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Pension in the European Union

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Editorial

In addressing the subject of pensions at the Lisbon summit meeting of March 2000, the Council of Heads of State and European Governments gave an official dimension to the problem of adapting our pension systems to demographic and economic change. In the future, the member states will have to explain their pension policies to the Council and compare them to those of the other countries as part of an 'open method of coordination'. This makes knowledge of the various European pension systems all the more important. The aim of this particular letter of the Observatoire des Retraites *is to help in providing that.*

A task difficult to carry out. In fact, the information available is at once voluminous and incomplete. Moreover, the systems differ widely, reflecting the cultures and national histories of their origins. Such diversity feeds confusion and renders comparisons difficult. A European working group is addressing the task of defining guidelines. But the job has barely begun.

Drawing conclusions from the experiences of other countries can be a rewarding but delicate exercise. "The danger of travelling," exclaimed Emmanuel Reynaud, after listening to a pension expert describing the lessons to be learned for the French system from a brief journey to Asia. For his part, Giovanni Tamburi**, one of Europe's most respected experts, reminds those who would laud the retirement system of Singapore, that, in the social domain too, there exist micro-climates that render illusory a pure and simple transposition of many models. We will attempt nevertheless to situate France with respect to its neighbours, all the while keeping in mind the adage of Montaigne "Truth on one side of the Pyrenees, error on the other".*

* *Currently Chief Social Security Policy and Development Branch of the International Labour Office, at the time a researcher for the* Institut de Recherches Economique et Sociales *(IRES), Emmanuel Reynaud is also a member of the Committee of Experts of the* Observatoire des Retraites.

** *Actuary and consultant, a former director of the Social Security Department of the International Labour Bureau.*

SETTING UP AND DEVELOPING PENSION SYSTEMS

Pension schemes are rooted in a past that is sometimes very removed. For example, in France, the Etablissement National des Invalides de la Marine, *was established under Louis XIV. Throughout the countries of the European Union, initiatives on the part of the State, employees or large firms, overlap, compete or combine to produce a plethora of national systems that are unique and difficult to classify. Two overall models have left their imprint on the member states though and, despite the obstacles, we can draw up a typology for European countries as far as pensions are concerned. The main period for the development of retirement systems, whether basic or supplementary schemes, was in the decades following the last War. Everywhere, in conditions that vary from country to country, the result was to make today's pensions, not so much a synonym for disability or poverty, but for a standard of living relatively close to that of the actively employed.*

Two Europes and soon three

Within the European Union, there is not simply one Europe for pensions, but two and soon three: in the centre, that of Bismarck, to the north, that of Beveridge, and soon, to the East, that of the World Bank. In the Europe of Bismarck, basic schemes provide the essential part of coverage. In the Europe of Beveridge, the basic schemes are supplemented by sizeable funded pensions. And in the East, the World Bank is encouraging individual funding.

Bismarck introduced a system of Social Security to the German Empire, including Alsace Moselle, in the1880's, organized along occupational lines and ensuring a pension to those who worked in function of paid contributions and representing, for a full career, a standard of living equivalent to that of active employment up to a defined ceiling*. The system became a model and inspired the pension schemes of the majority of the members of the European Union (see map). It also influenced the countries of central and Eastern Europe.

* *But maybe France was the true pioneer with the establishment of the* 'Caisse Nationale des Retraites pour la Vieillesse' *in 1850. Wasn't Bismarck himself thinking of the policies of Napoleon III when he set out the plans for social insurance in Germany?" writes Cristoph Conrad* ("la naissance de la retraite moderne: l'Allemagne dans une comparaison internationale (1850-1960)" *"The birth of modern retirement: Germany in an international context from 1850 to 1960", Population, nº 3, 1990). Napoleon III moreover was working on a project for a retirement system shortly before his death* ("Louis Napoleon le Grand", *Philippe Séguin, Grasset, October 1990).*

THE EUROPEAN UNION AND THE 10 NEW MEMBERS
(AS OF MAY 2004)

"The Europe of Bismarck" "The Europe of Beveridge" The new members of the European Union

In a report of 1942 on the eradication of poverty, Beveridge advocated another approach in which the State would ensure a fixed minimum pension to the entire population.

This method was adopted more or less by the United Kingdom, the Scandinavian countries and the Netherlands.

The two methods did nothing to prevent a wide diversity of national applications and modifications. Finland may no longer be considered in the Beveridge mould since a 1996 reform. The same may be said for Sweden after a reform that came into force in 2000. In general, each country has sought to correct the failings of its original system.

The main failing of the Bismarck model resides in the absence of a 'universal' coverage, i.e., the lack of pension for a segment of the population that has no occupational income or is considered as having the means to take care of itself. The eventual inclusion of occupational categories not originally covered and the creation of an old age minimum have lead to protection for the whole of the population.

The main failing of the Beveridge approach lies in the fixed and minimum nature of its universal pension. For a majority of people, the system does not provide a pension comparable to the standard of living they enjoyed during their working life. Hence the development of supplementary schemes that play an extremely important role. Beveridge himself observed, "the State supplies the bread, the people buy the butter." As such schemes are largely financed through funding, it seems normal to find them mainly in northern Europe while their presence remains marginal in the centre (see tables 1 and 2).

So, despite important modifications carried out in all of the countries, the two main systems of social protection continue to influence the European landscape profoundly, confronting a northern Europe where supplementary funded schemes play an extremely important role with a Europe of the centre where pensions essentially depend on basic schemes in pay-as-you-go.

The three pillar theory and European reality

The Swiss Constitution provides for a retirement system based on three 'pillars': a basic scheme financed by pay-as-you-go constitutes the first pillar, mandatory funded company (or 'occupational') schemes represent a second pillar and optional, individual savings plans, that benefit from tax deductions, form the third. In the member states of the European Union, the third pillar plays a marginal role. The second pillar has real importance only in the countries with a Beveridge tradition. The first pillar, which plays the principal role everywhere, enjoys an almost exclusive status in countries with a Bismarck tradition.

The pseudo French exception

Supplementary occupational schemes play an extremely important role in France since they provide more than one quarter of total pension benefits and pay an average 40% of the pensions of salaried employees of the private sector. From this point of view, the French landscape takes on more of a Beveridge look. But the supplementary French schemes present many of the characteristics of a Social Security scheme. They are national, uniform (the same rules for all employees), compulsory and financed on a pay-as-you-go basis. They were placed within the scope of the European regulation for coordination of the basic schemes of social protection on January 1, 2000 and are now considered as 'the floor of the first pillar' of retirement. So, France is not a true exception to the Bismarck pattern in which the first pillar represents the essential part of a pension scheme.

Table 1: The second pillar in the European Union

	Year	Coverage ratio for salaried employees	Coverage ratio for the active population	Pensioners	Importance of 2nd pillar in pension
Austria	2001		Less than 10%	Less than 2%	
Belgium	1999	35%			12.8%
Denmark	**1998**	**82%**			**25 to 35%**
Finland	**1999**				**4%**
France	1999				1.7%
Germany	1999	Trade ex-GFR 28%, ex-GDR 16% Industry ex-GFR 64%, ex-GDR 20%			7%
Greece					
Ireland	2001	46.8	51%		25 to 35%
Italy	2001	Private sector 13.8 Public sector 0	8.7%		
Luxemburg					
Netherlands		**91% in 2001**		**83% in 2000**	**About 40%**
Portugal	2000				4.2%
Spain	2001	32% individual 36% occupational			
Sweden	**2001**	**About 90%**			
United Kingdom	**2000-2001**	**44%**		**60%**	**About 40%**

Source: Joint report by the Commission and the Council on adequate and sustainable pensions, page 33.

Remarks: *Despite the gaps, this chart shows the importance of supplementary pensions, the "second pillar" in the 'Beveridge' countries, here in bold, where they cover half to almost the total of salaries and ensure between a quarter and slightly less than half of pensions paid. If Finland appears to be an exception, it's because its supplementary schemes have formed part of the "first pillar" since 1996.*

The World Bank model

In a 1994 report, entitled "Averting the Old Age Crisis: Policies to Protect the Old and Promote Economic Growth", the World Bank made known its position. Letter nº 8 of the Observatoire des Retraites (May 1996) was devoted to the document.

The report criticises existing retirement schemes, social security as well as company ones. Such schemes are considered as having negative effects on savings, employment and economic growth. They are equally depicted as unfair; justice being considered as actuarial neutrality in which individuals benefit solely from the rewards of their own efforts. All types of redistribution based on solidarity (for example survivor's benefits, taking into account maternity, illness, unemployment, etc.) are thus considered as so many injustices.

The report advocates a system composed of:

A minimum and fixed pension, preferably means-tested, financed through taxes and granted to the whole resident population.

The obligation for the actively employed to contribute, with no company participation, to a private funded retirement institution of their choice for a pension calculated according to actuarial standards. This pension would reflect the amount of paid contributions, financial management performance and the life expectancy of the individual concerned.

A possibility of saving more than the mandatory minimum.

Table 2 : Assets of supplementary schemes in % of GDP in 2000

	Assets as % of GDP	Observations
Netherlands	**166**	**Pensionfunds: 108** **Insurance: 58**
Sweden	**56.6**	**Equally substantial reserves in the basic scheme: 29% of GDP. Supplementary pensions are partly financed with book reserves and not actually funded.**
United Kingdom	**80.9**	
Denmark	**80**	**Substantial reserves "in 1st pillar": 25% of GDP**
Ireland	**51**	
Finland	**8.9**	**The basic schemes have absorbed former supplementary schemes in 1966. Their reserves are the highest in the UE for "1st pillar": 60% of GDP.**
Belgium	14.7	Includes insurance groups
Germany	16.3	Probably includes schemes with book reserves that are actually not funded.
Austria	12	Same observations as for Germany
Portugal	11.9	Includes open and closed (company) pension funds, pension plans & schemes.
Spain	7	
France	6.6	Partly includes the reserves of pay-as-you-go schemes of the "1st pillar" (Agirc, Arrco, Ircantec, etc.)
Greece	4.2	
Italy	2.6	
Luxemburg	0.2	Practically no supplementary schemes. Sole "Bismarck" country to possess large "1st pillar" reserves: 22% of GDP
European Union	29.2	

Sources: Joint report,page 80. Table based on data collected by the European Federation forRetirement Provision and national strategy reports.

Comment: *The figures are debatable for some countries due to a lack of a reliable statistical source and precise definitions of the various retirement "pillars". Moreover, financial markets are headed downwards, especially in the UK. The figures are no less significant though. They offer a clear comparison between the Europe of Beveridge (in bold) and that of Bismarck.*

With the arrival of new Member States, the World Bank model, honed by experiments in Latin-America, will make its entry into the European Union, reducing somewhat the influence of the Bismarck model. Several central and eastern Europe countries had used the Bismarck model in the past but during the Soviet period, converted to a system financed by companies and the State and managed by trade unions. Because of relatively low retirement ages, a number of these schemes were already experiencing problems before the fall of the Iron Curtain; problems that were corrected with upgrading procedures that wound up penalizing the oldest pensioners. Ensuing economic liberalization destabilised them further due to accelerated departures and early retirement, along with reduced resources. The acceding countries were forced to turn to measures for limiting cost increases with revised policies on early retirement, higher retirement ages and less favourable rules for pension calculation that gave more weight to paid contributions.

Some among them, particularly those whose financial equilibrium depended on international institutions, have adopted more radical reforms, mainly with the help of the World Bank. Estonia has created a mandatory second pillar, along lines advocated by the Bank, followed by Latvia which, for its first pillar, has served as a sort of 'testing ground' for the Swedish reform. Poland and Hungary have also followed the model promoted by the Bank with the creation of a new system composed of a basic pension financed on a pay-as-you-go basis and an obligation to join a private supplementary funded scheme freely chosen by the participant. Slovakia appears ready to do the same. On the other hand, Slovenia and the Czech Republic have contented themselves with a reform of existing schemes while opening the possibility of supplementary funded pensions on a voluntary basis.

A country typology of European pensions

Thanks to the various European institutions, information has become increasingly abundant, but describing and comparing pension systems in the Member States still remains a delicate task. There has been a marked diversity of inspiration going into the construction of the systems as well as their management and the result often seems a product of sedimentation, only slightly unified and complex to understand.

A classic typology begins with the philosophy at the origin of the system and consists in comparing two approaches:

- **Systems of an insurance type** that are found mainly in countries of the centre of continental Europe. These systems are associated with Chancellor Bismarck who was the first to implement them in the 1880's. Pension rights are acquired through an occupational activity of which they are the reflection and benefits are seen as replacement income.

- **Systems of a universal type** that are found in the countries of northern Europe. The systems are associated with the Beveridge report on social security of 1942 and are inspired by the principle of the 'three Us': Universal social coverage for all citizens, Uniform flat benefits and Unity of the system.

In European countries neither of the two models are exclusive and a majority of experts have observed a convergence between pension systems. Countries inspired by Beveridge have completed the flat basic pension through development of supplementary schemes taking wages into account while those inspired by Bismarck have progressively extended pension coverage to the entire population through creation of new basic schemes. The methods of financing, taxes in Beveridge systems and contributions for those of Bismarck, are becoming increasingly mixed. Traditional typology no longer takes the measure of the current configurations.

A typology imagined by Gosta Esping-Anderson in the early 90's takes into account these developments and proposes three "ideal" theoretical schemes to illustrate the "way of providing" social protection: a liberal scheme, a social democratic scheme and a conservative-corporatist scheme. These models, which apply to social protection as a whole, respect guidelines setting out the respective roles of the public and private sector in the allocation of resources

Table 3: **Classification of European pension schemes**

Esping-Anderson classification	"Liberal"	"Social-democrat"	"Conservative/corporatist"
Historical reference	Beveridge	Beveridge	Bismarck
Geographical location	Anglo-Saxon	Scandinavian countries (except Finland) and the Netherlands	Continental (except Netherlands & Finland) / Southern Europe
Scope of pension	Selective	Universal	Contribution
Type of benefit paid	Fixed	Fixed	Proportional
Financing method	Contributions	Taxes	Contributions & taxes
System organization / management	Unified State centralized	Unified State decentralized	Fragmented State & joint employer-employee

Sources:
- Bruno Palier, *La protection sociale en Europe, le temps des réformes* (European social protection, the time for reform), Christian Daniel, Bruno Palier (eds), Paris, La Doumentation Française, 2001.
- OCDE, net social expenditure – 2nd edition.
- MISSOC.
- Gosta Esping-Anderson: The three worlds of welfare capitalism, march 1990, Princeton University Press.

In applying them to pensions and classifying them according to a series of criteria (persons covered, type of benefit, method of financing and organisation and management of the system), the Europe of fifteen* can be segmented into three groups of countries (see summary table). These groups were established by taking into account the current situation of a country in terms of organisation of pension systems; they do not necessarily correspond to the usual classifications found describing social protection as a whole. Nor will they necessarily remain stable over a period of time since reforms underway can shift a country from one group to another.

1 An initial group is composed of Denmark, the Netherlands and Sweden. Finland belonged to the group prior to a reform adopted in 1996. These countries share a social democratic conception of retirement since the basic pension is paid to all citizens in function of years of residence and benefits are flat rate and substantial. The basic pension is financed through tax receipts and a compulsory supplementary pension through social contributions. The pension system is unique and placed under the supervision of State and local authorities. The share of private pension is relatively low in these countries (around 10%**). It should be noted that Sweden will become slightly detached from the group after a reform involving benefit financing and calculation goes into effect (2015) and move closer to the 3rd group in as far as these two criteria are concerned.

2 The Anglo-Saxon countries (United Kingdom and Ireland) make up the second group. These countries have a liberal idea of pensions in as much as the basic scheme provides a flat rate pension of a rather low level, a fact that enhances the role played by employer schemes, not to mention those of private insurance, and, this, despite the existence of a public supplementary scheme in the United Kingdom. Private schemes account for 20% of total pensions. Coverage is not quite universal since retirement is limited to employed workers in function of the duration of their insurance. Financed through contributions, the basic scheme is unique and managed by a single ministerial department.

** The central and eastern European States are not included in this study. They have generally reduced the level of basic pension and introduced possibility or obligation of individual contribution to a funded scheme.*
*** Calculation based on OECD figures.*

3 A third group of countries includes Germany, France, the Benelux (with the exception of the Netherlands), Austria and Finland, with Greece, Italy, Spain and Portugal gradually nearing membership. They have a conservative-corporatist view of retirement, of Christian inspiration, organized along socio-professional lines. The Bismarck tradition is expressed fully, with a pension linked to employment and the level of benefits to previous wages. The proportion of benefits paid by private schemes is usually below 5% (with the exception of Germany, where there is a tradition of employer schemes and the share of private schemes reaches 8%.) Social contributions, paid by employers and employees, constitute the main source of pension financing. There is a "safety net" though of means tested minimum benefits, financed through tax revenues. These schemes, often fragmented, are organized within entities more or less independent of the State and managed by representatives of employers and employees.

The Mediterranean countries differ from those of continental Europe with their numerous basic schemes established on a professional basis and a recent and progressive implementation of a minimum pension. Italy stands out in the group for a reform that will be completed in 2035 and that will bring it in line with Sweden.

The wide diversity of pension schemes developed during the "Golden Thirties"

The thirty years following the last War, ending with the first oil crisis of 1973, offered a favourable environment for basic as well as supplementary schemes. The "Golden Thirties" were characterised by virtuous circles. Since the work force was relatively small, demographic conditions favoured full employment and the baby boom stimulated demand. In addition, improvements in medical care and living conditions reduced infant mortality. Gains in productivity did not result in a rise in unemployment but rather a transfer of jobs from the farm to the industrial sector. An increase in the amount of wages and wage earners allowed financing of social protection programs which, in turn, nourished growth and encouraged demand.

A favourable environment for old age collective coverage

Governments, companies and trade unions were thus able to establish or improve pension schemes. The War had ruined the reserves of previous schemes but the adoption of a pay-as-you-go system allowed the basic schemes to profit from a particularly favourable demographic and economic context and finance benefits at a relatively modest cost. In France, the accent was placed on a family policy that, in the 50's, mobilised half of the resources of the basic scheme. The basic pension of private sector workers represented the 'poor cousin's share though ("as skimpy as an old age pension," was the saying of the time). The situation improved with the creation of an executive scheme (AGIRC) in 1947 and numerous schemes for workers and employees of the private sector, schemes that would eventually be federated into a single institution (ARRCO) in 1961. Other schemes for the self-employed were set up in 1947.

The movement was not confined to France. Germany's basic scheme was improved significantly in 1957 and company schemes were developed with a book reserve method that resisted inflation and allowed companies special self-funding procedures, combining social generosity with economic interest. Sweden did the same for its Beveridge style scheme in 1960. That same year, a national agreement was signed for a white collar scheme (ITP) to facilitate worker mobility from one company to another. Like ARRCO in France, the scheme federated already existing schemes under the management of the SPP, an employer pension scheme established in 1917. In the United Kingdom, company pension funds, which concerned less than 8% of the active population before the War, covered 18% by 1956 and more than 50% in the 70's. Also in the 60's, Finland supplemented a basic flat rate pension (Beveridge model) by setting up large supplementary schemes which, in turn, became basic schemes in 1996, with the flat rate pension reduced to a role of old age minimum. Etc.

An extremely wide diversity

Although the member countries continue to follow the pattern they adopted – before the War, Bismarck, after the War, Beveridge – they are pursuing change along rather separate lines.

In the Bismarck countries, the number of basic schemes varies widely, from four in Germany to more than fifty in Italy (before the reform) and Greece, and over a hundred in France (only 26 are still open and the others on the road to extinction). Ceilings, financing and pension calculation not only differ from country to country but also from scheme to scheme.

Among the Beveridge inspired countries, the United Kingdom and Ireland have limited their basic flat rate pension (of a very low level) to the working population, according to years of employment. On the other hand, the Netherlands and the Scandinavian countries have extended coverage to the entire population in relation to years of residence. The Scandinavian countries have also decided to supplement the basic flat rate pension with one linked to contributions to which eventual company pensions may be added. The United Kingdom decided to do the same in 1978 but company pensions may replace the second earnings-related one.

Supplementary occupational schemes

Extremely important in Beveridge countries, marginal in the others, they are as diverse in their methods of establishment and management as in their rules for vesting and financing.

Employer initiated or collective branch and national agreements

Occupational schemes are set up at the initiative of the employer as in Germany and Ireland or by collective branch agreement as in The Netherlands and Denmark or by national agreement as in Sweden and France.

The first solution, and historically the oldest, predominates in Ireland, the United Kingdom and in the Bismarck countries, with the exception of France. This method leads to an extension of supplementary coverage to mainly large industrial firms. In Germany and the British Isles, around half of the active work force enjoys the benefits of a supplementary scheme. Awarded unilaterally, the scheme is set up and managed by the employer, or by a representative of the employer. In the United Kingdom, the pension fund is a foundation established by the employer in the interest of workers. He appoints the administrators or trustees, usually himself and several executives of the firm. The aim of the scheme is often to secure the loyalty of workers. Temporary workers are excluded. In Germany, a supplementary pension is a "gift" of the employer to reward loyal workers trained by the company. It is not due to an employee dismissed for a serious professional misdemeanour, nor to someone who leaves the firm after a short period or at a young age. Rights are acquired according to variable periods of employment and can be jeopardized in the future, either by adoption of less favourable rules or by pure and simple closure. Any circumstance or regulation increasing the constraints weighing upon the

company may thus prompt it to withdraw. This is happening today, especially in the United Kingdom.

The establishment of a supplementary scheme by collective agreement allows coverage to be extended to a wider share of the working population and makes company withdrawal more difficult. The method dominates in the Netherlands where some sixty branch agreements, generally made compulsory by the Dutch authorities, exist alongside company agreements, leading to coverage of practically the entire working population with the exception of temporary workers. Denmark has followed the same route. France and Sweden have opted for national agreements – as of 1947, for private sector executives in France, and in 1961 for other salaried employees, and in the 1960's in Sweden with four schemes for white collar and blue collar workers, and State and local community employees. In the case of France, a so-called general implementation law, adopted by Parliament in 1972, has led to coverage of all private sector employees without exception. As for Sweden, it suffices for a single employee to be a union member for the national agreement to apply to a firm. Thanks to this, most employees of the private sector and all of those of the public sector are covered. Finland has embarked upon a rather original choice which seems to prefigure acceptance of the collective European agreements introduced by the Maastricht Treaty. Supplementary schemes were established by national collective agreement and then ratified and made compulsory by Parliament. In 1966, these became basic schemes, the former Beveridge-style universal, fixed pension being converted into a sort of means-tested old age minimum, all the while according to the same procedure of associating employers and employee organisations and Parliament and conserving joint employer-employee management.

Joint management, in house or through a pension fund

Collective negotiation most often leads to joint employer-employee management, with widely different approaches. Jacques-André Schneider, a Swiss specialist and member of the Committee of Experts of the Observatoire des Retraites, has referred to a Franco-Nordic axis in joint management (see Lettre de l'Observatoire des Retraites nº7, "Supplementary Pensions and Contractual Schemes in Europe", October 1995). The axis appears to be spreading to Spain (1987) and Italy (1995) thanks to new legislation concerning supplementary occupational schemes. The United Kingdom, after adopting measures in 1995, following the Maxwell scandal (pension fund reserves were used by Robert Maxwell in an attempt to avoid the ruin of his press group) is also moving in this direction in as much as worker representation is now required in pension funds. There must even be joint management in defined contribution funds.

The commitment of a company depends upon the identification of the firm with the pension scheme. The identification is complete in the German pattern of book reserves. The company promises workers a pension that it finances and pays directly. But in the event of bankruptcy, only the existence of a reinsurance arrangement prevents total loss of rights. The British method of a foundation (pension fund) does not exonerate a firm from responsibility in the case of insufficient reserves. It remains liable for payment of rights acquired in cases of a defined benefit scheme. On the other hand, collective agreements at the branch or national level generally lead to the establishment of joint inter-enterprise or national institutions that relieve a firm from risks of bankruptcy.

Three methods of calculating rights

A supplementary pension can be flat rate. This is the case in some German company schemes. But they are generally defined benefit, i.e. where future pension benefits are calculated according to a predetermined formula. British and Dutch pension funds offer a percentage of the final salary in relation to the length of career, with a supplementary pension completing the basic one. A third approach, which is tending to find increasing favour, is that of defined contributions. A future pension depends upon an accumulated sum of capital which is converted into annuities (Danish system), or the value of a point set by a joint employer-

employee committee (French system). Of course, intermediate methods, combining several approaches do exist.

Financing through funding, pay-as-you-go or book reserves

In the area of financing, although funding predominates (more and more as of recently), other systems do exist. In the United Kingdom, civil service pensions are financed through pay-as-you-go. The other funds accumulate reserves that represent a form of security for companies since they are responsible for payment of pensions as a last resort and have been subject to rather flexible minimum funding requirements for the past few years.

In France, the combined pay-as-you-go/funded approaches that were envisioned (Agirc executive scheme) or put into practice (certain Arrco integrated schemes) proved unable to weather inflation and a poor return on investments up through the 70's. Pay-as-you-go thus won out, more by pragmatism than ideology, and because of a fear of a State takeover of the schemes' reserves (before the War, the State had used social insurance reserves to fight unemployment).

It was also fear of State control, inspired by a social-democratic government that forbade foreign investments and strictly regulated financial practices, that persuaded the big Swedish companies to shift from funding to a method of book reserves in the 60's, i.e. the payment of pensions directly by the company which provides for future charges through contributions carried on its books. The method is widely used in Germany and can be found in other countries such as Italy where it plays the important role of financing the *Trattamento di Fine Rapporto* (TFR), a retirement lump sum that can represent up to two or three years of salary.

Occupational schemes that are actually funded rely upon widely differing forms of financing. The run-up to adopting a European directive to regulate the financial management of supplementary occupational schemes (now agreed to after more than ten years of twists and turns) has revealed the existence of two more or less conflicting conceptions: the one of pension funds, rather free market and placing its confidence in private management, represented mainly by the British Isles and the Netherlands; and a second oriented toward insurance, more comfortable with State regulation, represented mainly by France, Germany and Spain. Within the two camps there are also differences though. Concerning that of "pension funds", the British favour risk and investments in shares, while the "Continentals" lean toward much more prudent management favouring bonds. The Danes go so far as to fall within the scope of the European directive on life insurance. As far as the insurers are concerned, the regulations of the member states reveal differing philosophies*, each with advantages and disadvantages.

Lastly, supplementary pensions have often contributed to company financing. The mechanism of book reserves has permitted internal financing under privileged conditions. In Finland, reserves have long been used for low interest company loans. In the United Kingdom, pension fund surpluses (assessed rather freely) have permitted firms to waive contributions ("contribution holidays") and finance early retirement plans. Thus the 'Glorious Thirties' allowed companies and States to reconcile economic efficiency and social generosity, helping to bring the standard of living of pensioners close to that of the actively employed.

* *See* « L'assurance dans le marché unique » *(Insurance in a Single Market) by Jean-Louis Bellando, Hervé Bouchaert and Armand-Denis Schor, pages 135 et al.* (Les études de la documentation française, *November 1994).*

A standard of living in retirement approaching that of active employment

In all the countries of the European Union, the standard of living of pensioners is close to that of the actively employed. This is due to a combination of three factors; pension level, continuation of income generating activities and pensioners living with their children, that come into play in diverse ways according to the country. On the other hand, personal income (apart from housing) and social assistance play a marginal role. And there appear to be ample prospects for development.

The improvement of pensions during the promising period of the 'Golden Thirties' had a favourable effect on the situation of pensioners, in as much as, in a number of countries, the generations that profited the most were already on retirement, while the most recent reforms, mainly undertaken in the 90's, have tended to reduce cost increases and have not had time to make their effects felt. Pensioners, who accounted for the majority of the poor after the War, seem now to be in a situation comparable to that of the actively employed (table 4).

Like all averages, the figures conceal disparities. Categories of pension income differ little in comparison to those for the incomes of the actively employed, except in Spain and Ireland where the gaps tend to narrow, and in Denmark where they are wider. Within the European Union, if we set the poverty level at 60% of that of the average standard of living, the proportion of poor of the population aged 65 and over, is slightly superior to that of the population under 65: 20% in comparison to 17%. Those concerned are mainly single women, whose average standard of living is inferior to that of the rest of the population everywhere, except in Spain and the Netherlands (table 5).

A standard of living based on sources of income quite different from country to country

The relatively satisfying standard of living in the European Union seems the result of three factors that come into play in varying ways according to the country.

1 **The pension level** (table 4) is high in the Netherlands, probably in Sweden also (two Beveridge countries, in which the supplementary coverage is substantial) as well as in Austria, Luxemburg, Belgium, Germany and France.

On the other hand, it is rather low in the United Kingdom and Ireland, two Beveridge countries where company schemes cover no more than half the active population as well as in Denmark where supplementary schemes cover most of the active population but have been established only recently.

It is also relatively low in Greece, Portugal, Spain and Italy; Bismarck countries, where there is an large rural population.

2 **Cumulating pensions with an occupational activity** can compensate for a relatively modest pension (table 6).

– In countries whose rural character explains a low level of pension but where an occupational

Table 4: **Pensioner income**				
	Average net pension in % of average net earned income	Standard of living of those 65 and over as % of those under 65	Standard of living of households receiving a pension as % of the standard of living of the population as a whole	Standard of living of households receiving a pension as % of the average of the European Union
Austria	78	84	97	118.38
Belgium	75	76	95	112.10
Denmark	67	68	88	105.75
Finland		78		
France	75	90	99	114.13
Germany	75	97	96	115.41
Greece	53	74	96	68.43
Ireland	52	69	90	84.48
Italy	65		107	91.96
Luxemburg	76	99	95	178.41
Netherlands	74	93	103	117.17
Portugal	54	76	94	61.81
Spain	65	91	95	73.85
Sweden		83		
United Kingdom	48	78	90	104.85
European Union	66	88	98	100

Sources: columns 1, 3 and 4: Drees, *Etudes & Résultats* nº 213 January 2003, tables E, 5 & 4, Eurostat, Community panel on households, wave 3 (1996), column 2: Eurostat, Community panel on households 1999, Joint report of the Commission and Council on adequate and sustainable pensions.

Comments: *The table reveals important differences according to the approach.*

– The fourth column of figures "Standard of living of households receiving a pension as a % of the average of the European Union" points out the differences from one member State to another. The living standard of Danish pensioners (relatively low in comparison to the average Danish living standard) is thus higher than the European average. Inversely, that of the Italians, although higher than the average Italian living standard, is lower than the European average. It is evident that the living standard in relation to that of the national average is the one that counts, except for pensioners living in a country other than their own.

– The third column, taken from a French report based on the Community panel on households of 1996, gives the idea that the living standard of pensioners is relatively the equivalent of that of the actively employed. This result is due in part to the fact that it compares the living standard of pensioners to that of the entire population, including the pensioners themselves. And to the fact that it takes into account all households receiving a pension, thus numerous young retired couples where one of the members continues to work or to combine a pension and a job.

– The second column appears, from this point of view, more representative of the situation of "actual pensioners". Based on the Community panel on households of 1999, it compares living standards at 65 and over, where there is much less grouping of pension and job income, to the living standards of those under 65. The contrast is starker between the "job holders" and "pensioners" and the differences among the member states increases.

– The first column, based on the same 1996 panel, reveals markedly the differences. The average net pension represents at best only 3/4 of average net job income, and a little less than half in the UK. This comparison, unlike those preceding, does not take into account dependent children and thus does not reflect respective living standards.

activity is pursued until an advanced age. Portugal and Ireland provide the best examples. In Portugal, over 30% of men aged 65 to 74 continue to be actively employed, in farm work for 68%, while this sector represents only 8% of men under 65. The corresponding figures for Ireland are 20%, 61% and 11%. A similar situation may be found in Spain and Greece.

– In Italy where seniority pensions (on the way towards abolition) allow especially low departure ages, notably in the public sector, prompting young pensioners to take up another activity.

Table 5: **Poverty rates. Percentage of persons with a standard of living less than 60% of the average**

	0-64	65 and over	Single women
Austria	10	24	29
Belgium	11	22	27
Denmark	7	31	27
Finland	10	17	
France	14	19	23
Germany	11	11	22
Greece	18	33	35
Ireland	17	34	36
Italy	19	14	24
Luxemburg	14	8	15
Netherlands	11	7	9
Portugal	18	33	50
Spain	19	16	8
Sweden	10	8	
United Kingdom	19	21	38
European Union - 15	17	20	25

Sources: columns 1 & 2, Eurostat, Community panel on households 1999, joint Commission and Council report on adequate and sustainable pensions. Column 3: Drees, Etudes et Résultats nº 213, January 2003. Table 8, Eurostat, Community panel on households 1996.

– In the United Kingdom, where a low level of compulsory pension (the lowest of the European Union) encourages the poorest pensioners to supplement their pensions by returning to work, especially in the service sector.

3 **Generations living under the same roof** also contribute to improve the standard of living of pensioners.

On the average, a third of European pensioners live with their children. This is particularly true for the southern countries such as Spain (where 59% of pensioners live in extended family situations), Portugal and Italy (49%) and Greece (46%) but also in several northern ones such as Austria (45%), Ireland and Luxemburg (39%). In the case of Austria and Luxemburg, the phenomenon adds its effects to higher pensions. In the other countries, it compensates for a less remunerative one.

In France, no more than 20% of pensioners live with younger generations. Denmark though, where only 6% live within extended families, is the country where the situation is the rarest.

The relative standard of living of Danish households thus appears the lowest in the European Union due to a basic fixed pension which is poorly supplemented by recently established occupational schemes, producing a level of pension compensated neither by occupational income, due mainly to an advanced effective age for leaving the labour force, nor by the advantages of living within an extended family.

On the other hand, the relative standard of living of Italian households receiving a pension appears to be the highest despite a relatively low pension, thanks to the cumulative effects of earnings from continued employment and the advantages of living together.

Table 6: **Income sources of households paid a retirement pension**

	Pension	Earned income	Social welfare	Income from assets	Living standard as % of that of population
Austria	55.36	34.35	7.68	2.59	97
Belgium	69.92	15.36	6.46	8.25	95
Denmark	67.85	17.69	9.69	4.7	88
Finland					
France	69.6	17.89	5.11	7.38	99
Germany	71.49	18.29	4.81	5.40	96
Greece	52.5	37.84	2.73	6.91	96
Ireland	49.76	37.74	9.69	2.77	90
Italy	55.66	37.05	3.17	4.10	107
Luxemburg	64.66	26.04	4.56	4.72	95
Netherlands	77.41	12.18	5.75	4.63	103
Portugal	48,07	43.94	3.91	4.07	94
Spain	56.00	33.49	6.31	4.18	95
Sweden					
United Kingdom	49.09	30.17	5.91	9.04	90
European Union	61.77	26.45	5.91	5.86	98

Sources: Drees, Etudes & Résultats nº 213 January 2003 tables 4 & 5, Community panel on households, wave 3, 1996.

Comment: *Everywhere, pensions make up the prime source of income. But the size varies considerably, from barely half to the total of resources in Portugal, Ireland and the UK and nearly 80% in the Netherlands.*
Savings, the third of the so-called three pillars, plays a marginal role, slightly less than that of public assistance. Personal savings and social aid each represent an average 6% of pensioners income.
On the other hand, the pursuit of an occupational activity, the "fourth pillar" of the Geneva Club (a European insurance company think tank), represents, on the average, a quarter of the income of households receiving a pension, a feature including numerous young pensioners for whom job income, combined with a pension or the income of a spouse still at work, remains important.

The outlook for future standards of living

Is the situation merely temporary and likely to deteriorate? An objective of the European Union is to carry out a study of prospective replacement ratios. In the absence of such a study though, only a few elements for reflection can be draw from an analysis of the current circumstances.

1 **Even though reforms are tending to lower the future level of pensions, sometimes considerably, other factors may reduce or cancel out the effect of such reforms.** The first example is the development of remunerated feminine labour and a consequent increase in pensions for women. Here, rising costs for pension schemes may be far from over. The case of working women though helps maintain the standard of living of pensioners. It could be thwarted by a re-evaluation of family benefits however (in the name of equality between men and women but with an aim of cost savings) and by a recalculation of survivor pensions (Sweden has decided to limit the duration of survivor pensions to one year, or, in cases where children are concerned, until their coming of age). Another factor that might maintain a relatively high level of pension is the expansion of supplementary occupational schemes. This has happened in Denmark where they were implemented in the 80's. It could also occur in the 'Bismarck' nations but only over a very long term.

2 The method of pension adjustment will play a key role, notably for equitable treatment of pensioners. If giving priority to a high replacement ratio at the moment of retirement leads to a poor adjustment of a pension later on, taking into account the longer lives of persons on retirement, the older pensioners, for the most part women, will be penalized even more than now. The method of adjustment seems as important as the replacement ratio.

3 Changing patterns in family solidarity will also be decisive in many countries. Will a decrease in the rural population affect the number of generations of the same family living together? What will happen to 'dispersed and reconstructed' families? Will an increase in the life span of individuals lead to increased isolation of the elderly? Such questions pose formidable financial as well as social hurdles, since advanced age and isolation also raise the spectre of society's responsibility for dependency.

4 Lastly, won't overlapping employment and pension income tend to decline along with a drop in the population of the farm sector? The European Union is moving in the opposite direction by encouraging a high level of employment and elimination of obstacles to overlapping income. We can imagine longer careers permitting a relatively higher pension or an "English style" scenario where pensioners supplement rather modest pensions with earnings from odd jobs.

Pension schemes have run into trouble over the past twenty years because of an environment which, after having been extremely favourable, has become more and more unfavourable.

CRISIS, ADAPTATION AND RUPTURE

The favourable environment for pension schemes began deteriorating in the 70's. Unemployment, rising longevity and the implications of previous improvements, weighed heavily on costs that the member States, confronted with global economic competition, sought to contain through readjustment or reconstruction of their pension systems. Finally, faced with the impending boom in the number of seniors, the European Council of Heads of State and Government took charge of the dossier in the year 2000. A European policy emerged, based on the idea that the European social model could be maintained only by a return to the retirement ages practiced during the 'Golden Thirties'.

The 'pitiful years': economic and demographic crisis

Starting with the petrol crisis of 1973, the virtuous circle, within which economic and social developments tended to reinforce one another, gave way to a vicious circle, in which receding growth and accelerating unemployment increased expenses for social expenditures which, in turn, weighed heavily on economic expansion and employment.

The globalisation of the economy brought on growing competition among widely diverse countries, reducing the "greatest denominator possible" in matters of social protection. Even within the European Union, the arrival of new countries has accelerated the phenomenon, at least in the initial years, maybe even shifting the centre of gravity of European social policy. Employment stagnated, production shrank and mobility replaced company loyalty. Floating exchange rates generated an uncontrollable international financial capitalism. The resources of pay-as-you-go schemes were affected while those that were funded enjoyed their "twenty golden years" in the 80's and 90's.

All of the Member States were affected to one degree or another. Everywhere, the age of withdrawal from the labour force ceased to coincide with that of retirement (table 7). Many countries offered possibilities of early retirement and several lowered the age of retirement. Sweden, under the pressures of collective pension agreements, reduced the age of retirement from 67 to 65 in 1974. France introduced retirement at 60 in 1983, with the condition of 37.5 years of insurance, replacing a system of early retirement established by the social partners that was more generous and becoming too expensive.

Table 7: **Age of withdrawal from the labour force and "official" retirement age**

	Average age of withdrawal from the labour force in 2002 (Source, Eurostat)	Real official age of retirement
Belgium	58.5	Men 65, Women 62
France	58.8	60[3]
Luxemburg	59.3	65
Austria	59.3	Men 65, Women 60
Greece	59.4	65
Italy	59.9[1]	Men 65, Women 60[4]
Germany	60.7	65
Finland	60.5	65[5]
Denmark	60.9	65[6]
Spain	61.5	65
Netherlands	62.2	65
United Kingdom	62.3	Men 65, Women 60
Ireland	62.4	65[7]
Portugal	62.9	65
Sweden	63.2	65[8]
European Union - 15	60.8[2]	

1. Greece: 2001 value
2. European Union: estimated value
3. France: 40 years of insurance for full pension
4. Italy: between 57 and 65 in the new system with actuarial calculation.
5. Finland: between 63 and 68 in the new system with partial actuarial calculation.
6. Denmark: 67 for ATP compulsory supplementary pension (small pension integrated into basic scheme).
7. Ireland: 66 for contributory supplementary pension (small public pension added to basic flat rate benefit).
8. Sweden: between 61 and 67 in the new system with actuarial calculation.

Comments: *With the exception of Portugal, the lowest effective withdrawal age is in the Bismarck countries. Some experts detect a cause and effect relationship. Whatever the case, the gap is increasing between the withdrawal age and the legal (now largely theoretical) retirement age in all countries*

The effects of an unfavourable economic environment were combined with those of an equally unfavourable demographic shift. An increase in life expectancy and the drop in birth rates, noted everywhere in Europe as of 1964 (table 8), will reduce the working population (in number but also in dynamism although the latter is difficult to quantify) along with a post World War II baby boom whose eventual result will be an expansion of the elderly population (including a resurgence in the number of extremely elderly dependent persons putting an end to the drop in their number following the low birth rates of post World War I).

Table 10 shows the size of the adjustments necessary to compensate for expected demographic change. It was carried out in 1996 for the Directorate General of Employment and Social Affairs of the European Commission under the supervision of Gérard Calot*. Unlike the estimate the Committee for Economic Policy made, it does not take into account the effect of pension scheme reform.

* *Gérard Calot, director of INED* (Institut National d'Études Démographiques) *from 1972 to 1992 and member of the Committee of Experts of the* Observatoire des Retraites, *died in March 2001.*

Table 8: **Birth rate (average number of children per woman) in 1970 and 2000**		
	1970	**2000**
Austria	2.29	1.32*
Belgium	2.25	1.65*
Denmark	1.95	1.76*
Finland	1.83	1.73
France	2.47	1.89
Germany	2.03	1.34*
Greece	2.39	1.30
Ireland	3.93	1.89
Italy	2.42	1.25
Luxemburg	1.98	1.78
Netherlands	2.57	1.72*
Portugal	2.83	1.54*
Spain	2.90	1.22*
Sweden	1.92	1.54
United Kingdom	2.43	1.64*
European Union	2.38	1.53*

* Provisional figures.
Source: Eurostat yearbook 2002.

France reflects the European average. To maintain the present balance, the European Union must, on the average:

– either increase contributions by 49%,

– or lower pensions by 43%,

– or raise the age of withdrawal from the work force by 9.9 years.

– or increase the working population by 75%.

The Member States that represent an exception are those whose population is already elderly (Sweden) and thus subject less to ageing in the future or those where the population is still young (Ireland and The Netherlands and Spain which is experiencing a sharp decline in the fertility rate) and where ageing is yet to come.

The arrival of the new Member States should not modify those prospects, even though the life expectancy of their populations is sizeably lower than the current fifteen Member States. The ten acceding countries are experiencing a drop in population under the effect of a birth rate inferior to that of the fifteen current Members, which is already low, and migratory flows.*

In comparison to the post War years of pension scheme development, the environment has changed progressively but profoundly. During an initial period, it was mainly resources that were adapted to suit needs, needs that were strained by the partial use of pension systems to finance the rise of unemployment. Later on, the crisis, that was assumed temporary, persisted, competition worsened, costs rose, thinking changed and the Member States little by little turned towards aligning outlays with resources. The most radical reforms saw the light in places where the pressures were the greatest: in Sweden, where the Welfare State experienced a profound and dramatic crisis, and, in

* *Gérard-François Dumont:* "L'élargissement démographique de l'Union européenne" (*The demographic enlargment of the European Union) in* Population & Avenir, *nº 661, January-February 2003. Gérard-François Dumont is a member of the Committee of Experts of the* Observatoire des Retraites.

Italy, where a decision to adopt the Euro necessitated the balancing of a budget that was burdened by the cost of financing pensions. A third phase is about to begin with the arrival of the populous generations born after the War at a retirement age, a phase the Member States are approaching in dispersed order but within the framework of a European "open method of coordination".

Except for the Swedish and Italian reforms, which are described below, and that might be qualified as ruptures, the measures adopted by the other countries tend toward adapting their pension systems to change. Even though such measures are as diverse as the systems for which they are intended, a number of common denominators stand out. Everywhere, after an expansion in collective efforts, the responsibility for old age risk is being shifted to individuals. Coverage for unemployment is giving way to incentives for pursuit of an occupational activity, including that of women, where the image of the housewife is gradually being replaced by one combining maternity with employment. In all countries, such adaptations will require long debate and will be applied progressively.

Table 9: **The share of GDP of pensions costs**

	Pension and survivors'benefits as % of GDP in 2000	Pension and survivors'benefits as % of social expenditures in 2000	Public pension expenditure in 2000	Projected public expenditure in 2040
Italy	16.0	63.4	10,4	15,7
Austria	13.9	48.3	14,5	18,3
France	13.1	44.1	12,1	15,8
Greece	13.0	49.4	12,6	23,8
United Kingdom	12.8	47.7	5,5	5
Germany	12.4	42.2	10,8	16,6
Sweden	12.6	39.1	9	11,4
Belgium	11.7	43.8	10	13,7
Netherlands	11.6	42.4	7,9	14,1
Denmark	11.0	38.1	10,5	14
Portugal	10.3	45.6	9,8	13,8
Spain	9.3	46.3	9,4	16
Finland	9.0	35.8	11,3	16
Luxemburg	8.4	40.0	7,4	9,5
Ireland	3.6	25.4	4,6	8,3
European Union	12.7	46.4	10,4	13,6

Sources:
First column: Eurostat, Gérard Abramovici, Statistics in focus 3-3/2003 (based on tables 1 & 4).
Second column: Eurostat, Gérard Abramovici, Statistics in focus 3-3/2003, table 4.
Third and fourth columns: Economic policy committee in "Joint report of the Commission and Council on adequate and sustainable pensions" page 65.

Comment: *The differences in figures (noticeable for some countries) can be explained by the sample of expenditures retained. The two first columns retain only retirement expenditures strictly speaking but include employer schemes, at least in part. The two remaining columns take into account only public pensions, thus excluding British pension funds but not Agirc and Arrco, the legally compulsory French supplementary schemes. On the other hand, such public expenditures include much of the replacement income granted to those 55 and over, i.e. expenditures for early retirement, disability and unemployment not taken into account in the first two columns.*
The projection for public expenditures in 2040 was carried out using legislation in force prior to 2000. If more recent reforms are taken into account, the % of GDP devoted to pensions in 2040 drops from 15.9 to 14.9 for Germany, from 24.8 to 22.6 for Greece, from 13.2 to 12.1 for Portugal and goes to 5.5 from 4.4 to 5.5 for the United Kingdom. The projections are influenced not only by economic assumptions, but also by changes in regulations and particularly by the method of adjustment. The differences in revaluation from one country to another renders comparisons difficult. For example, with a price revaluation + 0.8%, the percentage for France in 2040 would be 18.3% and no longer 15.8%, according to the Conseil d'Orientation des Retraites.

Table 10: Pension adjustments to compensate for ageing from 1995 to 2045

	First solution	Second solution	Third solution	4th & 5th solutions
	Increase (%) in old age contribution rate in 2045	Decrease (%) in pensioner net income in 2045 compared to that of the actively employed	Rise in withdrawal age between 1995 and 2045 (in years)	Increase (%) in size of active population
	Compensates for effect of ageing between 1995 and 2045			
Austria	+ 53%	– 45%	+ 10,8 years	+ 81%
Belgium	+ 44%	– 42%	+ 8,7 years	+ 73%
Denmark	+ 43%	– 37%	+ 8,2 years	+ 59%
Finland	+ 49%	– 42%	+ 8,8 years	+ 72%
France	+ 51%	– 44%	+ 9,6 years	+ 80%
Germany	+ 49%	– 42%	+ 10,6 years	+ 73%
Greece	+ 50%	– 43%	+ 8,4 years	+ 74%
Ireland	+ 96%	– 54%	+ 10,7 years	+ 118%
Italy	+ 49%	– 45%	+ 11,3 years	+ 81%
Luxemburg	+ 50%	– 41%	+ 8,9 years	+ 71%
Netherlands	+ 74%	– 50%	+ 11,4 years	+ 99%
Portugal	+ 44%	– 39%	+ 8,0 years	+ 63%
Spain	+ 80%	– 54%	+ 10,2 years	+ 117%
Sweden	+ 24%	– 26%	+ 5,8 years	+ 35%
United Kingdom	+ 45%	– 39%	+ 8,5 years	+ 65%
European Union (Eur 15)	+ 49%	– 43%	+ 9,9 years	+ 75%

Source: *"Le vieillissement démographique dans l'Union européenne à l'horizon 2050, une étude d'impact"* (Demographic ageing in the European Union up to 2050, an impact study), carried out by Gérard Calot & Jean Claude Chesnais along with Alain Confesson, Alain Parant and Jean-Paul Sardon, at the request of the European Commission and published in "*Travaux et recherches de prospective*" nº 6 October 1997 (Futuribles Inernational, Lips, Datar, (Commissariat General du Plan) page 24.

Comment:

– The first solution, whose impact is measured in the first column of figures, consists in increasing the old age contribution paid the actively employed in order to maintain a parallel between the change in average net salary and the average net pension. The cost of ageing is borne by the actively employed and pensioners.

– The second solution consists in lowering the relation between the average net pension and average net salary in order to insure that the contribution rate remains unchanged. The cost of ageing is borne solely by pensioners.

– The third solution consists in raising the average age for quitting the work force in order to maintain an equilibrium recorded in 1995 between the number of actively employed and the number of pensioners.

– The fourth and fifth solutions consist in maintaining the 1995 balance between the number of actively employed and the number of pensioners either by increasing the employment rate or by resorting to immigration.

Adaptations

Their aim is to reduce cost expansion by lowering entitlement calculations and adjustment methods, with workers encouraged to continue to work to compensate for a decrease in pension for a similar length of career. They also take into account the expansion of gainful employment for women. Lastly, there is a slow development of funding because of the contradictory wish of the Member States to encourage supplementary solutions susceptible of compensating for a decrease of basic pension, and company wishes to reduce their engagements in matters of supplementary pensions.

Basic pensions that are less generous and more representative of contributions

In the Beveridge countries, calculation of the flat basic pension is generally proportional to the length of contribution or residence. In Bismarck countries, it often applies to an average concerning a limited number of years. A pension which is calculated using this method is much higher than if it reflected the whole of a career, including badly remunerated periods. Increasing the number of years taken into account thus contributes to lowering the amount of future pension. As in France, many states are increasing the reference period taken into account. Italy has gone from the last five years of a career to its totality and Portugal, after gradually passing from an average of the 5 best years to the 10 best years in 1994, converted to 40 years in 2002. Spain has gradually gone from the 8 to the 15 last years and plans to take into account the whole of a career and Austria from the 15 to the 18 best years in 2019. Finland, which had first decided to shift progressively from the 4 to the 10 last years between 1996 and 2005, has finally chosen to opt for a full career as of 2005 (with a transitional scheme). Germany has reduced the number of educational years for validation.

The other method of reducing the amount of a pension consists of using less favourable adjustments. Table 11 shows the current adjustment procedures for the basic schemes. Like France, many member states tend to adjust pensions no longer in terms of salaries but rather according to prices or a combination of the two.

From early retirement to a longer working career

The problem is to reverse a trend of the 80's to lower the retirement age in order to reduce unemployment. If in fact the age of reference for retirement was usually set at 65, the possibilities for early retirement grew (for example, 65 in Luxembourg with 10 years of insurance, but 60 with 40 years of insurance and 57 with 40 years of effective contributions). The Member States are trying to correct this cut in the retirement age by reinforcing the conditions for early retirement. Thus, early retirement at 60 in Belgium with 20 years of insurance in 1997 will require 35 years in 2005. Others, such as Austria, use reductions to penalize departures before 65.

Countries where the departure age is more favourable for women (60) have opted for an alignment with that for men (65). This will be the case in Belgium in 2009, in Greece for women insured from January 1, 1993, in Austria in 2033 and in the United Kingdom in 2020. In Germany, early retirement for women with 35 years of insurance is now at 63 instead of 62.

However, in most countries, the rules for calculating the basic pension are such that working beyond the normal age or span does not increase significantly the amount of pension. Some Member States are setting up more attractive conditions for continuing to work until a relatively advanced age. Incentives for retiring later can take the form of a bonus for over 65 (Austria, Spain and Luxembourg) or even 60 (Belgium). In

Table 11: **Pension adjustment methods and exemption for "odd jobs"**

The adjustment method concerns the basic scheme(s). Some countries waive the contributions of those with low paid jobs. It is usually possible for them to contribute voluntarily.

	Adjustment method	Exemption of low paid jobs
Austria	Net salary	If less than €301 montly
Belgium	Prices (except tobacco, alcohol, petrol & diesel fuel) if inflation above 2% & political decision	No
Denmark	Salaries	If less than 9 hours weekly
Finland	Price for old age minimum Weighted price (80%) salaries (20%)	Wage earners: membership as of 23, reduced to 18 in 2003. Self-employed, if income under €5 255 yearly. Farmers, if income under €2 628 yearly.
France	Prices	No
Germany	Net salary	If less than 15 hours weekly & €325 monthly or short term employment of less than 2 months annually.
Greece	Political decision, usually prices	No
Italy	100% of prices up to 2 times the minimum pension. 90% between 2 and 3 times this pension 75% above	No
Luxemburg	Prices if increase more than 2.5% & political decision	Wage earners, if under 3 months of activity in year Self-employed, if gains less than 1/3 of social minimum.
Netherlands	Political decision, usually salaries	No
Portugal	Prices	No
Sweden	Salaries, eventual automatic adjustment	No
Spain	Forecast prices + adjustment	With "marginal activity"
United Kingdom	Prices	Wage-earners, if less than €115 weekly Self-employed, if less than €6 316 yearly + progressive contribution up to average salary

Source: Missoc Data 2002.

Finland, the rate for acquiring rights rises for advanced ages and the latest reform, adopted in 2003, makes working beyond the minimum pensionable age much more attractive. In fact in 2005, the annuity rate will be 1.5% up to 52, 1.9% up to 62, then 4.5% until 68 and 4.8% beyond that. In Spain, the employer contribution for employees over 60 has been reduced by half. Italy and Sweden have abolished the notion of a retirement age and adopted a flexible retirement with an actuarial calculation of rights, i.e. the later a worker leaves, the higher the pension. Finland will partially follow suit in taking into account life expectancy for calculating pensions settled from 2009 on.

Lastly, overlapping employment/pension is authorised in the majority of Member States. In most cases, a pension acquired at a 'normal' age is considered as a right that may be cumulated with a gainful activity. On the other hand, overlapping with early retirement is usually forbidden or limited. Table 12 sums up the situation. In countries with no public system of pre-retirement, early retirement may be found in some companies and is then financed by an ad hoc arrangement or by a company pension plan.

Table 12: **Flexible retirement ages & overlapping possibilities**				
	Early retirement	**Standard retirement**	**Deferred retirement**	**Accumulated with earnings**
Austria	Yes, more difficult	Men 65 Women 60, 65 by 2033	Yes	Possible
Belgium	Yes, more difficult	Men 65 Women 62, 65 by 2009	Yes	Limited
Denmark	no	65	No	Limited
Finland	Yes, elimination planned	65	Yes	Possible
France	No	65*	Yes	Limited
Germany	Yes, more difficult	65	Yes	Possible
Greece	Yes	65	No	Reduced pension
Ireland	No	65	No	Possible
Italy	Yes, elimination planned	Actuarial calculation between 57 & 65	Yes	Possible
Luxemburg	Yes	65	Up to 68	Possible
Netherlands	No	65	No	Possible
Portugal	Yes	65	Yes	Possible
Spain	60 for insurance prior to 1967	65	Yes	No
Sweden	Actuarial benefits between 61 & 67			Possible
United Kingdom	No	Men 65 Women 60, 65 by 2020	Yes	Possible

* 60 with 40 years of insurance.

Source: "Joint report of the Commission and Council on adequate and sustainable pensions" page 57. To be consulted for a more detailed description.

From housewife to reconciling maternity with occupational activity*

Retirement systems came into existence during a period when the role of a woman was considered to be a housewife and rules continue to reflect this in a number of Member States. As well as survivor pensions, various other benefits in the basic schemes aim to attenuate the consequences of retirement in the absence of an occupational activity or a full career, at least in countries where the level of pension is linked to gainful employment. Such provisions do not exist of course in countries where the basic pension is linked to length of residence rather than to job (the Netherlands and Denmark). Neither are they present in the southern states of the Union such as Spain, Italy, Greece and Portugal, where family policy is not well developed and where a traditional family structure remains the rule (women as housewives with several generations living under the same roof).

On the other hand, Germany (since the 90's), Austria, Belgium, France, Luxemburg, the United Kingdom and Sweden (under the new pension system) provide pension benefits more or less generously and in various forms for educational periods

* *Laurence Assous, of the Forecasting Division of the Finance Ministry, has compiled an exhaustive report* "Les avantages familiaux dans les régimes de retraite des quinze Etats membres de l'Union européenne" *(Family benefits in the retirement schemes of the Fifteen Members State of the European Union) for the* Conseil d'Orientation des Retraites *(file nº 5, April 19, 2002).*

for young children. The French general scheme thus accords two years of insurance per child, whether or not the mother has interrupted her job (If she completes a full career though, these years provide no supplementary benefit), while the Austrian system validates up to four years per child, for either the mother or father, with the condition of a complete interruption of work. The German approach is to provide for one parent or the other three years of insurance per child in the form of contributions financed by the State, contributions that are added to those paid when the parent concerned continues to pursue an occupational activity. This is tantamount to an increase of pension, an arrangement similar to the increase of pension for three children or more under the French schemes, although in an entirely different spirit. The purpose of the French increase is to compensate for a diminished capacity for savings on the part of parents who have done more than ensure family survival in bringing up more than two children. The German arrangement aims to encourage women to pursue a gainful activity. The fact is that the number of German women working today is about average for Europe. Germany is thus representative of the family policy advocated by the European Union which hopes to respond to ageing with an increase in the number of women workers as well as older workers.

In addition to periods of childhood education, there are two other sorts of provisions intended for families, increases for dependant children (Austria, Denmark, Finland, Ireland and The Netherlands) and possibilities for women with children to retire earlier. This is the case for many French special schemes where a mother of three children with 15 years of career may receive her pension without any age condition, and in Greece where a mother of children under 18 with 20 years of career may receive a pension as of 55 (instead of 65). It is also the rule for the new Italian system. The fact of having had children allows either an earlier retirement (at 56 at best for three or more children instead of 57) or a pension with an actuarial coefficient corresponding to a higher age (2 years for 3 or more children). Like Germany, Italy thus favours a continuation of gainful employment.

In the supplementary schemes (with the exception of the French supplementary schemes which resemble the basic schemes), the family dimension is usually taken into account solely through survivors benefits, possibly offered as an option. Company schemes sometimes directly excluded women (supposed to benefit from their husband's coverage) and continue to discriminate against them indirectly by not covering or badly covering short-term contracts, temporary help or part time workers, sectors where women are often the majority. Concerning funded schemes with defined contributions, European case law (Neath case of December 22, 1993 of the European Court of Justice in Luxemburg) allows them to calculate a woman's pension in terms of her life expectancy, a practice that leads to a lower pension than that of a man. Encouraging the development of individual funded pensions is thus not, a priori, favourable to women nor to taking into account children's education. This obstacle can be offset though by tax incentives. Such is the case of Germany. The Riester Reform, which entered into application in 2002, encourages a supplementary funded pension with tax deductions and exonerations according to family status and number of children.

The collapse in birth rates (see table 8 p. 20) does not seem to have generated policies to promote child bearing, except in Germany. On the contrary, the practice of taking into account child care under the traditional form of survivors pension and the attribution of rights for periods when the mother is at home appears threatened by the combined effect of European case law that condemns advantages reserved for women and a concern for savings that tends to eliminate such advantages rather then encourage them by extending them to men. Even in Germany, the rate of survivor pensions has been lowered from 60% to 55% (for spouses under 40 or married after 2002). In Sweden, survivor pensions have been practically eliminated as such, since they apply for only a year or in the case of underage children.

European debate remains rather discrete on the drop in the birth rate and its consequences, a subject much more disturbing than the rise in the number of elderly. It does insist though on the

necessity of rendering motherhood and gainful employment compatible. In fact, the Member States, or at least a number of them, are improving rights for educational periods for children, a move that runs counter to the overall trend of reducing future pension rights.

Increased recourse to funding

Funding, which had practically disappeared from the basic schemes during the War, and which was merely one method of financing among others for the supplementary schemes, has made a strong comeback thanks to the extraordinary yields on financial investments of the past two decades. Its reintroduction in the basic schemes has been mostly in the form of reserve funds aimed at maintaining the equilibrium of the basic schemes (table 13). Only Sweden has gone further by introducing a 2.5% contribution to help accumulate individual funds which is then managed by an organisation selected by the person insured.

Some Member States also encourage development of supplementary funded pensions. The recommendations of the influential Economic Policy Committee go in this direction. The creation of such schemes offers the double advantage of stimulating the European economy by favouring investment and compensating for a predictable decrease in the replacement rate for pensions paid by the basic schemes.

Spain voted legislation in 1987 establishing structures for so called “closed schemes”, i.e. limited to a company or branch, and “open schemes”, i.e. available to all on a basis of individual membership. In addition, pre-existing company

Table 13: **Reserve funds assets of the basic schemes as % of GDP**

	Reserves as % of GDP	Year
Austria	none	2001
Belgium	0.5	2001
Denmark	25	2000
Finland	60	1999
France	0.8	2002
Germany	none	2001
Greece	none	2001
Ireland	8	2001
Italy	none	2001
Luxemburg	22	2002
Netherlands	3	2002
Portugal	5	2001
Spain	1	2002
Sweden	29	2001
United Kingdom	none	2001

Source: Joint report of the Commission and Council on adequate and sustainable pensions, page 70.

Comment: *Reserve funds are of differing sizes as shown in the table. Some have been in existence for quite a while such as Sweden’s, established in the early 60’s, Luxemburg’s, which must keep the equivalent of a year and a half of benefits on hand permanently, or Finland’s, which were originally fully funded. The others are relatively recent: Portugal in 1989, France in 1999, Ireland and Spain in 2000, Belgium in 2001 and Greece for 2003.*

schemes have been required to guarantee resources for their engagements. The "closed scheme" system has enjoyed only limited success among companies probably because 60% of the seats on the joint employer-employee management boards are reserved for employee representatives (a figure recently reduced to 50%). It is mainly individual memberships in "open schemes" that have found acceptance.

Italy has adopted rules (1995) allowing creation of supplementary funded schemes through collective agreement that are "open" or "closed". Their acceptance has been slowed though by unfavourable tax treatment of investment income (recently revised) and because of the open hostility of business to the disappearance of a cheap source of internal financing, represented by the so-called "TFR" (retirement lump sum) which are scheduled to be transferred to the new funds.

Luxemburg has also created a legislative framework (1999) for supplementary funded pensions. But the objective appears to respond less to domestic demand (supplementary schemes cover some 17% of employed workers), than to attract possible cross border occupational schemes.

Belgium, where only 30% of workers are currently covered, has just approved reforms encouraging supplementary schemes.

In 2002, Germany introduced a policy of fiscal incentives aimed at encouraging families to invest up to 4% of their income in funded plans, within a company structure if the worker so requested, or otherwise with an insurance firm. The arrangement was a little too complicated to receive firm public backing and a new reform is under study which could lead to compulsory savings.

In 2001, Austria adopted fiscal measures favouring supplementary funded pensions within an occupational or individual structure.

The new European directive on supplementary funded schemes

Adopted on May 13, 2003, by the Council of Finance Ministers of the Fifteen, after 12 years of debate, the European Directive "concerning the activities and supervision of occupational pension institutions" aims to establish a legal framework for supplementary funded pension schemes and offer the possibility of cross border supplementary schemes. The debate revealed differences of interest, culture and practice among the Member States particularly favourable to pension funds, i.e. the United Kingdom, the Netherlands and Ireland, and those to insurers, i.e. France, Germany and Spain (see Lettre de l'Observatoire des Retraites nº 11 "Europe and Retirement", March 1999). The decision represents a compromise, allowing insurers (who would have liked to have seen the European Directive on Insurance applied to pension funds) to use the rules of the new directive. It also allows States to maintain national rules, often more restrictive than those of the new directive. As with the Life Insurance Directive, it organizes more a start of competition among funded pension schemes rather than a plan for a single European model.

The shift from defined contributions to defined benefits

With a defined contribution scheme, a firm runs the risk of finding itself without sufficient financial assets in the event of an under evaluation of pension costs or a drop in investment yields. Defined contribution schemes transfer risk to employees whose pension depends on the financial markets. Supplementary schemes are subject to the same economic and demographic realities as the basic schemes though and may be faced with additional constraints enacted by national legislation along with stricter accounting rules. Defined contributions also tend to tie employees to a single firm in an era where more mobility is being encouraged.

In Bismarck countries, supplementary schemes generally choose the so-called defined contribution

method. In Beveridge countries, a pattern of defined benefits is coming increasingly under attack. There is a move towards defined contributions in the United Kingdom, encouraged by the downturn on financial markets. In Sweden, schemes for blue collar workers, local community employees and civil servants are maintaining defined benefits. In the Netherlands, defined benefits remain although their determination has become less favourable to employees or a part is now in defined contributions.

The development of joint management

The Member States tend to favour joint management in the area of company schemes. Since the Maxwell affair, the boards of British defined benefit schemes must include employee representatives for a third and defined contribution schemes for a half. Joint employer/employee management is also the rule in Spain and Italy. "The Franco-Nordic axis" of joint management is growing!

The impact of the downturn on capital markets on funded pension schemes

After three years of decline on the capital markets, the asset value of pension fund holdings worldwide dropped by an estimated 20% between 1999 and 2002, equivalent to 6% per year. The big European firms were not spared by stock market fluctuations and Standard and Poors threatened to downgrade ten of them early in 2003 because of financial losses run up by their pension funds. Even if draconian measure are not in stores, an alert has sounded in the Anglo-Saxon and Nordic countries where the most important pension funds are located.

Risk/asset ratios* are dropping

In the Netherlands, according to Dirk Witteveen, Chairman of the regulatory committee of the Dutch pension fund industry, the risk/asset ratio of around one hundred companies is below 110%, although the legal minimum is 105%. The share portfolios of the funds have also registered negative yields of some 20%. The average risk/asset ratio, which was 150% in 1999, declined to140% in 2000, to 125% in 2001 and to 112% in 2002. As a result, certain funds do not have sufficient reserves to cover liabilities and some 300 among them could find themselves in a delicate position by the end of 2003 and facing a shortfall of nearly €23 billion.

In the United Kingdom, the Government estimates a deficit in pension savings around €42.2 billion and in Switzerland a third of the country's 2100 pension funds recorded risk/asset ratios of under 100% at end 2002.

This fragility, expressed in terms of risk/asset ratios, has been accumulated, according to experts, because of the financing methods of pension funds. In the 90's, many companies didn't pay their contributions thanks to strong share yields. The surpluses produced by the funds were not capitalised but used instead to reduce, if not eliminate, em-

** The risk/asset ratio may be defined as the expression of financial assets as a percentage of liabilities of a pension fund.*

ployer contributions. The practice, known as a "contribution holiday", is particularly widespread in Anglo-Saxon countries, especially in Britain where such arbitrage in the use of "surpluses" represents a loss of €12 billion in unpaid employer contributions over 12 years, according to the Inland Revenue Service.

The objective remains the same in terms of long term financial management

Are companies about to modify their policies after the downturn capital markets? Especially since the acceptance of IAS international accounting standards by European firms quoted on the stock exchanges could well reveal new financial imbalances. Currently, only long term premium management and a few sparse measures have been taken in reaction to the decline of the stock markets.

Recently, the alarm was sounded in the Netherlands, and was all the more resounding since the Dutch pension funds are among the biggest in the world, notably ABP*, classed number one with €147 billion in assets. PVK, the regulatory organisation of the funds, issued a warning to the country's 1000 pension funds. Those funds whose risk/asset ratio is under 100% have been given a year to correct the situation. PVK has also indicated the road to follow concerning risk taking in matters of investments in order to ensure that pension funds build up reserves sufficient enough to offset a decline in share values.

The overall pension fund strategy of asset allocation has not been called into question even though reactions can be quite spectacular as with Boots in 2001. After dismissing its pension fund manager, the British drugstore chain converted its share portfolio entirely to treasury bonds to ensure investment security. It's true that some funds have seen their share portfolios shrink by 15% in a year as was the case with PKA, the main Danish fund for public employees, but this was due largely to a drop in share values rather than a reallocation of assets to bonds.

Experts are looking closely though at the problem of diversifying share portfolios to include non-quoted shares. According to the financial manager of Belgium's Tractebel pension fund, the problem is not so much one of abandoning shares for bonds, since pension funds cannot rely simply on bond yields to satisfy pension liabilities. The search for returns large enough for this well lead to investments that are more diversified and risky.

At the moment, it seems the funds are in favour of large injections of liquidities to offset the decrease in risk/asset ratios. Many firms are bailing out their funds with such injections and building up reserves to meet possible financial market fluctuations. It is now up to fund managers to judge the opportunities for stock market investments and evaluate the optimum share ratio for their portfolios.

Corrective measures, sporadic for the moment, hints reaction case of a prolonged financial crisis

Despite the risk of setting off an economic slowdown, ***an increase in contributions*** appears to be under consideration by the Dutch pension funds who must meet costs solely with income from contributions. Contribution rates, which up until now, have been relatively modest, i.e. 9% for the PGGM hospital pensions, have been going up. For certain company funds, such as that of the Vendex KBB distribution network, premiums have risen 2.4% in a year. The ABP pension fund for employees of the public and educational sectors, has increased rates by 2% to offset a drop in its risk/asset ratio (-12% in a year) and a rise in liabilities linked to an increase in salaries in the public sector. The rate may eventually wind up at 18%.

The Swiss Government has opted to revise its remunerative interest rate, with the aim of lowering the minimum guaranteed interest rate for pension funds from 4% to 3%. The proposal met harsh public criticism though and Parliament eventually modified the plan to set the rate at 3.25%. But the subject is still under discussion and the trade press

* *Pension fund for Dutch civil servants.*

foresees a phase of 0 for occupational defined benefit schemes.

An increase in contributions or a decrease in the minimum remuneration of capital are merely partial solutions since they concern only worker contributions. Their effectiveness might be hampered by an upswing in the number of pensioners during a demographic crisis. Furthermore, some Swiss pension schemes are considering to no longer upgrade pensions in tune with worker salaries.

Lastly, the development of defined contribution plans to the detriment of those of defined benefits may be accelerating, especially in Britain where, according to the association of British actuarial consultants, more than half of the defined benefit schemes may be closed in favour of defined contributions. The trend has been confirmed by the annual survey of the NAPF (National Association of Pension Funds)* which reveals that the number of companies offering defined contribution plans will have doubled by 2001. The big companies have opted for defined contributions, such as the Trinity Mirror, a press group of some 250 titles, including the celebrated Daily Mirror and Sunday Mirror. The Trinity Mirror announced the close of its defined benefits plan for new employees. Some firms are even transferring accruing entitlements to defined contribution schemes.

The acceptance of new accounting practices coupled with the decline in capital market yields has rendered defined benefit schemes less attractive for companies. Since guaranteed benefits in this type of scheme place the financial risk on the employer, the result could be a disengagement of employers in favour of individual plans or new pension funds with individual coverage, the so called “stakeholder pension schemes”.

The situation in the United States

The average risk/asset ratio of American pension funds slid from 100% in 2001 to 94% in 2002. PBGC, the federal organization in charge of providing guarantees for defined benefit schemes estimated the size of non funded liabilities at €111 billion in 2001, four times that of 2000. With 56% of assets invested in shares, public schemes appear less exposed to market risks than private funds whose share portfolios amount to 64%.

The so-called working class sectors are the hardest hit, such as those of air transport (AMR, parent company of American Airlines and Delta Airlines) steel (Arcelor and Bethlehem Steel) and automotive (Ford and G.M.), where liabilities exceed assets. Occupational pension coverage is widely developed in these areas because of a strong trade union presence and the schemes must consequently assume a heavy social burden.

Moreover, the assets of IRA individual pension plans, intended for workers without occupational coverage, where portfolios are mainly composed of shares, declined by 4.3% between 2000 and 2001.

Individual 401K savings plans that covered some 42 million American workers at end 2000 must also be taken into account (Source: Ebri – The role of company stock in 401K – February 2002). The investments of such defined contribution schemes are mostly in shares, generally in those of the worker’s company (There is often no limit on the size of investments in the same firm). The problem has become especially acute in the wake of the Enron debacle, where worker 401K plan assets were invested in the company’s shares to a level of 58% prior to a drop in share value of 98.8%. A reform of 401K plans is currently under study to ensure future portfolio diversification (among company shares and those of other asset categories) as well as worker information (quarterly bulletins, investor education).

** The NAPF counts some 9000 member pension funds and its annual survey covers 850 schemes.*

The Swedish and Italian Ruptures

All of the Member States have introduced changes in their retirement systems but none have gone so far as Italy and Sweden who have introduced notional and actuarial accounts.

Italy set up a retirement system on a Bismarck basis as early as 1919, which was later modified along corporative lines in 1935. The post War period saw a multiplication of extremely generous special schemes (in the public as well as private sectors, for journalists for example). The pension schemes offered high replacement rates (2% for a year of insurance, with an average of the five last years of salary within a limit of 80% for private sector employees and 100% of the last month of salary for civil servants) and retirement ages that were particularly low, not just because of the possibility of a seniority pension (exempt from age conditions) after 35 years of contributions (15 for civil servants), but also due to a general retirement age of 55 for women and 60 for men. With the ageing of the country's population, pensions grew to be the main cause of a budget deficit incompatible with hopes of joining the Euro. In 1992, the Amato Government pushed back the age of retirement to 62 for men and 57 for women, made 19 years of public service mandatory for a seniority pension instead of 15 and set up possibilities for supplementary pensions. In 1994, the Berlusconi Government tried to accelerate reforms but ran into opposition that eventually led to its fall from power. The Dini Government which followed played the card of compromise which seemed the only possibility open. The fact is that the trade unions then agreed upon a common reform project that they submitted to a referendum that they organized. The project was accepted with a 64% majority, due largely to votes from pensioners little affected by the reform. It was voted into law by Parliament in 1995 and entered into application on January 1, 1996.

Sweden instituted a pension for the whole population in 1913 that was means tested. In 1946, it had merely to drop the income provisions to shift to a Beveridge pattern. In 1960, it supplemented the uniform pension with a supplementary public pension that, for 30 years of active employment, ensured 60% of the average of the 15 best years of wages. A Parliamentary commission of 1984 called attention to the demographic problems looming on the horizon and then, the method of calculating pensions, particularly unfavourable to long careers with no salary increase, became a subject of debate. In the 90's, Sweden found itself in the throes of an economic crisis without precedent. Within two years, unemployment escalated from 1.7% to 8.2%, while GDP dropped during three consecutive years. All aspects of the Welfare State were called into question. The idea of a reform of the pension system was accepted by Parliament in 1994, with a project negotiated by the majority and the opposition. The compromise that followed was accepted by more than 80% of Parliament in 1998 and a reform came into force in 2001.

The new system is more or less the same in both countries, with a pension that reflects the level of contribution throughout the course of a career and that will be all the higher if the pension is being calculated at an older age. The calculation is of an actuarial type where the amount of pension takes into account life expectancy. In Italy, seniority pensions are programmed to disappear by 2013. A pension can be calculated as of 57 for men and women (with the condition that it reaches at least 120% of the old age minimum to avoid any need for public assistance), but a "commutation coeffi-

cient" makes it more favourable to retire as near as possible to 65. The coefficient, which takes into account life expectancy, is revised every ten years and is presently 4.72 for retirement at 57 and 6.14 for 65. In Sweden, a pension may be obtained as of 61 using actuarial coefficients that take into account the age of retirement and the life expectancy of each generation. There is no maximum age. But employers may retire employees aged 67 and over without this being considered as a dismissal.

The aim of the Italian reform is to reduce the share of pension costs of GDP, currently the highest in the European Union. Pensions calculated with the new formulas should be much lower than those using the old rules. New entitlements will be adjusted in function of changes in GDP. With the Swedish reform, where the objective is to stabilize deductions as a percentage of GDP, pensions calculated with the new rules will not necessarily be lower than those with the old, but since they reflect an entire working career, short, ascending careers will no longer be favoured. Moreover, entitlements already accrued along with pensions will be adjusted to ensure that the cost of the basic pension remains constant in terms of changes in GDP, no matter the variations in economic growth and demography, a move that shifts the risk in the two areas to those insured.

The Swedish model and the French executive scheme

The reasoning of the Swedish system resembles that of France's executive scheme (Agirc), based on an accumulation of points whose value is calculated according to a formula ensuring a balance of reserves + outstanding contributions = payable benefits for the ten years to come, with the possibility of calculating a pension at 55 using actuarial coefficients. Under the Swedish plan, contributions (paid by the worker or by the State for periods of military service, children's schooling, disability) are credited to individual accounts, i.e. notional accounts that are the equivalent of "retirement points". These represent a sort of virtual capital that can be converted into benefits as of 61 using an actuarial computation that takes into account the life expectancy (male and female) of the applicant's generation. This virtual capital, as well as the pension, is adjusted in relation to the trend in average salary, the adjustment being downward, if necessary, to maintain the balance of reserves + outstanding contributions = payable benefits.

The executive scheme applied the automatic balancing arrangement up until 1976, to a date when it should have lowered the value of a point, with the related impact on acquired rights and payable benefits. A decision was taken by the social partners to interrupt the arrangement instead and split the cost between pensioners, with a lower adjustment in point value, and the actively employed and companies, with an increase in contributions. What will be the situation in Sweden? Reserves accumulated since the 60's represented 26% of GDP in 2001 and the foreseeable rise in the dependency rate of pensioner/contributor stands at 58% in comparison with an average 100% for the rest of Europe and 89% in France. Such relatively favourable statistics seem to indicate that, with sufficient growth, the automatic balancing arrangement will lead to a more or less favourable readjustment in pension rather than a decrease.

In Sweden as in Italy, the reform is being applied gradually. Italian workers with at least 18 years of seniority on December 31, 1995 will conserve the essential part of their benefits under the former rules. Those with less than 18 years as of that date conserve entitlements acquired under the former system but are subject to the new rules as of January 1, 1996. Lastly, new entrants to the labour market will be subject entirely to the new rules. The same is true for the Swedes, with only those born before 1938 retaining the benefits of the old system. The new rules apply in part to those born between 1938 and 1953 and entirely to those born from 1954 on. The Swedish reform thus applies in a much more retroactive manner than that of Italy which, except for age, has barely modified acquired entitlements. As of 2015, new pensions will be calculated entirely according to the new rules, which will not be the case until around 2035 in Italy.

Much more progressive, the Italian reform represents a greater change for Italians than the Swedish reform does for Swedes. In fact, the unique provisions of many Italian special schemes including civil servants will disappear since the reform applies to all with no exceptions. These provisions could reappear with the development of supplementary schemes but so far none have been established for Italian civil servants.

This is not the case in Sweden where they existed before the reform. ***The four Swedish supplementary schemes have already started moving away from defined benefits to defined contributions.*** Up until now, the white collar union has refused to abandon defined benefits in the white collar supplementary scheme. Only 2.5 points of contributions (corresponding originally to the payment of a pension supplement between 65 and 67 which was the retirement age in the basic scheme until 1974) are allocated to a savings plan where the financial manager and the method of management are freely chosen by an employee when his salary is above a certain level. The blue collar union has accepted defined contributions though in exchange for a shift in financing from partial pay-as-you-go to full funding, a move considered safer over the long term. Local community workers have also had to abandon defined benefits. As for civil servants, who had stood by their defined benefit supplementary scheme up until now, financed in pay-as-you-go (with only a tiny 1.7% defined funded contribution introduced in 1992) they too have signed an agreement organising a gradual transfer to defined contributions.

Following the example of the white collar supplementary scheme, the 1998 reform also introduced in the basic scheme a 2.5% funded contribution to an individual savings account, with a manager chosen by the insured. Sweden is thus the sole country in the European Union to have introduced individual funding in the first pillar. It will soon be joined by other states from central and eastern Europe, acting under the influence of the World Bank all the while drawing inspiration from Sweden.

Germany and the United Kingdom

It is not the aim of this letter to provide a description of the retirement systems of each of the fifteen member countries. However, one for Germany and England, the countries at the origin of the two systems of social security in use in the European Union has been included.

Germany and the search for stability

The pension insurance introduced by Bismarck in 1889 covered all workers (with the exception of civil servants who had had their own scheme as of 1872) whose earnings were less than a ceiling which was placed rather high (three times the average wage of the period). The aim was to insure disability, with old age being considered as a form of disability. It was and is jointly managed by representatives of employers and workers, and financed by employer and worker contributions as well as a subsidy from the State. In 1911, a retirement scheme was set up for white collar employees, with a higher ceiling and a more favourable pension. The system has survived all sorts of upheavals. In 1957, a reform improved benefits (accepted by a consensus of political parties and employee and worker representatives) indexed on gross wages and aligning blue collar and white collar schemes, all the while maintaining a separate management. In all, four social security schemes presently provide old age coverage, that of civil servants, miners, farmers and lastly the pension insurance that covers a major share of employees as well as the self-employed who may join voluntarily. The pension reflects contributions paid during the course of a career. The "standard pension" is acquired at 65 and represents 70% of an average career salary for 45 years of activity. It is possible to leave at 62 though with reductions and after 65 with increases. Periods for children's schooling, job training, military service, unemployment, etc. are taken into account. In the 70's, opportunities for early retirement without reduced pension but with career length conditions were made available.

The basic schemes are paying more than 90% of pension, with supplementary company schemes, which cover barely half of the salaried employees, supplying less than 10%. There are several methods of funding, with the most widespread being that of "book reserves", where the company constitutes tax deductible reserves and pays pensions directly. Inflation, which ruined funded schemes, favoured this sort of system, not to mention a number of tax advantages which opened possibilities of self-financing for companies and contributed to the German "economic miracle" following the War. Times have changed. Tax policy is no longer so lenient and the increase in life expectancy has pushed the cost for companies upward. Add to this the fact that firms are no longer in such a hurry to ensure worker loyalty amid conditions of rising unemployment and it begins to look as though they are ready to withdraw from the system completely.

In fact, financial problems began to appear in the 80's. In 1989, a reform, accepted like that of 1957 within a wide consensus, tried to adapt the system to new demographic realities. It indexed pensions on net earnings, planned the end of early retirement, improved benefits for periods of schooling for children and raised the Federal subsidy. It came into force in1992, in a Germany that, in the meantime, had been unified. The extension of pension insurance to the ex GDR accelerated the instability of the system by using the income from the West to finance a sizeable improvement of pensions paid in the East.

The consensus that had prevailed up to then split over reforms introduced in 1997. The Kohl Government, with the aim of stabilizing contributions for the twenty years to come, decided to take

into account life expectancy when adjusting pensions in a way that would lower the “standard pension” from 70% to 64% in 2030, limit disability pensions to those with real medical disabilities, raise the Federal subsidy and speed up elimination of early retirement.

But the Schröder Government cancelled the measures, all the while maintaining an objective of stabilizing contribution rates, deemed necessary to ensure the competitive position of the country. The Reister Reform, named after the Labour Minister, adopted in June 2001, confirmed the drop in the “standard pension” to 64% towards 2030, a much more substantial decrease in truth due to a new definition of net earnings, and offered a possibility for compensating the loss with voluntary savings. Such savings, encouraged by subsidies and fiscal incentives, could eventually represent 4% of an earnings cap within the limits of a defined ceiling. They would be entrusted to a company scheme (when a collective convention existed) or a financial manager. In addition, survivor pensions were lowered from 60% to 55%.

The recourse to funding signals a turning point in a country that up to now has been strongly attached to pay-as-you-go. The reform, with its complicated methods of application, has met with mitigated popularity. It is also highly unlikely that it can provide financial stability for the basic scheme. A new reform is already under study, one that might make retirement savings mandatory. Germans explain tongue in cheek that they are proceeding with the reform of the century about every five years! This reflects the size of the upheavals that are affecting all of Europe’s pension schemes.

The United Kingdom, no problem of financing, rather one of poverty

Despite being the country of Sir William Beveridge, the United Kingdom has not strictly applied the principles set out in his report of 1942. The flat basic pension introduced in 1946, instead of being “universal” covers only the gainfully employed and its calculation takes into account the length of activity. Entitlements are extremely low, around 20% of the average worker’s salary, practically a record for Europe. Consequently, company schemes, or pension funds, have mushroomed during the post War period to cover about one half of the population, mainly in the public sector and the big industrial corporations. They are defined benefit schemes and usually established at the initiative of employers, with the blessing of insurance firms. British trade unions have demonstrated little interest for retirement questions and the insurance firms have been able to block all projects for introducing a German style basic pension that could have curtailed the development of the *pension industry*. The progressive pension, introduced by the conservatives in 1961, remained symbolic.

In 1978, Labour created an authentic supplementary pension, The State Earnings-Related Pension Scheme (Serps), financed in pay-as-you-go, which provides some 25% of an average career salary for at least 20 years of contributions. Company schemes can replace the Serps as long as they provide as much contracting out, which has generally been the case. The United Kingdom presents an original situation in which a legally mandatory supplementary scheme is managed in part publicly (the Serps) and in part privately (pension funds).

With her arrival to power in 1979, Margaret Thatcher first worked for the State to withdraw from the Serps, replacing it with company schemes. But she ran into sharp resistance from employers, hardly anxious to cover the whole of employees. Moreover company schemes present the inconvenience of hampering worker mobility, since their benefits are generally calculated as a percentage of the final salary. From 1988 on, company schemes with defined contributions could substitute for the Serps, just as those with defined benefits. Above all, employees were invited to quit their company scheme and the Serps and open an appropriate personal pension plan with the insurer of their choice and the contribution rate of their choice (between a mandatory minimum and a maximum). They were further encourage to do this with the knowledge that the Serps subsidised those who left all the while remaining responsible for accrued rights. Some 4 million employees quit the Serps

and 1 million their company scheme, with the latter often transferring accumulated capital to their new personal pension plan. The majority among them were not highly mobile workers but rather poorly paid workers who chose to improve their immediate income in contributing a minimum. A major scandal erupted in the 90's when it turned out that at least a million among them had been badly advised by some insurers and looted in the exchange. The insurance companies at fault were finally obliged to provide reimbursement.

The arrival of Tony Blair did not put the system in question but Labour did try to improve, thanks to a series of tax incentives, the level of contributions of low wage earners to a new type of individual "stakeholder pension" that offered better protection with limited management fees, flexible contributions and transfers without penalty. Most experts figured that if the British could not envision a rise in the cost of the basic scheme in the coming decades, they had better prepare themselves for a massive growth of poverty and that the only realistic solution would be to oblige workers to contribute more.

Similarly, company schemes were in the middle of a deepening crisis. The Maxwell affair led to the establishment of a minimum funding ratio that reduced the flexibility of their financial management. In 1990, the Barber decision of the European Court of Justice obliged occupational pension schemes to grant pension to men and women at the same age, despite the fact the ages are not the same in the basic scheme. The repercussions of the stock market crisis were another element that could hardly be smoothed over in as much as estimations of life expectancy seem to have been underestimated. There ensued a recent and massive move of British firms to disengage and adopt defined contributions for new staff as well as new entitlements to be attributed to all employees, refusing, after having profited from the boom period to suspend contributions, to assume responsibility when times got bad. "There are no more gentlemen," concludes Giovanni Tamburi.

The United Kingdom thus appears to be following the example of the United States where company schemes with defined contributions are being widely replaced by plans resembling employee savings.

A commission, headed by a former director of the British employers council, has been appointed. The British association of pension funds has come out in favour for postponing retirement to age 70 and the minister in charge of pensions is hoping for an optional form of retirement encouraging work until age 70. Moreover, newly hired civil servants will probably not be permitted to retire at 60, a possibility presently offered by their occupational funds (mostly in pay-as-you-go) that covers them in addition to the basic regime common to the population as a whole.

Civil Servants

In all of the Member States, civil servants have played a major role in the establishment and development of pension schemes. Along with miners and railway workers, they represented the first social category to benefit from a pension that allowed them to quit working at a certain age. Retirement has also been used by public administrations as a means for introducing maximum age limits, not without resistance from those concerned. As a result, pension schemes for civil servants have often served as a sort of reference for other social categories. In Bismarck countries, civil servants have their own basic scheme. In Beveridge countries, they benefit from the national one. This seeming equality is compensated for by generally advantageous supplementary schemes for example. The British pension funds for civil servants are in most cases financed in pay-as-you-go by the State and offer retirement at an earlier age than that provided by the basic scheme. In most countries, civil servants conserve their distinctive identities. Only Italy is an exception, where a reform eliminated all the special schemes in 1995 and civil servants do not yet have their own supplementary one. In almost all the Member States though, reforms are underway to close the gap between the pensions of civil servants and those of the private sector.

Public sector pensions schemes in Europe

Not only are pension schemes in the public sector organised differently from one country to another but they also present a mosaic of mechanisms and measures. On one hand, there are several categories of public officials, such as those of the State, local comminities and various public institutions. On the other hand, the conception of a public agent is more or less broader in scope according to whether or not it includes contract public employees. Finally, some systems such as that of Greece are so centralized that a single scheme covers the entire public sector, while others are fragmented. In Germany and Austria, public officials as well as civil servants and municipal employees have their own particular schemes.

Convergences despite the diversity of schemes

The schemes are defined benefit. Because of a replacement rate* varying from 50% to 100% according to the country and the basis of earnings taken into account for the calculation of pension (usually the final wages), they often serve as a basic scheme and a supplementary one. This is not a general case though, especially in Beveridge countries.

Civil Servants in the Netherlands have been affiliated to a universal basic scheme open to all residents since 1996. The former special ABP scheme for the public sector has become a mandatory supplementary scheme. ABP, which is funded, is the largest pension fund in the world in terms of assets. In the United Kingdom, the major share of public sector employees are members of the statutory pension scheme. Supplementary coverage though is provided by occupational pension schemes or the Serps (the public supplementary earnings related pension scheme), even if it is less advantageous.

Lastly, financing is generally the responsibility of the employer and/or the State (when it is not the employer). The State balances the accounts with a

* *For a full career.*

Table 14: **Civil service pensions in the European Union**				
Country	**Minimum age**	**Insurance period (yrs)**	**Maximum amount**	**Calculation basis**
Austria	60	40	80%	12 best months in 2003. 24 best months in 2004
Belgium	65 Possibility of early departure as of 60		75%	Average of salaries paid over the last 5 years
Denmark	As of 60 Legal age is 70	37	From 40 to 70% depending on grades (57% is average)	Last salary + number of years of service
Finland	65, with possible early departure	40	60%	Average salary over previous 10 years
France	60, with extension possible	37.5	75%	Average salary over last 6 months (excluding bonuses)/ number of months of insurance
Germany	63 with penalties	40	75%	Last salary (including bonuses and allowances)
Greece (1993 reform)	65	35	60%	
Ireland	Minimum 60 Maximum 65	40	50	12 previous months (including some accessory remuneration)
Netherlands (compulsory supplementary scheme)	65 minimum	40	70	Last annual salary paid
Portugal	60 with possible extension to 70	36	100%	Basic salary
Spain	65 Voluntary retirement possible at 60 Extension to 70 is possible	35	100%	Reference salary set each year by Finance Ministry
Sweden (compulsory supplementary scheme)	61 minimum	30	10% (supplementary only)	Average salary over previous 5 years with a ceiling
United Kingdom Supplementary scheme in place of Serps	65, with early retirement at 60 and possible extension to 70	40	50%	Highest salary received over previous 3 years

Source: European civil servants projection – CSE and European Trade Union Institute 2001.

Comment: *We are left to wonder to what extent the minimum ages corresponds to reality. In France, many categories benefit from an age less than 60 for departure on retirement and the average withdrawal age is close to 58 in the public sector, where employees leave for retirement, as in the private sector where employees leave for unemployment or pre- retirement.*

so-called fictitious contribution. There is no contribution base nor set rate. The notion of a fictitious contribution is sometimes applied to an employee, as in Ireland. This means that the level of salary takes into account the fact that the employee pays no contribution. Some schemes provide for a employee contribution, as those in France, Portugal and Greece.

Scheme reforms during the 90's

Reforms of schemes in the public sector mainly engendered a gradual alignment of conditions of settlement and methods of calculation of benefits with those of the private sector.

Early departures were discouraged as in Germany where they were possible but subject to pe-

nalties after 2001. 1997 also signalled the end of this practice in the Netherlands with the introduction of a flexible retirement age.

The reference wage for determining a pension usually took into account the final earnings but some countries were already modifying the practice. In Austria, a pension which was calculated in function of the final wage, will be calculated on the basis of the 18 best years of earnings received by an employee by 2020. The number of years of insurance necessary for obtaining a full pension has also been increased by five.

A process of bringing benefits in line with those of the private sector has been underway since 1996 in Finland and since 1993 in Greece. This has brought on a delay in the legal age for retirement in the Finnish public sector. Meanwhile, the Greeks, who formerly had no age condition for retirement, now have set the legal minimum at 65. Denmark has established a new supplementary scheme open to all salaried workers, leaving to civil servants, who continue to enjoy their own basic scheme, the option of adhering. In places where the reforms have been more radical, such as Italy, Ireland, Sweden or the Netherlands, employees of the public sector are being gradually integrated into the basic employee scheme. Pension funds for civil servants have been set up at the supplementary level. The mandatory or optional character of such funds depends upon the country.

The emergence of a European retirement policy

Usually limited to providing for European law*, the role of the European Union has assumed a political dimension these past few years under the impetus of the European Council of Heads of State and Government.

The European Union has no power in the area of retirement policy. This remains a national matter. It has abandoned the idea of harmonising systems that are far too different. It is nevertheless in a position to influence developments:

– thanks to ***a European law*** established by the Court of Justice, imposing male/female equality that can have widespread repercussions (British pension funds, French special schemes). In the tax area, it allows payment of contributions to foreign schemes.

– Through the ***"pension fund" directive*** (a directive "concerning the activities and supervision of occupational pension institutions"), the European Commission seeks to encourage the development of supplementary pension funds and to render possible the establishment of European pension funds.

– ***The European monetary policy*** limits the scope for action of the Member States with criteria set out at Maastricht. Public expenditures linked to old age are considered as being within the framework of the pact for monetary stability and growth.

– Lastly, ***the "open method of coordination"***, invented for employment has now been extended to cover retirement. The Member States outlined their retirement policies in September and a "Joint report by the Commission and the Council on adequate and sustainable pensions" was adopted by the European Council in March 2003. It aims to

** The role of European law in retirement is treated in the* Lettre de l'Observatoire des Retraites, *issue 11 of March 1999 "Europe and Retirement", as well as in issue 12 of September 2002 of* « Questions retraite » *published by the Retirement Branch of the* Caisse des Dépôts et Consignations. *Issue 42 of September 2001 of the same journal deals with the policy of the European Union on retirement.*

exchange experiences, and to submit to, or use, the pressure of the judgement of others. Moreover, common indicators are to be established to allow future comparisons and evaluations. It is also an occasion to promote European exchanges on retirement.

The Member States must be prepared to counter the shock of ageing:

- By eliminating budget deficits in order to recover margin for manoeuvre.
- Through a reform of basic schemes that reduces costs and encourages work.
- By increasing the employment rate, especially that of elderly workers.
- By encouraging the development of supplementary pension funds susceptible of financing European economic expansion, with the condition that fiscal incentives are not taken to the detriment of balanced budgets.

At the same time, recent treaties have set out a notion of a "European social model" that aims to maintain a high level of pension. A Social Protection Committee has been set up under the European Council that seeks to offset the influence of the Committee for Economic Policy.

The French pension system compared to those of its European partners

A reform was adopted in the summer of 2003. It mainly concerns civil servants, a sector largely left untouched by the reform of 1993. Along the lines set out by the EU, it adapts the existing rules to encourage civil servants and public employees to pursue their activity for a longer period, and to initiate a similar trend in the private sector.

The French retirement system is in the upper bracket of EU schemes in so far as benefits and costs are concerned. It also ranks around the average in terms of the foreseeable demographical changes it can expect.

The relative and temporary demographical advantage it enjoys is offset by an exceptionally low rate of occupational activity, especially after the age of 55. The basic schemes no doubt contribute to the situation in as much they allow early retirement to many members without requiring them to bear the actuarial costs. Moreover, under-employment, which has been a constant of the economic landscape since the 70s, represents a powerful brake to reform of the system. "Retirement at 60" hardly sets France off from the other Member States who offer similar types of early retirement but the tendency in the EU is clearly to reverse the situation by offering incentives to continue longer. This is also an aspect of the French reform.

From the point of view of financing, France is characterised by the size of contributions based on salary and other occupational income and the relatively minor role played by funding, a typical situation in Bismarck countries. Nevertheless, funding and tax financing are growing, respecting a general European trend.

In all countries, public sector workers seem privileged. Information is lacking to pinpoint workers in the French public sector, who are on the whole a rather heterogeneous lot. They are rather widespread however.

France stands out for a particularly high number of basic schemes and for the existence of mandatory supplementary pay-as-you-go schemes (sometimes with considerable reserves), covering the whole of

the private sector and representing a quarter of pensions paid. The supplementary schemes are exceptionally uniform and centralised, offering the advantages of social security, notably in the area of worker mobility (where they are without par) and management costs, but with the same limitations, i.e. nothing made to measure and consequently less social relevance (the disappearance of the optional Agirc and Arrco schemes have left a void). The supplementary Agirc and Arrco schemes also offer the advantage of totally freeing those companies who have paid their contributions from carrying them on their balance sheet.

The involvement of employers and employees in the supplementary schemes puts France on a par with the Netherlands and the Scandinavian countries where such schemes are negotiated at a branch or national level, while, in the other countries, changes are carried out at a company or individual level. Moreover, it should be pointed out that almost all of the supplementary schemes, as well as the basic scheme of the liberal professions, as of 2004, use the points method (i.e. notional account), recently adopted by Italy and Sweden for their first pillar.

Reforms

The Parliamentary reform of August 21, 2003 should reduce financing needs in 2020 by nearly 40% (€18 billion). The rest could be supplied by allocating to pensions contributions for unemployment insurance made available by a return to full employment.

Savings are to be found mainly in the public sector, which represents half of predictable needs. The number of years necessary for a maximum pension, equal to 75% of the average of the last six months of employment, are to increase gradually from 37.5 years to 41 years in 2012. Even more restrictive, civil servants who wish to leave their jobs in anticipation of the usual age limit without accumulating the necessary years will not only see their pension determined at a less favourable rate (1.829% per year of insurance instead of 2%), but also subjected to a reduction for early retirement. This should serve as a strong incentive to work longer.

The Law introduces the principle of an extension of the time needed for obtaining a full pension before 65 in function of changes in life expectancy. The duration of insurance and the length of pension should remain within a ratio of 2/3 to 1/3. The duration of insurance, which will reach 40 years in 2008 in the public as well as the private sector, and 41 years in 2012, could rise to 41 years in 2020.

As far as funded retirement is concerned, the Law of August 21, 2003 provides for the establishment of a mandatory supplementary scheme for civil servants, based on bonuses that are not part of their statuary retirement. It also introduces a possibility of company retirement and extends to wage earners of the private sector opportunities for building up an individual pension with deduction for contributions of up to 10% of income.

CONCLUSION: WHAT IS THE FUTURE OF THE "EUROPEAN SOCIAL MODEL" IN TERMS OF PENSIONS

The retirement systems of the Member States of the European Union were mainly developed after the War in a context of full employment and a climate where social progress and economic development seemed to go hand in hand. The dominant social model was a family couple where the husband completed a full career with a stable salary (civil servant type), and the wife gave up working to raise children. The life cycle was composed of three well defined periods: training, occupational (or family) activity and retirement.

For an increasing number of pensioners, old age was no longer synonymous with disability, poverty and death, but of leisure and good health as well as a comfortable standard of living, a "miniature paradise" in the words of Emmanuel Reynaud. Paradoxically, this was carried out in the 70's, at a moment when economic and social change were undermining the foundations of the system.

A society of consumerism and leisure settled in, with a drop in the birth rate and a weakening of family values, an increase in the number of working women, a rise in individualism and a depreciation of the value of work, less essential for the satisfaction of basic needs and social fulfilment.

On the economic front, technological advance and increasing competition worldwide, along with the emergence of an international financial capitalism independent of State control, brought on a relative deterioration of the wage-earners income, a rise in occupational mobility and unemployment and a divorce between economic goals and social demands that no longer appeared synonymous with progress but more of an impediment to growth. An international debate, questioning existing pension systems, assumed form.

For Europeans, retirement has seemed a haven of security. Pensioners play an increasingly important role in society, partly picking up where a diminishing number of housewives have left off. At the same time, pension schemes have been mobilised to reduce unemployment with early retirement and disability insurance, helping to replace "elderly males" with younger workers, often women, more adaptable to new types of jobs. This sort of artificial maintenance of a "young and dynamic" active population in an ageing society has a high direct financial cost along with high indirect social consequences. The more the Member States have recourse to this type of facility, the more difficult it will be to get back on their feet once the third phase starts, that of an inevitable ageing of the population*.

The task for the European Union, in the coming decade, is to reverse the trend of earlier and earlier retirement. A planned increase in the cost of pensions is considered economically unbearable, and the basic schemes have been asked to stop offering a choice, more or less tailor made, between lower pensions and longer careers. In comparison to the "civil servant" model, a new

** A distinction should be made between ageing linked to longer life expectancy and aggravating factors such as a drop in the birth rate, fatal over the long term, and a boom of seniors, the next and transitional surcharge. The first is inevitable and will modify little by little the demographic balance of the entire planet. The two others will bring on a formidable "accordion effect" with difficultly manageable imbalances caused by a disproportion of young people or elderly.*

pattern of individual savings is taking shape, without the necessary implication of a return to funding. This is explicit in Italy, Sweden and several of the new Member States. It is implicit in numerous measures taken by other member states to adapt pension schemes. According to this concept, collective coverage, which remains very generous in Europe, has reached its limits. A new look is being taken at solidarity (benefits for periods of unemployment, illness, maternity leave, old age minimum). As for insurance, it should encourage work. The key to full employment and a stable birth rate despite an ageing population remains to be found. Is the European Union capable of proving the pessimism of Alfred Sauvy wrong*?

* *Alfred Sauvy (1898-1990) French demographer and economist who established a link between economic dynamism and youth.*

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INTERNET SITES

Adequate and Sustainable pensions

http://europa.eu.int/comm/employment_social/soc-prot/pensions/index_en.htm

Direction des Retraites de la Caisse des dépôts et consignations

Some “Questions retraite” *are translated in English*

http://cdc.retraites.fr/default.asp?chap=6&ref=4&sub=2&asp=lispdf

Conseil d’Orientation des Retraites

Presentation of COR in English

http://www.cor-retraite.fr

European Association of Paritarian Institutions of Social Protection

http://www.aeip.net

European Commission, Internal Market, Supplementary Pensions

http://europa.eu.int/comm/internal_market/pensions/index_en.htm

European Federation for Retirement Provision

The European funded pension schemes lobby

http://www.efrp.org

European Older People's Platform

http://www.seniorweb.nl/eu-pensions/

Eurostat

http://europa.eu.int/comm/eurostat/Public/datashop/print-catalogue/EN?catalogue=Eurostat

International Social Security Association

http://www.issa.int

Missoc

http://europa.eu.int/comm/employment_social/missoc/index_en.html

OECD, Ageing Society

http://www.oecd.org/topic/0,2686,en_2649_37435_1_1_1_1_37435,00.html

World bank, Social protection

http://www1.worldbank.org/sp/

World bank, Pensions

http://wbln0018.worldbank.org/HDNet/HDdocs.nsf/pensions/85E744297903901685256751005 96E80?OpenDocument

World bank, Projects, policies and strategies: pensions

http://www4.worldbank.org/sprojects/Results.asp?all=pensions&datasource=Summaries&dt=&pcont=&ptype=&EP=&image1.x=13&image1.y=12

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Paris, Armand Colin, collection U sociologie, mai 2003, 288 p., 5 €.
"The age of employment, society and the test of ageing". Based on a study of policies in foreign countries (Japan, Sweden, United Kingdom, the Netherlands and Finland), this work analyses the exclusion of those over 50 from the labour force in France and examines policies that might reverse the trend toward early retirement.

Fonds de pension, comment font les autres pays / Giovanni Tamburi avec le concours de Yves Chassard.
Economia, octobre 2002, 204 p., 20 €.
"Pension funds, what other countries are doing".
A description of supplementary schemes in seven countries (Germany, Spain, USA, Italy, Japan, the Netherlands and the UK) along with an analysis of possible trends.

Politiques sociales et mondialisations / Sous la direction de Bruno Palier et Louis-Charles Viosset.
Paris, éditions futuribles, novembre 2001, 215 p., 20 €.
"Social policies and globalisation".
How to adapt social protection to the new economic context and resist social dumping.

La protection sociale en Europe: le temps des réformes / Christine Daniel et Bruno Ratier, Drees.
Paris, la Documentation française, février 2001, 261 p., 15 €.
"Social protection in Europe: time for reform".
A comparative approach to trends in social protection in various European countries

La réforme des retraites: travailler plus? / Bruno Palier.
Puf (Que sais-je? 3667) mars 2003, 127 p..
"Pension reform: working longer?"
A synthetic approach to European retirement systems and adaptation to economic, demographic and political change. The last chapter is devoted to France.

Retraites et fonds de pension, l'état de la question in France et à l'étranger / François Charpentier.
Paris, Economica, 3e édition, octobre 1997, 503 p.
"Retirement and pension funds, the situation in France and abroad".
The author review the European "models" for pension funds.

Régimes privés de retraites complémentaires, perspectives comparative et européenne / Sophie Michas-Beguerie.
Paris, Librairie générale de droit et de jurisprudence (bibliothèque de droit privé, 295), avril 1998, 621 p..
"Private supplementary pension schemes, a comparative, European viewpoint".
A comparison of German, English and French supplementary schemes that reveals their incompatibility of conception and the problems of Community harmonisation.

Un siècle de protection sociale en Europe / Association pour l'étude de l'histoire de la protection sociale.
Paris, la Documentation française, janvier 2001, 286 p., 32 €.
"A century of European social protection".
An historical view of the European social "model".

Les systèmes de retraite à l'étranger, Allemagne, Etats-Unis et Royaume-Uni / Lucy apRoberts et Emmanuel Reynaud.
Paris, Ires, 1992, 383 p..
"Foreign pension systems, Germany, USA and UK".
A reference for understanding the construction of the pension systems of these three countries.

Les systèmes de retraite en Italie: un interminable réforme / Stéphanie Toutain.
Paris, L'Harmattan, avril 2001, 185 p.
"Italian retirement systems: an unending reform".

A description of the Italian system and an analysis of its reform.

Union européenne et protection sociale / sous la direction de Jacques Bourriaut et Dominique Nazet-Allouche, Céric.
Paris, la Documentation française (Monde européen et international), février 2002, 207 pages, 30 €.
"The European Union and social protection".
A study of Community law in the area of social protection and its impact

Votre retraite? Régimes de base, épargne salariale, régimes complémentaires en France et dans 9 pays étrangers / Paul Maillard.
Castelange diffusion, 1990, 264 p.
"Your pension? Basic schemes, individual savings plans and supplementary schemes in France and 9 other countries."
Without a doubt, the leading in depth examination of the pension systems of 7 European countries (Germany, Belgium, Spain, Italy, the Netherlands, UK and Switzerland) and the USA.

Other works on retirement

Without any pretension of being exhaustive, we would like to site several works recently received.

Economie des retraites / Jean-Marc Dupuis et Claire El Moudden.
Paris, Economica, septembre 2002, 311 p., 27 €.
"Retirement economics".
Extremely complete, using the French system as well as other foreign systems, the overall features of various pension systems are explained as well as the links between retirement, economics and demography.

Le pouvoir gris, sociologie des groupes de pression de retraités / Jean-Philippe Viriot-Durandal.
Paris, Puf (Le lien social), avril 2003, 514 p., 30 €.
"Grey power, the make up of pension pressure groups".
An analysis of French pension pressure groups with remarks concerning the social integration of the recent category of pensioners into our society. Quite a lot for a scarcely explored subject.

Le temps des retraites: Les mutations de la société salariale / Xavier Gaullier.
Paris, La République des idées, Seuil, février 2003, 95 p., 10,5 €.
"The time for retirement: changes in the salaried society".
Sceptical concerning the possibility of returning to the training – full career – retirement course of action, the author explores ways of adapting to the transformation of the 50-70 age bracket to "submitted insecurity" or "negotiated independence".

Quand les autruches prendront leur retraite / Jacques Bichot et Alain Madelin.
Paris, Seuil, mai 2003, 306 p., 19 €.
"When the ostriches will retire".
An argument for the use of the points technique ("notional accounts").

In memory

JEAN-JACQUES GOLLIER

The warm personality of Jean-Jacques Gollier will no longer be present at our colloquiums and meetings. His death, due to a medical accident, December 7, 2002, came the very day he was to celebrate his retirement along with colleagues.

Born in 1932, with a degree in mathematical sciences from the Catholic University of Louvain and an actuarial diploma from the same university, director of the insurance-pension fund branch of the firm of Boels & Begault since 1963, founder of the firm Etudes Sociales, Financières et Actuarielles, ESOFAC S.C., administrator of AON Consulting Belgium, he taught social security and actuarial sciences at the Catholic University of Louvain-la-Neuve and the Catholic University of Mons. He was a contributor to the Observatoire des Retraites from the outset, a member of the Committee of Experts and a participant at conferences and meetings.

Author of "L'Avenir des Retraites" (éditions Securitas), the report "Private Pension Funds" (OCDE) and numerous articles, editor in chief of the collection "Les Pensions Complémentaire en Pratique" (Editions Kluwer), a highly appreciated contributor and advisor, he was a member of numerous commissions on social security, supplementary retirement, insurance and taxation.

The Observatoire des Retraites offers its condolences to family and friends.

THE *OBSERVATOIRE DES RETRAITES* PRIZE

The prize winners for 2001

The jury has awarded prizes for two of the six submissions received in 2001.

The *Observatoire des Retraites* Prize of €4,500 to Cristelle Mandin for her dissertation *"L'Union européenne et la réforme des systèmes de retraite"* (The European Union and Pension Reform), carried out during her studies for an advanced degree in political sociology and public policy at the Institute for Policy Studies of Paris, under the supervision of Pierre Muller.

The Special Jury Award of €1,500 to Cécile Musset for her dissertation *"Salaire direct et salaire différé: une comparaison fonction publique/secteur privé"* (Direct and Deferred Salaries: a comparison of the public and private sectors), carried out during her studies for an advanced degree in demographic economics at the Institute for Policy Studies of Paris, under the supervision of Didier Blanchet and Christel Colin.

A complete list of submissions along with a resume of those awarded prizes and the rules for submissions may be found on our internet site www.observatoire-retraites.org.

The prize winners for 2002

Ten submissions were received. The jury awarded a thesis prize and a dissertation prize, both for the sum of €3,000.

The **Thesis Prize** of €3,000 was awarded to Carole Bonnet for her doctoral thesis in economics, option economic demography: *"Inégalités et redistribution inter et intragénérationnelles: études quantitatives appliquées au système de retraite français"* (Inter and intragenerational inequalities and redistribution) carried out for the Institute for Policy Studies of Paris, under the supervision of Didier Blanchet.

The **Dissertation Prize** of €3,000 was awarded to Pauline Chasseloup de Chatillon and Sophie Dureu for their actuarial dissertation: *"Quel avenir pour les régimes L-441 fermés ?"* (What future for the funded L441 closed schemes?), carried out for the French Actuary Institute, under the supervision of Jean-Paul Bouquin.

In addition, the jury took great interest in Tiziana Tuminelli's dissertation on *"L'application du principe communautaire d'égalité entre les sexes en matière de retraite: le cas de cerains régimes spéciaux en France"* (The application of the Community principle of equality between the sexes in pension matters: the case of certain French special schemes). According to the wishes of the jury, she was invited to participate at a European colloquium on equality of sexes in Helsinki, June 6, 2003, organized by the European Association of Paritarian Institutions.

The prize winners for 2003

The jury has awarded prizes for two of the six submissions received in 2003.

The Thesis Prize of €5,000 to Sabine Montagne for her doctoral thesis in economics *"Les métamorphoses du trust : les fonds de pension américains entre protection et spéculation"* (Trust metamorphosis: American pension funds between protection and speculation) carried out for the Paris X University, under the supervision of Robert Boyer. Sabine Montagne is a researcher of the *Institut de Recherches Économiques et Sociales*.

The Special Jury Award of €1,000 to Nadia Pitten for her dissertation *"Carrefour de la vie : le passage à la retraite"* (Retirement, a crossroads in life) carried out during her studies for a degree in social work.

To participate, submissions (in French) should be sent as of now, closing date is December 31.

The aim of the Observatoire des Retraites Prize is to encourage studies and research in the area of retirement.

Theses, dissertations and other works should contribute to the understanding of retirement in disciplines such as history, sociology, economics, law and political science.

The jury is composed of scholars and experts and presided by Professor Philippe Langlois, Director of the School of Social Law of Nanterre University. The jury is looking for originality and novelty of thinking as well as the timeliness of the subjects under consideration. It meets during the course of the first quarter of each year and prizes are announced before the summer (the 2001 prizes were awarded April 10, 2002 and those for 2002, June 25, 2003).

La Lettre de l'Observatoire des Retraites

Chief editor : Arnauld d'Yvoire
This issue was produced by Arnauld d'Yvoire with the help of Mireille Cavelier, Laetitia Mathias, Frédérique Nortier and Elise Prats
Translated by Lyndale Richardson

OBSERVATOIRE DES RETRAITES
16-18 rue Jules César, 75012 Paris France
Tel.: 33 1 71 72 16 53 - Fax: 33 1 44 67 61 46
Website: www.observatoire-retraites.org

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