



# La lettre de l'Observatoire des Retraites

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## Informing the European Working Population of their pension benefits

- Why?
- How?
- What consequences?
- An irreversible development



# Informing the European Working Population of their pension benefits

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Yesterday, a young candidate for employment, who, during a job interview, sought information concerning a company's pension programme, would have been treated as someone little disposed to effort. Worrying about retirement when one had hardly begun to work! This was the equivalent of worrying about the eligible age for pension, in other words preparing to quit the company as soon as possible, an overt admission of laziness, a disgrace! Such behaviour was unthinkable. Moreover, the compulsory schemes spared a majority of workers the necessity of thinking about their later years.

Today, a report on the future of Social Security and Pension Schemes, adopted by the European Parliament November 20, 2008, encourages Member States to make young adults aware of the importance of accumulating pension benefits as early as possible. In a way this merely updates and develops a concern expressed in a European Commission communication of 2000, calling for more information for beneficiaries as one of the reforms to be undertaken in the area of pensions. Is this the sign of the decline of an ageing continent or political wisdom and rational preparation for the future?

As far as pension institutions themselves were concerned, providing information for beneficiaries was not of paramount concern during the design and creation of the basic Social Security schemes. The right to information was developed later, in a context of individualization of social relations and consumer protection.

How could it be otherwise for schemes mostly organised according to a logic of "defined benefits", giving a contributor a certain visibility of his future pension. And when schemes functioned according to a

principle of "defined contributions", the pension was evaluated only with the approach of retirement and generally provided a happy surprise for the beneficiary. Nobody had any complaints.

Imperceptibly, the foundations of pension schemes have been shaken. There has been a shift from a logic of defined benefits to one of defined contributions, individualisation of benefits, less generous pension schemes, repeated reform of pension calculation resulting in a loss of confidence on the part of beneficiaries, and, more generally, a demand for transparency in relations between administrators and beneficiaries, development of new technologies and an increase in consumer expectations.

In this context, the Member States as well as Community authorities are paying increasing attention to providing information concerning future pensions. The decision is not simply a move to satisfy the legitimate curiosity of workers concerning their pension benefits. The aim is to make information a central feature of pension schemes in order to reassure, to make affiliates aware of their responsibilities and to accompany choices. Why and how to inform, and with what results, these are the three questions that this letter of the Observatoire des Retraites will try to elucidate. ■

### For more information:

A Paris-Dauphine University team, lead by Najat el Mekkaoui<sup>(1)</sup>, carried out for the Ministry of Social Affairs a comparative study on information provided to active workers concerning retirement in France and 6 others countries: Finland, Germany, Portugal, Sweden, United-Kingdom and United-States. This study will be published shortly.

<sup>(1)</sup> Winner of the 1998 prize of the Observatoire des Retraites

# Why inform?

*Information for those contributing towards a pension is necessary since they are increasingly aware that some sort of differed income will be essential for a longer and longer period of their lives and this comes at a moment when the financial outlook for pension systems is gloomy. Information is articulated around the reform, or even the restructuring, of European pension systems in order to gain public confidence, as well as help individuals plan their future income. In pension schemes where the contribution/benefit link is growing ever more closer (a key aspect of reforms defended by Community authorities), the aim is to discourage moonlighting (declared earnings means future pension benefits) and to promote the idea that contributing longer improves the level of pension. Moreover, a consensus is gathering to encourage younger generations to accept the idea of voluntary supplementary pension savings and the choices this entails.*

**The growing importance of retirement: everyone or almost everyone acquires benefits and reaches the age to receive them**

The development of retirement systems is recent, coming after the Second World War. These systems are now approaching maturity and retiring workers have mostly contributed since the start of their careers and acquired full pension benefits.

At the same time, an increase in life expectancy has changed the structure of society in a profound and probably irreversible way. The average age of the population has risen automatically and the arrival at a pensionable age of the populous generations born after the War will amplify the phenomenon. Each active worker is practically assured of reaching a pensionable age. The most recent mortality figures<sup>(2)</sup> show that more than 87 % of men and 94 % of women will reach the age of 60. Not to mention the fact that life expectancy will continue to rise. From risk to probability, retirement has become a near certainty. All the same, it has become a matter of preoccupation for active workers and a subject of future planning for students embarking upon a career.

It has also become a matter of concern for authorities on a collective level since an increase in life expectancy implies a sizeable rise in deductions on working income or a protracted working career. Accepting this new reality implies a change of attitude on the part of the working population... and a change of attitude supposes acknowledgment of the situation, thus a need for information.

**From “always more” to uncertainty**

The rise in life expectancy and the “pappy boom’ have had a down side. The financial equilibrium of pension schemes has been

(2) Mortality tables Insee TH 00-02 and TF 00-02, i.e. men and women in 2002.

shaken and maintaining pension benefits at current levels and conditions has become a problem.

### **International Labour Organisation recommendations**

*“Good communications and public relations are essential in building public confidence in a social security institution. [...] This is especially important in the launching of a new scheme or in undertaking reforms to an existing one. However, having a communication strategy [...] should also be a permanent part of the institution’s work.”* This is the message laid out by the International Labour Organisation in a practical guide for administrators of Social Security institutions in Central and Eastern Europe (*Social Security Governance: a Practical Guide for Board Members of Social Security Institutions in Central and Eastern Europe – International Labour Office – January 2006*)

The document emphasises the need to disseminate information understandable to those for whom it is intended, keeping in mind that they may be aged, handicapped or disadvantaged.

This is an extremely important change coming after a long period of organizing and improving the retirement system. Pensioners made up most of the poor during the years following the War. Their level of poverty now is less than the national average in most countries. The condition of pensioners is a reference for active workers since they count on receiving as much, if not more than their predecessors. This may not be the case. Reforms since the 1990’s, have aimed more at limiting expenses than guaranteeing the level of pension. As a result, inflated expectations can exist side by side with a vague worry concerning the future of the system. In the Netherlands for example, many workers harbour illusions of an income replacement rate of 70 %. A survey in Belgium in 2006 for the Swiss Life insurance firm revealed a simi-

lar discrepancy. Only 22 % of those interviewed expected to receive a gross monthly pension of less than €1000, even though the average monthly pension was €992.

Surveys carried out in France and Sweden on the impact of systematic information campaigns confirmed the tendency of future beneficiaries to overestimate their pension benefits. 43 % of Swedes and 34 % of the French who were given an evaluation of their benefits expected something better. Only 6 % of the French registered a welcome surprise and the 45 % remaining correctly predicted their benefits.

On the other hand, many young French contributors are unreasonably pessimistic “I contribute but I’ll get nothing back,” is a prevalent attitude. The Swedish experience seems to show that the feeling is not limited to France but includes other young Europeans. A survey carried out in Sweden in 2005 showed that 65 % of the recipients of an “orange envelope” aged 30 or less expected the level projected or something less while more than half of those over 45 were hoping for something better.

### **Reassuring and encouraging positive attitudes**

At the European level, information seems a necessary corollary to reforms in order to facilitate their implementation, maintain confidence in the retirement system and incite workers to adopt comportments contributing to the equilibrium of their schemes such as increasing the length of working careers or compensating for a drop in the replacement rate through accrued savings.

The French experience shows the hazards of the exercise, especially when a reform complicates rules that were already complicated to start with. It illustrates the fact that a reform can have effects that are counter

productive, for example in inciting workers to retire earlier, before less favourable rules take effect, when the original objective was the contrary, to convince them to retire later. To correct this, it was decided to apply the new rules not in function of the date of retirement but the date of birth. It was also important for the modification to be acknowledged. Rules intended for different generations can further complicate understanding of benefits, which is another argument for information. A letter of the Labour and Social Affairs Ministry of October 2008 to the director of GIP Info Retraite, a public interest group created by a law of 2003, underscores *“the necessity of making guarantees for workers in terms of pension calculation (generational guarantees) better understood as well as the respective advantages of various measures for encouraging longer working careers [...] The low number of insured making use of the different possibilities demonstrates a persistent lack of information. The insured should be fully aware of the possibilities available for exercising a real choice for their retirement.”*

In Germany, information for workers was established by a 2001 Law aimed at *“forming an old age heritage”* in order to alert workers to the insufficiency of their future basic pension and the need for supplementary savings. The same law introduced the “Riester Plans”, an individual or group pension savings concept that has enjoyed considerable success. A letter is sent yearly from the Social Security Administration to workers aged at least 27 and having contributed for at least five years, to inform them that their basic pension will not cover their *“supplementary needs”*. It includes three projections of future monthly pension based on three distinct future wage assessments: continuation at the same level of the past five years, growth of 1 % and growth of 2 %. The last two assumptions were added by the German Parliament to emphasise the risk of a sharp drop in living standards upon retirement. Indeed, the basic German pension reflects the whole of a career. Consequently, the more the level of wages increases during a career, the less the pension reflects the last wages.

### **Information for workers according to European Law: soft law<sup>(3)</sup> first**

Information for contributing members from their compulsory pension institutions came into being with a decision by the Heads of State of European Governments to give top priority to the durability of pension systems. In March 2000 at the European Summit in Lisbon, a “High Level Group” on social protection was named to prepare a study on long term changes in social protection, according particular attention to the viability of pension schemes. In June 2000, the Council defined two lines of action aimed at improving forecasts for trends and understanding of national strategies for pension reform.

The Group suggested ten guidelines and objectives for reform, including objective 6, *“Ensure transparency and predictability: it should be clear to pension scheme members what they can expect in terms of benefits under various circumstances.”* The same objectives were adopted by the Commission in a communication of October 2000, which defines a framework for cooperation to assure the viability of pension schemes<sup>(a)</sup>.

The Commission has proposed a new work method at the service of common objectives, called OMC, or Open Method of Coordination<sup>(b)</sup>. This is a flexible method, not included in the Treaty, based on an exchange of information and identification of “good practices”. In practical

(3) Soft law refers to European documents with no restrictive legal validity, such as recommendations, green papers and white papers adopted by the Commission. They are in contrast to hard law, which refers to legal documents placing restrictions on Member States, such as directives, regulations and jurisprudence.

terms, the Member States must communicate to the services of the Commission a national strategy report, describing progress and steps taken to achieve the objectives set. The reports are then the subject of a joint summary by the Commission and the Council.

End 2001, the Member States adopted this framework to the service of the eleven objectives they have finally identified for guaranteeing the future of pensions<sup>(c)</sup>. Individual information for contributing members is now the eleventh and final objective. *“Make pension systems more transparent and adaptable to changing circumstances, so that citizens can continue to have confidence in them. Develop reliable and easy-to-understand information on the long-term perspectives of pension systems, notably with regards to the likely evolution of benefit levels and contribution rates. Promote the broadest possible consensus regarding pension policies and reforms. Improve the methodological basis for efficient monitoring of pension reforms and policies.”* Information for better reform, in short.

The question of information was also mentioned in the older legal framework (dating from 1958), calling for European coordination of Social Security systems. Coordination Regulation 1408-71 is being revised with a new Regulation 883/2004. However, if the new text calls for Social Security institutions to improve their communication, it concerns only active workers in a narrow sector of application, i.e. free movement from one member country to another. Free movement of citizens, implies benefiting from a pension organisation in the country where one works as though one were a national and without any loss of benefits no matter where one works within the EU. In other words, if information for active workers embodies a significant chapter of the new regulation, its purpose is to advise migrants of the rules that concern them. While the administrative authorities are only beginning to put in place the premises of dema-

terialised exchanges in view of a more rapid and simplified settlement of a coordinated community pension, it concerns cooperation at the moment of settlement. This is a long way from an overall European statement of pension benefits, assembling at any moment the benefits acquired by a European citizen having contributed in various member States.

**At the same time, hard law: responsibilities for information and the directive for professional pension institutions<sup>(d)</sup>**

A directive of June 3, 2003 covering the Activities and Supervision of Institutions for Occupational Retirement Provisions, adopted after ten years of debate, aims at setting up a veritable interior market for occupational pensions, permitting occupational pension institutions to freely invest in Europe and administer company and branch pension plans in another Member State. It outlines prudential rules concerning efficient administration of schemes and guaranteeing the income of future pensioners. It includes a chapter on information for members concerning accrued benefits and the financial position of the institution. A member should thus receive, upon request, detailed information on “the target level of the retirement benefits, if applicable; the level of benefits in case of cessation of employment; where the member bears the investment risk, the range of investment options, if applicable, and the actual investment portfolio as well as information on risk exposure and costs related to the investments; the arrangements relating to the transfer of pension rights to another institution for occupational retirement provision in the event of termination of the employment relationship. Members shall receive every year brief particulars of the situation of the institution as well as the current level of financing of their accrued individual entitlements.”

Such obligations are usual for a financial service to provide to clients and are specified in a series of directives, the latest being directive

2004/39 of April 21, 2004. This creates a framework for marketing financial instruments in setting out the obligations of financial advisors and the information to be provided to non-professional clients. Similarly, the project of directive “Solvency II”, concerning access to insurance activities, expected in 2012 provides for arrangements guaranteeing information for clients of insurance firms.

### **Today, subsidiarity obliges, soft law, remains**

The latest annual OMC reports on national strategy for social protection and social inclusion contain a section on *Reinforcing the transparency, debate and information on pension systems in the chapter Modernising pension systems in response to changes in economic, social and individual needs.*<sup>(e)</sup>

(a) <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2000:0622:FIN:EN:PDF>

(b) <http://ec.europa.eu/social/main.jsp?catId=753&langId=en>

(c) <http://www.consilium.europa.eu/uedocs/cmsUpload/Quality%20and%20viability%20of%20pensions.pdf>

(d) <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2003:235:0010:0021:EN:PDF>

(e) <http://ec.europa.eu/social/keyDocuments.jsp?type=3&policyArea=0&subCategory=0&country=0&year=0&advSearchKey=nsr+spsi&mode=advancedSubmit&langId=en>

(f) <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P6-TA-2008-0556+0+DOC+XML+V0//EN>

The report of September 2008, of the Social Protection Committee (ex-High Level Group) in favour of development of second pillar schemes, emphasizes a “*substantial information deficit*” in funded private schemes as well as an “*absence of coordinated indicators and comparable data*”. Since individuals will be more and more responsible for their future pensions, the SPC insists on a need for quality information in order to choose in full knowledge of the facts.

Lastly, a report adopted by the European Parliament on November 20, 2008 on the future of Social Security and pension systems<sup>(f)</sup>, after having pointed out “*that the trend towards individualisation contributes to the modernisation of the second and the third pillar*”, calls on the Commission and the Member States to “*raise awareness among (young) adults of the importance of building-up pension entitlements early*”. ■

## **Allowing beneficiaries wider individual choices in a resolutely reformed framework**

### **Giving full effect to the reform: the Swedish example**

Sweden was the first to provide an example of systematic individualized information to make the new logic of a completely renovated pension system understood. This is the famous “orange envelope” sent each year since 1999 to those insured.

The letter specifies to every Swede covered the sum of contributions paid into his

account and the amount of pension he can expect to receive at age 61, 65 and 70, according to two suppositions: continuation at the same salary level or an increase of salary of 2 %.

The information was part and parcel of the reform of the basic Swedish scheme carried out during the same period. In fact, while in the previous system the Social Security pension was comprised of a basic allowance linked to the length of residence in the country and an earnings related part for a relatively short contribution period, a pension in the new system depends on paid contributions expressed in “notional

## Pension reforms

All of the member States of the European Union have begun more or less radical reform of their pension systems, upsetting the references to which their affiliates were accustomed and ushering in possibilities of choice hitherto unknown.

In the simplest cases, the changes have not modified the architecture of the schemes but their parameters. Such is the case for raising the age of retirement, for example. Most countries where the retirement age for women differs from that for men have decided upon a single age. In the United Kingdom, the age of 60 for women will gradually be increased to that of 65 for men between 2010 and 2020. Afterwards, the age of 65 will rise to 68 between 2024 and 2046 for both men and women. These measures are imposed. They leave workers no choice but their effect will be to change compartments, for careers as well as for future organisation of lives as pensioners, thus obliging workers to modify certain projects.

Other measures adopted by British authorities in the past few years offer certain generations the possibility of increasing their basic pension through voluntary contributions and by deferring retirement several years. Such measures offer choices and require information.

Countries such as Italy, Lithuania and Sweden have radically modified pension calculation, going from calculations that took into account a more or less longer period of the duration of a career (like the French basic scheme) to calculations in “notional accounts” (something akin to the French supplementary point system) in which a pension reflects an entire career, in terms of duration and amount of salary, as well as the retirement age. This sort of reform aims at encouraging youths to start working early, delay the age of retirement and save to supplement their compulsory pension. It is essential for them

to be aware of and measure the consequences of their choices on their standard of living when retired. Information has become a key factor for the success of the reform.

The majority of the new member States<sup>(4)</sup> have adopted new pension arrangements and offer to some or all of the workers an option of remaining within the old system or converting to the new, one of the major features of which is an element of funding. Information explaining the reform has the objective of allowing a choice after full knowledge of the facts.

Development of a proportion of funding generates new choices for insured individuals since they must designate a manager for this part of their contributions, with the possibility of changing if performance is not satisfactory.

Italian workers had six months, the first half of 2007, to choose between conserving their traditional TFR (Trattamento di Fine Rapporto), a sum equal to 7 % of total annual remuneration for each year spent in the company, paid out when quitting, for retirement or to join another firm, or investing in a funded supplementary pension fund. Each new worker must make this same choice within six months of joining a company.

Lastly, resorting to individual and voluntary pension savings accounts poses the classic problems of selecting a manager, the type of product and maybe even the type of investment. ■

(4) Bulgaria, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovenia

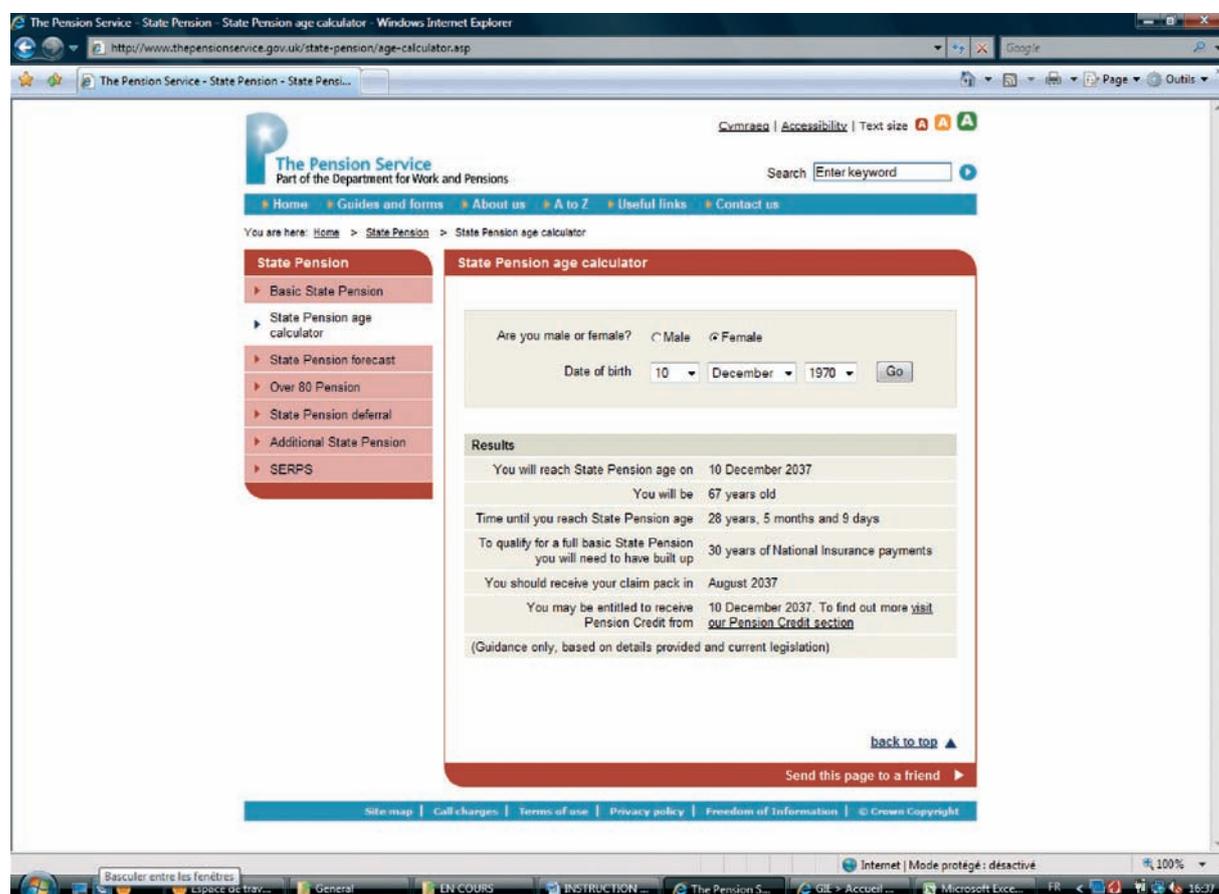
accounts”, the age of retirement and the life expectancy of the generation to which the pensioner belongs. Moreover, a small sum is managed in an individual funded account by a manager selected by the insured. So the Swedes are faced with new choices, the choice of a financial administrator for their funded account and a choice of retirement between age 61 and 70, with the choices having a bigger effect on total pension than in the past.

There is also an automatic balancing mechanism that comes into play to reduce or negate revaluation of acquired benefits and pensions being serviced when the sum of expected contributions and reserves fall short of estimated charges. In addition to the individualised “orange envelope” each insured person receives a yearly “orange report” detailing the financial equilibrium of the system, his notional account and developments

concerning the funded element. In practical terms, a Swedish affiliate can estimate the amount of his pension in relation to the age at which he retires, the pension being all the higher depending on whether retirement is more or less delayed. Extending the duration of activity becomes a measurable way of compensating for the decline in pension due to the longer life expectancy of his generation.

### Making changes and new possibilities known within the system

In the United Kingdom, the Pension Service’s “State Pension Age Calculator”, available on Internet provides information on the age a State pension will be paid. A user simply indicates sex and year of birth to know the date at which a full basic pension will be paid. The Pension Service completes this information with a call to differ retirement in



order to qualify for an “extra State Pension”, equivalent to a 1 % bonus for each tranche of 5 additional weeks, 10.4 % for a full year. Moreover, those reaching retirement age between April 6, 2008 and April 5, 2015 are informed of the possibility of increasing their State pension through voluntary supplementary contributions.

In France, a 2003 reform has added a number of possibilities for insured workers. Selecting a retirement age has become increasingly complicated over the years. The level of pension, which depended simply on age at the origin, has also depended on the duration of insurance since 1983, a condition that has been changing since 1993 and has been pegged to generation since 2007. In addition, there are premiums provided by the basic scheme to augment pension if a worker continues activity after qualifying for full retirement. These can be supplemented by extra points in the supplementary schemes for continuing to work. A worker can also opt to retire progressively under conditions depending on the length of insurance. And

there is the further possibility of cumulating retirement with a job under conditions that are relatively complex and which have been modified several times in recent years. This is without taking into account the supplementary schemes whose rules are increasingly articulated in terms of those of the basic scheme. It’s easy to see that the need for information will grow. All the more so since surveys show that workers remain polarised over the two factors of age and “full rate”.

A survey carried out for GIP Info Retraite in 2009 among active workers concerning their perception of retirement and needs for information revealed that a majority continued to think that increasingly stringent requirements for a full pension before age 65 were applied in function of the year of retirement. Only 37 % knew they were applied by generation, in function of the year of birth. And 67 % of those interviewed did not have a clear understanding of the mechanism of penalties and premiums that decrease or increase a pension in relation to whether one stops working before a fully pensionable age or continues to work afterward.

### **The World’s Bank View**

*“One of the main challenges of any important pension reform is alerting politicians and the general public to the problems at hand,”* writes Robert Holzmann, director of the Department of Social Protection of the World Bank, in the work *Averting the Old Age Crisis: Policies to Protect the Old and Promote Growth*, Oxford University 1994.

The World Bank estimates that pension reform calls for *“a complex and complete array of instruments ranging from aids in elaborating subject matter, to obtaining reliable projections, to creation of communication tools”*. Such tools are a help in improving the visibility of the results of reforms, a condition essential for their success. The World Bank thus places the information process at the heart of pension reform. ■

### **Choosing between two systems**

In Lithuania, workers face a choice even more difficult. Should they join the new basic system, set up in 2004, which is partly in funding, or remain in the traditional scheme, financed in pay-as-you-go? In addition to general information provided on the radio or in the press at the moment of the reform or available on Internet, there is a simulator set up by the Social Security and Labour Ministry which allows a comparison of benefits to be acquired in the new system with those of the old.

The Poles were confronted with the same choice as the Lithuanians in 1999 when Poland, heeding the advice of the World Bank, decided to manage a part of contributions to the basic scheme, which were for-

merly entirely in pay-as-you-go, in funding. The new system was not used for workers aged 50 and over but applied instead to those under 31 as well as new entrants to the labour market. Workers aged 31 to 49 had the choice of joining the new system or remaining in the old. But there were no tools to help them measure the consequences on individual pensions. Information did not go much beyond general, rather optimistic projections published in the press by advocates of the reform.

### Choosing a financial manager

The insured worker, whose contributions are partly administered in funding, whether voluntarily or not, must choose someone to manage them. The choice is more or less open according to the country. A Swedish worker receives a list of some 700 financial managers authorised for the task. A Polish or Hungarian worker is limited to selecting from some twenty funds set up at the time of the reform and specialised in funding. The choice is not definitive. An insured party may quit one fund for another, with competition intended as a stimulus for guaranteeing the quality of management.

But to benefit from such competition, the insured has to be able to appreciate the quality of management and compare various managers. This calls for specialised information.

A European directive of June 3, 2003 *on the activities and supervision of institutions for occupational retirement provision* includes measures for informing members. But it applies to pre-funded company pension plans and not to the new pension schemes. It is national laws that regulate these schemes and specify obligations for supplying information to the members.

In Romania, the last European Union member state to set up a system of individual

funding as part of the basic scheme in 2008, a law provides for mandatory annual information, written and free of charge, concerning the fund and the individual situation of the insured. The pension fund must reveal its assets and liabilities, investment policy, financial yield, the number of participants in the fund, etc. It must also provide specific information concerning the individual account of the participant, such as the gross amount of contributions, the net sum converted in units of account, the number of units of account accumulated by the participant and the value of his personal assets. In this respect, the Romanian law seems more stringent than the European directive that limits information to those who ask rather than making it systematic. It is also more demanding towards the pension funds than towards the pay-as-you-go Social Security segment. The Romanian National Pension and Social Security Administration must also transmit to the insured a certificate of contribution every year, stipulating the number of months for which an employer has paid contributions and the sum of the contributions.

In Italy, the COVIP (*Commissione di Vigilanza dei Fondi Pensione*) sets the rules for information for pre-funded supplementary schemes. It determines the type of document to be distributed to new members as well as the yearly information to be provided. An introductory letter outlines the statutes of the fund and, depending on its nature, the internal rules or contract. There is also a description of:

- ◆ the characteristics of the scheme, financing, pension calculation, possibilities for early retirement, tax rules and procedures for appeal,
- ◆ investments, their type and benchmark,
- ◆ annual yields over the past ten years and average yields for three, five and ten years,

◆ costs determined according to a standard method that allows comparison with other funds. The COVIP has established a synthetic index and publishes projected average management costs on its Internet site covering 2, 5, 10 and 35 years of membership.

◆ standard forecasts established on the basis of economic and demographic projections as well as yields set by the COVIP. Each insured worker can calculate his future pension on the fund's site.

Annual information updates the data and adds information concerning each insured person, with the sum of accumulated capital, the fees deducted for management and an estimate of future supplementary pension respecting rules set by the COVIP;

A joint report of the European Commission of 2009 on strategies for social protection and social insertion notes that requirements vary greatly from one member state to another. They mainly concern past and present yields. Information on management costs though is extremely hard to come by.

### **Developing a financial culture**

Choosing a manager and evaluating performance require a proper financial culture, all the more so since the trend is increasingly towards individual choice. Either a pension fund offers different asset management profiles or the worker voluntarily decides to contribute to a pension savings arrangement. The need for improving the level of worker comprehension is a recurring theme in countries where individual funding plays an important role. The joint report of the European Commission of 2009 notes that *“Improving information and levels of financial literacy of people covered by individual funded schemes is therefore integral to the success of private pensions especially given times of financial volatility. While this may have pre-*

*vented less of a problem earlier, as the new funded schemes were generally introduced during times of economic growth, developments in 2008 have shown that sufficient levels of information and financial literacy are a prerequisite for individual choices on investment risk. It is vital for the continued success of schemes already launched that individuals have a basic understanding of the risk involved.”*

The choice does not stop with the management of accumulated capital even if it is this accumulation that represents the main part of the information provided. Often, pension savings plans offer various options upon retirement, such as lump sum or partial payment of capital or conversion to annuities, indexed or not

In the United Kingdom, the Pension Service Internet site refers queries concerning pension savings to the site of the Financial Services Authority as well as a site designed to facilitate the choice of a financial advisor.

In Germany, contributors to the basic scheme are encouraged to subscribe to a pension savings plan (Riester Plan for salaried employees and Rurup Plan for independents). Federal Authorities in cooperation with insurance firms, adult education groups, the social partners and the Federal Consumers Association launched a campaign to educate those concerned in 2007.

### **Allowing better control and encouragement to contribute**

The French pay slip shows company and worker contributions, deducted from gross wages, to pension schemes. It constitutes a worker's proof to a pension organisation for validation of benefits corresponding to the sums deducted. But it does not represent a means of control, since nothing exists to show that the employer effectively transfer-

red the contributions. On the other hand, publication of validated benefits on line allows a worker to check that benefits corresponding to contributions were effectively recorded.

In the new member states, the basic schemes frequently provide insured workers with yearly information indicating amounts paid in their name by employers. This is the case in Poland, Romania and Slovakia, for example. This permits the insured to check payments from an employer and their registration by the pension institution. Illustrating accrued benefits may also encourage a worker to extend his active career as well as convince him to accept legal employment with pension benefits rather than moonlighting.

Checking the exactitude of recorded information and correcting files throughout a career rather than at the moment of settlement is a possibility pension institutions are expecting. In France, when information systems were being set up, there was a fear of being overwhelmed by requests for explanations. Now it's the opposite. It is feasible in the near future that personal information transmitted on line will allow an interactive exchange between insured individuals and the administrative organisation.

Possible tax deductions for contributions, within certain limits and conditions, also generate information needs beneficial for insured members. Deductions may be allowed in company plans and personal pension savings plans. The situation can become complicated when pension savings contributions are also deductible from the basic Social Security contributions.

Such complexity has led two of the three Belgian basic schemes, those for salaried workers and civil servants, to form a non-profit organisation, SIGeDIS, to manage data banks and develop applications so that schemes can process present and future pension benefits in a coordinated way. This will allow the schemes to furnish tax and social authorities the data necessary for applying deduction rules.

Lastly, improved information helps workers to retrieve forgotten benefits in former schemes and funds to which they contributed over a limited period and sometimes without knowing it. Ircantec, a French supplementary scheme, which receives contributions from contract public employees, often for extremely short periods, notes that the development of the "blue envelope" lowers the number of unclaimed benefits. ■

# How to Inform?

*Setting up a comprehensive and uniform system of information is more or less complicated by the nature of a national scheme. This is also true of estimates which are more or less easy depending upon the mode of acquisition of pension benefits and which require forecasts of future developments, posing the problem of reliability.*

## Constraints related to the organisation of the pension system

The problem of supplying information to active workers varies, depending upon the complexity of the scheme, or whether the aim is to be comprehensive or limited, for example concentrating on the basic scheme. Europe provides a wide variety of pension landscapes, with no two countries having exactly the same organisation. It is possible though to identify several overall patterns. Whatever the initial problems, the trend is to furnish increasingly exhaustive information, encompassing the entire range of pensions.

### A single basic scheme and numerous supplementary schemes

In countries adhering to the so-called “Beveridge” model, the basic scheme is national and managed by public authorities, with information stemming from a unique source. If simplicity is the rule at the first stage or “pillar”, the second tends to be extremely complex. So whether the pension is low or paid on a flat rate, information limited to this pension is of little use to the majority of the insured.

### Starting with the supplementary schemes...

Such is the case in the Netherlands. The basic pension is the same for everyone, at 65, based on the number of years of residence in the country. So it's easy to calculate. An average of half of Dutch pension benefits though come from supplementary schemes. These are established at branch or company level by the social partners. There are some sixty branch schemes and several hundred company schemes, each with its own rules.

Under such conditions, it's not surprising that the first initiatives for providing infor-

**Surviving dependants' pension**

Payment after death before pension age:  
Your partner receives ....EUR until 65 years  
Your partner receives ....EUR after 65 years

Payment after death after pension age:  
Your partner receives ....EUR until 65 years  
Your partner receives ....EUR after 65 years

Payment after death after you left the Pension scheme:  
Your partner receives ....EUR until 65 years  
Your partner receives ....EUR after 65 years

Payment when disabled:

**UPO page 2**



**Uitkering bij overlijden**

Bij uw overlijden vóór uw pensioenleeftijd	
Uw partner ontvangt vanaf uw overlijden tot 65-jarige leeftijd	€ 20.525,85
vanaf 65-jarige leeftijd	€ 8.973,50 excl. AOW
Uw kinderen ontvangen per kind vanaf uw overlijden tot 18-jarige leeftijd	€ 5.194,78

Bij uw overlijden ná uw pensioenleeftijd	
Uw partner ontvangt vanaf uw overlijden tot 65-jarige leeftijd	€ 20.525,85
vanaf 65-jarige leeftijd	€ 8.973,50 excl. AOW
Uw kinderen ontvangen per kind vanaf uw overlijden tot 18-jarige leeftijd	€ 5.194,78

Bij uw overlijden na beëindiging van uw huidige dienstverband	
Bij uw overlijden vóór 62-jarige leeftijd ontvangt uw partner	€ 0,00
Bij uw overlijden ná 62-jarige leeftijd ontvangt uw partner vanaf uw overlijden tot 65-jarige leeftijd	€ 4.300,15

mation for active workers came from the supplementary schemes, encouraged by the branch pension fund association, the VB (Vereniging van Bedrijfstakpensioenfondsen), which offers a service, open to all, to help workers track down their pension benefits in firms or funds where they may have lost all trace.

Since 2008, pension funds are legally bound to inform current affiliates of their accrued benefits every year and former affiliates every five years. A statement, the UPO (Uniform Pension Overzicht), is sent by post. It indicates an estimated amount of pension at 62 and 65 for two separate cases, that in which the worker continues the same job covered by the same fund, and that in which, with a change of job or employer, he changes fund and stops accruing benefits in his present fund. It also stipulates the level of sur-

vivor's benefits in the event of death before or after retirement age.

A worker successively affiliated to several pension funds over the course of a career receives a UPO for each fund. It's up to him to put them together. As of 2011 though, a member of the National Insurance Scheme will be able to use his Social Security number to query Internet for the full data concerning his future pension, basic and supplementary schemes together. There are further plans, in a future step, to integrate voluntary and individual plans.

*... or with the basic scheme.*

Information included since 1999 in the Swedish "orange envelope" concerns only the basic scheme that covers the entire population. But Swedish workers are practically all covered by four big supplementary schemes,

one for “white collar” employees, another for “blue collar” workers of the private sector, a third for State civil servants and finally one for local government civil servants.

Since December 2004, they can obtain full information on an Internet site<sup>(5)</sup> set up in common by the basic scheme which is run by the public authorities, the supplementary schemes administered by the social partners and the 700 funds likely to receive the funded portion of the basic pension, which are managed privately. This site offers information on benefits acquired in all of the schemes, basic, supplementary and pension savings. Like the “orange envelope” it also offers forecasts of expected pension levels for various career conditions and retirement ages.

### **Multiple basic and supplementary schemes**

In countries with a so-called “Bismarck” model, there generally exist several basic schemes, corresponding to different professional sectors, and supplementary schemes that play a less important role than in the Beveridge model. Information thus comes from several sources. Some workers though, particularly civil servants, can belong to a single scheme and have a more precise idea of their future pensions. All the same, the public sector has not escaped the trend toward more mobility and reform, generating new or additional needs for information.

### ***Information limited to certain basic schemes...***

In Germany, systematic information for active workers concerns only two of the four basic schemes, the pension insurance system for salaried employees and the civil servants scheme. It does not include schemes for miners and farmers or those for the self-employed. Supplementary schemes, whether for companies or individuals (Riester plans

for salaried employees, Rurup plans for independents) are not covered.

The situation is the same in Finland, where information is limited to benefits accrued in the single basic scheme for salaried employees of the private sector. It should be extended to the public sector in 2011.

### ***... concerning all mandatory schemes...***

Information made available by France’s “blue envelope” covers 35 basic and compulsory supplementary schemes, responsible for 98 % of total pensions. It furnishes a far-reaching analysis of future pensions for most workers, who, on average, depend on three schemes during their career. Only a minority have to supplement the information provided by the “blue envelope” with information from an eventual supplementary company plan or a retirement savings manager. But the likely development of non compulsory supplementary pensions could gradually modify the situation.

### ***... or with the purpose of covering basic and professional supplementary schemes.***

In Belgium, the Law of December 25th 2005 relating to the pact among generations provides for the automatic issue of a career statement at age 55, including an estimate of accrued benefits for the three basic schemes (salaried employees, civil servant and self-employed). The law also establishes a “pension cadastre”, a data bank covering the acquisition of supplementary pensions.

The SIGeDIS association, established by schemes for salaried employees and civil servants to respond to demands for social and fiscal legislation, has acquired a new function. Supplementary pension schemes can sign agreements with SIGeDIS to carry out their growing obligations in providing information to tax authorities as well as contributing members.

(5) [www.minpension.se](http://www.minpension.se)

## Various methods of cooperation among pension schemes

As soon as information comes from several schemes, the question is to know whether it is provided by each scheme independently of the others or if it is grouped. The problem of providing grouped information calls for setting up a joint mechanism but not necessarily a joint database. The capacity of modern methods of data transmission makes decentralised solutions possible.

In Finland, the compulsory scheme for private sector employees is made up of two components, the one represents a sort of minimum pension, the other is proportional to wages, with no limit, leaving very little room for supplementary systems. Mutual insurance companies, company schemes and branch schemes run the proportional pension in a decentralised manner. A semi public authority, the Finnish Pension Centre, was established to oversee a centralised register for benefits. It is jointly responsible along with the institutions that manage the scheme. The centralised register includes career data supplied by employers for determining accrued pension benefits as well as benefits attributed for other reasons, such as scholarships, unemployment and periods for educating children. Workers can thus follow the progress of their pension benefits.

In France, a Law of August 21st 2003 on pension reform obliges pension schemes to send each contributing member periodic statements compiled for all of the schemes and, as of age 55, an estimate of the amount of future pension. The Law establishes a public interest group, "GIP Info Retraite", a legal entity made up of the schemes concerned, to implement the obligation. After definition of the content and presentation of the overall document, the choice was made not to set up a central data bank with GIP Info Retraite acting as manager but to create a

module for exchanging data among schemes, with the conception and operation entrusted to the schemes themselves. The information, thus compiled, is sent to the member by the last scheme to which he contributed, with basic and supplementary schemes sharing the task in function of the month of the member's birth.

In the Netherlands, where data from the basic and supplementary schemes should be accessible as of 2011, the intention is also not to centralise data but to establish links allowing it to be assembled and sent.

### Constraints related to the way of acquisition and calculation of pension benefits: workers expectations for a precise and detailed estimation of future pension

For workers, information concerning accrued benefits represents only a part of their expectations. Knowing when they can retire and with what amount of pension is perhaps of even greater importance. By indicating the number of validated quarters, France's basic schemes provide an answer to the first question... subject to future changes in the rules for age and length of insurance. In indicating the number of acquired points and their current value, the French supplementary schemes reply to the second question... subject to the future value of a point and, of course, the number of additional points the insured will acquire before retirement.

How can we go further toward providing a full reply? With simulations, or even better, estimations. Simulations consist of calculating an age and future level of pension in function of data furnished by a worker along with his proper projections concerning his career. Estimates calculate age and pension level in function of data in the hands of the

pension scheme. This data, consisting of the contributions paid by a worker since the start of his career, are definite. So an estimate should be more reliable than a simulation. This is not always the case though, since the schemes are aware only of what they have received in the way of contributions. They are not necessarily aware of all of the elements entering into the calculation of a pension.

Lastly, whether they are simulations or estimates, calculations depend on conjectures in terms of regulations, the financial equilibrium of a scheme and individual careers, factors that call into question the reliability of such calculations, especially over the long term.

### How to evaluate accrued benefits?

The method of calculating pensions can be used more or less for providing information about benefits in the process of being attributed and thus evaluating the amount of future pension.

Schemes we might qualify as additive are the easiest. Benefits acquired each year are determined by contributions paid during the year and do not depend on future career developments. Schemes relying on points or notional accounts function like this. A French worker can figure his supplementary pension benefits each year by adding the points acquired and multiplying them by the value of a point. The more points acquired, the higher the pension. Similarly, a Dutch worker can easily evaluate his future basic pension. From his 15th birthday onwards, each year of residence in the Netherlands counts for 1/50th of the eventual pension whose level is fixed and independent of activity and the payment of contributions based on the first two tranches of income tax.

The calculation is easy but it can be seen that the value is relative. In fact, the euro value of accrued benefits is based on the cur-

rent value of a point, or on the current flat rate of the basic pension. There is no way to know in what direction these values will go. If tomorrow the French social partners lower the value of a point or the Dutch Government decreases the level of basic pension, the value of accrued benefits will drop proportionally. The same is true for Swedish notional accounts where the level can diminish due to financial balancing factors. Thanks to the economic and financial crisis, this is the case in 2010<sup>(6)</sup>.

Things are more complicated in schemes where the pension is calculated in terms of the length of insurance and wages, which will only be known at the end of a career. Traditional pension funds and public sector schemes often follow a defined benefit model. This seems simple, allowing an easy anticipation of retirement pension. For example, a French civil servant acquires a percentage of the remuneration he'll earn during the last six months of a career every year; a Dutch wage earner approaches the level of pension every year (basic pension plus company pension) most often supposed as representing 70 % of his last wages (or the average of his last years of wages, the exact reference varying from one pension fund to the other). But a French civil servant must complete at least fifteen years in public service. How can benefits be determined before reaching this point? In proceeding as if the person concerned would do so, which is normally the case? Moreover, the last wage is unknown. But the real value of the percentages acquired will depend on it. The same is true for a Dutch wage earner. What reference should be used in the meantime, the level of remuneration for the year underway?

We can assume that there is little chance of a decrease in the stipend of a civil servant over the years. When this sort of calculation is applied to private sector careers though, incertitude concerning the future course of

(6) The «balance ratio» led to decrease accrued benefits and pension paid of 4% in 2010. A change in the method of calculation of this balance ratio, taking in account the average value of reserves over the last three years (and not just for the past year) reduced this decrease to 3%. For pensioners, the effect of guaranteed minimum pension and changes in taxes on pensions should more or less compensate for a loss of purchasing power.

the career goes up sharply. The French basic scheme determines pension on the basis of the number of validated quarters and the average twenty-five best years of a career, adjusted in terms of prices. The accrued benefits of a private sector worker though are hard to evaluate other than at the end of a career since only a few of them enjoy a full career with a linear rise in wages. Several years of unemployment at the end of a career can also affect the balance.

Confronted with such difficulties, it may be wise to limit information to the accrued elements in the calculation of future pension without going so far as providing a monetary conversion. The French basic pension scheme (CNAV) indicates the number of validated quarters along with the wages subject to contribution without specifying the amount of pension. The supplementary schemes indicate the number of acquired points along with their current value but refrain from stipulating the size of pension in euros.

Acquired benefits in a funded scheme with defined contributions and personal accounts pose another kind of problem. Such schemes generally communicate the sum of accumulated capital. The crucial question of converting this into annuities often remains in the dark. In the new member States, the creation of funded personal accounts as part of the basic scheme have often been carried out with little regard for the practical details of converting savings into annuities. It's true that the new funded pensions of the basic scheme will not be paid for a number of years with the most elderly workers covered by the former Social Security System financed entirely in pay-as-you-go. But the Romanians who choose a pension fund today, like the Poles before them, do not know how the funded part of their pension will be settled. In Hungary, the rules have been defined. But the pension funds consider them too restrictive and have said that they are capable of

managing the accumulation of funds but not their conversion into annuities. In Poland, the first pensions are to be paid in 2009, with the law defining the rules for conversion to annuities adopted in extremis. It has been blocked though by the President of the country for a lack of provisions for upgrading annuities.

### **How to forecast future benefits?**

It is hard enough evaluating benefits accrued at a given moment but projecting them into the future represents an almost impossible challenge. A number of French workers reaching 55 receive only a statement of their benefits with no reference to their future level of pension. This is due to the complexity of the rules. For the handicapped especially, personal information supplied upon demand is the only solution. The situation of the unemployed poses other problems. The choice was made to consider their career as covered by unemployment insurance up until retirement.

The expectations of workers are high, especially those who are approaching retirement age. How to reply to such expectations without creating an illusion of certitude, knowing full well that forecasts are based on factors that are subject to change? The French social partners have been hesitating to introduce a simulator on line for supplementary pension benefits while insurance firms are multiplying the number of simulators to respond to clients.

The simulator exists though, within the highly official structure of Gip Info Retraite, under the appellation of "Marel" (French for "My Pension on Line") and integrates all of the compulsory schemes. It indicates likely levels of pension at various ages, based on data supplied by the user himself, such as age, number of children, career and a choice of career profile among those suggested for the years remaining until retirement. The

simulator has enjoyed great success, with more than 6.5 million visits since entering into service in June 2006. More than two-thirds of the visitors are in their fifties.

Such a simulator furnishes data that is no more than approximate and theoretical, especially when the career isn't linear and the worker is young. In spite of such warnings though, its official character lends particular weight. Even better, insured members can compare figures the simulator supplies, based on their declarations, with those the pension schemes send out as of age 55. A further educational effort is needed to help them understand the difference.

In the same vein, Belgium has made a simulator available on Internet since 2006. It relies on retrieval of data by the person concerned and respects current legislation. The software allows an estimate of the level of yearly pension. Moreover, the person concerned can find explanations of this level, such as the formula used for calculating the overall pension.

In Quebec, the member has a simulator at his disposal for calculating the basic pension "Service Canada". Supplementary schemes also provide simulators, such as CARRA for the public and semi-public sector and Régie des Rentes for the private sector. These simulators resemble those in France and Belgium in that the user must supply his own personal data. However, the user must supply more data in Québec than in France and Belgium.

### ***Forecasting in term of current legislation with no regard for resources***

Many countries carry out projections and inform workers on the level of pension they can expect at retirement by using hypotheses concerning the extent of career remaining.

Compared to simulations, such projections offer the advantage of being based on

benefits actually recorded in individual dossiers. Nevertheless, they use hypotheses that may prove to be erroneous. Most countries have chosen to make projections based on unchanged legislation, taking into account only those modifications already decided upon and programmed for future application. For example, in France, the "Overall Individual Estimates" take into account an increase in the number of quarters necessary for full retirement before 65 to 164 quarters for generations born in or after 1952. But they go no further, even though the reform of 2003 calls for linking a rise in life expectancy to the duration of contributions required for retirement at 60, with no references having yet been set for the years after 2012.

In a period where the financial stability of schemes is under pressure, it is feasible that rules for determining and adjusting benefits will change except if we consider that resources will be increased in proportion to needs.

Even in schemes with defined benefits there is uncertainty. Although they have not given up on providing a replacement rate of 70 % for a full career, the social partners running the Dutch pension funds have often modified the benchmark period, going from a salary of the final year to an average of the last five years or to an average of an entire career. If the calculation of a French civil servant's pension continues to be based on remuneration received during the last six months of a career, the percentage accrued per year of service, formerly set at 2 %, will be no more than 1.829 as of 2012 and will probably drop to 1.8 in 2020.

Incertitude is proportional to time. The younger is the worker, the riskier the forecast. In practice, they are carried out at ages that vary from country to country: at all ages in the UK, as of the first statement in the Netherlands, as of 27 in Germany, with a worker required to have at least 5 years of

## The point of view of Heinz-Dietrich Steinmeyer<sup>(7)</sup> on informing German workers

All the measures taken furnish workers with a sizeable amount of information concerning pension benefits. But each scheme provides only what is available in its own system. An overall view, integrating all of the pillars is missing. An individual can wind up with information on the basic scheme, that of insurance firms covering several life insurance contracts, that of a Riester plan and that supplied by the various company schemes spanning his career.

Figures from the basic scheme are difficult to reconcile with those provided by company schemes and life insurance. Even comparisons between the latter two can be delicate. The basic scheme indicates a level of pension at the moment of retirement, including future career possibilities. For a thirty-year-old worker, this can suggest a pension level that seems high in terms of today's euros since it doesn't take into account rises in the cost of living, which are pro-

gressing at about the same rhythm. Meanwhile, company schemes and life insurance indicate the amount of benefit acquired to date.

It's hazardous to base a decision on such information in these conditions. A decision made on what the worker is hoping for and what he should do, even in the case of an average career, remains the work of a specialist, a specialist that is hard to find, especially when he is supposed to be independent of pension schemes and insurers.

We have to admit that, in the case of a complex pension system, estimates are work for a specialist and hard to understand for the average affiliate. It is possible though to improve information to active workers.

(7) Heinz-Dietrich Steinmeyer is a professor at the Institute for Social Law of Münster University and chairman of the European Network for Research on Supplementary Pensions.

insurance, starting at 28 in Sweden, 45 in Belgium, 50 in Finland and 55 in France. Germany calculates two levels of future monthly pension, applying a 1 % growth rate to the average wage received over the past five years and then a second one 2 % growth rate<sup>(8)</sup>.

### Practical modes

#### Identification and security

The issue of securing information systems comes up only when questions of individual liberty are involved. As soon as personal data is stored, exchanged and transmitted, information systems presuppose user confidence. On the other hand, operations not relying on personal data, such as estimates or simulations, do not call for the same precautions.

Sending information systematically requires the pension scheme to know the address of the insured worker. This is not always the case. French supplementary schemes for salaried employees have long sent annual points statements to employers, counting on them to transfer the statement to the employee. Making information available which is common to all of the compulsory schemes, posted to the homes of insured workers, involves the adoption of the same identifying code by all of the schemes, a certified national identity number. It also calls for keeping the address file up to date.

Setting up personalised information on line poses the problem of access security. Especially when the Internet site aims not just to provide information but also to exchange data. Such is the case in Spain

(8) A complete description of rights to information in the German pension scheme may be found in volume IV "Old age insurance" of the report on the project for the Social Security Financing Law for 2008 by Denis Jacquat, pages 53 and following (National Assembly n° 295).

where the Social Security site is accessible to employers as well as employees, each for the information that concerns him, and allows operations such as affiliation of employees. This is actually an E-administration site that also covers Social Security pensions. The individual account of the insured worker includes career, paid contributions, pension adjustments, duplicates of various certificates and administrative claims in progress.

In Germany, an insured member can ask to get a career record but it will be sent by post since electronic data cannot be fully protected from snoopers due to a lack of a secure identity code. The basic scheme carried out a technically successful experiment with a bank. Members could consult their pension account, with the use of their bankcard. But the cost of acquiring a pension insurance card, around €35, seems too steep for members, who on average consult their pension scheme twice during their career. A solution may arrive in 2010, when the State introduces an electronic identity card, that every German can obtain, which serves for administrative formalities and, in a more general way, for personal identification on Internet. In these conditions, it seems likely that an increasing number of members, especially younger individuals, will adopt the solution.

This sort of electronic identity card is already in use in Belgium and Austria, where it serves in contacts with the Social Security Administration. Strangely enough, the German Pension Insurance Authority can provide a Belgian or Austrian who worked in Germany with career information electronically, while it cannot do this for Germans yet.

### **Internet sites, a change in dimension**

Traditionally, information could be queried and social institutions responded to questions from members. Often, their obligations in the area were defined by law. In Bel-

gium, a law of 1995 requires Social Security institutions to provide citizens with all useful information concerning their benefits.

The modern variant of this practice consists of rendering information accessible on an Internet site, corresponding to technological advances and changes in comportment. In France, a Sofres survey of young working individuals, aged 25 to 34, carried out in 2008<sup>(9)</sup>, showed that 80 % of them considered Internet an efficient means of information on group pension savings and a welcome tool for simulations.

Putting data on line though implies compiling information not for a restrained number of affiliates who ask for it but for an entire group of contributors, each susceptible to consult the site at any moment. The data must also be constantly updated. This is a change in scale and management. Sending information systematically and periodically imposes similar constraints. That's why some countries, which started by distributing information periodically have opted for service on line. In France, the Agirc and Arrco supplementary schemes for salaried employees adopted this approach in 2009. Early in 2011, the individual situation report, prepared under the aegis of GIP Info Retraite will follow suit.

The Finnish schemes have gone in the opposite direction. They started by proposing a smart card to allow members to access their individual benefit accounts. Due to a singular lack of interest, very few members took the trouble to check their benefits, and remarking upon the popularity of on line consulting for bank accounts, the Finns chose to use bankcard codes to allow access at any moment to the central register. This register includes not only pension benefits but also sensitive data such as salaries. Administrators hoped that such a facility would encourage greater numbers of workers

(9) Survey carried out for Crédit Agricole Asset Management.

to consult and corroborate the exactitude of their benefits. Once again, the results were disappointing and the decision was taken to send an annual statement to the three million members as of 2008, giving them the choice of continuing to receive their statement by post or electronically.

### **Systematic information**

The Finnish example demonstrates the voluntarist character of systematic information. It does not simply represent an alternative to information upon demand. It expresses the hope of establishing a contact, a link, with the insured member. That's why the French supplementary schemes informed each of their members of the possibility of secure on line access to their updated points statement and encouraged them to use it.

When information does not just aim at improving service to the member but also of sending a message, systematic information by post presents an advantage. The Swedish "orange envelope", a pioneer in systematic information for active workers and the French "blue envelope", which drew inspiration from it, serve as examples. The German schemes also send some 36 million paper documents yearly.

Not all countries choose to supply annual information, even if this procedure seems to predominate. In France, a reform of 2003, calls for information to be sent every five years, as of age 35. But the right to demand it at any moment and the possibility of having it on line in the near future tends to limit the impact of such periodicity.

### **Traditional modes of information are still useful.**

Systematic information is not a replacement for traditional modes of information, such as postal and telephone replies or interviews in reception centres. To the contrary, it generates reactions and questions, most often by telephone, as shown repeatedly in France and the Netherlands. Contact with French schemes comes mainly by telephone, in 93 % of cases, occasionally by mail, 20 %, very little by Internet, 4 % and, face-to-face interviews, 5 %, keeping in mind that several modes of contact may be used by the same person. In the Netherlands, the telephone is used 75 % of the time, with the post barely representing 5 %. The German scheme has set up a single number, cited in the annual information document, with 1 600 000 member inquiries registered in 2006. In addition, there are more than 100 reception centres, staffed by volunteer counsellors to inform and help members. They received some 2 million visitors in 2006. ■

# Inform, what are the consequences?

*Usually intended to encourage the awareness of active workers and a change of attitude, systematic information has shown itself to greatly stimulate progress in managing schemes. This can be seen in changes in organisation sometimes more sweeping than imaged at the start. On the other hand, the effect on active workers and their behaviour is more difficult to measure.*

## The consequences for pension schemes

Systematic information for active workers is likely to change the image of pension schemes, if only to make them better known. In France, less than three out of ten active workers can cite the name of the scheme to which they belong. The French “blue envelope” has contributed to making the schemes recognized and improving their image. Pension schemes, which were lacking in visibility and any special identity, were generally associated with an idea of dusty file cabinets even though they form a veritable heavy industry of computer science. They suddenly look modern and more concerned about the needs of workers.

It's not only the image that has changed. When information compels schemes to cooperate, it also opens minds and stirs competition, each scheme comparing its particular organisation and efficiency to the others. A report, established after each information campaign by GIP Info Retraite, reveals a difference in member satisfaction according to scheme. Lastly, management methods and, in some cases, the basic organisation of the scheme, can change due to limits imposed by systematic information.

## The need for new technologies

For pension institutions, demands for information add to the pressure for modernisation and transparency required by the EC Commission. In a communiqué of April 25, 2006, the Commission revealed an action plan for e-government. A new European regulation on the coordination of social security systems requires the social systems of the member states to devise a method of electronic data exchange to replace existing paper forms. Pension schemes have two years to adapt to the new situation. A massive shift to

data processing and new technologies has become inevitable.

### **Setting up individual accounts**

Personalised information supposes keeping individual accounts and thus, in the case of some schemes, setting up such accounts. This is the position of the Belgian civil servants scheme, which has to send estimates of recorded benefits and future pensions to members in 2010. The same was true for its French counterpart, something that has transformed its mode of operation. Formerly each ministry managed accounts on its own, with pension payments handled by the Ministry of Finance. Then, in 2009, the State Pension Service was set up to administer individual pension accounts for which benefits are recorded in the course of a career, introducing an “industrialised” procedure for settling pensions. A telephone call centre as well as an Internet site was also set up.

### **Management on a day-to-day flux**

Delivering periodic information to members, often yearly, requires pension schemes to continually update individual accounts. If members can check accounts on Internet though, a pension scheme must be able to make accrued benefits available at any moment. This represents a big change in administrative habits. Benefits were always recorded when contributions were paid but the lion’s share of work was reserved for the period preceding retirement. That’s when the file was prepared, benefits compiled, with a member often being invited to verify the accuracy of the result. Data subject to change, such as number of children or marital status, was not taken into account until then. With periodic information, the file must be complete at any moment, allowing a member to contact his scheme to rectify errors or possible omissions. In fact, he is increasingly encouraged to do so. Settling a

pension at the moment of retirement will be all the easier. Formerly a major task, it will become a mere formality, an updating of a file, which is constantly ready.

### **From information to advice**

Despatching systematic information does not eliminate the need for advice. To the contrary, it generates questions and requests for adjustments.

On the practical side, in the case of France’s “blue envelope”, questions can involve several schemes. The 35 members of GIP Info Retraite are organised so a member can get an answer by consulting one of the schemes concerned, as a rule the one whose references figure in the correspondence. The scheme chosen answers questions of a general nature and the ones concerning it. When the question involves other schemes, a “contact slip” is established, which is available for consultation by all of the schemes concerned, with each responding directly to the member. 81 % of those asking for explanations or adjustments have declared the procedure to be simple, efficient and time-saving.

The complexity of certain reforms and a transfer of responsibility to members for their pension have created a need for advice that is new for Social Security schemes. Faced with the possibility of paying contributions for validating years of studies, or for supplementing years of low contributions, French workers are turning towards schemes that calculate their pension before and after redemption. The comparison, however necessary, does not explain everything. Should a member be advised of the fiscal advantages of redemption, given indications concerning life expectancy or even provided with comparisons of what investing a similar sum in a funded savings account would earn? Another example, should officials of pension schemes encourage members to continue

their active career, as government authorities hope, by insisting on the advantages of a pension premium? And while giving advice, don't pension schemes risk having members criticise them in the future for bad advice? Or having provided no advice? A convention for goals and administration, signed by the State and the CNAV for 2009-2013, calls on pension authorities to promote "senior" employment. "The pension authorities will endeavour through daily action to change the attitudes of companies and active workers and favour a rise in the rate of employment of "senior" employees." Meanwhile, the Agirc and Arrco supplementary schemes will accent efforts for counselling, counselling that is not strictly limited to their own regulations and that depends on computers aids. The "industrialisation" of administrative procedures makes room for more human contact. The centre of gravity of pension schemes is shifting, from pension settlement to career counselling and information.

When does the shift from information to advice occur? In Germany, one of the objectives of systematic information is to call attention to the fact that a basic pension will not suffice in the future to cover all needs. Active workers can complete their future basic pension with voluntary pension savings. Social Security advisors are trained to propose various savings plans to workers seeking guidance, in terms of age and professional situation. However, these advisors are not authorised to indicate a particular product or plan. If a worker asks, for example, which Riester plan yields the best results, the advisor recommends one of the consumer groups for a comparative study.

### **The impact on insured workers**

Systematic information can have legal consequences for workers. In Finland, since members of the basic scheme are supposed

to check validation of their benefits and react in case of error, responsibility for proving the validation of former periods of employment will gradually revert to them and no longer be the responsibility of the pension institutions.

But it poses two highly important questions. Does the information actually get to members, first of all physically, second of all intellectually and if yes, does it influence their behaviour?

### **Does information get to workers? The example of the "orange envelopes" and the "blue envelopes"**

Since 1999, thanks to surveys, the Swedes have been closely following the reception accorded the "orange envelope". The same is true for the "blue envelope" in France since 2007, when the initial information campaign was launched.

The first problem encountered in sending information to a member's home was of course a correct address. The French schemes estimate that 10 % to 15 % of members did not receive their "blue envelope" because of an incorrect address. It is members who have not contributed recently that are the most difficult to locate, even with the help of the National Health Insurance System. These are mostly women and foreign-born workers.

It also has to be read. 92 % of those receiving a "blue envelope" in 2007, 90 % in 2008 and 2009 affirm to have looked at it, with the proportion of those having read it entirely, including the details, increasing year by year (45 % in 2007, 48 % in 2008 and 55 % in 2009). There were only 72 % of recipients of the Swedish "orange envelope" in 2005 to have partially read the contents and 9 % to read it entirely. But for the French, it was something new and they would not receive another by post for five years, while the Swedes receive theirs every year, and this has

been going on for about ten years. Moreover, all of Sweden's insured workers receive it, even the youngest. While in France the "blue envelope" was only sent to those aged 50 and 58 in 2007 and 45, 50, 57 and 58 in 2008. The approach of retirement age serves as a strong motivation for opening the envelope! In Sweden, if 80 % of those over 45 open the "orange envelope" and 72 % look at projections of their pension benefits, the numbers drop to 63 % and 27 % for those under 30. It may be noted that a slight drop in age in France of those concerned in 2008 coincides with a slight drop in curiosity for the "blue envelope". Age quite logically remains a strong factor for interest in the question of retirement. For the same reason, French workers did not simply content themselves with reading the documents they received but 82 % actually verified the contents, especially those closest to retirement, and almost all conserved them even though realising they simply contained information.

On the whole, those French concerned seemed highly satisfied with the experience, which was new for them. More than 90 % found the information interesting, clear and comprehensible, even if it required a certain effort. A large majority judge themselves as sufficiently informed and think they understand the workings of retirement better. The "blue envelope", since it assembles in a single document all of the benefits accrued in various schemes, along with projections for the oldest members, represents appreciable progress in comparison to various "career statements" or "point calculations" furnished previously.

Only a minority of Swedish workers, probably because even young workers are included in the statistics, think they understand their pension system. Even more astonishing, their number has decreased, going from 48 % in 2001 to 36 % in 2005. With no great surprise, the oldest and most educated

men understand the system best, with the self-employed understanding it the least. In 2005, 34 % of the self-employed, 37 % of blue collar workers and 48 % of white collar workers indicated to know the system well or fairly well.

The "blue envelope" generates relatively little reaction from the insured. If one insured person in four estimated that the document is incomplete or in error, only 7 % contacted the pension scheme responsible. About half of them contested certain data, a quarter indicated a mistake in address or identity and a quarter asked for explanation. Once again, the age factor came into play. In 2009, more than half of the reactions came from those 56 to 57. Those for 40, 45 and 55 reacted much less. Furthermore, 97 % of the insured who contacted their scheme thought well received and 77 % judged the handling of their problem satisfactory.

### **Does information change behaviour?**

The aim of the European Union is to offer information to help workers make decisions concerning their future pensions, encourage them to continue working, to supplement their pension with a pension savings plan and provide reassurance on the future of the system. What do surveys tell us about the impact of the Swedish "orange envelope" and the French "blue envelope"?

Even if a third of those receiving "blue envelopes" discovered an estimate for a lower sum of pension than expected, only 11 % in 2009 said they would delay their retirement. 3 % said they would retire earlier and 50 % affirmed no change in plans. One quarter of those receiving "blue envelopes" said they would contact a financial organisation to prepare their retirement. The proportion rises from 21 % of those 56-57 to 43 % among 40 year olds. The youngest though seem no more worried about the future of compulsory retirement than their elders. But

they are probably much more attracted to the idea of saving for retirement and aware of having sufficient time remaining to do so.

The survey reveals almost complete ignorance of the possibilities offered by the compulsory system for improving the level of pension. If more than half of those questioned understand the conditions for the “full rate”, that is without reduction of pension, only 44 % find the rules for cumulating work and pension clear or rather clear. This is also true for purchase of quarters. Only a third know and understand the rules for premiums and progressive retirement. These figures represent a rather sharp improvement over preceding years though.

Should we blame a lack of information or rather the desire widely expressed in the surveys of retiring as soon as possible? Moreover, is the age of retirement a matter of choice or the result of a set of constraints and conditions, such as health, age, working conditions and prospects and above all the job market? Lastly, it takes time for perceptions to change. A recent increase in the number of pensioners benefiting from premiums tends to indicate a rise in the number of those who don't retire as soon as they can.

The European Union sees information as a way of restoring confidence in the pension system. Does the “blue envelope” help? No, according to those receiving it, since 87 % said that the information did not change their overall perception of the future of retirement. Two-thirds expressed a rather pessimistic outlook for the future and half said they were rather worried about their own retirement. Figures in 2009 seem to indicate an improvement in confidence since, in 2008, three-quarters of those getting “blue envelopes” were pessimistic and two-thirds worried about their retirement. It seems plausible though that the change is due less to reading the “blue envelope” than to national debate

concerning retirement and the atmosphere of the moment.

Does the “orange envelope” enjoy more influence than the “blue envelope”? It's difficult to say, largely because it is sent each year to all insured members, including those who are young. But it was sharply criticised in 2008 by the Swedish National Audit Office in a report stating that Swedes are little interested in retirement information and understand relatively little about the subject, leading them to save too little and too late. The report considers the “orange envelope” as too detailed and too long, six pages, while Parliament recommends not exceeding one page. The Court also suggests adapting the “orange envelope” to the age of the beneficiary, since certain information does not have the same interest for all. Consequently, the “orange envelope” was reduced to four pages in 2009.

On one point, the choice of a financial administrator for the funded part of the basic pension, the Swedes have demonstrated the limits of information. An insured Swedish worker receives a catalogue of more than 700 investment funds approved to receive contributions each year, among which he can choose up to five to manage his money if he wishes. The brochure offers details concerning each fund, including profile (shares, bonds, mixed, life cycle, etc.), yield over the past five years, risk and management fees. In 2000, when the reform came into force and members were asked to choose a financial administrator for the first time, 33 % abstained, allowing their contributions to go by default to funds managed by the Social Security Authority. New contributors are less and less numerous in exercising a choice. Less than 2 % did so in 2008, with 98 % allowing their money to go to the Social Security funds by default. It's true that many among them quit these funds the following years for one or two privately managed funds. But almost

all never modify their choices afterwards even though they can do so at any moment. It just so happens that most of the funds are not specifically set up to handle pension savings, which means that a member can remain in a fund invested in risky stocks even with the approach of retirement. It is women, persons with high incomes and the middle aged that worry the most about this part of their future pension. But the majority of those who choose one or more funds are incapable of citing their names.

Sweden is not alone in this area. The free choice of a financial administrator reveals the limits of information<sup>(10)</sup>. In Chile and Romania, advertising campaigns and gifts offered investors played a determining role in choices. In Poland as in Chile, the funds selected were not necessarily the best performing. They managed to stand out in the market, however.

Lack of information? Insufficient financial know-how? Special mentality? In Quebec, there is no systematic information on the potential level of individual benefits. Information plays a role in a procedure initiated by the person concerned. A poll carried out in 2008 on the two pillars of the Quebec pension system showed that 69 % of working respondents were very (29 %) or somewhat (40 %) interested in the financial planning of their retirement. More than half had already sought out information or financial advice regarding their pension. ■

(10) See on this question « *Faisabilité du libre choix de la caisse de pension* »

(Feasibility of free choice of pension fund, also in German version), Rapport de recherche n° 10/05 (OFCL Berne, www.bbl.admin.ch/bun despublikationen ).

This comparative survey, directed by David Pittet, Meinrad Pittet and Jacques-André Schneider commissioned by the Swiss Federal Social Insurance Office, seems to have put an end to the idea of free choice of pension fund in Switzerland.

# An irreversible development

Whatever the obstacles encountered by information, especially when guiding active workers in areas as complicated as financial administration, its development seems sure, since it is closely linked to technological change and modern attitudes. Suddenly the “blue envelope” seems commonplace. If it has to be called into question in the future, this will probably be due to the expansion of Internet. Already, the five-yearly information supplied by the “blue envelope” can be had for the asking and will be on-line in 2011. This concerns only the standard individual statement covering total accrued benefits but an overall individual projection will surely follow. Information will expand from being punctual to permanent. However, doing away with paper would be akin to abandoning those who do not use Internet as well as those who have no immediate interest in their pension. Only systematic information by post can reach almost everybody. The paper document is still here and will probably remain indispensable for a large part of the population.

Systematic information accompanies a personalisation of careers and the disappearance, in fact more than in law, of a traditional cycle of training, work and rest. It has also become necessary due to a period of reform and adaptation for pension systems, which will no doubt continue for a long time. The “passengers” of the pension schemes will be all the more attentive to information as the hour of arrival at retirement and the conditions of stay will be subject to options and revision!

For pension schemes, informing active workers represents a considerable undertaking, especially as far as computers are concerned, involving important consequences in their administration. But, whatever media is used, paper or Internet, the right to information encourages an increasing demand for personalised services, placing human contact at the heart of the relation between a member and his pension scheme.

Finally, in countries with a large number of pension schemes, whether basic or supplementary, a demand for total information is developing, obliging schemes to cooperate in informing a member of the entirety of his benefits. Tomorrow, worker mobility within the European Union will surely entail extending cooperation on a Community level. In 2009, nearly 10 % of retiring French salaried employees of the private sector worked in other European Union countries. For them, the “blue envelope” was evidently incomplete. New European demands in the area of electronic data transfer among the pension schemes of various member States at the moment of pension settlement probably prefigure the establishment of permanent links. Current development of information of active workers within a national framework represents a first step towards a much more ambitious programme of information on a European scale. ■

