be carried out.

Source: OECD, information given by the Member States.

TABLE 4: **Prudential rules applied to pension funds and tax treatment of occupational pensions**

Country	Prudential rules	Tax treatment
1. Austria	Pension funds are subject to a solvency margin. This is laid down in the Pension Fund Act and is 1% of the premium reserve. The investment of pension funds is regulated by law. At least 40% of the assets have to be invested in mortgage bonds, government bonds and debentures, denominated in euro. This category also includes capital funds which invest more than the above-mentioned assets. A maximum of 40% of the assets may be invested in stocks and similar securities. Within this ceiling, a maximum of 25% of the assets may be invested in securities if they are denominated in foreign currency. Investments in buildings and property are allowed up to a maximum of 20% of the assets and within this ceiling 10% may be invested in buildings and property located abroad. There are additional upper limits for specific individual risks. There is no currency-matching requirement.	EET system for contributions of the employer; contributions of the employee can only be deducted to a limited extent, benefits are taxed at only 25%.
2. Belgium	Pension funds are not subject to any particular solvency margin requirement. However, a draft bill imposes a solvency margin for pension funds under certain circumstances. The regulations applicable to pension funds stipulate 15% at most in the company sponsoring the pension fund and 40% at most in real estate, with 10% remaining in deposits. Representative assets must be denominated in the same currency as the liabilities or in a convertible currency.	EET (lump sums are taxed at 16,5% and annuities at the standard rate of income tax).
3. Denmark	Pension funds are as life insurance companies submitted to the rules in the life insurance directives. That means that these companies are subject to the same rules as regards to the solvency margin and technical provisions. Concerning the investment restrictions a maximum of 40% may be invested in "high risk assets" – these include domestic equities, foreign equities and unlisted securities. Furthermore a maximum of 20% is allowed to be invested in foreign assets, property loans and investment trust holdings 40% and 60% in domestic debt. At least 80% currency matching is required. In case of EU currency, up to 50% of liabilities can be covered by assets denominated in euro. Self-investment is not allowed.	EET (real interest tax on yield of bonds, 5% tax on yield of shares (as from 2000 26% pension yield tax on yield of bonds, 5% pension yield tax on yield of shares). Annuity payments taxed as normal income and lump-sum at 40%).
4. Finland	Pension funds are not submitted to any solvency margin or guarantee requirements. There are certain rules for the investment of assets.	EET (the contributions of the employee are tax-deductible up to 10% of the salary, pensions is taxed as normal income).
5. France	Strictly speaking, pension funds as such do not exist in France.	Pensions are taxed as personal income.
6. Germany	As from 1999 pension funds will, in particular, have to meet the same solvency requirements as other life insurance companies. The solvency margin will then be up to 4% of the premium reserve or 0,3% of the risk capital, where the minimum guarantee fund is exceeded. A number of assets, which the law classifies as higher-risk investments, may only be included in the restricted assets up to a certain percentage. For interests in companies which are located in the EC there is an upper limit of 30%, which may be extended by 5% to a maximum of 35% by claiming a specific opening clause. Once the opening clause has been used, it cannot be used for other investments. A specific quota of 10% applies to interests relating to one company. The quota for property and real estate funds is 25%, for investments in non-member countries the quotas are 6% for non-EU shares and 5% for non-EU bonds. Where the restricted assets cover technical provisions resulting from risks covered in the European Community or from life insurance policies taken out in the Community, a maximum of 5% of the "premium reserve stock" (separate part of the restricted assets) and 20% of the remaining restricted assets may be placed in countries outside the European Community. In principle there is a currency-matching requirement but this does not apply provided neither the premium reserve stock assets nor the remaining restricted assets to be invested exceed the quota of 20% of commitments in a particular currency respectively.	TTE/EET
7. Greece	Pension funds are not subject to any particular solvency margin requirement. Investments are not subject to any restriction. However, pension funds may not invest more than 20% of their assets in unit trusts authorised to invest in foreign assets. There is no requirement as regards the currency in which assets must be denominated.	Pensions are taxed in the same way as other personal income.
8. Ireland	Insurance Regulations are based on the EU Life Assurance Directives and set down provisions, in relation to life assurance business in general, for the diversification of assets, the prudent valuation of assets and liabilities and the holding of a solvency margin.	Lump-sum pension payments are, to some extent, tax exempt. Pensions beside lump-sums are taxed as normal income.

9. Italy	Pension funds are not subject to any specific criterion regarding their balance-sheet liabilities, since only defined-contribution schemes are allowed. Investments are subject to general risk-spreading rules. Self-financing is limited. The biometric risks must be covered by an insurance company.	Contributions to pension funds are non-taxable, subject to a limit of 2% of annual income for the employer's and the employee's contribution.
10. Luxembourg	Pension funds are not subject to any particular solvency margin requirement. A number of rules nevertheless apply to investment of the assets, which must be diversified. In addition, a number of restrictions apply to the location of the assets, although there is no specific requirement regarding the currency in which investments are denominated.	The employee's contributions are only tax- deductible within certain very narrow limits. Lump-sum payments receive preferential tax treatment.
11. Netherlands	There are no legal solvency margin requirements for pension funds. However, pension funds must be pre-funded, i.e. the assets must at least equal the technical provisions. The pension funds in the Netherlands are subject to a 5% self-investment-limit. Investments must be made according to the prudent man principle. There is no currency-matching requirement.	EET (accumulated interests are tax-free under certain conditions).
12. Portugal	Pension funds must observe the same solvency margins as life assurance companies.	Contributions to pension schemes are tax-deductible up to a certain limit.
13. Spain	Pension funds must respect a solvency margin of 4% of the mathematical reserves and 0,3% of the risk capital relating to death and disability risks. A minimum solvency margin of EUR 224.148 is also applied to defined-benefit schemes when the risks are borne by the fund itself and not by an insurance company. The investment policy of pension funds must respect the general principle of diversification. Investments are limited to 5% of the total securities in circulation of the company in question. An amount equal to 90% of the pension fund assets must be invested in quoted securities, deposits, immovable property or mortgage loans. A minimum of 1% of the assets must be invested in current accounts or on the money market. There is no particular requirement as to the currency in which the assets must be denominated. The sum of a fund's investments in the shares of a given company and the risks assumed by the fund by virtue of the loans granted to this company or guaranteed by it must not exceed 10% of the fund's total financial assets. This limit also applies to securities issued and loans contracted or guaranteed by different companies in the same group. These limits do not apply to certain issuers, such as the State.	Pensions are taxed in the same way as other income.
14. Sweden	Pension funds are not submitted to any solvency margin requirement. The liabilities in the pension foundation are calculated through models supplied by the Financial Supervisory Authority. There are no special rules for investment of pension foundation capital, except a statutory provision specifying that capital shall be invested in a satisfactory way, i.e. the majority of investments should be made in bonds, loans and retroverse loans to contributors. There is no currency-matching requirement.	Pension foundations are legible for taxes on a pro-forma income calculated as a risk-free return on invested capital.
15. UK	Most private sector trust based defined benefit occupational pension schemes are subject to a statutory minimum funding requirement – a discontinuance test designed to give scheme members a reasonable assurance that if the sponsoring employer becomes insolvent, the scheme will be able to deliver the accrued rights. The assets of occupational pension schemes are invested according to the prudent man principle. There is also, except in the case of certain very small schemes, a 5% limit on self-investment in the sponsoring company. There is no currency-matching requirement.	EET (preferential treatment of lump-sum pension payments).

Source: Information given by the Member States.

TABLE 5: **Personal pensions/individual agreements**

Country	Provider/Manager of private pensions	Tax treatment
1. Austria	Life insurance companies	Premiums are tax-deductible under certain conditions.
2. Belgium	Life insurance companies and banks.	The premiums are tax-deductible under certain conditions.
3. Denmark	Life insurance companies and pension funds	Premiums are tax-deductible under certain conditions.
4. Finland	Life insurance companies	Premiums are not tax-deductible (except in the case of those pension policies which meet certain criteria). The proceeds from the insurance are considered as taxable investment income after deduction of the premiums from the capital sum due. The remaining amount is taxed at 28%.
5. France	Life assurance companies.	Under regular-premium life assurance policies, which are very clearly defined, individuals are granted tax relief in respect of the premiums.
6. Germany	Life insurance companies	Life insurance companies offer funded financial services for old age, disability and surviving dependants provision. Contributions to life insurance policies are tax-deductible if the term of the insurance policy is at least 12 years. Benefits on expiry of the policy are not taxed. With life annuities only the interest portion is taxed as a lump sum during the period when the pension is drawn.
7. Greece	Life assurance companies.	Up to 15% of the premiums paid annually are tax-deductible.
8. Ireland	Life insurance companies	Premiums are tax-deductible under certain conditions.
9. Italy	Life insurance companies.	Life insurance premiums are taxed at 2,5%. They are tax-deductible at 19% of their total amount, with a ceiling of EUR 1.241.142 per annum.
10. Luxembourg	Life insurance companies.	Premiums are tax-deductible under certain conditions.
11. Netherlands	Life insurance companies	Premiums are tax-deductible under certain conditions.
12. Portugal	Life assurance companies	Premiums are tax-deductible under certain conditions.
13. Spain	Life assurance companies, pension fund management companies.	Premiums are not tax-deductible. Contributions to pension plans are deductible.
14. Sweden	Life insurance companies	Premiums are tax-deductible under certain conditions.
15. UK	Typically provided by insurance companies, but also banks, building societies, friendly societies and unit trusts may offer them.	Premiums are tax-deductible under certain conditions.

Source: CEA, OECD, information given by the Member States.