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Social security & social integration

Old-age in Europe

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Old-age in Europe

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Social security and social integration

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Demographic developments, their effects on old-age insurance systems and the reforms which these systems are currently undergoing are a topic of discussion in almost all European countries.

The level of political interest is understandable against the backdrop of the economic significance of old-age insurance [1]. In 1997, 12.9% of GDP in the European Economic Area (EEA) was spent on old-age insurance. In addition, the proportion of GDP being expended on old-age insurance in most countries has increased over recent years with the figures for 1997 showing an increase of 1.2% points in old-age insurance spending as a percentage of GDP compared to 1990.

A number of European bodies are also starting to turn their attention to this question, as instanced by two communications issued by the Commission in May 1999, "A Europe for all ages" [2] and "Towards an internal market for supplementary old-age insurance" [3]. In addition, a further communication entitled "A concerted strategy for the modernisation of social protection" issued in July 1999 [4] identified one of the principal objectives of the modernisation of social protection as being to "ensure that pensions are safe and that pension systems are viable in the long term". In March 2000, the European Council of Lisbon took up this objective and invited the "High-level group for social protection" [5] to present a study on the long-term development of systems of social protection and, in particular, on the financial sustainability of pension systems to be based on a Commission communication presented in October 2000 [6].

Missoc is making its own contribution to all these activities at European level. In addition to the information contained in the tables, this edition of Missoc Info also provides an outline in text form of both the existing systems and the status of current reforms in the Member States and in Liechtenstein and Norway. In order to paint as complete a picture as possible, it covers both the general systems and the so-called supplementary systems. In this respect MISSOC-Info actually goes further than the areas covered in the tables.

The first section gives an overview of the nature and scope of the demographic challenge facing us. The second section explains the multiplicity of existing systems using four different criteria (eligibility, entitlement, benefit payment and funding). The third section deals with the reforms underway in the various Member States. This overview section is followed by descriptions of the situation in individual countries.

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1 In relation to the following discussion, cf. Eurostat: Population and social conditions, Topic 3 - 6/2000.

2 COM (1999) 221 final

3 COM (1999) 134 final

4 COM (2000) 346 final

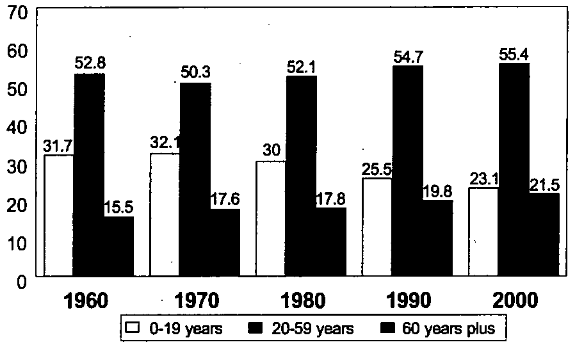
5 This body is the forerunner of the "Committee for Social Protection" due to be formally set up at the end of 2000. Cf. Council Decision of 29 June 2000 on the implementation of a Committee for Social Protection (2000/436/EC) in Vol. C 8 of 12. 1. 2000.

6 The development of social protection in the long term: future-proof pensions (COM(2000) 622 final).

I. Demographic development

The population of Europe has aged in recent years and this trend is set to continue more strongly in the future. Figure 1 shows that the percentage of over 60-year-olds in the total population rose by just under 30% between 1960 and 2000. In the same period the percentage of 20- to 59-year-olds also rose slightly, while the percentage of the young population fell by 27%.

Figure 1:
EU population by age group (%) 1960 – 2000

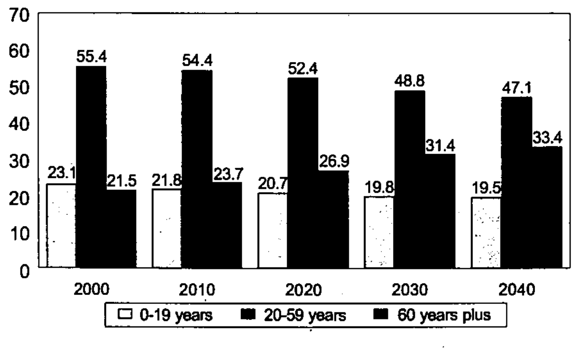


Source: Eurostat: Europe in Figures, 2000

The prognosis for the year 2040[7] provides us with the following picture:

- The percentage of the young population under 20 will continue to fall.
- Whilst in 2000 the percentage of the older population over 60 is still slightly lower than that of the young population, by as early as 2010 the over-60s group will already have outstripped the young under-20s group.
- In the future, the percentage of the population of working age, which continued to increase slightly until 2000, will decrease.
- In addition, birth rates will continue to remain low.

Figure 2:
EU population by age group (%) 2000 – 2040



Source: Eurostat: Europe in Figures, 2000

These developments mean that the number of individuals of working age is decreasing (not only relatively, but also in absolute terms), whilst the number of people in retirement is growing. Individual countries are affected to differing extents by the problems facing the European Union as a whole outlined here. For example, the percentage of over-65-year-olds in Germany, Italy and Sweden is higher than the EU average. Most other countries follow the general trend with minor deviations. Ireland, Liechtenstein and Luxembourg represent exceptions, in which the problems of demographic development are either less pronounced or less far advanced.

These demographic developments will have many effects on the income and expenditure of old-age insurance systems and public spending as well as on the labour market and, indirectly, on the commodity and capital markets. Although it is undeniably becoming harder to finance old-age insurance overall, since the ratio between contribution payers and benefit recipients is necessarily becoming less favourable, it is, however, difficult in methodological terms to quantify these effects exactly. The three examples given below illustrate these difficulties:

1) The process of economic adjustment to the demographic changes may result in countereffects, i.e. a relaxation of financial burdens. For example, the drop in supply in the labour market could lead to a drop in unemployment which would in turn bring about a commensurate reduction in spending on social security benefits. If the shortage in the labour market is compensated for by an increase in the age of retirement this will also result in the direct relief of pressure on the old age pension system.
2) The extent to which any potential shortage in the labour market can be compensated and the number of contribution payers increased will also depend on immigration. At present, the possible effects can only be a subject for speculation.
3) Similarly, it is very difficult to anticipate the results of planned pension reforms. The raft of proposals under discussion is very broad and ranges from a shift in emphasis towards

[7] Cf. Eurostat: Europe in Figures, 2000

supplementary systems through changes in the areas of pension adjustments and the reform of calculation methods to changes in entitlement criteria and statutory retirement ages. (Cf. Section 3 of this chapter.)

II. Old-age insurance systems

Pension systems are often described in terms of "pillars" and this term is used here in our description of the systems operating in the various countries. As commonly used and clear as the term "pillar" may be, however, it is insufficiently precise for a systematic supra-national comparison. As its meaning tends to vary significantly from country to country and there is no generally accepted definition, we have not used it in the following supra-national comparison. Instead, a distinction is drawn between the three following areas:

- general systems for all citizens or for specific groups of the population,
- supplementary insurance systems and forms of private old-age insurance provision.

Old-age insurance systems can basically be divided into the two, fundamentally different categories below. Firstly, the universal insurance model designed to provide the basic requirements of life and thereby prevent poverty and, secondly, a model designed to guarantee individual standards of living. In *historical* terms, the most important element of the statutory insurance systems in the Scandinavian countries, Ireland, the United Kingdom and the Netherlands is universality, while the general systems in the other countries are designed to guarantee specific standards of living.

From the time of their introduction right up until the present day, pension systems have continually been adapted to meet the changing conditions of the time and as a result they now tend to represent a *mixture* of these two basic systems.

While the general system is obligatory in all countries and private provision is voluntary in all countries, between them lies an area with many different facets in which the objective allocation of certain systems to certain categories poses difficulties, in particular where it is a question of assessing whether a given provision should (still) be regarded as a component of universal insurance or (already) as a part of supplementary provision. Even resorting to the "obligatory versus voluntary" criteria does not necessarily provide clear results.

In Denmark, Ireland, Liechtenstein, the Netherlands and the United Kingdom the general system includes universal insurance. With the exception of Ireland and the Netherlands, in these countries supplementary systems are *obligatory*. Nevertheless in 1996 was in the Netherlands 92% of the working population covered by occupational pension insurance.

In the other countries where the general system is based on elements of the standard of living guarantee, with the exception of Greece and France, the supplementary systems are exclusively *voluntary*. In Greece all employees are bound to join a supplementary system and even in France the collective-bargaining supplementary systems for employees in the private sector and in agriculture have been compulsory since 1973.

The old-age insurance systems in the Member States of the European Union and in Liechtenstein and Norway can be described systematically using the following criteria: (1) eligibility, (2) entitlement criteria, (3) the rules governing the payment of benefits and (4) funding principles.

1. Eligibility

- In Denmark[8], Liechtenstein, Norway, and Sweden, the *entire population* is included in the universal system. Supplementary systems apply either to those in gainful employment (employees and the self-employed) or exclusively to employees.
- In the Netherlands all *residents between the ages of 15 and 65* are insured[9].
- In Finland, all gainfully employed persons are covered by an earnings-related pension system while universal system is complementary to the earnings-related pension system.

8 All residents between the ages of 15 and 65.

9 This also applies to individuals living abroad who are taxed in the Netherlands on the basis of Dutch employment relationships.

- In Ireland and in the United Kingdom, on the other hand, only those in *gainful employment* (employees and the self-employed) are eligible for cover under the universal insurance system.

As a general rule, in the other countries only those in gainful employment are entitled to subsequent pensions payments from this system. Here there is a further distinction depending on whether there is a common system for the employed and the self-employed or whether they are covered by two separate schemes.

- In Luxembourg and Portugal all those in gainful employment are covered by one common system.
- In Belgium, Germany, Greece, Spain, France, Italy and Austria, on the other hand, there are separate insurance systems for employees and the self-employed.

In most countries there is also at least one separate system for those working in the public sector.

2. Entitlement criteria

Entitlement to benefits can be acquired either by *living* in the relevant country (principle of residence) or by making *contributions* (principle of contributions).

In Belgium, Germany, Greece, Spain, France, Italy, Luxembourg, Austria and Portugal entitlement is acquired through the payment of contributions – the principle of residence does not apply in these countries.

In Liechtenstein, Ireland and the United Kingdom, the acquisition of a pension entitlement depends exclusively on whether contributions have been paid or credited. Liechtenstein presents a special case in that the entire population is eligible, although the principle of residence does not apply. This is due to the fact that all inhabitants of Liechtenstein must pay contributions.

In the Netherlands, in principle all residents are entitled to a pension regardless of nationality[10].

The Nordic countries operate a combination of the principles of residence and contributions. Universal insurance depends on the *principle of residence*, while entitlements to benefits under compulsory supplementary systems (Denmark) and to benefits under the standard-of-living system incorporated into the statutory system are acquired on the basis of the *principle of contributions* (Norway and Finland[11]). In Sweden entitlements to pay-related pensions are also acquired through contributions whilst entitlements to the guaranteed pension are acquired on the basis of residence.

In addition to the question of residence and/or the payment of contributions, there are further conditions which must be fulfilled in order to obtain a pension. In some countries, for example, these include a specific qualifying period and/or statutory age limits after which old-age pensions can be drawn. These conditions vary from country to country, but there is no connection to whether or not the system is based on universal insurance or a standard of living guarantee.

3. Calculation of benefits

Universal benefits are paid at the same level to all those entitled to receive them. The level of benefit paid under a standard of living guarantee system, on the other hand, depends on the level of contributions paid (principle of equivalence).

In principle, old-age insurance contains elements of both universal insurance and the cost of living guarantee. In terms of structure, the section below distinguishes between two groups based on whether or not universal insurance in old age is means-tested.

Universal insurance *independent of need* is provided in Belgium, Denmark, Greece, Ireland, Liechtenstein, the Netherlands, Norway, Portugal, Sweden and the United Kingdom.

However, there are various differences between the countries in terms of the amount and the method of calculation. For example, the Nether-

10 The same as footnote 9.
11 In Finland there is not a direct link between the contributioins and the benefits.

lands and Denmark pay significant universal flat rates. In Belgium minimum pensions are calculated on the basis of contributions, whilst in Greece, Spain and Portugal very low pensions are topped up to a minimum rate.

In Germany, Spain, France, Italy, Luxembourg, Austria and Finland, on the other hand, universal insurance is *means-tested.*

In Spain, France, Austria and Finland, a minimum payment is integrated into the pension system and is paid on the basis of a means test. In Italy this system applies to all those who entered the system prior to 01.01.1996.

In Germany and Luxembourg and for those in Italy who have entered the system since 01.01.1996 there is, however, no minimum payment integrated into the pension system.

4. Funding principles

In terms of funding, a distinction must be drawn between funding sources (1) and funding type (2):

(1) Funding sources

The countries of Europe differ in terms of funding sources, generally belonging to one of the three following groups:
a) funding exclusively from taxation,
b) mixed funding from contributions and taxation and
c) funding from contributions alone.

As a general rule, benefits paid within the universal systems are funded through taxation. Exceptions are to be found in Ireland, the Netherlands and Liechtenstein where the universal systems are funded through contributions on earned incomes (Ireland and the Netherlands) and the entire population (Liechtenstein).

The systems which are based on the standard of living guarantee are, on the other hand, generally financed predominantly from contributions with taxation playing only a minor part[12].

However, there is no system in which benefits are financed entirely through contributions.

(2) Funding types

Pensions can be funded according to:
a) the pay-as-you-go principle,
b) the fully funded principle, or
c) a combination of the two.

The pay-as-you-go principle is the prevailing funding principle in all countries with the exception of Finland and Sweden, where the contribution-dependent pension is partly financed on the fully-funded principle. In the United Kingdom it is possible to opt out of the pay-as-you-go-funded system of income-related pensions. Where private pension provision is contracted in its place, here too it is possible – on a voluntary basis – to select a fully funded system.

Private provision is generally financed on the fully funded principle in that the individual personally saves the amount of benefits subsequently payable.

III. Actual and planned reforms

In many countries, current old-age insurance systems are the subject of much scrutiny. This is witnessed by the setting up of commissions, the publication of reports and reform proposals and certain reforms that have already been implemented. These efforts relate primarily to the payment of benefits (1), funding (2) and supplementary and private old-age insurance schemes (3).

1. Reforms in the payment of benefits

One important – and generally very controversial – aspect of old-age insurance relates to various changes in the payment of benefits. Such approaches to reform are designed to limit increases in expenditure. Some of these reforms focus on the age of retirement (a), while others relate to methods of pension adjustment and/or pension calculation (b).

a) The statutory age of retirement in most countries (as at the start of 2000) is currently 65 for men and varies between 57 and 65 for women. The age at which individuals actually access pensions, however, tends to differ from the statutory age of retirement. Due to the labour market situation over recent years, significant use has been

[12] Contributions are obviousely paid both by employees/insured persons and employers.

made in some countries of the possibility of early retirement, and in these countries the effective age of retirement is now below the statutory age of retirement.

For this reason, in Belgium, Italy and Austria, for example, measures to reduce the number of early retirements are currently under discussion, with Belgium and Austria opting for labour market policies designed to encourage the older unemployed back to work.

Norway, for example, has seen the publication of a report entitled "Flexible retirement" dealing with the effects of early retirement.

In addition to a restriction in the availability of early retirement, once again increasing the effective age of retirement, in some cases, such as Italy, an increase in the statutory retirement age is under consideration. In Portugal, the retirement age for women has already been increased to 65. Germany, too, has taken the decision to increase the retirement age, and in Finland measures were taken in the 1990s to provide incentives for workers to go on working longer.

b) In some countries, the *pension adjustment mechanisms* and/or calculation methods have been altered:

In Germany, pensions are in principle adjusted in line with increases in take-home pay. However, this adjustment mechanism has been replaced by a system based on price developments for a period of one year. The adjustment of pensions in accordance with price trends has already been introduced in France (1987) and Portugal (1994).

Prior to the 1993 reform in France, pensions were *calculated* on the basis of the best 10 earnings years, but this figure has been and will continue to be increased gradually and by 2008 will reach 25 years.

In Portugal, before 1994 pensions were calculated on the basis of the best 5 earnings years (of the last 10). It has been increased to the best 10 earning years (of the last 15). The rate used for the calculation has been modified from 2.2% to 2%.

In Austria, too, an extension of the basis for the calculation of pensions from 15 up to 18 of the best earnings years has been decided.

In Finland, the number of years used to calculate pension benefits will be raised from 4 to 10 years between 1992 and 2002. As long as the formula for calculating pensions remains the same, an increase in the number of best earnings years included means a drop in benefit since years with lower earnings will also be included in the calculation.

2. Reforms in funding

For all countries, the future funding of old-age insurance represents a challenge, with any additional weighting of the labour factor to be avoided or kept as low as possible in order to avoid negative effects on the labour market. Possible approaches to modifying funding methods under discussion include the introduction of fully funded elements and increased partial funding through taxation.

An increase in the fully funded element of universal old-age insurance was introduced as part of the latest reforms in Sweden in 1999. In the Netherlands, too, the advantages and disadvantages of funding the universal system on the basis of a fully funded model have been discussed, although in the end the decision was made not to proceed along these lines. In Liechtenstein discussions on this issue are still underway.

In most other countries, where the pay-as-you-go principle is the prevailing one, it will be maintained under the banner of "solidarity between the generations".

An extension of the role of the state in the funding of pensions in countries with predominantly contribution-funded systems is in general either under consideration or has already been introduced. One example of this is France, where an old-age solidarity fund has been set up, financed jointly from taxes and contributions and from which minimum pensions and qualifying periods during unemployment or maternity leave, for example, are being paid. Another is the Netherlands where the decision has been taken to make up deficits in the General Old-Age Insurance Fund (AOW) with a government grant. This grant will be paid with tax revenues (to which pensioners contribute as well).

In order to prepare for the forthcoming increase in the number of pensioners, reserve funds have been set up in Spain, the Netherlands and Portugal. In Spain and Portugal it has been funded through current surpluses in the contributions-related system, whilst the reserve fund in the Netherlands has been financed through tax receipts.

Belgium is drawing up a bill for the creation of an old-age fund.

In France, the topping up of an existing reserve fund is being discussed with the aim of compensating for expected imbalances between 2020 and 2040.

In Ireland, too, the possibilities and limits of the state pre-funding of expenditure on social welfare pensions are under discussion.

In Portugal a proposal on a new framework law on social security has been put to parliament with proposed reforms to the social security system including old-age insurance.

In Norway and Sweden reports dealing with the future problems of funding old-age insurance have already been submitted. In Finland a special group has been set up to address the specific problem of the funding of the old-age insurance system.

3. Reforms to supplementary and private old-age insurance systems

A further tool in the stabilisation of pension systems is the strengthening of supplementary systems and private provision. Here the aim is to shift part of the burden from the statutory insurance system onto supplementary systems and private provision. Whether and to what extent this actually happens will vary from country to country.

In Italy, Spain and Luxembourg, for instance, measures have already been taken to promote supplementary systems. In Italy, supplementary systems have been supported by tax incentives since the 1995 reform. In Spain the signature of the "Toledo Pact" established the principle of support for supplementary systems. In Luxembourg a law on supplementary pension systems focussing on the creation of a legal framework for company supplementary pensions rather than the reinforcement of the second area has been passed.

In other countries, the introduction or reinforcement of supplementary systems has been recommended. In Austria, for example, the extension of a fully funded supplementary system and in Ireland the introduction of a company pension in the form of savings accounts are under discussion. In Belgium, a reform aiming at stimulating the sectorial pensions with the objective to make the pensions second pillar more democratic is in progress. In Germany, the forthcoming pension reform should include the strengthening of company pension provision. Portugal too is endeavouring to set up supplementary systems as part of future reforms, and in Greece the possibility of supplementary insurance systems is a major topic of discussion.

In France, where supplementary systems play a central role, negociations have been opened by employers and trade unions and gave rise to important debates, in particular about the age of retirement.

The important role of private provision is being emphasised almost across the board, with Germany and the United Kingdom focusing particularly on it. In the United Kingdom for example, the government has suggested a new old-age insurance system based on a mixture of the best elements of state old-age insurance and private provision. In Germany, the intensive promotion of private provision and direct subsidies and/or tax incentives are planned within the framework of the forthcoming pensions reform.

In Ireland, there are proposals to introduce Personal Retirement Savings Accounts. These Accounts will be used as a vehicle to facilitate increased savings for pensions and extend supplementary cover, especially to people who have no such cover at the moment.

IV. Conclusion

Demographic developments in Europe mean that guaranteeing security during the "third age" of life has already become a significant challenge, and will continue to be one over the next 30 to 40 years.

An ever-smaller group of people of working age will be balanced against an ever-greater number of elderly people. This throws up numerous problems in terms of old-age insurance, but also in relation to labour market and family policy.

Despite the different structures of the various systems of old-age insurance operating in Europe, the issue of old-age insurance is right at the top of every political agenda. The reforms under discussion affect several different areas: firstly, the terms of the *payment of benefits* have been changed – with particular attention being paid to the age of retirement and the adjustment mechanisms for current pensions and the reference values used in calculating pensions.

The second topic of discussion is the *funding* of insurance schemes. In countries with predominantly contribution-funded systems the percentage of funds financed from taxation is being increased.

In certain countries reserve funds are being introduced or extended.

Even though elements of the fully funded principle have been introduced in some countries, the principle of pay-as-you-go funding remains the predominant funding principle.

As a result, the vital role of supplementary systems and private provision in old-age insurance is being stressed in nearly all countries and actively promoted in many.

The following reports from the individual countries describe demographic developments, the structure of the old-age insurance systems and reforms that have either already been implemented or are currently under discussion[13].

13 Status of reports: start of 2000.

I. Basic principles of the old-age insurance system

1. Category of persons concerned

This document concerns solely the pension system for salaried workers. The persons falling within the scope of this scheme are wage earners and salaried employees; they must prove that they have been employed in Belgium under an employment contract. Other schemes exist in parallel with this system, including one for independent workers (liberal professions, farmers, traders, artisans) and civil servants.

There has been no broadening of the field of application in recent years.

2. Role played by supplementary schemes

The purpose of such schemes is to supplement the state pension. There are no mandatory supplementary schemes. Thirty-one per cent of the population subscribes to a supplementary pension scheme. State intervention, in terms of individual pensions, takes the form of tax incentives (22,000 BEF per year is tax deductible).

II. Financing of the old-age insurance system

The state system is based on redistribution. Financing of social security, including funding of the pension scheme for salaried workers, is global in nature. Global administration of social security was introduced by the law of 30 March 1994 concerning social provisions. Financing of the social security system relies on social security contributions, state subsidies and alternative financing. As from 1997, 17.83% of value-added tax has been earmarked for social security. The total subscription has been set at 37.94% of the salary, 24.87% of which is paid by the employer and 13.07% by the employee. In parallel, predetermined allocation of social security contributions has been abandoned, except for annual holidays. Of the financial resources, 33.5% is allocated to the national pensions office for retirement pensions and pensions for the survivors of salaried workers.

III. Conditions for granting a pension

Retirement pensions

1. **Age**: a new reform came into force on 1 July 1997. The retirement age is henceforth the same for men and women (65 years), as well as the denominator of the fraction used as a basis for calculating the pension, in this case 45.

This rule will come into application in 2009 for women. Meanwhile, transition measures will be applied to arrive at the above-mentioned figure of 65 years of age. In 1997, the pensionable age for women was set at 61 years and 62 years in 2000; it will be set at 63 years in 2003, 64 years in 2006 and 65 years in 2009.

The age at which one can benefit from an early retirement pension has been set at 60 years for both men and women. In order to claim an early retirement pension, certain career conditions have to be fulfilled (all years of work and all schemes are cumulated). This working career condition will evolve from 20 years (in 1997) to 35 years (in 2005) (22 years in 1998 – 24 years in 1999 – 26 years in 2000 – 28 years in 2001 – 30 years in 2002 – 32 years in 2003 – 34 years in 2004 – 35 years in 2005).

On 1 January 1999, out of 1,320,385 beneficiaries of a retirement pension, 199,946 persons opted for early retirement, equivalent to 15.14%.

2. **Residence**: retirement and survivors' pensions, including the supplementary holiday bonus, are payable to Belgians anywhere in the world. Stateless persons and refugees recognised under the law of 15 December 1980 concerning access to the territory, the right to stay, the right to establishment and the banishment of foreigners, are treated as Belgians.

Benefits are only provided for foreigners if they are effectively resident in Belgium, under reserve of the application of international social security conventions.

3. **Cessation of professional activity**: in principle, a pension is only payable if the beneficiary has ceased all professional activity other than that which is authorised.

The following are, however, authorised subject to a prior declaration:

- Professional activities governed by the legislation on employment contracts or by a similar legal or regulatory statute for which the gross income does not exceed 293,513 BEF per annum. The sum of 293,513 BEF is valid for the entire year.

  For a surviving spouse who benefits only from a survivor's pension and has not reached the age of 65, this amount is raised to 587,026 BEF.

  Where the beneficiary is responsible for a child, the general limit is set at 440,270 BEF and, where it involves a beneficiary of a survivor's pension, the limit is raised to 733,783 BEF.

- Professional activities exercised as an independent worker or as an assisting spouse, provided that the professional income does not exceed 234,810 BEF per annum. This sum is valid for the entire year 2000.

  For a surviving spouse who benefits only from a survivor's pension and has not reached the age of 65, this amount is raised to 469,619 BEF.

  In applying the above-mentioned provision, the age and the pension rights of the beneficiary are taken into consideration on 1 January of the year in question or, where appropriate, the date that the survivor's pension comes into effect.

  Where the beneficiary is responsible for a child, the general limit is set at 352,215 BEF and where it involves a beneficiary of a survivor's pension, the limit is raised to 587,024 BEF.

  Professional income is understood to mean gross professional income, minus expenses and professional expenses and any business losses, used by the administration for direct contributions when establishing the tax level for the year concerned.

- Professional activities involving the creation of scientific or artistic works that have no impact on the labour market, provided that the person concerned is not a trader in the sense of the commercial code.
- Any activity, mandate, commission or office provided that the resulting income does not exceed 293,513 BEF per annum.

The above-mentioned amounts are multiplied by 1.5 for the beneficiaries of a pension with a child in their care.

4. **Non-payment of social security benefits**: the pension is only payable if the beneficiary does not benefit from an allowance for illness, invalidity or involuntary unemployment, in application of Belgian or foreign social security legislation, or an allowance for an interruption of career or a reduction of benefits.

Survivors' pensions

1. **Age**: the surviving spouse must have reached the age of 45 years.

This requirement is, however, not invoked if one of the following conditions is fulfilled:

- if the person proves permanent invalidity of at least 66%;
- if there is a child in the beneficiary's care for which family allowances are paid;
- if the deceased spouse had been habitually employed as an underground miner for at least 20 years.

2. **Civil status**: the pension is granted only if, on the date of death, the surviving spouse had been married for at least one year to the deceased worker. The period of one year of marriage is, however, not required if one of the following conditions is fulfilled:

- a child has been born of the marriage;
- at the time of death, there was a child in their care for which the spouse received a family allowance;
- the death was due to an accident after the date of the marriage or was caused by an occupational illness contracted during or on the occasion of the exercise of the profession or a mission entrusted by the Belgian government and provided that the illness occurred after the date of the marriage.

If these conditions are not satisfied, a temporary survivor's pension may be granted for a period of one year.

3. **Authorised activity, non-payment of social security benefits, residence**: the same rules apply as for the retirement pension.

IV. Benefits under the old-age insurance system.

1. Important factors governing the amount of the benefits

The amount of the pension depends on the remuneration gained during working life and the duration of the career.

2. Method of calculation

The right to a ***retirement pension*** is acquired per calendar year at a fraction of the real, fictitious and fixed remunerations taken into consideration at a rate of:

a) 75% for a worker whose partner has ceased all professional activity except that which is authorised and does not benefit from an allowance for illness, invalidity or involuntary unemployment by virtue of Belgian or foreign social security legislation or a reduction in benefits, nor from a retirement or survivor's pension under a scheme for salaried workers, independent workers, public sector workers, from the S.N.C.F.B., from a foreign pension scheme or a system applicable to the personnel of an international public institution.
b) 60% for other workers.

However, the benefits paid to one of the partners for one or more retirement or survivor's pensions granted under one or more Belgian schemes other than that for salaried workers or independent workers, under a scheme in a foreign country or under a system applicable to the personnel of an international public institution, are no obstacle to granting to the other partner the retirement pension calculated at the combined rate provided that the amount of the pensions granted to the other partner is smaller than the difference between the amount of the pension calculated at the combined rate and that calculated at the single rate.

However, in this case the global amount of the pensions of the first partner is deducted from the retirement pension of the other partner.

If this solution proves to be less advantageous, each of the partners retains their personal pension.

If the other partner benefits from a salaried worker's or independent worker's pension, the national pension office automatically takes a new decision to suspend this pension in order to allow the partner to benefit from a retirement pension at the combined rate assuming that the pension calculated at the combined rate is more favourable than the pension calculated at the single rate for each partner.

The fraction used as a basis for calculating the pension uses one unit as the numerator and as the denominator 45 or 42 depending on whether it concerns a man or a woman.

On 1 July 1997, a major change was introduced in the way that women's pensions are calculated. The denominator of the fraction used as a basis for calculating the pension was set at 45 instead of 40. However, this provision will not come fully into force until 2009. Meanwhile, transition measures have been provided for the calculation of women's pensions. The fraction used as a basis for calculating women's pensions is fixed at 1/41 in 1997, 1/42 in 2000, 1/43 in 2003, 1/44 in 2006 and 1/45 in 2009.

The reform of the pension system that came into force on 1 July 1997 introduced a minimum pension entitlement per year of work. For each year worked, it provides for a minimum entitlement:

a) the pension may not be calculated on the basis of an annual remuneration of less than 530,511 BEF (amount linked to the index 103.14 – base 1996 = 100); this gives entitlement to a pension of 31,831 BEF per month (single rate) or 39,788 BEF per month (combined rate);
b) the current level of the minimum pension (28,897 BEF per month: single rate; 36,111 BEF combined rate for a full working career) remains guaranteed for those who fulfil the current minimum pension conditions.

The entry into force of the minimum rights mechanism is subject to two conditions: firstly, proof of a minimum career of 15 years (including assimilations) under the salaried workers scheme; and secondly, the amount of the pension cannot exceed 546,205 BEF or 436,964 BEF a year if it concerns a combined rate pension or a single rate pension, or respectively 45,517 BEF or 36,414 BEF per month.

In other words, for example in the case of a single person, if the normal calculation of the pension gives a monthly amount in excess of 36,414 BEF per month, no years are revised up to the minimum annual entitlement. If the normal calculation of the pension gives an amount of less the 36,414 BEF, the least advantageous years of the career are revised up to the minimum annual entitlement.

Such a correction may never result in the monthly amount exceeding 36,414 BEF per month.

The amount of the ***survivors' pension*** is set as follows:

The survivors' pension is equal to 80% of the amount of the retirement pension of the deceased partner calculated at the combined rate. Where the partner dies before his admission to the retirement pension scheme, a theoretical retirement pension is calculated in the same way as a normal pension. However, the period used as a basis for calculating the reference pension ends on 31 December of the year preceding the death.

3. Contributory nature of the pension

The pension depends largely on the contribution of the worker (payment of a social security contribution from the worker's pay) and a state intervention (contribution by the state) that allows workers' pensions to follow changes in the index.

4. Family situation

The family situation of the beneficiary is taken into consideration (remuneration taken into account at a rate of 75% instead of 60% if there is a partner in the other partner's care – see above, calculation of the pension).

5. Indexation of pensions

The initial amount of the benefit is modified in step with the health index. For this purpose, it is linked to the basic index in force on the date that the benefit is first granted.

Each month, the arithmetic average of the health index of the month in question and of the three previous months is calculated. Whenever the average of the arithmetic averages of two consecutive months reaches one of the pivot indices (114.20 x 1.02^n) or revised up to one of them, the benefits linked to the pivot index 114.20 are recalculated allocating them the coefficient 1.02^n, where n represents the rank of the pivot index reached.

A new index, called the health index, determines as from 1 January 1994, the increase in remunerations and benefits.

The price index in force up until the end of 1993 was purged of certain products (tobacco, alcohol, petrol and diesel fuel), in order to slow down the rise in the price index and to delay the resulting increases.

Wage ceiling and link with welfare (as from 1 July 1997)

The ceiling above which remunerations are no longer taken into consideration in calculating the pension is raised every two years on the basis of the margin of real increases in salaries. The exact increase in the percentage is set by Royal Decree after deliberation in the Council of Ministers. For 1999 this ceiling is equal to 1,458,497 BEF.

The minimum entitlement per year of work is linked to the change in the guaranteed minimum monthly salary.

Moreover, a decree deliberated in the Council of Ministers introduced the possibility of granting pensioners a welfare increase in a selective manner (depending on the amount and/or date of entry into force of the pension). For the year 2000 and subsequent years, this link takes the form of a premium (6% of the gross monthly amount for the month of February for pensions that came into effect before 1 January 1991).

V. Demographic change and the pension system

Percentage of persons over the age of 65:

1980	1985	1990	1995
14.37%	14.33%	15.01%	15.07%

This trend is due to the fact that people are living to an increasingly old age, and over the age of 80 years women still alive outnumber men two to one; as from the age of 90 years, they are three times as numerous. The trend in the number of elderly people compared with the rest of the population is as follows:

2000	2010	2020	2030
21%	23%	25%	33%

In 1993, a round table on the future of pensions was organised in Belgium, the conclusions of which led to the pension reform that came into force on 1 July 1997.

The main content of the reform was as follows.

The problem of the long-term financial viability of the social security system had to be tackled globally, taking into account all of the social security costs and incorporating the demographic and macro-economic dimensions.

There was no evidence of a fatal breakdown of the pension system. The increased social burden was less than expected.

It would be advisable to adopt a prudent policy towards lowering the age of retirement.

It was necessary to promote a macro-economic environment conducive to active policies, especially in the field of training, retraining and reintegration of the unemployed.

Finally, the ageing period (2010-2030) should be entered with a reduced public debt.

One key question concerning the future is whether it would only be possible to absorb the impact of ageing by a drop in the replacement rate for retirement schemes as well as for other social security benefits. This would clearly have major consequences on equity between generations because people working today would enjoy a much less generous pension when they arrive at retirement age than those currently received by pensioners compared with their salaries during their working life.

The Belgian Minister for Social Affairs and Pensions will not countenance this and reminded that the social security system is based on two important principles: **insurance** and **solidarity.** He considered it to be essential to implement an active policy towards persons on pensions over an extended period. This involves the very mission of the **active social state**, the key objective of which is that the largest possible number of persons should participate in the welfare of the society through their own efforts. Adequate social protection requires a strong element of social solidarity between those working and the others. Such solidarity is expressed by the state pension schemes, in particular though the principle of redistribution. Future action will require a strong link between retirement policies and active employment policies, which are too little used in favour of people over the age of 50.

A **global approach**, which attacks the problems of social security as a whole in an integrated manner offers the best guarantees for the transition towards an active social state. Global administration of the social security system, as implemented in Belgium, works on the principle of "communicating vessels". Additional expenditure on pensions and health care can thus be partially offset by lower expenditure in other sectors.

As for the first and second pillars, it appears to be vital to retain the **priority** of the **state pension**. The question of whether one is for or against the second pillar seems to have been overtaken by events. The question is rather one of determining how and under what conditions a second pillar for pensions could offer supplementary social protection. Moreover, it must be possible, within the second pillar, to organise to some degree, forms of solidarity between persons affected by the hazards of life. In short, the second pillar of the pension system should be democratised.

Finally, **the gradual reduction in the public debt** is and remains of primary importance in financing old-age pensions. Moreover, the Federal Planning Bureau estimates from its simulations that the budgetary cost of old-age pensions can be absorbed by a reduction in interest charges, provided that budgetary discipline can be maintained. The government is perfectly aware that this element has to be taken into account in determining its course of action.

In conclusion, the Belgian government is currently **debating the creation of an old-age fund.**

I. Basic principles of the old-age insurance system

The national pension (*folkepensionen*) forms part of a state scheme that provides uniform pensions for persons of Danish nationality living in Denmark. There is no direct link between the national pension and the professional activity exercised by the pension claimant.

Nationals of other EU Member States to which the social security regulations apply, as well as refugees and stateless persons living in another Member State, are treated in the same way as Danes.

The nationals of states with which Denmark has concluded a social security convention benefit from advantages, such as entitlement to a national pension and the payment of the pension abroad, unlike other foreigners.

The nationals of other countries acquire the right to a national pension after 10 years of residence in Denmark between the age of 15 and 65 (67) years, five of which must be immediately before the pension is claimed.

In principle the pension is only paid in Denmark. Danish nationals can be allocated the national pension anywhere abroad if they have completed 30 years of residence in Denmark between the age of 15 and 65 (67) years. A pension that has been allocated to Danish nationals who lived in Denmark continues to be paid after their move to a foreign country if they have completed 10 years of residence in Denmark between the age of 15 and 65 (67) years.

For foreigners to be able to draw a national pension outside of Denmark, they have to obtain a prior dispensation. For European Union Member State nationals (as well as refugees and stateless persons) to whom the social security regulations apply, the territory of these states is treated in the same way as Danish territory.

Supplementary pension schemes: the *ATP* pension (*Arbejdsmarkedets Tillaegspension*), introduced in 1964, is an obligatory supplementary pension for salaried workers in Denmark. All salaried workers between the age of 15 and 65 (67) years and their employers subscribe to this scheme. One third of the subscription is paid by the worker and 2/3 by the employer. Employers are responsible for collecting the subscriptions to be paid by their employees and make a deduction from their salaries for this purpose.

There are three levels of contribution that depend not on the salary, but on the number of hours worked. Two persons who have worked the same number of hours have to pay the same contribution to the *ATP* scheme and will have the same old-age pension independently of the difference in their salaries. A precondition for affiliation to the *ATP* scheme is that the salaried work is at least nine hours a week (or 39 hours a month). The three levels of contribution are governed by the number of hours worked. The highest rate applies to working time of at least 117 hours a month or 27 a week. The second rate applies to working hours of 78 to 116 a month or 18 to 26 a week and the final rate applies to working hours of 39 to 77 a month or 9 to 17 a week. Since the contributions to the *ATP* scheme remain modest despite a small rise over recent years, the amount of the benefits of the supplementary old-age pension that a worker subscribing to the scheme since 1964 receives is only slightly less than half of the amount of the basic national pension (see above).

Evidence of the importance attached to the *ATP* pension is that groups of persons subscribing to this scheme grew larger at the end of the 1990s. To prevent persons temporarily out of work from losing reference years in the supplementary pension scheme, the following groups are included under the scheme:

- persons who draw daily allowances in the case of illness, birth or adoption or in the case of unemployment;
- workers who follow a vocational training course with the tax paid by the employer or the unemployment benefits office;
- persons who have begun a process of activation or other anti-unemployment measures such as education or training;
- persons who benefit from the minimum resources guarantee.

The following persons can subscribe to the *ATP* scheme on a voluntary basis:

- pensioners with an invalidity pension, an early retirement pension or a partial pension;
- persons who draw an early retirement pension, a transition allowance or an allowance for elderly workers; these benefits form part of unemployment insurance.

Special retirement savings (*SP*).

Following an agreement on the budget, an obligatory savings scheme, introduced in 1988, was made permanent in 1999.

All salaried and non-salaried workers and persons who draw daily allowances in the case of illness, of birth/adoption or in the case of unemployment, persons who have begun a process of activation or education/training or who are taking part in another job-creation measure, as well as those who benefit from the minimum resources guarantee, are required to pay into this scheme a contribution of 1% of their gross salary or their daily allowances or other transfer income.

The special retirement savings (*SP*) is administered by the *ATP* institution. The savings are reimbursed to contributors when they reach the age of 65 (67) years, but in a "solidarised" fashion (see below).

It is estimated that the annual contributions to the special retirement savings will in a few years have the same value as the *ATP* supplementary pension.

In Denmark, employers' supplementary schemes are not widespread. However, retirement schemes based on collective agreements (*arbejdsmarkedspensionen*) concluded by both sides of industry are growing rapidly.

These appeared in two waves. In the 1950s, the majority of salaried workers employed in the public sector, as well as doctors, engineers, dentists, etc., had their own pension funds based on collective agreements. The contributions paid into these funds were quite high (around 15%) and the pensions from these schemes were substantial.

In 1985 only 35% of salaried workers subscribed to a contractual retirement scheme. The new wave appeared towards the end of the 1980s when a large number of collective agreements gave rise to retirement funds that were concluded for different professional categories in the industrial, construction, transport and female labour sectors. Since then, such agreements have gained further ground. Originally, the subscriptions paid by the employers and workers into these schemes only constituted a tiny fraction of the income making up the retirement pension. However, this fraction is now growing and will achieve a level of 9% before the year 2010.

The individual pension funds in the form of contractual retirement schemes referred to above, as well as private retirement funds, benefit from tax breaks. Contributions to contractual retirement funds and payments into private pension funds are tax deductible.

The annuity instalments paid out regularly by such a system are taxed at the general tax rate on income. A pension that is paid in a lump sum is taxed at the rate of 40%, which represents a considerable reduction compared with the general income tax rate. In 1999, the tax break for private savings in the form of capitalisation was slightly reduced. At the same time, the deduction from interest and dividends from retirement funds, individual retirement funds and contractual retirement funds rose slightly.

II. Financing of the old-age insurance system

The national pension (*folkepensionen*) is entirely financed by the state. The primary communes pay the pension to pensioners and the state then reimburses the communes. The national pension is therefore entirely funded by taxes.

All supplementary schemes are, however, exclusively financed by contributions.

III. Conditions for granting a pension

1. The national pension (*folkepensionen*)

Apart from the conditions of nationality and residence mentioned above, the right to a full pension is subject to the condition that the pension claimant has retained his or her resident status in Denmark during 40 years. If this condition is not fulfilled, the pension claimant is entitled to 1/40 of the full pension for each year of residence completed in Denmark between the age of 15 and 65 (67) years.

The acquisition of the right to a national pension is also subject to the completion of three years of residence in Denmark between the same age limits.

The national pension is on an equal footing for the working and the non-working sections of the population. There is therefore no risk of periods not covered by the old-age insurance scheme if one lives in Denmark, which could occur under schemes financed by the contributions paid by the working population. Married couples each receive their own pension.

The retirement age has for a long time been fixed at 67 years, but in 1999 it was modified to 65 years for persons achieving the age of 60 years on 1 July 1999 or thereafter. This change is related to the modifications made at the same time to early retirement under the unemployment insurance system. It therefore represents a key element in the government's efforts aimed at getting the population to postpone their early retirement to the age of 62 years.

2. Supplementary schemes

The amount of the benefits depends on the period of membership of the scheme. The *ATP* scheme does not include an early pension or invalidity payments, but does include survivors' pensions. By contrast, contractual schemes include both invalidity pensions and survivors' pensions.

Workers can draw their *ATP* old-age pension at the age of 67 years. In the event of postponement of the retirement start date, the amount of the benefit is increased by 10% for each year of contribution (5% per half year). Those who reach the age of 60 years on or after 1 July 1999 can draw their *ATP* old-age pension on request before the age of 67 years, but not before they reach the age of 65. A pension taken early is reduced by 10% per year between 65 and 67 years.

3. Early retirement pensions and other benefits

A very large portion of the Danish population takes advantage of the schemes that make it possible to take early retirement as witnessed by the average retirement age of 61 years.

a) **Early social pension** (*førtidspension*). A social pension can be granted to persons who have attained the age of 50 years and up to the age of 67 years for social and/or health reasons. The health reasons giving rise to the right to an early pension must represent incapacity of at least 50%. The social reasons include unemployment, poor training and limited income. When such a pension is granted to a person who has not reached the age of 60 years, it is comprised – as is the national old-age pension – of the basic sum (*grundbeløbet*), the pension supplement (*pensionstillægget*) and the early retirement sum (*førtidsbeløbet*), which is special for this early retirement pension.

b) **Early retirement from unemployment insurance** (*efterløn*). Established in 1979 with the aim of encouraging elderly workers, in particular non-specialists, to cede their place in the labour market in favour of younger workers, this scheme was a huge success and was heavily subscribed by people from all categories of workers, not only manual workers. After 10 years, 100,000 people had already exercised their right to early retirement. Sixty per cent of those who today draw an early retirement benefit acceded to the benefit when they were around 60 years old.

Early retirement is closely linked with unemployment insurance. The essential conditions for granting early retirement are subscription to unemployment insurance for a certain period giving entitlement to unemployment benefits, residence in Denmark and being 60 years of age. Cumulation with a social pension is not possible. *Old system*: the period of subscription to unemployment insurance was 20 years over the last 25 years. Pension annuity payments are paid by a contractual retirement scheme or by private savings resulting in a discount on the early retirement pension, but not totally excluding this benefit. It was not permitted to work more than 200 hours a year after having taken retirement. This system was funded entirely by the state.

During the first 2.5 years of a period of early retirement, the benefit was equivalent to unemployment benefits, but after this it fell to 82% of this benefit. Persons who had taken early retirement at 63 years and had been entitled to unemployment benefits for at least two years at this time, could maintain an early retirement pension equivalent to the unemployment benefit during the entire early retirement period (up to 67 years).

New system: in 1999 the early retirement system was modified; the aim of this change was to motivate the population to remain at work for longer. Under the new system, those receiving early retirement benefits were entitled to work for an unlimited period of time. The hours worked would be deducted from the benefit in the same way as unemployment benefits are deducted in the event of partial unemployment. Affiliation to unemployment insurance as a condition for entitlement to early retirement was extended to 25 years during the last 30 years.

It is possible to choose to subscribe to both early retirement and unemployment insurance or only to unemployment insurance. In the case of choosing early retirement, at the age of 60 years the person is given an "early retirement certificate" and then decides whether to take early retirement or to continue working.

During the (maximum) 25 years of affiliation to the early retirement scheme a subscription is paid. This scheme is therefore now partially financed by subscriptions.

Taken at the age of 60 years, early retirement is not equal to unemployment benefit. If claimants work up to the age of 62 years, they receive benefits equal to the unemployment benefit during the entire period (up to the age of 65 year) plus a non-taxable bonus.

When calculating the early retirement pension, a contractual retirement scheme pension or a private savings pension there is a deduction from the benefits. This is the case both for regular payments and lump sums. In this context, those who worked up to the age of 62 years are also privileged.

c) **Partial pension** (*delpension*): this little-used scheme allows salaried workers and independent workers the possibility of working part time between the ages of 60 and 67 years and at the same time drawing a partial pension. It is used mainly by farmers who continue to cultivate their land at the age of 60 years.

Conditions for obtaining a partial pension are similar to those for early retirement under the unemployment insurance scheme:

- residence in Denmark and attaining the age of 60 years;
- affiliation to the *ATP* scheme during at least 10 years over the last 20 years (for salaried workers) and work carried out in Denmark for a certain period (for salaried workers and independent workers) as well as a certain benefit drawn from independent activity;
- reduction in the number of working hours of at least one quarter.

The benefit is reduced by 1/37 of a fixed basic amount for each hour. This amount corresponds to 82% of the maximum daily allowances in the case of illness. For independent workers, the partial pension is a fixed amount. Those who had reached the age of 60 years on 1 July 1999 or thereafter can draw a partial pension between 60 and 65 years. Their benefit is reduced by the amount of their retirement schemes and private savings schemes. This reduction applies in the same way as to early retirement. The partial pension scheme is entirely financed by the state.

IV. The benefits of the old-age insurance system

The national pension (*folkepensionen*). The size of the pension amount depends on the periods of residence in Denmark. Forty years of residence gives entitlement to a full pension.

The pension is comprised of a basic sum (*grundbeløb*) that is reduced in line with the income drawn from the professional activity of the pensioner, assuming that such income is in excess of 210,600 Danish crowns a year, as well as a pension supplement. The basic sum, without reduction, totals 49,560 crowns a year. The pension supplement is reduced in line with any sort of income that the pensioner or spouse has, if the total income exceeds 93,200 crowns for a couple or 46,400 crowns for a single person. The sum of the pension supplement, without reduction, totals 22,536 crowns a year for a married or co-habiting person and 49,140 crowns for a single person.

The early retirement pension amount, which is not dependent on the income of the pensioner or other persons, totals 12,600 crowns a year. There are no increases for dependent persons in their care.

The national pension is entirely financed by the state. The early retirement social pension is financed 35% by the state and the rest by the primary commune of residence.

Like all other transfer income, social pensions are revised once a year on the basis of the "adjustment rate" (*satsreguleringsprocenten*), calculated on the basis of rises in salaries.

The supplementary pension (*ATP*). The amount of the benefit depends on the period of subscription to the scheme and on the results obtained by the scheme. The largest supplementary pension to which any person affiliated to the scheme since its inception in 1964 and still working full time is entitled, today totals around 19,000 crowns a year.

Special retirement savings (*SP*). These savings are reimbursed to contributors at the age of 67 years (65 for those who reached the age of 60 years before 1 July 1999 or later). Payment takes the form of monthly benefits during a ten-year period. The payments are "solidarised" in such a way that contributors receive an average of all the contributions received by the scheme and not the contributions that they paid themselves. It is estimated that the annual payment made under this obligatory savings scheme will be equal to those made under the *ATP* pension scheme within a few years.

Early retirement from unemployment insurance (*efterløn*). The same level as the unemployment benefit or at least 82% of this benefit, early retirement totals 2,850 crowns a week or around 150,000 crowns a year or 82% of these amounts. Under the new system, early retirement is partially financed by the subscriptions paid by the insured persons.

V. Demographic change and the pension systems

As in the majority of western European countries, the number of elderly persons is growing substantially in Denmark. Compared with other countries, Denmark is not, however, the most affected by ageing of the population. In parallel, the number of persons of working age is falling. Today we have one elderly person for every 4.5 persons of working age.

It has been estimated that demographic ageing will increase public expenditure by 4% of GDP between 2010 and 2035. Expenditure related to the elderly population (health services and various forms of care for elderly people) will consume 2.5% of this increase in the GDP, whilst the larger number of social pensions to be paid will use up the remaining 1.5%.

The effect of the increase in pensions based on contractual agreements will move in the opposite direction. Given that the pension supplement, which forms part of the national pension, depends on the income of the pensioner and his or her spouse, these new pensions will have the effect of reducing the supplements thereby allowing the state to make savings.

The percentage of persons aged more than 65 years compared with the population as a whole was:

in 1980	14.3%
in 1985	15.0%
in 1990	15.6%
in 1995	15.3%

Over the coming years the percentage has been estimated at:

in 2000	14.8%
in 2010	15.9%
in 2020	18.8%
in 2030	20.7%

After renovation of the scheme for early retirement from unemployment and the establishment of many new pensions based on collective pensions, Denmark does not envisage any reform of the old-age insurance system for the moment.

I. Basic principles of the old age insurance system

The system of old age insurance in Germany protects people who have been employed when they reach the statutory age limits. These people are entitled to a pension whose rates are calculated in accordance with the length of the insurance record and the amount of insured salary. The aim of the system is to award benefits to insured persons in old age, which will enable them to some extent, to maintain their former standard of living – taking into account the reduced requirements of old age.

The statutory pensions' insurance scheme was fundamentally set up as a compulsory insurance scheme. This compulsory insurance scheme encompasses all employees (including trainees). A person is an employee if they are in dependent employment.

People (mother/father) who bring up children until the age of 3 are also compulsorily insured, as are people who care for other persons in need of care for a certain period. These people were included in the 80s and 90s. Compulsory insurance also includes some groups of self-employed people (such as, for example, artists, journalists, craftspersons). The sphere of people now included has been enlarged in recent years, and also with regard to self-employed persons who are continually, and in the main, working only for one client and who do not employ any staff liable for insurance.

All persons who are not compulsorily insured have the right to pay voluntary contributions to the pensions' insurance scheme. This right is particularly important for people whose compulsory contributions are insufficient for the satisfaction of the waiting period.

The company pension schemes supplement the statutory pensions' insurance scheme. The proportion of company pension scheme involvement increases with larger businesses; in large firms with more than 5,000 staff there is a company pension scheme for nearly 90% of the workforce. In the former Federal States about one half of male employees are protected by a company pension scheme.

There are several types of company pension scheme participation available; the most important are direct provision and protection through a pension fund and the concluding of a life insurance contract.

There are considerable tax and contribution advantages to company pension schemes.

The tax incentives are that pension payments are made tax free up to a highest amount of 4,000 DM per year (in the case of direct provision) or the employer can take over the income tax in contributions to a pension fund with a lump tax rate of 20% (up to a set highest limit).

Private pension schemes also play an important role in Germany. In principle they are encouraged, an indeed through tax deductions as well as through allowances.

II. Financing the old age insurance systems

The pensions' insurance scheme is financed by costs' share; there is no capital stock. The financing of the pensions' insurance scheme is in general through contributions. The contributions are made by employees and employers to the same extent; the self-employed meet their contributions themselves. The contributions' rate is 19.3%; employee and employer each pay 9.65%. Contributions are paid up to a set contribution calculation limit. At present this is 8,600 DM (7,100 DM in the new Federal States) per month. The contribution calculation limit is dynamic; it is adjusted annually.

In addition, Federal subsidies play an important role in the financing of the pensions' insurance scheme. These serve on the one hand to meet non-contributory benefits; (such as, for example, benefits to emigrants of German origin from Eastern European States); and on the other they demonstrate clearly that the State must have a specific responsibility for the pensions' insurance scheme.

In 1999 the proportion of Federal subsidies to the pensions' expenditure was 27.1%. In general, however, the participation of the State is distinctly higher, at 36% (e.g. by the contribution payment for bringing up children and by benefits which have arisen as a result of reunification).

The 'eco-tax' was introduced in 1999 for the supplementary taxation of energy and fuel, the return from which is in the main to the benefit of the pensions' insurance scheme.

III. Pension entitlement conditions

An insured person is entitled to an old age pension when they have attained a certain age and have completed a certain insurance period. There is a general rule for this, as well as a series of specific rules, which are linked to the existence of further conditions.

- In principle there is entitlement to the regular old age pension from the age of 65, if the insured person can prove a waiting period of 5 years.
- Old age pensions are paid for insured persons with a long insurance life if the insured person has reached the age of 63 and has satisfied a waiting period of 35 years.
- There is entitlement to an old age pension for the disabled, for those incapable of carrying out their occupation and incapable of earning a living from the age of 60, if a waiting period of 35 years is satisfied.
- People who were born before 1st January 1952 are entitled to an old age pension because of unemployment or after part time work in old age, from the age of 60, if there is a waiting period of 15 years and if certain additional conditions are satisfied.
- Women are entitled to the woman's old age pension from the age of 60, if they were born before 1st January 1952, if there is a waiting period of 15 years and if they satisfy certain additional conditions.

The age limit for the old age pension due to unemployment or after part time work in old age will be raised from 60 to 65, in monthly staged during the period from 1997 to 2001. The age limit for the old age pension for insured persons with a long insurance life will be raised in monthly stages from 63 to 65 in the years 2000 and 2001; in the case of the woman's old age pension, the age limit will be raised from 60 to 65 in monthly stages during the years 2000 to 2004. The age limit for the old age pension for the disabled and for those incapable of carrying out their occupation or of earning a living will remain unchanged for the time being – after a corresponding legal correction.

The pensions could also be taken even after the raising of the age limits for early old age pensions by accepting pension reductions, which would balance the longer payment period of the pension. The pension reduction is 0.3% of the pension for each month by which the pension is taken in advance.

The average age at which a pension begins to be paid – taking the invalidity pension into account – was age 59.8 in 1998.

IV. Benefits from the old age insurance system

Above all the pension rates are dependent upon the amount of earned income and the length of the insurance record. Certain contribution-free or contribution-reduced periods are also taken into consideration (training periods, unemployment periods).

Accordingly, the pension is not based on elements of a basic insurance scheme. Rather it follows the principle of the equivalence principle; however elements of social balance play an important role in this.

The basic principle of pension calculation has not changed in recent years. However there have been considerable changes in individual factors, whereby particular account should be taken of the burdens which placed upon the pensions' insurance scheme (e.g. the reduction in the training periods capable of being taken into account). On the other side the family policy components have been distinctly increased, for example by the taking of 3 years into account for bringing up a child, by the inclusion of periods for people who care for a person in need of care, in their own home environment, for at least 14 hours a week, and by the inclusion of periods taken into consideration for the bringing up of a child until the child has reached the age of 10 (periods taken into consideration are, for example, included in the waiting period for specific pensions, they enable entitlement to an invalidity pension to be maintained and they bring about an improved valuation for contribution-free periods).

The pension beneficiary's family situation is not taken into consideration in the pension rates; the pension calculation is made independent of the family situation.

The pensions' adjustment is made, in principle, in accordance with the development in net pay, and this is the last year in comparison with the preceding year.

In the years 2000 and 2001 the pensions' adjustment will be made in accordance with the developments in prices. This is the pensioners' solidarity contribution to the long-term security of the old age insurance scheme.

Previously, that is to say from 1959 until 1991, the pensions' adjustment was carried out in accordance with gross pay. However there were correction mechanisms here, which were to prevent an over-proportional increase in the pensions, for example, the introduction of a health insurance contribution for pensioners, the shifting of the date for adjustment and the institution of different adjustment clauses. Since 1992 the adjustment has been made in accordance with the developments in net pay; thus pursuing the aim that pensions are to develop in the same way as pay available to employees.

V. Demographic change and the pensions' system

The proportion of old people (those over the age of 65) in the total population has developed as follows in recent years:

1980	1985	1990	1995
15.5%	15.0%	15.3%	15.6%

The figures show the number of standard pensioners per 100 contribution payers and unemployed; the standard pensioner has been produced by sharing the total pensions' expenditure by the standard pension (this is based on 45 years of insurance and the relevant average earned income). The development in the standard pensioner quotient is as follows:

1991	1995	2000	2010	2020	2030
34.0%	38.9%	42.5%	44.4%	49.3%	60.6%

The statutory changes which have been undertaken in recent years, such as, for example:

- the raising of the age limits,
- the conversion from gross adjustment to net adjustment
- the adjustment in accordance with the development in prices in the years 2000 and 2001,
- the raising of the contribution rate and
- the reduction in the inclusion of contribution-free periods

have occurred in particular against the background of these expected demographic developments.

The longer periods in which pensions are paid, as a result of rising life expectancy and alterations in employment careers, which no longer conform to the pattern of life-long employment liable for insurance, require further reforms.

With the pensions' reform 2000, which is currently under preparation, the Federal Government is pursuing the following aims:

- maintaining the statutory pensions' insurance scheme as the main pillar of old age insurance
- stabilising the contribution to the statutory pensions' insurance scheme (below 20% until 2020)
- providing broad support for the supplementary personal pensions, and this by the payment of an allowance for insured persons on low and middle incomes and to beneficiaries of income replacement benefits.
- introducing a compensation factor: from 2011 (i.e. for those who are today under the age of 55) this factor will be introduced at 0.3% initially, it will increase annually by 0.3% and will be frozen at 6%. The pension will be correspondingly lower by this.
- strengthening of the company pension schemes (the granting of a legal right to the employed, to convert part of their salary into direct insurance).
- filling of insurance gaps in particular for young people

- returning to a nevertheless modified net adjustment (without taking tax changes into account) from the year 2002
- prevention of humiliating poverty in old age by improved links between pensions' insurance and social assistance
- better inclusion of child-upbringing periods by the revaluation of the income earned during that period
- fixing of the widow's/widower's pension to 55% of the deceased's pension and increasing that pension for periods during which children were brought out (valid for new marriages as well as for existing marriages, in which both spouses are under the age of 40)
- setting the exempt amount when counting the personal income against the current amount of 1,283 DM, inclusion of all types of income inclusive of investment income
- maintaining the full earnings reduction pension caused by the employment market
- maintaining the part pension in the case of incapacity to carry out the occupation in the case of insured persons who are over the age of 40.

There is consensus that the solidarity between young and old remains the basis of the pensions' system; in the interests of fairness between the generations, stable contributions and a reasonable level of pensions are the aim.

I. Basic principles of the old-age insurance system

The social security system in Greece involves a compulsory scheme seeking to insure affiliated members through public bodies.

In Greece, all economically active persons are covered by old-age social security schemes. About 1,850,000 employees (wage earners and manual workers) are affiliated to IKA. There are separate funds for people employed in the press, banking and public sectors (State companies). Public companies in Greece include Greek Telecommunications, the Public Company of Electricity and Athens-Piraeus railways.

Public companies in Greece operate as public limited liability companies under the supervision of the State. Each company insures its employees in a corresponding fund. For the insured persons mentioned above, there is a preferential regime as concerns their retirement conditions and the benefit amounts paid to them, which, however, has become progressively more and more rigorous since the 1902 law was voted in 1990.

Employees of the Public Company of Electricity are insured in recently founded Insurance Organization for Electricity Company Personnel, with the aim of providing compulsory main and supplementary insurance for employees and pensioners of the Electricity Company.

Self-employed persons are covered through separate funds.

In Greece the term "free profession" refers mainly to intellectual professions and to merchants and craftsmen. For each intellectual profession there is a separate fund: doctors, lawyers and engineers are affiliated to corresponding funds subject to different legislation.

Recently, the insurance fund for craftsmen and other professionals (TEBE), the storekeepers' insurance fund (TAE) and the motorists' pension fund (TSA) have been merged into a single fund, entitled "Insurance Organization for the Liberal Professions".

The Greek social security system provides a special insurance scheme for farmers (OGA). The OGA covers primarily farmers and assimilated groups. The term "farmer" is understood to refer to those who personally carry out an agricultural activity as their main profession. However, the social protection provided by OGA is also extended to some assimilated groups such as:

- Self-employed persons and craftsmen working in villages of less than 2,000 inhabitants.
- Employed persons of all categories living in areas or communities with a population of more than 5,000 persons, on the condition that they are not affiliated to any other social insurance institution.
- Fishermen if they are not affiliated to any other social insurance institution.
- Greek monks working in the agriculture sector.
- Persons over 65 years of age, who have not been affiliated to any other social insurance institution.

This special scheme is financed by fiscal revenue (general or specialised) and social contributions, not by any contributions paid out by the insured themselves.

The pension, which is particularly low, is a set flat-rate sum paid out to men and women who have reached the age 65, have worked for at least 25 years and do not receive a pension from any other social insurance fund. This pension takes more the form of a non-contributory benefit.

A *new compulsory contributory* pension scheme for farmers entered into force on 1 January 1998. The personal scope of the new law covers the same people who had been subject to the OGA system. The new scheme will be financed from the contributions of the insured (7%) and the State's payment share (14%).

Seven classes of insured persons have been defined. They provide the basis for calculating the contributions paid by the insured, on the one hand, and the State's share, on the other. The conditions for being granted retirement old-age benefits are cumulative: the legal retirement age of 65 and a minimum of five years of insurance, which progressively increases to 15 years after 2004.

The transitional provisions stipulate that all OGA pensioners and all those entering retirement before the end of 2002, under application of the new law, will continue to draw the entire OGA pension at the same time. All those entering retirement after 2003 and to whom the new law applies will draw, together with the pension underlying the new scheme, a basic OGA pension that is gradually reduced (4% subtracted each year after 2003 such that the OGA pension will be abolished for good in 2027).

Civil servants are covered directly through the State budget and the relevant contributions go directly there.

All workers are obliged to enrol in a basic retirement scheme, as well as a supplementary/auxiliary pension scheme. The supplementary/auxiliary schemes were created after the Second World War. At that time the main insurance system provided low protection due to low pensionable incomes.

There are many auxiliary pension funds in Greece. Supplementary insurance is characterised by a division into small groups of employees or by the insurance of employees under a single employer (bank or public company) or within a single profession (bakers, travel agents) through auxiliary funds.

The supplementary/auxiliary insurance is compulsory and provides complementary protection (pensions) to the old-age benefit. This covers all employed persons, salaried workers, civil servants, a number of the professionals and self-employed, except for those persons affiliated to OGA and NAT (seamen).

After 1982 all private sector employees who had not been insured in another auxiliary fund were covered by IKA-TEAM. The basic condition for entitlement to an auxiliary pension from IKA-TEAM is prior entitlement to an old-age pension from IKA or another main insurance fund. For entitlement to an auxiliary pension, the insured person must have completed at least 1,000 working days. On January 1 of the sixth year after coverage by IKA-TEAM insurance, the number of required days (1,000) increases progressively per 175 days for each calendar year until 4050 days of insurance is reached.

Private insurance operates with sufficient support from Greek legislation, which has also been adapted to conform to EU Directives. Group insurance in the private insurance sector has been practised in large companies in parallel with compulsory insurance.

At first, employers were reluctant to register for a group insurance contract such as the *"retirement plan"*, since it was impossible to receive tax reductions on retirement plan premiums for highly qualified personnel. But today, group insurance policies are more frequently used, following an amendment to tax legislation that provides for the deduction of premiums paid by companies in their personnel's retirement plans. In conclusion, State authorities are not predominately concerned with privatisation in certain sectors of social protection in Greece. The concept of privatisation appears not yet to have been raised sufficiently as a topic of debate between the social partners.

II. Financing the old-age insurance system

The old-age schemes belong to the "**pay-as-you-go**" insurance system.

For persons insured after 1993:

- The funding of employee schemes is based on the tripartite system. Employers pay 13.3%, the State 10% and employees 6.67% of their monthly earnings.
- A bipartite system applies for self-employed schemes. The self-employed pay 20% and the State 10%.
- State contribution is calculated on the basis of earnings escalating up to double the 1991 CNP per capita readjusted according to the increase given to public sector pensions from time to time.
- Supplementary pensions are financed equally by employers and employees at a rate of 3% each.
- Civil servants appointed after 1993 also pay contributions of 6.67% for old-age risk coverage. They pay contributions for supplementary pensions to their competent fund at an average rate of 3%.

III. Conditions for pension entitlement

The normal retirement age for men and women is 65.

- The minimum period required to receive the full-rate pension is 15 years in insurance (4,500 working days), for which contributions have been paid.
- People who have a contribution record of 4,500 working days or 15 years in insurance can retire at the age of 60. The benefit amount is reduced by 1/200 of the basic amount for each month up until 65 years of age.
- Workers in unhealthy and hazardous occupations can retire at the age of 60 if they have completed 4,500 working days from which 1,000 days, at least, must be completed within the last 10 years before the pension is claimed.
- If they have fulfilled a contribution requirement of 6,000 working days or 20 years in insurance, mothers with a minor or disabled child can retire at the age of 55. They can also retire at the age of 50, but the benefit amount is reduced by 1/200 of the basic amount for each month up until 55 years of age.
- Mothers with at least three children, who have fulfilled a contribution requirement of 6,000 working days or 20 years in insurance, are eligible for retirement. In this case the pensionable age of 65 may be brought forward by three years per child to the age of 50.
- Workers in underground mines, underwater activities, drains and electric power stations can retire at the age of 55 (men and women) if they have completed 4,500 working days. They are entitled to a reduced pension at the age of 50. The benefit amount is reduced by 1/200 of the basic amount for each month up until 55 years of age.

IV. Benefits provided by the old-age insurance system

The pension amount consists of a basic amount (the basic pension) plus different supplements. The calculation of the *basic amount* takes into account income from employment during the last five years before retirement, with the exception of Christmas, Easter and summer allowances. Especially for self-employed persons, the sum of earnings from all years of insurance is taken into account.

The full rate equals 60% of the pensionable income and corresponds to an insurance period of 35 years, each year being counted as 1.714% of pensionable income. Supplements for spouses are no longer provided.

Supplements for dependent children (unmarried children under the age of 18 years or below the age of 24 years if they are still in full-time education and out of work) are calculated as proportions of a complicated index. This index amounts to 50% of the 1991 Gross National Product per capita, adjusted annually according to increases in civil servant pensions. The supplement corresponds to 8% of this index for the first child, 10% for the second child and 12% for each following child.

Persons insured before 1993 as well as those insured since cannot receive a pension greater than four times the 1991 Gross National Product per capita, indexed in the same way as the pension for civil servants.

There is also a minimum pension amount, equalling the amount of a pension paid after the establishment of a 15-year contribution record. Old-age pensions are adjusted according to civil servant pensions and not the consumer price index.

The amount of auxiliary pensions is as above. The full rate equals 20% of the pensionable income and corresponds to an insurance period of 35 years, each year being counted as 0.571% of pensionable income.

V. Demographic changes and the pension system

Pensioners account for 21% of the entire population (10,300,000) of the country. The ratio of pensioners to active insured persons amounts to 1:2.31 (whereas a healthy ratio of insured persons to pensioners of 1:4 is considered generally acceptable by the contributory pension schemes).

In the next decades, the ageing of the country's population will be more intensive. The forecast by the National Statistics Service is that the percentage of the population over 65 years will amount to 17.83% in 2000, rising to 20.87% in 2020. According to the same estimation for 2020 and 2040, life expectancy is forecast at 79.07 and

82.10 years of age for men and 83.2 and 85.83 years of age for women.

There are no plans for reforming the insurance scheme during 2000. The Centre of National and Political Research, which is responsible for reforming the insurance system, is studying the matter together with an English company. The study will be completed and ready for delivery by the end of 2000.

The dialogue procedure between the State and representatives of employees and employers will be completed by spring 2001. The legislative regulations, which are to follow, will be completed by the end of the following year. Although there is no plan for any significant changes of the insurance system and the integration of funds by then, efforts to modernise the funds' operation will be continued.

In its dialogue, the State will include topics such as changes in pension calculation methods, reform of the pension regime, reform of the regime for unhealthy and hazardous occupations, as well as contribution levels.

The social debate will be based on an evaluation of the situation of the current system and on a series of additional topics:

- Possible solutions for the viability of the social security system from 2010 until 2030-2050.
- Financing of the system.
- Conditions necessary for awarding benefits (minimum pensions, minimum guaranteed pensions or State pension).
- Supplementary insurance
- Employment of pensioners.
- Rapidity of changes, transitional measures.

The ultimate aim of the government is, on the one hand, to streamline and make viable the Greek social security system and, on the other, to eliminate any negative repercussions generated by the globalisation of the economy, while safeguarding a high level of insurance and social justice for workers. Economic progress and social progress must develop in parallel.

Spanish Social Security does not include a specific old-age insurance, as such. This social protection branch is integrated into the Social Security system, together with the other contingencies and covered situations (health care, cash sickness benefits, maternity and risk during pregnancy, permanent incapacity, death and survivors' benefits, family benefits, unemployment protection and social services).

Therefore, although references are made to *"old-age insurance"* throughout this document – so as to follow the pattern of the information required – it must be borne in mind that integration is a characteristic feature of the Social Security system, which is not divided into separate insurance branches.

I. Basic principles of old-age insurance system

1. Protected groups

Old-age protection comprises two levels of protection: contributory and non-contributory.

- The **contributory level** covers all persons who perform gainful activities, either as employed or self-employed workers.
- The non-contributory **level** covers persons over 65 years of age, residing in Spain, who are not entitled to a contributory pension and whose income does not reach a certain limit.

In recent years, the scope of the old-age pension has been extended as follows:
- Non-contributory pensions were introduced in 1990.
- Since 1995, protection has been provided to self-employed professionals whose activity is compulsorily subject to their membership of Professional Associations or Organisations (e.g. lawyers, doctors, etc.). Before such date, this group was excluded from the Social Security system.

At the contributory level, categorisation within the Social Security system (and consequently for old-age protection purposes) is made through the incorporation of certain groups of population into different schemes. The following schemes currently exist in Spain:
- The General Scheme comprises all employed workers who do not fall under the scope of a Special Scheme as a result of their activity.
- The Special Agricultural Scheme comprises all workers (either employed or self-employed) who perform their activity in the agricultural, forestry and livestock sector.
- The Special Scheme for Maritime Workers comprises all workers, either employed or self-employed, who perform their activity in the maritime-fishing sector.
- The Special Scheme for Self-employed Workers comprises those persons who carry out a gainful activity without being subject to a labour contract (with the exception of workers under the scope of the Special Agricultural Scheme or the Special Scheme for Maritime Workers).
- The Special Scheme for Coal Mining covers employed workers of the coal-mining sector.
- The Special Scheme for Domestic Workers covers employed workers who perform a gainful activity for another person in a family household.
- The Special Scheme for Civil Servants ('Clases Pasivas') comprises public officials of the Civil Service.

Qualifying conditions for old-age protection are similar in all the schemes mentioned above, although there are some peculiarities regarding the Special Scheme for Civil Servants.

All Social Security Schemes are managed by institutions dependent on the Ministry of Labour and Social Affairs, with the exception of the Special Scheme for Civil Servants, which is managed directly by the Ministry of Finance.

2. The role of supplementary schemes

Separately from the compulsory schemes, there are supplementary schemes or instruments for providing old-age protection. These supplementary schemes, as their name denotes, are additional to compulsory schemes, although they may not substitute them or stand as an alternative.

In Spain, supplementary schemes are voluntary, according to the Spanish Constitution (Article 41). However, within the framework of collective bargaining between employers and employees. Supplementary schemes may be established and, in such cases, they become compulsory for all Parties that sign the Agreement.

Although supplementary schemes are varied, they are developed according to two different patterns:

- Social Provision Mutualities.
- Pension Plans and Funds. In these cases, pension plans may adopt three different forms:
  a. Professional Plans, established within the scope of the enterprise, between the company and the employees.
  b. Association Plans, drawn up by a group of persons for themselves on a collective basis.
  c. Individual Plans.

In Spain, the State offers incentives for the establishment of supplementary schemes, in any of the aforementioned forms. The amounts paid by the employers are deducted from their taxes; likewise, the amounts paid by the employees and other participants are deducted from the assessment base of their income lax.

II. The financing of old-age insurance

Old-age insurance – like all other Social Security cash benefits – are financed on a pay-as-you-go basis.

There are three main financial sources for Social Security:

- Contributions paid by employers and employees
- State allocations
- Other income.

For the year 2000, the distribution rates of the different funding sources of Social Security financing are the following:

Funding sources	% of the Total
Social contributions	65.07
Allocations from the State and other organizations	33.59
Other income	1.34
TOTAL	100.00

As from 1997, the Social Security financing structure has undergone an important modification, adjusting benefits funding to their contributory or universal nature.

From a statutory point of view, all cash benefits (except pensions that have a non-contributory basis, as well as family benefits) and benefits that result from an industrial injury or a professional disease are regarded as contributory benefits.

According to such categorisation, the Social Security budget for 2000 includes the following funding sources:

Type of benefit	Funding source
Contributory cash benefits	Social contributions
Cash benefits or benefits in kind resulting from professional risks	Social contributions
Health care	State allocations
Family benefits	State allocations
Social services	State allocations
Non-contributory pensions	State allocations

III. Conditions for entitlement to a person

The general requirements to be entitled to a contributory old-age pension are the following:

- Having reached retirement age, 65 years, although there are some special conditions regarding partial retirement and early retirement.
- Crediting a contribution period of 15 years, two of which must fall within a 15-year period immediately preceding the date of retirement.

The basic requirements to qualify for non-contributory old-age pension are the following:

- Being over 65 years of age
- Not having an annual personal income over 563,570 ESP (3,387 euro).

Statutory retirement age: As a general rule, retirement age for both contributory and non-contributory pensions is 65. This age was established, at least for the contributory level of this protection, since the introduction of the first old-age insurance schemes (in 1919).

Changes in the statutory retirement age to qualify for old-age pension are not foreseen.

Retirement age may be reduced as a result of dangerous, heavy, toxic or unhealthy work, by applying reduction rates which vary according to the characteristics of the activity performed.

Furthermore, early retirement before the age of 60 is also possible, as explained below.

Partial retirement: Spanish Social Security legislation envisages the possibility of retiring partially, as from the age of 60. This partial retirement is subject to a previous reduction of working hours (from 30% to 77%) corresponding to the worker applying for partial retirement, as well as to the fact that the employer must hire an unemployed worker to cover the working hours thus reduced.

During partial retirement, the person concerned may receive the partial retirement pension as well as the earnings arising form the activity performed during reduced working hours. When partially retired pensioners turn 65, they qualify for the ordinary pension. While they receive the partial retirement pension, the contributions paid during the years of part time work will be credited as if they had been paid for a full-time job.

Early retirement: Regardless of the application of reduction rates to the retirement age on account of dangerous, heavy, toxic or unhealthy work (granted to workers such as miners, railway employees, fishermen or certain groups of artists and bull-fighters), all workers who had been affiliated for Social Security purposes as employees before 1 January 1967 have the possibility of applying for retirement pension as from the age of 60.

In these cases, the amount of the retirement pension is reduced by 8% per year under the age of 65 (if retirement is not the result of the worker's voluntary decision, e.g. as a consequence of being dismissed, the reduction rate will be 7%). The possibility of early retirement as from the age of 60, as well as the reduction rates applied to retirement age (on account of dangerous, heavy, toxic or unhealthy work), implies that, although the statutory retirement age is fixed at 65, the average retirement age is 62.9 years.

IV. Benefits provided by the old-age insurance system

Factors that affect pension amounts

At the contributory level, pension amounts are determined according to two main parameters: the contribution period and the amount of contributions credited.

On the other hand, with respect to non-contributory old-age pensions, there is a fixed pension amount, as it is not conditional on previous contributions.

Calculation formula of old-age pensions

At the contributory level, old-age pensions are calculated taking two aspects into consideration:

a) *The calculation basis* or the average of the last 15 years of contribution prior to the date of retirement.

   Act 24/1997, of 15 July, on the Consolidation and Rationalisation of the Social Security System, amended the calculation formula of the so-called *"calculation basis'* for old-age pensions. Until such date, the calculation basis consisted on the average contributions credited during the eight years immediately preceding retirement. Under this Act, the calculation basis is equal to the average of the contribution bases corresponding to the 15 years prior to retirement, even though the transition to the latter formula has been staged according to the following index:

Year	Years of contributions for the calculation basis
1997	9
1998	10
1999	11
2000	12
2001	13
2002	15

b) A *rate applied* to the calculation basis, according to the contribution years that have been completed. The rates are shown in the following table:

Contribution years	% Calculation basis
For the first 15 years.	50
For every additional year between the 16th and the 25th.	3
For every additional year from the 26th year onwards.	2

With 35 contribution years, 100% of the calculation basis is reached.

Assessment of family circumstances

Pensioners' family circumstances are taken into consideration for the purpose of acknowledging their right to the so-called *"minimum pensions"* of the contributory level.

When according to the contributions completed, the pensioner does not reach a certain amount, he/she will be entitled to an additional amount so that the pension reaches a minimum level. The granting of such additional amounts is subject to the pensioner not having an annual income, apart from the pension, above 861,941 ESP (5,180 euro).

The amount of the minimum old-age pension varies according to the retirement age and to whether the pensioner has a dependent spouse, as in the following table:

Type of pension	Amount ESP/ year (euro/year)
65-year-old pensioner:	
- With a dependent spouse	989,100 (5,945
- Without a dependent spouse	839,860 (5,048)
Pensioner under 65 years of age:	
- With a dependent spouse	872,060 (5,241)
- Without a dependent spouse	738,290 (4,437)

Adjustment of pensions

At both the contributory and non-contributory level, old-age pensions (just like the whole of the Social Security pensions) are adjusted in line with price evolution, according to the corresponding revaluation rate.

The adjustment procedure follows these steps:

a) At the beginning of every year, pensions are adjusted according to the expected price increase.

b) If the actual increase in prices does not reach the rate applied when pensions were adjusted, the amount paid in excess will be kept by the pensioners.

c) On the other hand, if the actual increase in prices is above the revaluation rate previously applied, pensioners will be entitled to receive such difference in the following year.

V. Demographic changes and the pension system

The evolution of the ratio of persons over 65 to the whole of the population has developed as follows:

Year	Population over 65/ Total population
1980	10.45
1985	11.62
1990	12.79
1995	14.38

The expected trend of this rate in the future is shown in the following table:

Year	Population over 65/Total population
2000	15.92
2005	16.52
2010	16.97
2015	17.88
2020	18.89

In recent years, the trend of the ratio of working contributors to pensioners has developed as follows:

Year	Contributors / pensioners
1980	2.56
1985	2.36
1990	2.43
1995	2.07
1996	2.05
1997	2.06
1998	2.13

The measures regarding old-age pensions have already been included in previous sections. To summarise, these are:

- Financing modifications, in line with benefit characteristics. To this effect, contributions are assigned to finance contributory cash benefits, as well as all benefits that result from professional risks.
- The other benefits awarded by the Social Security system are financed through State allocations.
- Establishing a Reserve Fund, to meet future liabilities. This Reserve Fund receives the surplus resulting form the difference between contributions and expenditure in contributory benefits.
- For 2000, 100,000 million ESP (601.01 million euro) have been assigned to the Reserve Fund.
- Amendment of the formula to obtain the calculation basis corresponding to retirement pension (as explained above), in order to establish greater proportionality between the amount of the pensions paid and the contributions completed.

Forecast on future reforms

The modifications introduced in the Spanish Social Security pension system (and, among them, those regarding old-age pensions) have been set within the framework of a major political agreement (the so-called "Toledo *Agreement')* ratified by all the Parliamentary Groups represented in the Spanish Parliament, as well as within an outstanding Social Agreement signed by the Government and the most representative Trade Unions.

Both agreements are based on the following key issues:

- Supporting a public pension system, on a pay-as-you-go basis.
- Achieving greater proportionality and contributions, so that the amount of the pension paid and the contributions completed are more closely related.
- Favouring the application of the equity principle in such a way that, on an equal basis, similar contributions give rise to similar pension amounts.
- Strengthening the principle of solidarity, increasing protection in underprivileged sectors and in those situations that are the least protected.
- Modifying the Social Security financing structure, adjusting funding sources to the characteristics of the benefits, according to the guidelines explained above.
- Promoting supplementary pension schemes, as an instrument for increasing protection and achieving a higher rate of substitution with respect to the earnings received during active work. However, such schemes are regarded as additional instruments, but in no way as an alternative or a substitution for public schemes.

Currently, a new process has been initiated with a view to attaining a new political consensus, as well as an agreement between the Government and social partners, whose aim is to continue ongoing reforms and ultimately to defend and ameliorate the solidarity-based public pension system.

I. Basic principles of the old-age insurance system

1. Category of persons concerned

On the retirement front, the ambitions of the 1945 decrees for creating a social security system were not fulfilled until the 1970s. Old-age insurance was gradually extended with the introduction of special schemes for professional categories not initially covered (non-salaried non-agricultural workers in 1948, farmers in 1952) and the allocation of a minimum allowance to every elderly person without resources and not covered by any scheme for the elderly (1952). The laws of 1974 and 1978 provided coverage for persons not yet benefiting from old-age insurance (prisoners, artists, assisting spouses, housewives under certain conditions, etc.). Today, the entire working population is covered.

Nevertheless, today we are still a long way from a unified system. The existence of special schemes for salaried workers prior to 1945 and the strong reticence of non-salaried workers to become integrated into a single system explain the current fragmentation of the system into 26 basic old-age insurance schemes. There is, however, a trend towards regulatory convergence: the basic schemes for agricultural wage earners, artisans and traders are today totally aligned with the general rules concerning salaried workers.

These 26 schemes can be broken down into three categories: non-salaried schemes (artisans, traders, liberal professions, farmers, etc.), special salaried workers' schemes (civil service, CNRACL, IEG, RATP, SNCF, etc.) and salaried workers in the private sector which cover respectively 11%, 21% and 68% of assets (1996).

The special schemes are based on a statutory concept of retirement. With the exception of the scheme covering miners, there is no distinction between the basic retirement pension and a supplementary retirement pension. They are "unique" or "integrated" schemes under which the pension granted is directly linked to the professional situation of the official when he or she goes into retirement.

The other schemes, which concern almost 80% of the working population, are basic schemes based largely on an insurance concept, complemented, with a few exceptions (schemes for independent farmers and traders), by mandatory supplementary schemes.

2. The role played by supplementary schemes

Supplementary retirement schemes play an important role. Salaried workers in the private sector and in agriculture have contractually agreed supplementary schemes, operating on the principle of distribution, and subscription has been legally required since 1973. With the exception of farmers and traders, independent workers also have mandatory supplementary schemes that follow the principle of distribution.

In addition to these mandatory supplementary schemes, but still within the professional framework, there are mechanisms that complement the two preceding waiting periods. For salaried workers, these schemes are organised in a collective manner and concern all salaried workers in an enterprise or professional branch. They may involve commitments relating to the balance sheets of enterprises, schemes administered by supplementary insurance institutions (provision closed in 1994) or schemes that give rise to subscription to insurance policies with organisations covered by the insurance directives. There are also supplementary optional schemes for independent workers administered by their old-age insurance companies. Finally, organisations covered by the insurance directives also offer optional professional retirement schemes to independent workers and salaried workers under the special schemes, in particular civil servants. However, these voluntary schemes cover a minority of the working population.

As for private individual retirement pensions, it is possible to subscribe to personal retirement schemes to cover individual needs. These contracts are mainly offered by companies under the insurance directives. In the context of these life insurance contracts, with regular payments in a well-defined framework, subscribers benefit from tax breaks on the contributions or premiums.

II. Financing of the old-age insurance system

What is the underlying principle for financing of the general old-age insurance system (capitalisation, distribution, mixed system)? Have there been changes in recent years?

Old-age insurance schemes for salaried workers and independent workers have operated according to the principle of distribution since their inception. However, in 1998 a reserve fund was created, earmarked to support these schemes when their funding requirements rise for demographic reasons. It is financed by surpluses from certain mechanisms, notably those from the old-age solidarity fund (see below). The supplementary schemes also operate according to the principle of distribution.

Since their inception, the special schemes have also operated according to the principle of distribution. One single scheme works under a mixed system (partial capitalisation): the special scheme for employees of the Bank of France.

With the exception of the scheme for independent farm workers, a substantial portion of which is financed from the state budget, the basic and supplementary schemes for the private sector are largely financed by contributions.

As for salaried workers in the private sector, the creation of an old-age solidarity fund (FSV) in 1993 has considerably changed the structure of financing. Under the general old-age insurance scheme, employers' and workers' contributions only represented respectively 41% and 31% of resources in 1999. The remainder is borne by the state under the heading of compensation for lightening the burden of contributions implemented as part of the employment policy (5%), comes directly from earmarked taxes (1%) or indirectly, through payments from other schemes or the FSV under the heading of financing of minimum old-age allowances, increases in family allowances, validation of periods of unemployment and early retirement, etc., (22%).

For the vast majority of the special schemes, a large part of the funding (the bulk in the case of the civil service) is provided by public contributions.

III. Conditions for granting a pension

In order to benefit from a pension under the general old-age insurance scheme, the insured person must fulfil three conditions: have contributed for at least one quarter to the general scheme and have ceased professional activity (except in the case of gradual retirement) and be at least 60 years old.

The pension is granted at the "full rate" of 50% at the age of 65 years whatever the period of insurance by the insured person. The "full rate" pension is also granted as from the age of 60 years when the insured person has subscribed for a certain insurance period, all schemes combined (see below).

When insured persons do not fulfil the conditions for obtaining a pension at the full rate at the age of 65 years or 60 years at the earliest, they may obtain a pension at the "reduced rate" where the coefficient depends, according to which is the most advantageous for them, on either the number of quarters missing compared with the required insurance period for entitlement to the full rate, or the number of quarters remaining until the they reach their 65th birthday at a rate of 1.25% per quarter.

The age giving entitlement to a pension is 60 years. Since the 1982 reform, insured persons may obtain a pension at the full rate as from this age when they have been insured for a certain period (see below).

The general old-age insurance scheme does not include a mechanism for early retirement before the age of 60 years and the average age for allocation of the pension under the general scheme is 61.62 for direct rights (61.19 years for insured men and 62.14 years for insured women).

Moreover, outside of the old-age insurance system there are mechanisms for the early cessation of work currently taken up by around one person in five in the 55-59 age bracket.

1. Factors governing the amount of the benefit

The amount of the pension under the general old-age insurance scheme takes into account the average annual salary received by the insured person within a certain limit (annual ceiling for social security of 173,640 FRF in 1999) and the period of insurance completed under this scheme.

To obtain a retirement pension at the "full rate" (see above), the salary used as a basis for calculating the pension was, up until 1993, the average of the ten best years. Since the 1993 reform, the number of years needed for the calculation rises progressively by one year each year bringing it up to the 25 best years in 2008. Similarly, the period of insurance required, all schemes combined, equal to at least 150 quarters in 1993, has been gradually extended by one quarter per annum as from 1994 bringing it up to 160 quarters in 2003.

2. Calculation method

Under the general old-age insurance scheme, the method used to calculate the pension (P) is based on the following elements: the liquidation rate (T) equal to 50%, the abatement rate (t) equal to 1.25% per quarter of missing insurance, the number of missing quarters (n) to reach 160 quarters (before the 1982 reform: 150 quarters), the insurance period under the general scheme (D) within a limit that has a ceiling of 150 quarters and the annual average reference salary (SAM) calculated on the 25 best years indexed to prices (calculated before the 1982 reform on the 10 best years and indexed before 1987 on salaries). The amount of the pension is calculated using the formula: $P = (T - tn) \times (D/150) \times SAM$.

3. Family situation

Under the general old-age insurance scheme, the family situation is taken into consideration when calculating the insurance period: an increase of eight quarters per child reared during at least nine years before his or her 16th birthday is granted to female insured persons. The periods during which the father or mother obtained parental leave to care for their child or children are also taken into account in certain cases when calculating the insurance period. However, this second increase cannot be cumulated with the above-mentioned increase of eight weeks for the mothers of families.

The family situation is also taken into consideration in the amount of the pension under the following two circumstances:

- A premium of 10%: the pension is increased by 10% when the insured person has at least three children or has raised at least three children in her care or that of the spouse during at least nine years before their 16th birthday. Both of the beneficiary spouses can claim this benefit;
- An increase for a spouse in care: the pension is increased by a fixed sum of 4,000 FRF when the spouse taking care of a pensioner who reaches the age of 65 years (or 60 years in the case of incapacity) does not benefit from a pension or allowance of his own or from a previous spouse and does not have resources that exceed a certain threshold. The difference can be paid when the amount of the pensions or allowances is lower than the amount of the increase.

Finally, as a reminder, under the general old-age insurance scheme the right to a pension includes the benefit of a surviving spouse's pension. This pension is granted, subject to means testing, to the surviving spouse or ex-spouse who reaches the age of 55 years and was or has been married for at least two years on the date of the death except where a child was born of the marriage. The amount of the surviving spouse's pension represents 54% of the amount of the pension that the pensioner received or had received.

4. Indexation

Since 1987, pensions under the general old-age insurance scheme have been revised each year in line with changes in consumer prices and a possible "helping hand" to take into account increases in the purchasing power of salaried workers.

V. Demographic change and the pension system

1. Demographic trends

The proportion of persons aged 65 and over represented 14.0% in 1980, 13.9% in 1990 and 14.9% in 1995. Assuming birth rate scenarios of 1.5, 1.8 and 2.1, projections give a proportion of 15.8% to 16.0% for the year 2000, 16.5% to 17.3% for 2010, 19.9% to 21.6% for 2020 and 22.7% to

25.9% for 2030 (*Economie et Statistiques* 1994-4, no. 274).

At the macro-economic level, the demographic ratio (population over the age of 60 out of the population between 20 and 59 years) has risen from 3.25 persons over 60 for every 10 people of working age in 1980 to 3.7 persons out of 10 in 1995. In the future the growth in this ratio should be strong under the combined effects of the increase in life expectation and the arrival of many post-war generations at retirement age. The number of persons over 60 compared with the number of persons of working age should rise from 3.8 in 2000 and 2005 to 4.3 in 2010, 5.3 in 2020 and 6.3 in 2030 assuming a birth rate of 1.8.

As for retirement pension schemes, the ratio of the number of contributors in work compared with the number of pensioners is, for the general old-age insurance scheme for salaried workers, 1.6 contributors for one pensioner in 2000, 1.5 in 2010, 1.2 in 2020 and 1 in 2030 on the same birth rate assumptions of 1.8 and a long-term unemployment rate of 6%. For the civil service retirement scheme, the same ratio is 1.8 in 2000, 1.4 in 2010, 1.1 in 2020 and 1 in 2030.

2. Reforms

The purpose of the reform in 1993 of the general old-age insurance scheme and the aligned independent schemes (traders and artisans) was to "preserve the fundamental rights of insured persons and the solidarity mechanisms and to guarantee equity between the generations called upon to participate in the effort to control old-age pension expenditure". It concerned:

- financing: the creation of the old-age solidarity fund, fed by earmarked taxes (partly from general social security contributions), broadened the base for financing the schemes by making the fund responsible for paying solidarity benefits (old-age minimum, validation of periods of unemployment, family benefits, etc.);
- calculation of the pension on liquidation:
  a. confirming for five years (since extended) the indexation of prices to the salaries used as a basis for calculating the pension (before 1987 pensions were indexed to salaries),
  b. gradually enlarging by one quarter per generation the basis for the reference average salary used to calculate the pension (changeover from the 10 best to the 25 best years; reform due for completion in 2008),
  c. progressively extending by one quarter the insurance period required to obtain the full rate pension (changeover from 150 to 160 quarters, reform due for completion in 2003);
- the indexation of liquidated pensions: determining pensions according to the rule of indexation applicable to the salaries used as a basis for calculating the pension.

A reserve fund was created at the end of 1998 to constitute savings earmarked for old-age insurance schemes for salaried workers in the private sector, traders, artisans and non-salaried agricultural workers when they are confronted by the impact of demographic ageing. Certain resources have now been allocated to it. Originally constituted with 2 billion FRF, the fund should receive 20 billion FRF in 2000.

With the exception of the indexation rules, this reform did not concern the special schemes for salaried workers. The mandatory supplementary schemes for salaried workers (ARRCO and AGIRC) underwent major adjustments in the context of the 1993 and 1996 agreements.

3. The future

The French government recently began wide-ranging consultation on the question of the future of the retirement system. The report "on the future of retirement pensions", the so-called CHARPIN Report, highlighted the difficult financial situation in which the French retirement schemes will find themselves as from the period 2005-2010 due to the impact of demographic ageing.

In March 2000, the French government defined guidelines to guarantee the distributive nature of the French retirement pension system and to suggest various paths for reform of the schemes. These guidelines are founded on the following principles:

- consultation in their formulation and a progressive approach to the implementation of measures,
- respect for the diversity and identity of the schemes,
- quest for greater equity and increased solidarity between the various schemes,

- introduction of greater flexibility to reflect the need for greater individual choice,
- forecasting of demographic changes in order to balance the burden between generations.

Accompanied by the announcement of a reform of the procedures for taking in charge dependence and measures tending to enhance the social role of elderly persons, the proposed guidelines to ensure the long-term viability of the French retirement system are:

- to identify, through discussion, solutions suitable for each scheme, to consolidate the French retirement system within a timeframe of the year 2020: there were suggestions to progressively extend to 40 years, as for salaried workers in the private sector, the insurance period required to benefit from a full-rate pension under the civil service scheme and to introduce greater flexibility – without degrading the financial situation – the methods for calculating pensions under the old-age insurance schemes for salaried workers, traders and artisans to allow greater freedom of choice concerning the starting age for retirement; discussions are also in progress in the field of the supplementary schemes for salaried workers between the social partners who jointly administer them, in particular concerning the insurance period and the retirement age;
- to boost the retirement reserve fund in order to deal with the imbalances over the period between 2020 and 2040; in total it will have to exceed 1,000 billion FRF (at constant value) in 2020;
- to set up an Advisory Council for retirement pensions comprised of representatives of both sides of industry, members of parliament and qualified persons to organise long-term consultation on the future of retirement pensions and, prior to this, to describe the current and future financial situation of the various schemes taking into account economic, social and demographic developments, to assess the conditions required to ensure their long-term financial viability and to ensure the cohesion of the retirement system based on distribution, whilst ensuring solidarity between the schemes and respect for equity, both between retired people and between the different generations.

In the short term, the main plank of the government's strategy is to reduce unemployment. Although the financial margins resulting from falling unemployment remain insufficient to offset the long-term imbalances in the retirement pension system due to demographic change, they will nevertheless be a key issue over the next ten years.

The Minister for Social, Community and Family Affairs, Ireland, has responsibility for the formulation and implementation of social protection systems, including income maintenance schemes and other supports which enable people to participate in society in a positive and meaningful way. It promotes the social well-being of families and communities through its support for voluntary groups and community development programmes. The Minister also formulates and implements pensions policy. A statutory Pensions Board, which regulates the occupational pensions environment and reports to the Minister, also has an advisory role in the area of pensions policy generally.

I. The basic principles of the old age insurance system

1. Covered People

Coverage for the Old Age (Contributory) and Retirement Pensions (OACP/RP) is now virtually universal. In 1999, of the 421,600 people in the State aged 65 and over, 387,201 were in receipt of a social welfare pension payment (this figure also includes over 46,432 qualified adults). A noticeable shift in composition of recipients of these old age pension payments has become evident over the last decade. While the numbers receiving a non-contributory, i.e. means-tested, (OANCP) pension are still large – i.e. 93,023 in 1999 – there has been a drop of nearly 23% in recipients of this pension type since 1989. Equally, in 1989, just under 50% of total pension awards received a contributory-based pension: in 1999, this had increased to just over 62%[14].

The shift can be attributed to more people (particularly women) entering the workforce due to economic growth and the progressive extension of compulsory social insurance coverage to (a) the self-employed in 1988, (b) part-time employees in 1991 and (c) new entrants to the Civil and Public Service from 1995 as well as the abolition of the insurable limits based on earnings in 1974. The role of contributory (PRSI related) payments will increase further in the future. It is projected, for example, that by 2016, 86 per cent of recipients of old age pensions will be in receipt of a contributory payment, compared to 62 per cent in 1999.

2. Supplementary scheme role

Supplementary pensions coverage in Ireland comprises three main types of pension arrangement:

- public service pension schemes run on a pay-as-you-go basis. Those covered include civil servants, Gardaí and Defence Forces, local authority employees, teachers and health workers who entered employment in these areas prior to April 1995. These employees pay a modified rate of contribution and qualify for limited social insurance benefits;
- funded occupational pension schemes set up by, or negotiated with, employers to provide benefits for their employees. These include funded schemes set up by commercial State entities and agencies; and
- personal pensions (including retirement annuity contracts) arranged by individuals, generally the self-employed.

All of these are voluntary at present in the sense that there is no legal obligation for an employer to establish or maintain a scheme. However, once established, schemes are subject to certain legal requirements and regulation.

In 1995, the Department of Social, Community and Family Affairs and the statutory Pensions Board commissioned a survey by the Economic and Social Research Institute (ESRI) of occupational and personal pensions. This revealed that less than 50% of the workforce in Ireland have supplementary pensions cover with a wide variety of coverage for different sectors of the economy. The incidence of coverage is especially low amongst atypical workers. At present (end-1999) there is an overall total number of schemes of 72,538 registered with the statutory Pensions Board with an active membership of just over 569,000 people[15]. It is estimated that with the

[14] Source: Statistical Information on Social Welfare Services – Department of Social, Community and Family Affairs, Ireland, 1999.

[15] Source: "Annual Report of The Pensions Board – An Bord Pinsean, 1999"

rapid increase in the workforce in Ireland in recent years the proportion with occupational cover has actually declined in the last few years. It is intended to undertake another survey in 2001.

While the issue of adequate and comprehensive pension cover has been under consideration in Ireland for more than 20 years, on foot of the ESRI survey referred to above, a National Pensions Policy Initiative (NPPI) was launched in 1996 to facilitate debate on how best to achieve a fully developed national pension system and to formulate a strategy and make recommendations for actions needed to achieve this. Further details on the progress of this Initiative are addressed in Section 5 (Future Reforms).

In relation to state-offered incentives for individual pension provision, special tax treatment of the different elements of cash flows in pension funds is long established (for example, the Finance Act of 1972 set up a clear legal and fiscal framework for occupational pension schemes) and the tax reliefs available have been one of the powerful incentives to effect pension provision. Insofar as individual or personal pension arrangements are concerned, the 1999 Finance Act introduced changes in the tax rules for pensions, relating to two main areas:

- the amount of pension contributions on which income tax relief can be claimed; and
- the options for drawing down pension benefits at retirement age. These are specifically aimed at the self-employed, proprietary directors
- and employees who are not members of an occupational pension scheme.

The Finance Act, 2000, extended the ARF arrangements to funds accumulated by employers through Additional Voluntary Contributions (AVCs). The rationale behind these arrangements is to permit increased flexibility and choice for the self-employed on retirement with enhanced control and ownership of their pension fund.

II. Financing the old-age insurance system

Social insurance contributions (known as PRSI – Pay Related Social Insurance) are a percentage of gross reckonable earnings of employees and self-employed people, subject to various allowances and ceilings. In general, both employer and employee pay a share of the contribution. Employers are legally obliged under Social Welfare legislation to make the appropriate deductions and to remit these so that employees can claim the associated benefits if and when the need arises.

For the most part, contributions in respect of employees are collected through the PAYE (Pay As You Earn) system. The rate of PRSI contribution depends on the CLASS of Social Insurance applicable in the employment in question which, in turn, determines the range of pensions and benefits to which contributors may in due course become entitled. The majority of contributors are employers and employees in the Industrial, Commercial and Services sector. Any person whose weekly earnings are IR£30 or over is liable for compulsory social insurance as is any self-employed person whose annual income is IR£2,500 or over.

In 1999, Social Welfare expenditure was financed mainly by the State (54.7%) and the Social Insurance Fund (44.9%). Financing of the Social Insurance Fund comprises receipts from employer PRSI (73.8%), employee PRSI (20.3%) and self-employed (5.9%).

By programme group, expenditure on the old age pension schemes amounts to some 24% of the total Social Welfare budget of IR£4 billion in 1999. Within this, expenditure on the OACP scheme accounted for £392.26 million while the cost of the Retirement Pension (RP) scheme was £402.8 million. Estimated expenditure in 2000 is £431.5 million for the OACP and £472.3 million for the RP – an estimated change of 10% and 17.2% respectively over 1999.

In May 1998, the Pensions Board published its report *"Securing Retirement Income"* arising out of the National Pensions Policy Initiative (NPPI) (see Section 1.6 above and Section 5 below). One of the key recommendations in this report was the establishment of an explicit fund to minimise the future costs of social welfare pensions. The Government accepted this recommendation in principle and, in July 1999, announced its intention to set up reserve funds to meet the future costs of Social Welfare and Public Service pensions.

Legislation setting up a temporary holding fund for exchequer monies allocated in 1999, was passed by the Oireachtas (Parliament) in December 1999 and a sum of IR £3 billion paid into the fund. This comprised IR£2.4 billion obtained from the Telecom Eireann flotation (the former State telecom company) and nearly IR£600 million representing the 1% of GNP contribution for 1999. A provision in the Finance Act, 2000, enabled a further sum of IR£1.85 billion to be paid, of which nearly IR£1.2 billion is from the Telecom sale and about IR£650 million is an estimate of the 1% of GNP contribution for the year 2000.

On 14th June 2000, the Minister for Finance published legislation which provides for the establishment, financing and management of the National Pensions Reserve Fund. This Bill also provides for a statutory obligation on the Government to pay a sum equivalent to 1% of GNP from the Exchequer into the Fund each year until at least 2055 and does not preclude the lodgement of additional funds, following approval by the Oireachtas. The Fund will have a strictly commercial investment mandate with the objective of securing the optimal return over the long-term, subject to prudent risk management. Drawdowns before 2025 are prohibited.

III. Conditions for entitlement to a pension

To qualify for an OACP, a person must have

- entered insurance before reaching age 56 in the case of the OACP and age 55 in the case of RP; and
- at least 156 full-rate contributions paid or, if the yearly average (see 3. below) is between 10 and 19, at least 260 full-rate contributions paid[16]; and
- for a minimum rate pension (i.e. 50% or IR48 per week) a yearly average of at least 10 contributions paid/credited from January 1953 for men or July 1953 for women (when the unified system of social insurance came into effect), or from the date of entry into social insurance if later. A yearly average of 48 is required for a maximum rate (i.e. £96 per week) pension.

Over the years, improvements have been made to the OACP/RP qualifying (contribution) conditions over the years. These measures, coupled with the progressive extension of compulsory Social Insurance to virtually all the paid work force over the past 20 years, have been designed with the two-fold aim of extending coverage and alleviating the impact of certain 'anomalies' which had developed over time and which have been experienced by different categories of people who, for various reasons, had gaps in their insurance records. They include:

a) The introduction of Homemaker Provisions in April 1994 to cater for people who spent periods of time outside the workforce caring either for children (up to 12 years of age) or incapacitated people. Essentially, these intervals are disregarded when calculating a person's pension entitlements. A maximum of 20 years can be disregarded in this way.
b) In 1997, the minimum yearly average for the Old Age (Contributory) Pension was reduced from 20 to 10 contributions per year. Where a person has a yearly average of between 10 to 14 contributions, he/she is entitled to a pension rate at 50% of the standard maximum rate, while those with averages of between 15 to 19 receive a pension rate equivalent to 75% of the standard maximum rate;
c) Further recognition was given to contributions paid prior to 1953 in the Social Welfare Act, No. 4 of 2000. This provided for the introduction of a special half-rate (50%) pension, from 5th May 2000, for any person who became insurably employed prior to 1953 and who had failed to qualify for a pension or qualified for one (contributory or non-contributory) at a lower rate. To qualify for this flat-rate payment, a person must have become an employed contributor under the National Health Insurance Acts prior to 1953 and have paid at least 260 (or 5 years) contributions which may comprise contributions paid prior to 1953 or a combination of pre and post-1953 contributions. The Qualified Adult and Child Dependent Allowances are also paid at equivalent (i.e. 50%) rates.

16 From 6 April 2002, the minimum requirement of 156 paid contributions will increase for all applicants to 260 paid contributions and, subsequently, to 520 paid contributions from 6 April 2012. These changes have been provided for in legislation.

Pensionable age varies in Ireland from 65 to 66, depending on the type of benefit applied for. It was progressively reduced from age 70 over the period from 1973 to 1975.

One of the key factors affecting pension costs is retirement age which is normally taken, in Ireland, at age 65. The NPPI Report (see below) raised the possibility of flexible, later retirement ages being introduced in the Social Welfare Code. The Report noted the knock-on effects from an increase in First Pillar (or Social Welfare) pension age, particularly given that terms of employment normally set out a retirement age and the prospect of retirement is less attractive if the Social Welfare pension does not start immediately. For savings to ensue, it is necessary to ensure that those below pension age continue in the paid work force. While a reduction in pensionable age is not envisaged, the merits of facilitating continuation at work beyond that age while qualifying for an actuarially increased social welfare pension on later retirement is an issue to be examined by the Department in the future.

The facility does not exist for the early drawdown of the OACP/RP. However, a Pre-Retirement Allowance (PRETA) which is a means-tested payment allows a person aged 55 or over to opt to retire from the labour force and receive a weekly allowance. In order to qualify for the payment, the person concerned must be in receipt of a long-term unemployment payment, or be no longer entitled to One-Parent Family Payment or Carer's Allowance. The scheme is entirely optional – unemployed people over age 55 who wish to continue to seek work are allowed to remain on Unemployment Assistance. Furthermore, there is no restriction on a person in receipt of PRETA, coming out of retirement and returning to employment if they so wish.

The current strong performance of the Irish economy is reflected in a steady reduction in the numbers seeking to avail of the scheme in recent years. More than 60% of PRETA recipients are aged 60 or more. Given this age profile, it is expected that the decline in numbers will in the future. The question of re-structuring the scheme to reflect current market conditions is being kept under review.

IV. Benefits provided by the old-age insurance system

1. Factors establishing the amount of benefits

In relation to Social Welfare pensions, there is no direct relationship between the contributions paid and the level of pension ultimately received by the contributor. These pensions are paid as weekly flat-rate amounts and are structured as follows:

- a personal rate of pension in respect of the claimant. This is dependent on the total number of contributions paid and/or credited;
- increases in respect of qualified adult and child dependents. In relation to increases for adult dependents, it is planned to increase this to equate to 70% of the personal rate over the next 3 years (the process began in Budget 2000). Furthermore, a tapering arrangement applies to this increase which allows the qualified adult earn between IR£70 and IR£135 per week; and
- a living alone allowance (if aged 66 or over and living alone) and an age allowance (if aged 80 and over)[17].

2. Calculating method

The current weekly rates of payment for the OACP (effective from 5th May 2000) are as follows:

Yearly Average	Rate of Payment	% of Maximum Rate
48+	£96.00	100%
20-47	£94.10	98%
15-19	£72.10	75%
10-14	£48.00	50%

[17] There are other ancillary benefits, known collectively as the Free Schemes, which are available to any person in receipt of a social welfare type payment and who satisfies certain qualifying conditions. These Free Schemes comprise Free Electricity/Gas Allowance, Free TV Licence and Free Telephone Rental Allowance. Any person who is over 75 years of age is entitled to these allowances regardless of the composition or income of the household. Free Travel is available to any person resident in the State aged 66 or over.

The maximum weekly increase in respect of a Qualified Adult under 66 years of age is IR£60.20 and £64.60 if over 66.

3. Adjusting

The Government, on entering office in 1997, committed to increasing the rate of the OACP/RP to £100 by 2002. Subsequently, in a more recent review (November 1999) of its Action Programme the Government further committed to the early achievement of this commitment and to extend it to all social welfare old age pensioners by 2002. In addition, it has also committed to increasing old age pension rates in line with increases in average earnings over its life-time. This latter issue was addressed in the Pensions Board's report "Securing Retirement Income" (see below) which recommended that this rate should equate to 34% of average industrial earnings (AIE). The maximum weekly rate of £96 now equates to just over 30% of AIE.

V. Demographic changes and the pension system

1. Demographic evolution

As indicated, the National Pensions Policy Initiative (NPPI) was launched in October 1996 on foot of a 1995 survey of occupational pensions coverage (see above). The Initiative was also informed by the publication (1997) of the first of a 5-yearly series of Actuarial Reviews on the cost of Social Welfare pensions which covers the 60-year period from 1996 to 2056. This review estimated that the number of persons over age 65 would increase from 11% of the population in 1996 to 19% in 2026 and 27% in 2056. At that stage, it projected that there would be over 1 million people aged over 65 in the population compared to 414,000 in 1996. Should the improvement in mortality assumed in the Report be realised, the projected numbers over age 80 would increase (over the same period) from 90,000 (2% of the population) to 317,000 (8%). In contrast, while the numbers in the working ages will increase for the next 20 years, they will then start to decline to some 51% of the population by 2056. This means that the number of people at working age per person over age 65 is projected to decline from 4.9 (in 1996) to 1.9 (in 2056).

2. Reforms/recommendations

The report by the Pensions Board "Securing Retirement Income" (1998) which arose out of the NPPI was the culmination of a wide-ranging consultative process between Government, the social partners, pensioners, advocacy groups representing the interests of older people and the pensions industry. The main recommendations in the report reflect the two-fold complimentarity of the Irish Pensions environment, involving the continued development of strong Social Welfare (or First Pillar) pensions based on social insurance and major improvements in Occupational and Personal (Second Pillar) pensions with the ultimate objective of ensuring that 70% of those at work over the age of 30 will have second pillar cover, as compared to under 50% at present. These targets also include specific coverage targets for women in employed and self-employed areas.[18]

In response to the main recommendations of the report, the Irish Government issued a document "Action on Pensions" which set out a clear Government plan to secure the future of older people. Working Groups were then set up:

- To examine fully the recommendation for pre-funding the cost of Social Welfare pensions – see above;
- To examine issues relating to the simplification of the pensions tax regime – see below;
- To explore how best to achieve the increase in occupational pensions coverage – see below; and
- To bring forward proposals for a target pensions awareness and education initiative.

The outcome of the deliberations of the 2nd and 3rd of these Groups will feed into the Pensions Bill which, it is planned, will be published later in 2000. To achieve the increase in coverage, the Pensions Board had recommended, inter alia, the introduction of the Personal Retirement Savings Account (PRSA) which, it envisaged, will be a low-cost, easy access personal investment account designed to allow people, regardless of their employment status, to save for retirement in a flexible manner and which will complement the Social Welfare pension. A key feature of the aforementioned Pensions Bill will be the legislative framework for the PRSAs.

[18] Report of The Pensions Board 'Securing Retirement Income' (1998).

The pension reform law

On August 1995 the pension reform law was finally enacted by the Italian Parliament.

The goal was to establish a new pact between the generations, moving **"from an earnings-related to a contributory system"**. The earnings-related system had become more and more outdated. The average age of the Italian population had increased, and ever-smaller numbers of younger workers were having to shoulder a gradually increasing "army" of elderly people.

Under the old system, pensions were no longer a certainty for today's workers; nobody could be sure any longer that they would get back the social insurance money they paid through the years. To this bleak situation one must add that the former system:

- did not allow a stable relationship to be established between pensions and the production of wealth;
- perpetuated differences and inequalities between self-employed earners and persons employed in the private and public sectors, which had no rational basis whatsoever since the benefits received by the various categories of workers were not commensurate to the social insurance contributions actually paid by each worker;
- had become a sort of "jungle", a fountainhead of privileges and discriminations (suffice it to mention the category of workers allowed to retire at a very young age and ready to re-enter the labour market in competition with the young unemployed, but at lower cost).

The change to the new contributory pensions scheme is only the first step in the process of general reorganization of the entire social security system, which will gradually lead to the stabilization of the ratio between social security expenditure and GNP, thus re-establishing the pact between the generations.

Contributions paid by the active workforce will go towards paying the pensions of retired workers, but for the purpose of calculating one's pension **the contributory system will work like a sort of bank account.** Each worker, with the help of his/her employer, will be required to make a monthly deposit.

The capital thus accumulated will produce an "interest" linked to the rate of inflation and to the GNP trend over the previous five years. So, the more the country grows, economically speaking, the more the workers' "interest" and, consequently, their entire capital will increase.

At the end of a worker's career, the "deposits" and the accrued interest (constituting the total amount of the contributions) will be multiplied by a "transformation factor", establishing a relationship between the benefit and the worker's age, thus rewarding those closest to the official pensionable age (65 years).

The result of this operation **is** the annual gross pension which, for the first time, is indeed commensurate to actual "life expectancy", since the worker who retires at a younger age will receive a higher number of smaller instalments, while older workers will, presumably, receive a lower number of larger instalments. When all is said and done, however, everybody will get back everything they have paid in the way of social insurance contributions, plus the accrued interest.

Advantageous provision has been made for workers employed in "high-risk jobs" (the pensionable age has been lowered to 56 years), for workers who started working at a very early age and for workers who are responsible for small children or elderly relatives. Another case in which the pensionable age may be lowered to 56 years is maternity. Female workers may choose between a higher transformation factor or early retirement, in the measure of four months less work for each child, up to a maximum of 12 months.

How the pensions are calculated

Every year the following amount is put aside:

- 33% of the taxable wage, in the case of employed earners;
- 20% of earnings, in the case of self-employed earners (artisans, farmers, shop-keepers);
- 10% of earnings, from all other activities heretofore not covered by any form of compulsory social insurance scheme.

The resulting amount is added up through the years and re-evaluated, on the basis of the mean variation in the GNP over the previous five years.

On the worker's retirement, the re-evaluated total contributions (capital plus interest) are multiplied by the transformation factor to produce the annual gross pension to which the worker is entitled.

Retirement age	Transformation factor
57- 61 yrs 62 yrs 63 - 65 yrs	4.720 - 5.334% 5.514% 5.706 - 6.136%
x	
Individual total contributions	
=	
Average gross pension [19]	

The new system encourages the setting up **of "supplementary pension schemes"**, which constitute the so-called **"second pillar"** of the reform. Each worker may invest his/her end-of-service allowance and contributions in order **to obtain an additional benefit**. Joining a pension fund, on a **voluntary basis,** will make the end-of-service allowance yield a lot more than was previously the case, with interest rates comparable to those practised on the financial markets.

Pension funds will be set up on the basis of agreements between worker's representatives and employers. Self-employed earners may also set up pension funds by agreements amongst themselves, sponsored by the professional associations.

If no funds are established in the above-mentioned manner, the workers may join other pension funds open to all, such as those set up by banks, insurance companies, financial brokerage companies and investment fund management companies.

One must also consider the fact that sums contributed to the pension fund, taken either from the employed earner's wage or from the self-employed earner's earnings, are also **tax deductible**.

The development of pension funds will be useful also for the **development of incomes and employment.** Healthier and more widespread funds, in fact, will mean a greater availability of long-term resources for financing the companies' investment projects and more orderly public finances, thanks to the consequent reduction of interest rates on the national debt.

Table 1:
The financing of pension funds and tax contribution schemes

	Contribution scheme	Tax scheme
Employers' contribution	Employers will not pay usual contributions but only a 10% solidarity contribution	Deductible from income in the amount of 2% of the wage, with a ceiling of 2,500,000 conditional upon the use of an equivalent portion of the end-of-service allowance for financing the pension fund.
Employees' contribution	Normal social security contributions	Same
End-of-service allowance	No social security contributions required	Employers: Deductibility of the portions of end-of-service allowance used for financing the pension fund. Employees:The portions of the end-of-service allowance used for financing the pension funds are not taxable.

Due to its magnitude, this reform is being implemented gradually. Starting from January 1996, workers who, at that date, had 18 years of credited contributions have had their pensions calculated according to the previous earning-related system. For all those with fewer years of credited contributions, the old system continues to apply for the period before the above-men-

19 Subject to annual revaluation, in subsequent years, in accordance with the inflation rate.

tioned date, while the new contributory system will apply for the future. Lastly, for all those who started working after January 1996, only the new contributory system applies.

Within the next 10 years the Italian social security system, whose rationalization will bring savings of Lit. 100,000 billion, will have found a balance, although it will already now be able to offer the most important of guarantees: the certainty of enjoying the fruits of one's savings for a happy retirement.

Table 2:
From the earnings-related to the contributory pensions scheme

Amount of contributions paid	Applicable system
as at 31.12.1995, less than 18 years	Contributory system, starting from 01.01.1996. Eamingsrelated system for all previous years of work.
as at 31.12.1995, at least 18 years	Eamingsrelated system.
at least 15 years	Possibility of choosing the application of the contributory system to the entire period.
Employees hired after 01.01.1996	Contributory system only.

Qualifying Conditions

The New Contributory System

For workers who have made no payments, under the compulsory social insurance contributions schemes, before 31 December 1995.

The worker must satisfy the following three conditions:
- he/she must attained the age of 57;
- he/she must satisfy the prescribed contribution conditions, namely, at least five years of contribution credits;
- the accrued pension must not be less than 1.2 times the amount of the social security allowance.

The Earnings-Related System

For workers who have paid at least 18 years of compulsory social insurance contributions, as at 31 December 1995.

For these workers, the distinction between old age and seniority pension will continue to apply, in particular:

Old-Age Pension: eligibility for this will continue to be governed by the regulations in force before the enactment of the pension reform law. Pensionable age for an old-age pension:
- 57 years for women and 62 years for men (between 1.7.1995 and 31.12.1996)
- 58 years for women and 63 years for men (between 1.1.1997 and 30.6.1998)
- 59 years for women and 64 years for men (between 1.7.1998 and 31.12.1999)
- 60 years for women and 65 years for men from 1.1.2000

Minimum contribution conditions for entitlement to an old-age pension:
- for workers who, as at 31.12.1992, had at least 15 years of contribution credits, the minimum requirement is 15 years;
- for those workers who, at the same date, had less than 15 years of contribution credits, the minimum requirement will gradually be raised to 20 years according to fixed dates.

Seniority Pension: the pension reform law continues to provide for the possibility of retiring before the official pensionable age (60/65 years). This possibility, in the case of employed earners, will be governed as follows:
- it will be possible to retire at the age of at least 57 years, after having paid contributions for 35 years or more;
- with 40 years of contribution credits the worker may retire whenever he/she desires, regardless of age.

The Mixed System

For workers with less than 18 years of contributions, as at 31 December 1995.

In this case, his/her pension will be calculated partly according to the earnings-related system and partly according to the contributory system.

Entitlement to old-age and seniority pension schemes is based on the old regulations, as amended by the reform law.

Demographic changes and the pension system

Since the end of the 1990s in Italy, the population between the ages of 15 and 64 (working age) has begun to decrease. During the coming years, the number of people over 60 could increase up to 50% while the numbers of young people and adults could decrease respectively by 14% and 6%, taking a clear and heavy toll on both public expenditure for social protection and the labour market. Indeed, long-term projections show a picture in which, on the one hand, the number of citizens over 65 will grow to more than 17 million up to 2020 and, on the other hand, the number of people available on the labour market will fall. In fact, during the next 50 years, the pool of working age people could lose tens of millions of people. Projections used for the forecast include factors such as fertility and mortality trends or immigration hypotheses, where changes account for the high demographic transition currently underway.

This overview points out the "contemporaneity" of a demographic phenomenon whose effects will be felt over a long period and whose proposed solutions will be included in the current debate on social security reform that will complete the reorganization of the new welfare state model.

This problem, which is not only an Italian problem but a European problem as well, will involve a growing lack of "native" work. The direct consequence is very serious because it requires a reduction of growth rate. To face this perspective, in the short term, it is important to encourage demand for work and, in the long term, it is important to stimulate job opportunities.

One of the incentives could be the postponement of retirement for people relatively "old", in other words, the extension of working activity for people over 55 years old. It is also necessary to reform the "social shock absorbers" in order to release the pension scheme from its improper function of providing income support for unemployed persons who are relatively old.

I. Basic principles of the old age insurance system

Provision for old age in Liechtenstein has developed following the Swiss three-pillar system model: combining State provision (1st pillar), industrial welfare systems (2nd pillar) and voluntary personal welfare provision (3rd pillar).

The *1st pillar* (the Liechtenstein old age and survivors' insurance scheme, AHV), has, as a general national insurance scheme, to guarantee a minimum subsistence for the whole population: Basic insurance for all people working in Liechtenstein (employees, the self-employed, civil servants etc.), and all residents of Liechtenstein who are not in employment (housewives or househusbands)[20].

The *2nd pillar* (additional compulsory company provision for employees) supplements the 1st pillar and endeavours to maintain a reasonable standard of living. It was introduced in 1989 as a legal obligation (prior to this there was voluntary provision set up in different companies). Those of the workforce whose annual income exceeds a set minimum level are insured (year 2000: CHF 24,120). For this specific legal obligation only the annual income up to a set highest level is taken into account (year 2000: exempt amount of CHF 12.060). Risk insurance (against death and invalidity) commences at the age of 17. Full insurance (which also covers the financial risk of old age) commences at the age of 24 (it will soon be lowered to 23). The significance of this 2nd pillar is increasing all the time; whereas years ago insured persons had to meet their living expenses from the 1st pillar, the 2nd pillar is now building up a strong component of old age provision. The longer a person is insured with a body in the 2nd pillar, the higher the capital earned (also the benefits are correspondingly higher).

The *3rd pillar* enables additional individual provision to be made on a voluntary basis (we will not go into further details on this here). The contributions to voluntary insurance are deducted from taxable income within certain limits. The benefits which flow from a voluntary self-contained insurance scheme do not count towards taxable income. Therefore premiums saved up and benefits received can at the most affect the taxable assets. Any larger scale demand relating to tax in connection with the individual private welfare provision would be incompatible with Liechtenstein tax law.

II. Financing the old age insurance system

The 1st pillar as described previously (basic insurance) is based on the costs' share process. The 2nd pillar, however, is based on the capital cover process.

Nevertheless the law provides, for the 1st pillar, that the pension fund has to amount to at least 5x the annual expenditure. In effect, the pension fund since 1981 has been more than 10x the annual expenditure. Therefore, in practice, this is, at least in part, a time process. Under the regulations technical accounts are issued at least every 5 years, in order to determine whether any financial measures are necessary.

The financing of the 1st pillar (AHV) is made up as follows by:

- contributions from insured persons (employees, the self-employed, those not in work, employees without an employer who is liable for contributions),
- contributions from the employers,
- a contribution made by the State;
- profit from the fund.

In the 1998 business year the contributions from insured persons and their employers amounted to 54.72% of the total revenue (State contribution 8,91%; capital profits 36.37%; the ratio depends each year on the proportion of capital profits to the total revenue).

The calculation of the State contribution in fixed percentages of one year's expenditure has a positive effect on the 1st column's financial balance: in this way it is guaranteed that increasing revenue is assured at the same time as increasing expenditure. In 1995 the State contribution was

[20] This contribution is concerned primarily with this first pillar (old age and survivors insurance scheme, AHV). Only in exceptional cases does it come within the scope of pillars 2 and 3.

reduced from 20% of the annual expenditure to 18% annual expenditure 9however this is in connection with benefit alterations).

The financing of the AHV by profit from assets is a significant source of income in view of the large fund. Thus, for example, in 1997 just about 96% of the 1st pillar's expenditure could be financed from capital profits (however, 1997 was an extraordinarily good year for investment; in 1998 nearly 74% of the expenditure could be covered by capital profits; 1999 is again emerging as a good year for investment).

One can therefore expect that the 1st pillar's fund will also continue to grow, because income is exceeding expenditure (the ratio of the fund to the annual expenditure will hardly get any higher). On the whole however it is only a question of time (unless no corrective measures are taken), until expenditure is higher than revenue and the fund reaches its highest point and begins to fall. The prognosis to be taken from the latest actuarial estimates (1999) is – assuming the economic and other parameters used in this – that the 1st pillar's fund will begin to fall from the year 2014, it will drop below 5x the annual expenditure by 2017 and will still cover 3x the annual expenditure in 2020.

There have been no significant changes on the contribution side in recent years. The percentage contribution rate of the gross pay (born by insured persons and their employers in equal measure) has been constant at 7.6% since 1973 (each meeting 3.8%). In comparison with many other systems in Europe people not in work are also included in the 1st pillar with regard to contribution regulations, in particular all non-working spouses of working insured persons without exception also have to pay contributions (however they only have to pay the minimum contribution). Until 1996, for example, the non-working spouses of working insured persons were exempt from contributions, however they have been liable for contributions, without exception, since 1997. This however is less an additional source of finance for the AHV than in principle rather an enforcement of the insurance principle (whoever has entitlement to a pension should also be obliged to pay contributions). This ensures that all insured persons are participating in the financing of the system, which also brings with it a significant identification with the social mechanism.

AHV (1st pillar) Revenue and expenditure situation in recent years (in CHF mill)

Year	Expenditure	Revenue				Capital		
		Contributions	State contribution	Return on Capital	Total	Annual alteration	Status at end of year	Relationship Annual Expenditure
1990	54.09	83.02	10.79	11.82	105.64	51.55	697.64	12.898
1991	59.70	88.48	11.88	45.11	145.46	85.77	783.41	13.122
1992	66.51	92.30	13.28	53.26	158.83	92.32	875.73	13.167
1993	72.80	95.86	14.56	50.25	160.67	87.87	963.60	13.236
1994	75.75	98.95	15.23	42.59	156.77	81.02	1,044.63	13.791
1995	80.52	107.15	13.44	49.02	169.61	89.11	1,133.74	14.080
1996	83.55	106.35	15.12	64.34	185.81	102.26	1,236.00	14.790
1997	99.50	111.55	17.96	95.43	224.94	125.44	1,361.44	13.683
1998	107.56	119.42	19.44	79.36	218.22	110.66	1,472.10	13.686

III. Conditions for pension entitlements

Entitlement to an old age pension from the AHV (1st pillar) exists, if a person has paid more than 11 months of contributions (the minimum insurance period is therefore one year, irrespective of residence or nationality). If there is a full contribution record between the age of 20 and receipt of the pension, there is entitlement to a so-called full pension; if there are gaps in the contribution record, there is entitlement to a part pension. These entitlement conditions have only changed in one respect in recent years: the minimum contribution record for 'non-contract foreigners without residence in Liechtenstein' of 5 years was abolished in 1996 (thus giving foreigners comprehensive equal treatment).

The so-called normal pension age has been changed several times in Liechtenstein (the lowering of the pension age for men in 1997, without loss of benefit, in pillar 1, is financially significant). As a result of the introduction, in 1954, of the old age and survivors' insurance scheme, the pension age for men and women was set at the same age of 65. Married women were included in the man's married couple's old age pension from the age of 60. In 1973 the pension age for single women was reduced to 62 (the man's pension age remained at 65; also the age limit for married women's inclusion in the man's married couple's old age pension remained at 60). In 1980 married and single women were placed on the same basis with regard to the age limit, whereby this age limit for married women was raised to 62. In order to implement equal rights for men and women the standard pension age of 64 was introduced in 1997 (irrespective of sex and civil status).

The standard pension age was introduced in stages.

	Years of birth	Usual pension age
Women	1935 to 1940	62
	1941to 1945	63
	1946 and later	64
Men	1935 and earlier	65
	1936 and later	64

At first the 1st pillar (AHV) did not have a flexible pension age. The *pension postponement* (by at least 1 year and by 5 years at the most) was introduced in 1969. A pension postponement leads to an actuarial increase in the pension. Today the increase lies between 5.2% (if it is postponed by 1 year) and 31.5% (if it is postponed by 5 years). *The early pension receipt* was first introduced in 1997 (the pension can be taken up to a maximum of 2 years early, and the actuarial reduction rate is 6.8% if the pension is taken 1 year early, and it is 13.65 if the pension is taken 2 years early – for the entire period of receipt). For women born in 1951 and earlier it is intended that only one half of the reduction rate be used in connection with the raising of the women's pension age, if the year of early receipt of after the age of 62.

No alterations are planned with regard to the usual pension age. However, the government has suggested, that it should now be possible to receive the early pension from the age of 60, and to postpone the pension receipt until the age of 70. This would result in the time scale for receiving a pension being between the ages of 60 and 70. It is intended to make the early payment of the pension more attractive by further changes (massive reduction in the reduction rates; the possibility of getting a half pension early; the possibility of monthly accessibility of the early pension etc.). It is intended that the expected increased expenditure arising from the improvement in the early pension receipt by balanced by higher contributions from insured persons and their employers and by higher State contributions. These recommendations from the government are currently (December 1999) with the interested parties, for comment, and will probably be put forward to parliament in the first half of 2000, taking these comments into consideration.

More than 10% of the pensions due since 1997 have been early pensions (208 cases, as at November 1999); there are only 8 people who have postponed their pension. The actual age of resignation is however below the usual pension age.

The tendency is to prefer the longer period of early receipt of 2 years. It is men, in the majority, who choose to receive the pension early (whereby an increase in the portion of women is to be expected). It is interesting to note that it is rather people with residence abroad (64%) who opt for the early pension receipt, rather than people with a national residence (36%). Doubtless the proportion of early pension cases will increase in the coming years. The following retirement probabilities have been assumed for the actuarial assessment of the above described government bill relating to the improvement in early pension receipt:

Age	People who could call on their pension	Early retirement	Retirement probability	% of people who receive pension at age
64	15.01%	0	100%	Age 64: 15.01%
63	27.30%	1	45%	Age 63: 12.29%
62	45.50%	2	40%	Age 62: 18.20%
61	70.00%	3	35%	Age 61: 24.50%
60	100.00%	4	30%	Age 60: 30.00%

Explanation: it has been assumed that 30% of insured person will receive the pension 4 years early. It has also been assumed that of the remaining 70% 35% will receive the pension 3 years in advance. There therefore remains a component of 45.50% who could have access to an early pension. This is continuing; lastly, there is a 15.01% element staying at the age of 64 (it is assumed that the remaining element opts for the usual pension age of 64 and does not make use of the opportunity to postpone the pension).

There are, of course, other aspects to be taken into consideration (unemployment, invalidity etc.). As, however the actual retirement age for insured persons in the Liechtenstein AHV is also affected by the fact that a large proportion of insured persons of pensionable age are no longer living and working in Liechtenstein (these insured persons have already returned to their own countries before pensionable age, so that their likelihood of retiring will be geared towards the conditions there), there are no statistics relating to the actual pensionable age.

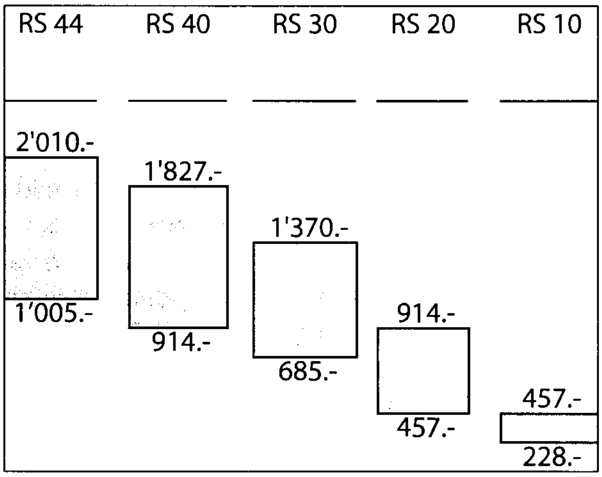
IV. Benefits from the old age insurance system:

The pension calculation depends upon
a. the length of the contribution record and
b. the relevant average annual income.

The contribution record determines the applicable pension scale (RS 1 to RS 44). The contribution record, therefore, determines whether a full pension or a part pension will paid. If there is a full contribution record there is entitlement to a full pension (pension scale 44); where the contribution record is incomplete, there is entitlement to a part pension (pension scale 1 to pension scale 43).

The pension rate within the pension scale applicable varies between the highest rate for that pension scale and the minimum rate for that pension scale, and indeed depends on the amount of the relevant average annual income.

The following is a table illustration:



The pensions are adjusted in accordance with a legal order usually every 2 years by the adjustment of the pension index (arithmetic device for the salary index and the regional consumer price index).

In determining the relevant average annual income not only the income from the year prior to getting the pension is relevant, but rather the entire insurance career. Until the end of 1996, only income on which actual contributions were paid was taken into account.

A comprehensive revision in the benefits area of the AHV came into force from 1st January 1997 (equal rights for men and women). In particular this was the first time a personal pension entitlement was introduced for the wife. The so-called 'splitting' element was important (share of pension expectations between wife and husband); the income (on which contributions were paid and thereby building a pension) for the period of the marriage is divided in half between the spouses for the pension calculation.

The following table shows the principle of splitting:

Spouse 1		**Spouse 2**
100%	Income prior to marriage	100%
50%	**Income during the marriage →→50%→→→→ ←←←←50%←←**	**50%**
100%	Income after divorce (or: after the first spouse is entitled to a pension).	100%

In addition to this, since 1997 fictitious salary has been taken into account, in addition to the income actually earned (on which contributions were paid) and the contributions which were paid as a non-working person (*child-rearing credits* for people who have had parental control over children under the age of 16; *care credits* for people who have taken over the care of persons in need of care and assistance, from 1997). Child-rearing credits and care credits are taken into consideration in the pension calculation as earned income. Example: for a person whose child was born in January 1998, CHF 47,760 is taken into consideration for the pension calculation as fictitious income, and for 1999 this is CHF 48,240, as if that person received this salary, and as if they had paid contributions on that salary). The 1st pillar of the Liechtenstein old age provision is greatly characterized by the solidarity principle. If the insurance record is complete, the highest pension is simply double that of the minimum pension (CHF 2,010 in comparison to CHF 1,005 per month, paid 13 times a year). If, for example, a single person has only paid the minimum amount per year, which is currently CHF 228, during the entire length of their insurance life, then this will earn a pension entitlement of CHF 13,065 per year. In addition to this, there is no upper contribution calculation limit. If a person earns CHF 1,000,000 per year from self-employment, then they pay CHF 76,000 for that year, in contributions to the AHV. Nevertheless, in spite of these high contribution payments, the resulting maximum pension is CHF 26,130 per year. These contributions, which are no longer pension-building contributions (so-called solidarity contributions), form a decisive element in the 1st pillar of the Liechtenstein old age provision system.

A pensioner's family situation is also taken into consideration in the pension rates. Child pensions are paid for children under the age of 18 (of for children in education, until the end of the education, at the latest, however, until the age of 25) – at the rate of 40% of the basic pension, per child. In addition to this, child-rearing credits are also taken into consideration in the pension calculation. The solidarity idea is decisive here as well. Furthermore, the so-called splitting system (see above) can also be considered to be an aspect of taking the family situation into account.

V. Demographic Change and Pension System.

There are no prognoses on future development. Population developments in Liechtenstein will also continue to be greatly influenced by political and economic trends; with migration playing the decisive role. However, it is of course evident that we can expect a percentage increase in the elderly population. Furthermore, it should be noted that prognoses, which concern themselves only with developments in the resident Liechtenstein population, only have a somewhat limited significance for the Liechtenstein AHV. The Liechtenstein AHV has an unusually high proportion of insured persons who have come from abroad to work in Liechtenstein and who have left Liechtenstein again before reaching pensionable age; these people naturally have pension expectations (so-called dormant accounts), which should always be taken into account in prognoses relating to future development.

Resident Population according to age in Liechtenstein.

Year	Total	Total of people over 65	% proportion of people over 65
1930	9,948	598	6,01 %
1941	11,094	848	7,64 %
1950	13,757	1,087	7,90 %
1960	16,628	1,322	7,95 %
1970	21,350	1,681	7,87 %
1980	25,215	2,262	8,97 %
1985	27,076	2,516	9,29 %
1990	29,032	2,891	9,96 %
1995	30,923	3,188	10,31 %
1996	31,143	3,223	10,35 %
1997	31,320	3,210	10,25 %
1998	32,015	3,303	10,32 %

Even today, the Liechtenstein AHV is on the whole still an insurance scheme 'burdensome on the young'. During the course of the progressive economic developments in Liechtenstein since 1950, many foreign workers have been recruited, because of the small size of the country (in 1950 the proportion of persons employed in Liechtenstein with foreign nationality was 31.42%; in 1998 60.8% of jobs were performed by foreign nationals). The number of people paying contributions has continued to increase (thus more crucial than that to be expected based on birth statistics).

We can still expect the number of jobs to increase slightly, however the jobs will not increase to the extent as would be expected given the number of pensioners. The 'saturation point', at which no further recruitment of new workers will occur, does not however appear to have been reached yet.

The number of pensioners will most likely increase greatly in the coming years. As at 31.12.1998 the AHV paid old age pensions out to 7,1999 people (an increase of 4.91% on the previous year). Current actuarial assessments (1999) assume a growth in the number of pensioners of 4.5%. This is in contrast to an estimated growth in the number of people liable to pay contributions of 0.5%.

The following is an overview, in the form of a table, of the employment quota (as at 31.12.1998):

Resident population 32,015	Working inhabitants 15,855	Employment 23,795
Those not in work 16,160		Inward-commuter 8,928
Those in gainful employment 15,855	Outward-commuter 988	Foreigners resident in LIE 5,543
	Employed in LIE 14,867	Liechtenst. Resident in LIE 9,324

The old age quotient *(pensioner ratio*: number of people in receipt of a pension in relation to the people liable to pay contributions) is still relatively favourable in Liechtenstein. It should be noted that persons not in work are also liable to contribute to the AHV (and are entitled to a pension), whereby their contributions are of less consequence (as may well be their pension expectations). Therefore, only the number of those in employment should be taken into account for the determination of the old age quotient.

	In gainful employment	**Pensioners**	**Ratio**
1981	15,286	3,333	4.6 : 1
1990	19,905	5,033	4.0 : 1
1998	23,795	7,199	3.3 : 1

It is therefore to be expected that this ratio will continue to get worse. Using the aforementioned estimated growth in pensioners of 4.5% and the estimated growth in people liable to pay contributions of 0.5%, the 12,209 pension beneficiaries in 2010 (old age pension) will be in contrast to a total of 25,047 persons in employment and liable to pay contributions (ratio 2.05:1). Such conclusions are, however, to be used with great care: on the one hand the developments in Liechtenstein are very difficult to estimate, and on the other it is to be expected that, as a result of the current plans to improve the opportunities to get an early pension, the average age at which a pension is received will drop further and the ratio of those in employment to those in receipt of a pension will be rather negatively affected.

The changes in the system of provision for old age which have been undertaken since 1954 have not been directly concerned with these developments. However, it should be noted, that the aforementioned so-called 2nd pillar was introduced as a compulsory measure in 1989. As a result of the increasing significance of the 2nd pillar a continuous build up in benefits in the old age provision system will to a certain extent be achieved (the longer this 2nd pillar exists, the higher the expectations will be from this 2nd pillar), which will not be at the expense of the 1st pillar, so that the burden on the 1st pillar may even be relieved. The systems in the 2nd pillar are based on capital resourcing procedures and are therefore significantly less greatly exposed to the effects of demographic developments. In contrast, the aforementioned 1st pillar (AHV) is financed by the costs'share process. In recent times the question was raised as to whether it would not be advisable to change the 1st pillar to a capital resourcing system, in order to give this important social mechanism some conclusive protection. Corresponding investigations and assessments are currently being undertaken, but could not be taken into consideration in this report.

Furthermore, in the development of its social security systems Liechtenstein is being geared towards successful foreign models (traditionally this has always been the Swiss model). It is certain that in future developments abroad will also have an influence on the formulation of the old age insurance system in Liechtenstein.

In the Grand Duchy of Luxembourg, coverage of the risks associated with old age are essentially based on state schemes, in particular the general mandatory pension insurance regime for all salaried and independent workers with the collection of contributions from professional income, and special regimes for civil servants and similar persons.

Legislation has been introduced to ensure coverage in the case of interruptions to work providing for various measures such as retroactive purchase, optional insurance and reimbursement of contributions, paid for by the state to parents who abandon or reduce their professional activity after the birth of a child.

The law of 8 June 1999 provides the legislative framework for the supplementary retirement schemes organised by enterprises. This law governs rights in the event of a transfer or the insolvency of the enterprise. Moreover, it guarantees equality of treatment for women and men, as well as in cases where individuals work in one or more European Union countries. Whilst leaving companies free to decide whether or not to introduce a supplementary pension scheme, the law defines the rules to which every scheme must comply, in particular concerning coverage of commitments and similar rights.

Individual pension schemes do not fall within the remit of social security protection.

I. Basic principles of the old-age insurance system

General pension insurance scheme

Within the general pension insurance scheme, insurance is mandatory in the case of old age, invalidity and survival, for all persons who exercise a salaried or independent professional activity for remuneration or who can justify periods similar to such periods of professional activity.

Also counted as effective periods for mandatory insurance are:

- periods for which replacement income was paid from which contributions were deducted for pension insurance (cash allowance for illness, cash allowance for maternity, cash allowance for accident, unemployment benefits, early retirement benefits);
- periods of practical apprenticeship that correspond to occupational training allowances, after the age of 15 years;
- periods completed by the spouse and, for agricultural activities, by the parents and direct or collateral relatives to the third degree, at least 18 years old, who provide the independent worker with necessary services where such services can be considered as the main activity;
- on request, a period of 24 months on the part of one or both parents devoted to child education provided that the person concerned was covered by mandatory insurance during 12 months during the 36 months preceding the birth or adoption of the child. This period may be extended to 48 months if, at the time of the birth or adoption of the child, the person concerned is raising in his home at least two other children or if the child has an infirmity. The period of 24 or 48 months may be divided between the parents;
- periods completed in a developing country as a development aid worker;
- periods corresponding to periods of activity exercised by members of religious associations and similar persons, in the interest of sick persons and in the general interest;
- periods of war;
- periods of mandatory military service completed in the Luxembourg army;
- periods during which the person concerned participated in a peacekeeping operation under the auspices of international organisations.

In addition to these covered periods there are:

- periods of voluntary service in the Luxembourg army (in 1997);
- periods during which an insured person provided aid and care to a dependent person (in 1998);
- periods during which a person took care of a child by day and by night or only by day (in 1998);
- periods during which the person concerned participated in a voluntary activity (in 1999);
- periods of parental leave from which the insured person benefited (in 1999).

There is also the possibility of taking out a voluntary pension insurance. Under certain circumstances, retroactive purchase of periods or the reimbursement of contributions already paid is also possible.

Supplementary pension schemes

In Luxembourg supplementary regimes have developed mainly in foreign or very large industrial and commercial companies, as well as in the banking sector. The law of 8 June 1999 initially provided a legal framework for the existing regime in order to guarantee the rights of salaried workers, then it put on an equal tax footing the different regimes for supplementary pensions, namely internal financing by a provision on the balance sheet of the enterprise and external financing in the form of a pension fund or group insurance. In addition, the above-mentioned law transposed into national law the various Community directives.

The law applies to all supplementary pension schemes set up after its entry into force, as well as to existing regimes that give rise to the payment of a lump sum or annuities after its entry into force. In addition, the law only applies to supplementary pension schemes set up by an enterprise for all of its salaried employees or for certain categories of them, excluding individual promises.

Private insurance

In order to encourage the development of individual pension schemes, the premiums paid towards individual pension insurance are tax deductible up to a fixed ceiling that depends on the size of the household (1.200 euro for a single person).

II. Financing of the old-age insurance system

The general pension insurance regime in Luxembourg is financed by means of a system of distribution of costs per period of coverage of seven years with the establishment of a compensation reserve equal to at least 1.5 times the annual amount of the benefits. Since the major reform in 1984 when the state committed to paying one-third of contributions to the pension insurance instead of standing as guarantor for the legal reserves, there seems to be no immediate need to introduce change. The ILO is currently conducting an in-depth review of the system at the request of the Luxembourg government. The results of this study will be used as a basis for any future changes.

The main source of revenue is contributions deducted from the occupational income of insured persons borne in equal parts by employers, employees and the state (independent workers pay both the employer's and employee's contribution). The global level of contributions is currently 24%. In addition, the state pays for a number of contributions such as the contributions due under the "baby-year" as well as contributions payable by insured persons in the agricultural sector. The portion of contributions in current receipts is more than 90%, the rest being made up by other state contributions and windfall revenue. There have been no major noteworthy changes.

III. Conditions for granting a pension

When calculating pensions two categories of periods are taken into account:

First category: periods of insurance covered by contributions. These are periods when contributions have been paid; these periods are described above under basic principles and count towards opening a pension (waiting period), and for calculating the pension (proportional increases and fixed sum increases).

Second category: other periods. These are periods for which contributions were not paid and are taken into consideration only for the purposes of completing the waiting period required for an early retirement pension (as from the age of 60) and for the minimum pension, as well as for the purposes of acquiring fixed-sum increases in pensions. These periods are as follows:

a) periods during which an invalidity pension was paid;

b) periods of study or occupational training not compensated as an apprenticeship, provided that such periods took place between the age of 18 and 27;
Periods are taken into consideration where the person concerned:

- effectively followed a course of general or occupation education, in Luxembourg or abroad, in a public or private establishment for secondary, higher or uni versity education;
- followed adult courses of secondary or technical education during the evenings;
- carried out a training placement covered by a programme of studies and necessary for obtaining a diploma on conclusion of these studies.

Studies cover:
- periods of annual holidays including those following the school year;
- interruptions to studies for health reasons;
- at the end of studies, the period between the end of the school year and the subsequent 31 October.

c) the period of shortfall when a young unemployed person did not yet have the right to draw unemployment benefit;
d) periods during which one of the parents brought up one or more children at least six years of age in Luxembourg.

When taking such periods into account, it is assumed that the mother raised the child. The father of the child may provide proof to the contrary:
- if he was entrusted with care of the child;
- if the mother exercised a professional occupation whilst the father did not exercise such an occupation;
- if the father lived alone with the child;
- if the two spouses simultaneously exercised a professional activity. In this case it is presumed that the child was raised by the parent earning the lower professional in come, and secondarily, by the younger spouse. Proof may only be provided up until the expiration of the risk insured on the part of one of the spouses.
These periods may not be less than eight years for the birth of two children, nor less than 10 years for the birth of three children. The above-mentioned age is increased to 18 years if the child is affected by a physical or mental infirmity, unless the education and care of the child have been entrusted to a specialised institution. The Ministry of Social Security may dispense with the condition that the child should be raised in Luxembourg;

e) periods of insurance corresponding to an independent professional activity with a dispensation from contributions before 1 January 1993;

f) up to 15 years, periods of professional activity in Luxembourg before the creation of the former contributory pension schemes or with a dispensation from mandatory insurance by virtue of the legal provisions applicable to these regimes provided that such periods do not give rise to other benefits;

g) periods from 1 January 1990 to 31 December 1998 during which a person provided care to the beneficiary of a care allowance, a special allowance for seriously handicapped persons, an increase in an accident allowance or a supplement to the minimum guaranteed income;

h) periods of professional activity subject to insurance under the legislation of the country of origin for persons who benefited from being a political refugee before acquiring Luxembourg nationality, provided that they are excluded from benefits under any international or foreign regime.

Conditions for obtaining the right to a pension

Entitlement to an old-age pension from the age of 65 years is granted to any insured person who can prove at least 120 months of insurance under a mandatory, optional or continued insurance scheme or retroactive purchase.

Entitlement to an old-age pension from the age of 60 years is granted to any insured person who can prove at least 480 months of insurance in one of the two categories, including at least 120 months of mandatory insurance.

Entitlement to an old-age pension from the age of 57 years is granted to any insured person who can prove at least 480 months of mandatory pension insurance.

The beneficiary of an early retirement pension may only exercise an insignificant or occasional salaried activity, in other words a continuous or temporary activity bringing in revenue that, spread over the calendar year, does not exceed per month one-third of the minimum social salary. If the insured person exercised a non-salaried activity other than one dispensed from insurance before the age of 65 years, an early retirement pension is refused or withdrawn.

However, the law allows the cumulation of a half pension with a salary. If the income gained from the salaried activity exceeds the previously mentioned ceiling of one-third of the minimum social salary, the pension is automatically reduced by half. Where appropriate, common law provisions that govern the cumulation of an invalidity pension with salaries apply to the remainder of the pension.

The start date of the old-age pension can be postponed to the age of 68 years provided that at the age of 65 years the insured person fulfilled the waiting-period condition for granting a normal old-age pension. In the case of a postponed pension, the amount of the pension is increased by an actuarial coefficient in line with the age of the beneficiary at the time of the start of the pension.

IV. Benefits of the old-age insurance system

Calculation of an old-age pension depends on both the number of years of insurance and the sum of all salaries received over the professional career. The number of years is used to determine the fixed sum part (10,086 LUF per month for a career of 40 years), reduced proportionally in line with the duration of the career.

In recent years there have been no fundamental changes either to the elements that constitute the pension or to the methods used to calculate pensions, or in the way that they are indexed. However, automatic indexing to the cost of living and the regular adjustment to trends in salaries have had their effects.

Pensions are contributory in nature. A minimum of ten periods covered by contributions is required for any sort of pension.

The family situation of the beneficiary of the pension is not taken into consideration when calculating the amount of the pension.

Basis for calculation

The annual old-age pension is comprised of the following pension components:

- Proportional increases equivalent to 1.78% of the sum of contributory salaries, wages or income taken into account. To obtain the sum of the salaries, wages or income, these are reduced to the cost of living index 100 on the basis of the average weighted monthly cost of living indices; these are then adjusted to the cost of living for the base year (1984). For this purpose, they are multiplied by the adjustment coefficients that express the ratio between the average gross salaries for the base year and that of the year of contribution.
- Fixed sum increases corresponding to 22% of the reference amount after a period of insurance of 40 years for mandatory, voluntary or purchased periods or additional reduced periods. Fixed sum increases are acquired by fortieths for each year completed or commenced, but the number of years taken into account may not exceed 40.

The reference amount is a parameter used to determine certain thresholds in relation to the calculation of pensions. It is fixed at the number 100 of the weighted cost of living index on 1 January 1948 and for the base year 1984 at 80,250 francs a year.

No annual old-age pension may be less than 90% of the reference amount when the insured person has completed at least one stage of 40 years under the mandatory insurance periods or other periods. This represents a monthly amount of 41,261 LUF (1,023 euro). If the insured person has not completed the above-mentioned stage but can prove 20 years of insurance for the same periods, the minimum pension is reduced by 1/40 for each missing year.

No pension may exceed 5/6 of the quintuple of the reference amount.

Indexing of pensions

Pensions calculated using the cost of living index 100 using 1984 as the base year benefit from adjustment in line with the trend in real salaries and adaptation to the cost of living index.

Adaptation to salary levels (adjustment): pensions calculated for the base year 1984 using the weighted cost of living index 100 are adjusted by an adjustment factor set at 1.219. Apart from the special adaptation of pensions in 1991, the average level has risen 21.9% since 1984 for this reason. This factor must be revised each year under a special law, and it applies both to pensions that have reached maturity and to those that are still not due. Every two years the government reviews whether or not it is necessary to revise the adjustment factor through legislation taking into account the resources available and changes in the average levels of salaries and wages.

The adjustment factor is determined on the basis of salary levels before the last year preceding the revision of the adjustment factor and the level of salaries and wages for the base year. The salaries and wages of the entire employed population are taken into account.

Adaptation to the cost of living (indexation): pensions calculated on the cost of living index 100 and adjusted by the adjustment factor are automatically adapted to the cost of living. A rise of 2.5% in pensions is triggered for the month following that in which the indicator selected for measuring the cost of living rises by 2.5%.

The indexation currently applicable is 562.38. The last change in indexation occurred in August 1999.

V. Demographic change and the pension system

The problems of demographic ageing have not had the same effect on Luxembourg as on other countries given that the very open system is financed essentially by the working population, which does not depend only on the resident population but includes more than one third of cross-border workers whose number grows in line with the performance of the Luxembourg economy. The effects of demographic change are for the moment largely offset by unexpected economic performance (salaried employment +5.3% in 1999), which attracts new young cross-border workers. The problems currently confronting other countries will also affect Luxembourg but only in the medium term. For this reason, no reform will take place until after the discussions that will occur in the light of the results of the ILO study that will be available at the end of next year.

At present, the Netherlands old age pension system is a three pillar system. The first pillar is the AOW: a basic pension under a statutory national insurance scheme, providing an equal pension for all residents at a net minimum wage level. The second pillar is formed by the occupational non-statutory pension schemes supplementary to the AOW. Occupational pension schemes are part of (collective) labour agreements. The third pillar consists of the private provisions that are neither statutory, nor part of (collective) labour agreements. A short description of these three pillars will follow hereafter.

First pillar (AOW)

Entitlement & transitional arrangement

The AOW is the only statutory pension scheme of the Netherlands. In principle, all residents of the Netherlands between the age of 15 and 65 are insured for the AOW. There is no distinction between men and women, between civil servants, employees, self employed persons, agrarians or housewives. During the above mentioned period of insurance, entitlement is being built up by steps of 2% for every insured year. This leads to a 100% entitlement to the relevant pension benefit upon reaching the age of 65, provided there are no gaps in the period of insurance. For every year a person was not insured, for instance due to residence and work outside the Netherlands, entitlement to the pension benefit is reduced by 2%.

When this system was introduced, one problem had to be solved: only persons who reached the age of 15 after 1 January 1957 would be able to accrue a full pension. The intention of the AOW, however, was to entitle all people aged 65 or older to a full AOW old age pension right from the start. For this purpose, a transitional arrangement was needed. Even today, this arrangement is still of great importance to pensioners. It will not be until 2007 (50 years after the introduction of the AOW) that AOW pensions can be awarded which are not partly based on the transitional arrangement. The transitional arrangement includes the following provisions:

- Claimants who were between 15 and 65 on 1 January 1957 are considered to have been insured for the period between their 15th birthday and 1 January 1957 if they have lived in the Netherlands for a total of 6 years after their 59th birthday.
- Claimants who already reached the age of 65 before 1 January 1957 are entitled to a full AOW old age pension if they have lived in the Netherlands for a total of 6 years after their 59th birthday.

Only Dutch nationals living in the Netherlands are covered by this transitional arrangement. In this respect, however, nationals of countries with which a treaty on social insurance is effective are considered equal to Dutch nationals.

Around 10% of all current beneficiaries receive a reduced pension because they do not meet, or fully meet, the conditions of the transitional arrangement.The transitional arrangement applies to Dutch nationals only (or people with equal status) living in the Netherlands. However, the accrual of pension rights is not limited to Dutch nationals but is open to all residents of the Netherlands, regardless of their nationality, and to those who live outside the Netherlands but are liable to Dutch taxation on the basis of employment in the Netherlands.

Benefits

The AOW provides a benefit from the age of 65. There are no plans to change this age limit. Early retirement or deferment of the benefit is not possible. The AOW benefit is flat rate, based on the net statutory minimum wage. The amount of the benefit does not depend on any former income or on contributions paid in the past. Housewives who have never paid contributions are also entitled to an AOW old age pension when they turn 65. Only the composition of the household is normative for the level of the benefit. These levels are as follows:

- 50% of the net minimum wage for a married person or a person living together with a partner (NLG 1,198 (544 euro) per month on 1 January 2000). This means that a couple older than 65 receive a benefit equal to 100% of the net minimum wage, i.e. double the aforementioned amounts.
- 70% of the net minimum wage for a single person. (NLG 1,728 (784 euro) per month on 1 January 2000)

- 90% of the net minimum wage for a single parent with an unmarried child under 18. (NLG 2,154 (977 euro) per month on 1 January 2000)

The above amounts are excluding a holiday allowance of 8% of the yearly benefit, to be paid in the month of May.

Supplementary benefit: In case an AOW beneficiary has a partner younger than 65, he is entitled to a supplementary benefit of 50% of the net minimum wage on top of his regular AOW benefit of 50% of the net minimum wage. However, any work-related income of the younger partner is to be deducted from the supplementary benefit. As from the year 2015, the AOW will no longer provide supplementary benefits. People reaching the age of 65 after 2014, living with a younger partner without income, are expected to take private measures to cover this 'gap'.

Minimum wage: The statutory minimum wage is related to the average development of collective labour agreement (CAO) wages. AOW benefits are linked to the statutory net minimum wage. Following the development of the statutory minimum wage, AOW benefits are adapted twice per year, on 1 January and on 1 July. However, the Indexing Conditional Suspension Act (WKA) provides the statutory possibility to rule out this adaptation and 'freeze' the AOW benefits for any period of time. This has been the case in the first part of the 1990's, because of unfavourable economic conditions. However, as from 1996 the link between the AOW benefits and the statutory minimum wage has been restored.

Funding

The system of funding led to much debate when the AOW was introduced.

Two systems of funding can be distinguished:
a. Pay-as-you-go
b. Capital funding

Under a pay-as-you-go system, pensions paid in 1998, for example, are financed through contributions collected in 1998. In other words, contributions are not saved up for the future. Roughly all income received in a certain year is paid out in that same year. Under this system, the working population pays for the pensioners.

Under a capital funding system all contributions collected from people under 65 are saved up to be paid to the same people once they reach the age of 65. This way, a collective savings fund is created. Under this system, during their employment career people pay by and large for their own future pensions.

In order to finance the AOW scheme, a pay-as-you-go system was selected. In fact this was the only option available as people over 65 were directly entitled to a pension when the AOW took effect on 1 January 1957. Since no provisions had been made for these pensions there was no alternative but to pay them from contributions levied as from 1 January 1957.

Collection of contributions

AOW pensions are paid from contributions levied on income. Income earners pay a certain percentage of their income in contributions. The contribution from employees as of January 1st 2000 is 17.9% of earnings with a tax exemption of NLG 8,950 (4,061 euro)[21]. The maximum salary up to which contributions must be paid is NLG 48,994 (22,233 euro). On incomes below 3,995 euro per year no contribution or income tax is levied. Depending on the economic situation the contribution percentage may rise up to a statutory limit in the years to come. The statutory limit is 18.25%. Possible future deficiencies as a result of this statutory limit will be balanced with a government grant.

Contributions are collected from a person's salary by the employer and subsequently remitted to the tax authorities. Self employed people receive a tax assessment from the tax authorities and must pay contributions directly to the tax authorities. The tax authorities see to it that the money is transferred to the Social Insurance Bank (SVB), which is responsible for payments to AOW beneficiaries. People who have no income are not required to pay contributions. They do, however, accrue AOW pension rights.

21 1990: 14,30; 1991:14,05; 1992: 14,35; 1993: 14,00; 1994: 14,13; 1995: 14,55; 1996:15,40; 1997: 15,40; 1998 (January): 16,50; 1998 (April): 23,50; 1998 (July): 18,25; 1999: 17,90.

Aging provisions

Both the capital funding system and the pay-as-you-go system have their advantages and disadvantages. A pay-as-you-go system is very sensitive to demographic changes such as aging of the population. A capital funding system is hardly affected by aging of the population but is sensitive to inflation. However, since the AOW benefit is flat rate and not linked to former wages, the disadvantage of the aging of the population does not nearly constitute the problem it does in most other countries[22, 23]. Nevertheless, the approaching aging of the population led to much public debate and studies in the Netherlands as well. The key question was whether the Dutch pension system (the first pillar as well as the second) would still be affordable in the future. The additional question raised (again) by some was whether the AOW scheme should continue to be based on a pay-as-you-go system and whether people receiving an AOW old age pension should also be required to pay towards the increasing costs resulting from the aging of the population. It was finally decided that:

- AOW beneficiaries will not be required to pay AOW contributions;
- An upper limit for the AOW contribution percentage (18.25%) was introduced;
- Deficits in the AOW fund due to insufficient income from contributions will be balanced with a government grant. This government grant will be paid from tax revenues (to which pensioners contribute as well);
- An AOW savings fund has been established. This savings fund is filled from tax revenues. Until 2020 money can only be paid into the fund. With effect from 2020 money can also be withdrawn from the fund to finance AOW expenses.

A variety of other measures were proposed as well but were ultimately rejected for various reasons. The most important precondition in this respect was that labour costs were not allowed to go up. The argument goes as follows: the AOW scheme will remain affordable if sufficient people participate in the labour market and pay contributions. An increase in the cost of labour, for example through a higher premium, is therefore not a desirable option. For higher cost of labour will lead to less participation in the labour market and, consequently, to a narrower financial basis for the AOW scheme.

In the end, the AOW savings fund proved to be the solution which had wide-ranging political and public support.

Second pillar (Occupational pensions)

Basic principles

Occupational pensions are regarded as a form of wages. They are therefore subject to negotiations on labour conditions between the social partners (employers and employees). There is no general statutory obligation for employers to make pension commitments to employees. However, once pension commitments have been made, they must be upheld. The Pension and Savings fund act (PSW) holds essential safeguards to this end. The most essential safeguard is that pension contributions must be placed outside the employer's company. This must be done by concluding an insurance agreement with an insurance company (direct insurance), or establishing a company pension fund, or joining a branch (industry-wide) pension fund. According to the Act instituting compulsory participation in an industry wide pension fund, the Minister of Social Affairs and Employment may declare participation in an industry wide scheme compulsory for all employees of the same branch of industry and self-employed workers of that sector to participate. Such a declaration is initiated by a request from the representatives of both employee and employer organisations (social partners in that sector). Companies with a company pension scheme can be exempted from this compulsory participation. In 1996 92% of the working population is covered by occupational pension insurance.

Occupational pension schemes differ on many details, for instance in the way payment of contribution is shared between employer and employee. In general, two thirds of the contribution

[22] Number of people of 65 years and older as a percentage of total population:
1980:12%, 1985:12%, 1990:13%, 1995:13%, 2000:14%, 2010:15%, 2020:19%, 2030:22%.

[23] Relationship between AOW contribution payers and AOW qualified persons: 1995: 0,25, 2000: 0,25 (this is an estimate).

are paid by the employer and one third is paid by the employee, but there are many variations. The aim of most schemes is an old age pension of 70% of the last-earned salary after 40 years of participation (final pay system), but a number of schemes aim at 70% of the average career salary (career average system). Occupational pension schemes are considered supplementary to the AOW state pension. The AOW benefit is therefore a factor included in the calculations of second pillar pension schemes in order to arrive at the aforementioned 70% aim. This is known as the AOW franchise.

Taxation

Contributions from the employer and employee are tax-deductible. The corporation tax act stipulates that pension institutions may be tax exempted. This may also apply to insurance companies on the condition that their activities are restricted completely or almost completely to pension insurance. Pensions are taxed as normal income.

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

Developments & policy

Early retirement: transition from VUT schemes to flexible pensioning

VUT schemes for early retirement are separate from pension schemes and came into existence in the early 1970's. They were the result of collective negotiations and were introduced as a means of curbing unemployment. They are now in effect in many branch and employer-sponsored plans. VUT schemes are based on a pay-as-you-go system and can be financed through book reserves or separate VUT funds. Conditions may vary from scheme to scheme, but in general all VUT schemes provide in:

- retirement over a number of years (in some schemes less than 5 years, in other schemes more than 5 years) before the normal retirement age[24];
- a gross benefit level of 70 to 85% of the final salary, often up to a stipulated maximum, until the normal retirement age.

Participation in the regular pension plan usually continues as if the person were still employed. Benefit payments will not be allowed or will cease if the retiree is paid full disability benefits, or if the retiree becomes unemployed.

Although implemented as a means of combating unemployment in the early 1970's, the VUT has grown into a quasi retirement scheme with a considerable number of beneficiaries. As a result, expenditures for VUT payments have risen steeply. Escalating cost is creating an increasing pressure on the VUT schemes. Not surprisingly, employers started looking for ways to curb this development.

Flexible pensioning is now looked upon as a more practical and affordable alternative for the outdated VUT schemes. Many companies and branches of industry are already in the process of transition from VUT to flexible pensioning. The main difficulty is the transition of the financing system from pay-as-you-go to capital funding, required for flexible pensioning (on flexible pensioning, other than on early retirement, the articles of the PSW are applicable; the PSW prescribes capital funding). Flexible pensioning leaves employees the option of pensioning either earlier or later than the normal retirement age of 65[25]. Earlier pensioning will result in a life-lasting lower old age pension than one would receive on retirement at the age of 65. On the other hand, retirement at an age older than 65 will yield a life-lasting higher old age pension.

24 The average age to enter this kind of scheme is about 60 years.
25 the regular age to enter this kind of scheme is about 61 years

Pension system Netherlands Key figures 1999				
Population / labour market participation	**mln persons**	**% total population**	**% working population**	
1. actually working (> 12 hours)	6.2	39.2	100	
2. sick	0.4			
3. unemployed/social assistance	0.7			
4. disabled	0.9			
5. early retired	0.1			
6. widows	0.1			
7. pensioners (65+)	2.2	13.9	32.5	
8. adults without income	1.8			
9. children (0 to 17)	3.4			
total population (1 to 9)	15.8	100		
employment	6.6			
labour force	7.0			
inactive population with income (2 to 7)	4.4	27.8	71[*]	
population without income (8 + 9)	5.2			
labour share 55-65 (in % total population 55-65		24.8		
dependency rate 65+ (in % total population 15-64		22.8		
Financial figures [**]	**bln euro**	**% GDP**		
GDP	386	100		
budget deficit (EMU)		0.3		
national debt		62.2		
public expenditure		41.1		
social security expenditure		12.8		
public health expenditure		8.8		
yearly expenditure 1st pillar (AOW)	*18.4*	*4.8*		
yearly expenditure 2nd pillar (funds)	*12.3*	*3.2*		
yearly expenditure 2nd pillar (insurers)	*3.3*	*0.9*		
yearly expenditure 3rd pillar (life insurances)	*5.1*	*1.3*		
pension savings 2nd pillar (funds)	*368*	*95.3*		
pension savings 2nd pillar (insurers)	*93*	*24.1*		
pension savings 3rd pillar	*84*	*21.8*		
Contributions	**bln euro**	**% GDP**	**% wage bill employer**	**% wage bill employee/resident**
public social security (including health)	68.3	17.7	21.4	21.5
1st pillar (AOW)	19.1	4.9		
2nd pillar (occupational pensions)			6.7	2.3
Incomes (per year)	**euro**	**% av. wage**		
gross average wage	30 051	100		
gross minimum wage	13 884	46		
net average wage (single)	18 847	100		
net minimum wage (single)	10 358	55		
net aow (single)	8 500	45		
net average wage (single earner)	20 620	100		
net minimum wage (single earner)	11 750	57		
net aow (couple)	12 006	64		
2nd + 3rd pillar assets (average per capita)	10 000			

(*) Full-time equivalents.
(**) Pension expenditure and pension savings: figures 1998

The right of exchanging surviving relative's rights for a higher or earlier old age pension

Occupational pension schemes usually offer an old age pension as well as a pension for surviving relatives. It was questioned why persons should pay a contribution towards a surviving relative's pension when there will never be surviving relatives who qualify for such a pension, or when surviving relatives have sufficient income arrangements of their own. The Lower Chamber has recently accepted the Bill Proposal concerning the right for participants to choose between a surviving relative's pension or a higher or earlier old age pension.

Third pillar (private provisions)

Annuity insurance and endowment insurance

All persons have the opportunity to enter into a private pension arrangement with an insurer. This can be done by annuity insurance as well as by endowment insurance. Income from both forms of insurance can be used as an old age supplement to the AOW state pension alone or to the combination of the AOW state pension and an occupational pension.

Annuity insurance as an old age provision

Annuity insurance is an agreement giving entitlement, during a person's life, to a fixed, consistent and periodical (possibly indexed) payment, which as a rule cannot be lowered or raised. Profit sharings related to the annuity insurance are also considered part of the entitlement.

Annuity insurance premiums can be deducted from taxable income up to various limits depending on a number of indicated situations. In 1998, the basic deductible premium amount for every taxable person was at least 2,704 euro.

Endowment (lump sum) insurance

Endowment insurance is an agreement aimed at the payment of a lump sum in connection with (in the context of old age provisions) the life of a person.
Under specific conditions, the interest components of payments at life remain, up to certain limits, free from taxation. The principal conditions are:

- yearly premiums must have been paid during an unbroken period of at least 15 years;
- the highest (year) premium may not exceed ten times the lowest (year) premium.

In 1998 the amounts free from taxation were up to 27,273 euro after 15 years of premium payments and up to 92,273 euro after 20 years of premium payments.

I. Basic principles of the old-age insurance system

Ordinary old age pension from the age of 70 years was introduced in 1936. The pension was means tested and paid only to those with poor economy. The means testing was removed in 1957 and the old age pension was paid as an equal amount to all. The National Insurance Scheme from 1967 introduced a basic pension to all pensioners, and a new element in the old age pension system – the supplementary pension, which was paid in addition to the basic pension. The purpose of the supplementary pension was to prevent a marked decline in the standard of living upon retirement.

The Norwegian old age pension system redistributes income from people with high income to people with low or no income at all. Thus the rate of return in the pension system for those with high income is lower than for those with low or medium income. The old age pension system is neutral-gender, by which men and women are equally treated in the system.

Compulsorily insured under the National Insurance Scheme are all persons resident or working in Norway. Compulsorily insured are also certain categories of Norwegian citizens working abroad. This has been a fundamental principle from the beginning of the National Insurance Scheme.

Pension benefits from the National Insurance Scheme are calculated in relation to a basic amount (B.a). In 1999 the average B.a. was NOK 46,423, and the B.a. per 31 January 2000 is NOK 46,950.

II. Financing the old-age system (Figures given here apply for 2000).

The National Insurance Scheme (and the old age pension scheme) is a pay as you go system, and is financed by contributions from employees, self-employed persons and other members, employers' contributions and financial support from the state. The contribution rates and the level of state grants are decided upon by the Parliament.

Contributions from employees and self-employed persons are calculated on the basis of pensionable income. Contributions on pensionable income are not paid on income less than NOK 21,400. The contributions shall not exceed 25% of income exceeding this threshold amount.

The contribution rate of employees is 7.8% of pensionable income (gross wage income). The rate of a self-employed person's contribution is 10.7% of pensionable income (income from self-employment) up to 12 B.a., and 7.8% of income exceeding 12 B.a. As a main rule there will not be charged any contribution on pensionable income exceeding an upper limit of 16 B.a., 75 B.a. and/or 134 B.a., respectively, as laid down for certain categories of self-employed persons. The contribution rate for other kinds of personal income (pensions etc.) is 3.0%. In addition to lower contribution rate pensioners also have advantages related to taxation compared to working people.

The employer's contribution is assessed as a percentage of paid out wages. The contributions are differentiated according to the regional zone in which the employees reside. There are five regional zones reflecting inter alea the level of economic development. The employer's contributions are 14.1%, 10.6%, 6.4%, 5.1% and 0% according to the zone. The employer's contribution has decreased during the last 15 years. An additional employer's contribution of 12.5% is calculated on wages exceeding 16 B.a. (NOK 751,200).

III. Conditions for entitlement to a pension

Insured persons (i.e. person who resides or is working in Norway and certain groups working abroad) having a total insurance period of at least three years between the age of 16 and 66, are entitled to a basic pension. The condition of present insurance affiliation does not apply to persons who have been insured for at least 20 years (on the basis of periods of residence etc.) or are entitled to a supplementary pension.

The retirement age in the National Insurance Scheme is 67. The age limit was lowered from 70 to 67 years in 1973. Between the age of 67 and 70 years the pension is deducted according to earned income. If income exceeds the B.a, the pension is reduced by 40% of the exceeding income. Before 1997 the pension was reduced by

50%. There are no concrete plans about changing the retirement age in the National Insurance Scheme.

Calculations indicate that the expected retirement age in 1999 for the age group 18-70 years was close to 59 years. When the calculations were made for the age group 50-70 years the expected retirement age was higher, about 62,6 years. The main difference between the to sets of estimates is due to disability pension among younger people. The calculations consider both pensions from the National Insurance Scheme and the AFP-scheme.

Except for disability pension the AFP-scheme is the single possible option to receive early retirement pension. Special groups of public sector employees have to retire earlier: Firemen, police, and military retire at 60; government seamen at 63; cleaning staff, jail guards, air traffic controllers, nurses, railway workers, and government drivers retire at 65.

IV. Benefits provided by the old-age insurance system

Old-age pension consists of a basic pension, a supplementary pension and/or a special supplement, and possible supplements for children and spouse (income-tested).

Every insured person is guaranteed a minimum old-age pension at the age of 67. The minimum old-age pension consists of a basic pension and the special supplement. For a single person the minimum old-age pension is NOK 84,204 a year per 1 January 2000. The minimum old-age pension for a married person who receives supplement for a spouse under 60 years of age is NOK 107,676 a year and NOK 144,924 if the supported spouse is above 60 years of age. If both spouses receive minimum old-age pension, the pension is NOK 72,456 a year for each of them. Cohabitant pensioners are entitled to the same benefits as married couples if they previously have been married with each other or have children together. Other cohabitant pensioners are treated as single persons in the National Insurance Scheme.

The minimum old-age pension increased by NOK 12,000 per year from 1 May 1998. This increase has considerable raised the basic security of the National Insurance Scheme, and has improved the standard of living for a large group of pensioners with relatively low income.

Basic Pension

The basic pension is calculated on the basis of the insurance period, and is independent of previous income and contributions paid. A full basic pension requires an insurance period of minimum 40 years. If the insurance period is shorter, the basic pension will be proportionally reduced. For persons who are not insured and who have less than 20 years of insurance (based on residence period etc.), the basic pension is calculated on the basis of the same number of years as the supplementary pension (see point 1.4.2).

A full basic pension for a single person equals 100 per cent of the B.a. (NOK 46,950). The full basic pension is 75 per cent of the B.a if the pensioners spouse (or a cohabitant whom he/she previously has been married to, has children together with or has been living together with for at least 12 of the last 18 months) receives pension or has a yearly income exceeding 2 B.a. (NOK 93,900).

Supplementary Pension

The supplementary pension scheme was introduced in 1967. The aim of the scheme is to prevent a marked decline in the standard of living upon retirement.

A person is entitled to a supplementary pension if his/her annual income exceeded the average B.a. of any year for three years after 1966. Full credit (pension points) is given for income up to 6 B.a. (NOK 281,700). Furthermore, 1/3 of income between 6 B.a. and 12 B.a. (NOK 563,400) is credited as pensionable income for these years. Before 1992 income up to 8 B.a. was credited at full rate and income between 8 B.a. and 12 B.a. at 1/3. Income exceeding 12 B.a. is disregarded.

The amount of the supplementary pension depends on the number of pension earning years and the yearly pension points. A 0full supplementary pension requires as a general rule 40 pension-earning years. In the case of less than 40 pension-earning years, the pension is reduced proportionally.

Pension points are computed for each calendar year by dividing the pensionable income up to 6 B.a. (before 1992 8 B.a.) minus one B.a., with the B.a. Income between 6 B.a. (before 1992 8 B.a.) and 12 B.a. is divided by 3 B.a.

> **Box 1:**
> Example: If the pensionable income was six times the average B.a. in 1999:
>
> $$\frac{6 \times \text{NOK } 46{,}423 - \text{NOK } 46{,}423}{\text{NOK } 42{,}413} = 5 \text{ pension points}$$

The maximum of pension points, which could be credited for any one year before 1992, was 8.33. For earnings from year 1992 on, the maximal pension point is 7.

A full annual supplementary pension is 42 per cent (supplementary pension percentage) of the amount which appears when the current B.a. is multiplied by the average pension point figure for the person's twenty best income years (final pension point). If the person concerned has earned pension points for less than twenty years, the average of all pension point figures credited is used. For years prior to 1992 the supplementary pension percentage is 45.

> **Box 2**
> Example: With an average pension point figure of 7, supplementary pension could be:
> With 40 pension earning years (25 years prior to 1992 with 45 percent supplementary pension percentage and 15 years later than 1992 with 42 percent supplementary pension percentage):
>
> $$\frac{\text{NOK } 46{,}950 \times 7 \times 45 \times 25}{100 \times 40} + \frac{46{,}950 \times 7 \times 42 \times 15}{100 \times 40}$$
>
> $$= \underline{\text{NOK } 144{,}195}$$
>
> Maximum supplementary pension granted is NOK 171,612.

Many elderly people did not have any no possibilities of earning a full supplementary pension. In consequence, special transitional provisions have been introduced regarding people born before 1937. It is required that the persons concerned have completed a certain insurance period prior to 1967. The transitional provisions only apply for annually earned income within 5 B.a. (NOK 234,750) each calendar year. For a person born in one of the years 1898-1917, twenty pension earning years are required for entitlement to a full supplementary pension. A person born in one of the years 1918-1936 is entitled to a full supplementary pension if he/she has earned pension points each year from 1967 to the year of his/her 69th birthday. For income between 5 B.a. and 12 B.a., the 40-year requirement applies. The transitional provisions will come to an end in 2007 when the National Insurance Scheme is matured and new pensioners have had possibilities of earning a full supplementary pension.

Persons who are taking unpaid care of children under 7 years of age and of disabled, sick and elderly persons at home are credited a pension point figure up to 3.00 in the supplementary pension scheme. This corresponds to pension entitlements based on an income from work of NOK 187,800.

Surviving spouse etc. will at 67 years of age transfer to old age pension, and receive his/her personally acquired supplementary pension, or 55% of the aggregated supplementary pension of the survivor and the deceased person's supplementary pension, if this is more favourable.

Special Supplement

Pensioners who have no, or only a small, supplementary pension, are entitled to a special supplement from the National Insurance Scheme. A full special supplement is payable if the insurance period is at least 40 years. The special supplement is reduced proportionally in the case of a shorter period. The special supplement is deducted from the supplementary pension.

For a single pension, or a married person whose spouse is not a National Insurance pensioner, the special supplement equals 79.33% of the B.a. (NOK 37,248). If the supported spouse is 60 years or older, the special supplement equals 158.66% of the B.a. (NOK 74,496). If both spouses receive a minimum pension, the special supplement is the same as for single persons, i.e. 79.33% of the B.a. each (NOK 37,248).

For a pensioner married to a pensioner receiving a supplementary above the special supplement, the special supplement equals 74% of the B.a. (NOK 34,740). However, the total supplementary pension and special supplement shall not represent a lower amount than twice the special supplement according to ordinary rate, i.e. 158.66% of the B.a. (NOK 74,496). The same provisions apply to cohabitants that previously have been married to each other or have children together.

Supplement for Spouse and Children

A pensioner supporting a spouse (or a cohabitant whom he/she has previously been married to or has children together with) who is not a pensioner is entitled to a supplement up to 50% of his/her basic pension. The supplement is income-tested and reduced by 50% of earned income in excess of the minimum pension for couples plus 25% of the B.a.

An old-age pensioner supporting children under 18 years of age may receive a supplement of 30% of the B.a. (NOK 14,088) for each child. The supplement is income-tested in much the same way as the supplement for a spouse.

Adjustment of the basic amount

The basic amount (B.a) is adjusted by the Parliament usually once a year from the first of May. The main adjustment takes place 1 May in accordance to changes in the general level of income to provide an approximately equal growth in income between pensioners and working people. Because of the formula used in calculating the supplementary pension the adjustment of the basic amount effects the earning of pension points and rises the pensions paid to all pensioners.

Gross pensionable income in NOK	1997		2007		2042	
	Gross	Net	Gross	Net	Gross	Net
4 BA = NOK 170 000	55	72	58	74	57	73
4,5 BA * = NOK 191 250	54	68	56	70	55	69
8 BA = NOK 340 000	45	57	51	63	42	54
10 BA = NOK 425 000	38	51	44	56	37	49
12 BA = NOK 510 000	34	46	39	51	33	44
BA = NOK 42 500, tax rules 1997, * average income						

The number of old age pensioners

At the end of 1999 it was 631,220 old age pensioners in Norway. 248,150 pensioners, or 39%, received the special supplement. 548,818 pensioners, or 87%, received supplementary pension.

The cost of old age National Insurance Scheme

Total expenses of the National Insurance Scheme in 1999 were NOK 159,235 million. The amount represents approximately 36,8% of the combined State and National Insurance budgets and 13.6% of the Gross Domestic Product. The state grants to the National Insurance Scheme were in 1999 NOK 44,192 million, equal to 27.8% of the Scheme's total expenses. Expenses for old-age pension in the National Insurance Scheme in 1999 were 62.307 million which represents approximately 5,2% of GDP.

Other pension schemes

For most of public sector and some private sector employees occupational pension schemes provide additional benefits to the pension from the National Insurance Scheme. In the public sector all employees who work at least 14 hours a week or has a salary which is half the salary for a full time job have an occupational pension scheme. In the private sector approximately 40% is covered by an occupational pension scheme. The public sector occupational pension scheme is integrated with the National Insurance System. Full service pension accrue over a minimum of 30 years with entrants more than 30 years to retirement earning lower accrual rates.

The AFP pension scheme (which is not a part of the National Insurance Scheme) is an early retirement pension scheme administered jointly by unions and industry. Benefits from the AFP-scheme are provided for about 60% of the working population. People covered by the AFP-scheme can retire at the age of 62 years with little or no reduction in the pension amount (compared to the amount the person would receive if retired at the age of 67 years of age). According to the current rules, it is possible to retire fully or partly, and then to make a new decision to go back to work at a later stage. The AFP is not available for self employed.

The financial burdens of the plan are borne 40% by the state and 60% by employers for private sector workers for the age group 64-66 years. For the age group 62-63 years there is no direct government contribution. On the other hand, the government bears the full cost for public sector workers. The criteria of eligibility for an AFP pension are the following:

- Only persons who actually are employed at the time of claiming benefit are eligible. The person concerned must as a general rule have a pensionable a yearly income of at least 1 B.a at the time of claiming benefit.
- Credited pension points under the National Insurance Scheme for at least 10 years during the period starting with the year in which the person in question became 50 years old up to and including the year before the year of claiming the AFP-pension.
- It is further required that the pension is conditional upon an average income of at least twice the basic amount during the ten best income years since 1966.

The number of AFP pensioners was 25,630 per 31 December 1999.

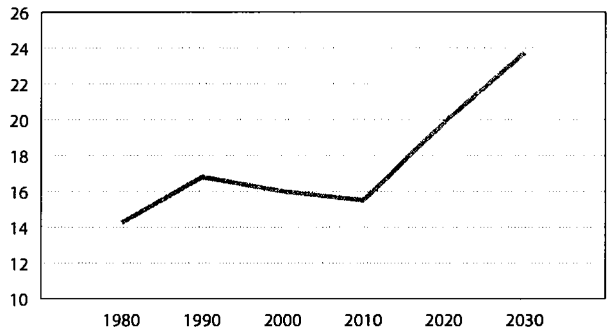
V. Demographic changes and challenges in the future

The total disbursement by the National Insurance Scheme on old age pension is estimated to increase in the future due to a rising number of old age pensioners. During the period prior to 2040 there will be a strong increase in the number of people over 67 years of age. This is due to large birth cohorts after the Second World War. The number of people above 67 years of age is expected to increase by more than 70% form 2010 to 2040.

Figure 1 shows that the proportion of people above the retirement age in the National Insurance Scheme to the entire population will grow from about 15 per cent in 1980 to 24% in 2030. During the period from 2010 to 2030 the expected increase is calculated to 8% points. Thus the dependency ratio is going to increase over the next decades. This problem is enhanced by the growing tendency of early retirement. The financial burden will also increase because of the maturing of the pension system and the rise in the number of women in paid work during the last two decades, which will increase the supplementary pension expenditures in the future. At the same time, public finances will be strained by a gradual decline in petroleum revenues.

Figure 1:

People above 67 years of age in relation to the entire population



In order to address these challenges and the rising need of health and social services to an ageing population two committees established by the government dealing with pension policy issues submitted their reports in 1998. One of the reports, NOU 1998:10 "Funding the National Insurance Scheme" focused on various funding strategies, and the other report, NOU 1998:19 "Flexible retirement", addressed the problem of early retirement. The Government will continue to work on these pension policy issues during the period prior to the Long-Term programme 2002-2005, which will be presented early in 2001.

I. Basic principles of the old age insurance system[26]

1. Sphere of persons with entitlement

The Austrian old age insurance system is based on the principle of the universal cover of all those in gainful employment. In particular there is a general system, which protects all workers (and also contains special regulations for specific occupational groups such as miners), two special systems for farmers and other self-employed persons, corresponding to the general system, various special systems for civil servants from the relevant public employers (for example, Federal Government, States, districts), there are pension schemes for specific private professions (such as solicitors, doctors), or special schemes (notaries). These systems are classic first pillar systems (with the exception of certain free-lance/private professions, which operate in addition to the normal special system for the self-employed). As rule entitlements to benefits depend on the length of time to which a person has belonged to the scheme, and on the amount of contributions paid.

The statutory Austrian old age insurance system encompasses practically the entire working population. Taking the group born in 1993, where it can be assumed that a pension is already in payment given that the corresponding entitlement conditions are satisfied, then 80% of men and 60% of women are in receipt of a pension from the statutory pensions' insurance scheme. In addition to this there are the pensions from the special civil servants' scheme, which are not taken into account in these figures.

Significant innovations with regard to the sphere of persons covered relate to the inclusion of the so-called 'newly self-employed' which came into force on 1.7.1996. This reform attempted to include, where possible, all persons who earn income from work, into insurance liability. This reform, therefore, encompasses, in particular, people who are in self-employment which comes outside of the conventional commercial enterprises or company law bodies (tele-workers, self-employed persons similar to employees, people who are working on the basis of work contracts). In addition to this, this reform makes provision also for those 'in negligible employment' (monthly income from gainful employment of less than 3,977 ATS), to be included in compulsory insurance where there are several jobs, or for voluntary insurance where the employment carried out is only negligible. It is assumed that these measures will result in an additional 60,000 people being included in the compulsory insurance scheme.

2. Supplementary systems

In Austria, the second pillar (complimentary pension schemes), has traditionally played as secondary role. So there is no general compulsory second pillar in Austria. According to the surveys carried out, there are only about 300,000 people in the complimentary pensions schemes in Austria entitled to benefits and expecting benefits.

The third pillar (private pension provision) in Austria is entirely at the discretion of the individual. A special incentive was created for this private pension provision within the 2000 tax reforms, by means of a 'premium model'. This gives preferential treatment to: complimentary pension schemes with private insurance companies, employee contributions to a pension fund (therefore to the second pillar), savings with a pension investment fund or voluntary additional insurance to the statutory pensions' insurance scheme. The premiums reimbursed by the State in the year 2000 amount to a maximum of 481.61 ATS for the year. Benefits from personal provision which comes within the premium model are tax free. An alternative to this there is the opportunity, for certain types of personal provision, to deduct the relevant contributions from taxable income, as special expenses. In this, however, only a quar-

[26] (The statistical material used in the following paragraphs was in the main taken from the official statistics for the Chief Association of Austrian Social Insurance Authorities and the study relating to the long term financing of the Austrian pensions system carried out on behalf of the Federal Ministry for Social Security and Generations in 1997. If references made to tables these are the MISSOC tables as at 1.1.2000).

ter of the contributions, up to certain maximum amounts – dependent upon the composition of the household – can be claimed.

In an attempt to quantify the proportions of the 3 pillars of old age provision in Austria, it can be assumed that 94% fall within the first, and 3% in each of the 2nd and 3rd pillars.

II. Financing the old age insurance system The financing principle

In Austria the general old age insurance is based exclusively on the costs' share process (pay-as-you-go). No changes in this type of financing are planned in the near future.

Sources of finance

Contributions paid by insured persons (and their employers in the case of the non-self-employed) and State subsidies are used for the financing. The extent of these sources of financing varies between the individual systems. We will only deal with the general system for the non-self-employed and the special systems for the self-employed. It should also be pointed out that the following observations relating to financing encompass not only old age pensions but also invalidity pensions and survivors' pensions within the statutory Austrian pensions' insurance scheme.

At present (1999) 74.6% of revenue in the pensions' insurance scheme comes from insured persons' contributions, the remainder from the State subsidy (measured against pension expenditure: 24.4%). There are, in this, considerable differences between the pensions' insurance scheme for the non-self-employed (17% of pension expenditure) and that for the self-employed (68.2% of pension expenditure).

The State subsidy is above all relevant for the long term aspects of the pensions' insurance scheme, whereby a comparison with the GDP would be meaningful. Looking back over the last 10 years it appears that in 1989 the State subsidy was 29.8% of pension expenditure (non-self-employed 21.5%, self-employed 77.6%0, or 2.8% of the GDP. At the moment the State subsidy is 2.3% of the GDP. According to a study carried out on behalf of the Federal Ministry for Social Security and Generations in 1997, if the system continues unchanged, the State subsidy would continue to increase and would most likely be 39.8% of pension expenditure, or 6.1% of the GDP in the year 2030. The last pension reform measures have been able to reduce this growth, so that the State subsidy for the year 2030 will probably only increase to 39.2% of pension expenditure, or 5.8% of the GDP.

It should be noted that, with regard to the State subsidies shown, they do not contain the Federal expenditure for the so-called compensation allowance. That benefit has the function of a minimum pension and builds up pensions which are below annually fixed amounts to these minimum amounts (see Table V1 – minimum pension – for more details on this). The significance of this expenditure to be borne by the State budget can be read in the following figures: in 1999 contributions paid by insured persons amounted to 219,000 million, State subsidy 63,000 million and the reserve for the compensation allowances 10,000 million ATS.

Admittedly the interplay between insured persons' contributions and State subsidies makes the financing difficult to understand for the individual. It is therefore useful to quote the so-called implied contribution rate, this shows what each contribution payable by every insured person would be, if there were no State subsidies. At present, without the last pension reform measures, this could amount to 31.2% (in comparison with the 22.8% actually paid) and would increase to 34.2% in 2010, 37.4% in 2020 and 42.8% in 2030. As a result of the most recent pension reform measures, which in the main came into force on 1.1.2000, the implied contribution rate for 2010 is 34.0%, 36.8% for 2020 and 41.8% for 2030. This is also a good illustration of the effects of the last pension reform.

The contribution rates themselves have remained constant in recent years. For example, they are 22.8% of the contribution basis in the Workers' Pensions' Insurance Scheme, of which the employer has to meet 12.55%, and the employee 10.25%.

With regard to the special civil servants' schemes, it is currently intended that a pension protection contribution of 0.8% be introduced from 1.1.2001, for civil servants currently employed, and also for retired civil servants.

III. Conditions for pension entitlement

1. Benefit conditions

A varying minimum period of membership in the insurance scheme is required for entitlement to an old age pension, irrespective of the various benefit types. As the Austrian old age pension system is a system related to gainful employment, contribution periods are taken into account for this minimum period of membership, and this also includes comparable periods, where no contributions have been paid (e.g. periods during which children have been raised, periods of military service, periods during which certain social security benefits have been received), periods in school and in the education system, however only for these where the corresponding contributions have been paid.

The following old age pensions are provided for:

- regular old age pension
- early old age pension because of unemployment
- early old age pension based on a long insurance life
- early old age pension based on a reduced ability to work (for the non-self-employed) or because of incapacity to earn a living (for the self-employed)
- flexible old age pension.

Whether entitlement to a full pension is due, depends on the length of the insurance life, whereby, depending on the age at which a person enters, a different maximum amount of insurance periods can be required (see below for further details).

Pension reform measures in recent years have always provided for alteration with regard to the number of insurance periods required for the individual pension types. A general trend is that the number required was increased, in order, in particular, to make the claiming of the early old age pension more difficult (measures for the raising of the actual pension age). See Table V1 for current conditions for individual pension types.

2. Pension age

For men, the age for the regular old age pension is 65, for women it is 60. For early retirement (with the exception of the early retirement based on a reduced ability to work/reduced ability to earn a living) the age is 60 for men, and 55 for women. Initially there was a common age of 55 for men and women with regard to the early old age pension based on a reduced ability to work or incapacity to earn a living. From 1.9.1996 this age was changed to 57 for men. This measure was regarded by the European Court of Justice as a violation of the guideline 79/7/EEC (ruling in the legal case C-104/98, Buchner and others on 23.5.1000). At present a change in the law is being prepared, with which this benefit type is to be generally repealed.

A Federal Constitution law has arranged for the age of commencement for women to be raised in stages to that for men. With regard to the age for the regular old age pension this increase will begin from 1.1.2019 and should be concluded by 1.1.2028, for early old age pensions this increase will be undertaken during the period from 1.1.2024 to 1.1.2034 (from that date, therefore, there will be a uniform pension age for men and women).

In order to raise the actual pension age a further pension reform is currently being prepared. Accordingly from 1.10.2000 the pension age for the early old age pensions will be raised in stages (by 2 months for each quarter calendar year) to 56.5 for women and 61.5 for men (end of the transitional period therefore on 1.10.2002). Exceptions to this increase will – probably only in transitional cases – be only those insured persons who can prove an unbroken insurance life from the earliest possible date of entry into working life. However, these measures are part of a reform which is currently being fiercely debated. The outcome of current parliamentary discussions are awaited, in particular with regard to the date on which these measures come into force.

3. Early pension receipt, statistical data

The early old age pensions have been set out above. Early pensions are of great significance in Austria.

In making a numerical evaluation of the individual pension types it should be noted that the early pensions are converted into a regular old age pension on reaching regular pensionable age. Therefore, consideration should be made, with regard to the situation of beneficiaries of this pension type, that as a rule this pension is only received for a maximum of 5 years, the regular pension however for a longer period. In connection with this, the growth in the pension situation in the last 10 years is significant. During the period from 1989 to 1999 the number of regular old age pensions increased from 791,000 to 1,035,000, that of early old age pensions based on a long insurance life increased from 102,000 to 131,000, that of early old age pensions based on unemployment increased from 14,000 to 19,000 and that of early old age pensions based on a reduced ability to work/inability to earn a living increased from 12,000 to 71,000 (however only in the period from 1994 to 1999). The flexible pension has, with an annual number of pensioners of less than 1,000 as a rule, has been disregarded. These figures make it clear that the early old age pension based on a long insurance life is a greatly requested pension type. Particular attention should be paid here to the fact that the growth in each of the pensions' situations has a direct relationship with the demographic situation, as those born in high birth rate years have recently reached the relevant pensionable age. The growth in early old age pensions based on a reduced ability to work/incapacity to earn a living appears to have been the greatest increase in all the pension types, whereby, however, it should not be forgotten, that this is a type of benefit newly introduced in 1993, whereby a corresponding increase in the pensions' situation is automatically noted from the time of its introduction. It would possibly be more meaningful, with this pension type, to have the claims' statistics. In 1994 (the first full year in which this type of pension was available, there were over 24,000 claims; this figure grew in 1995 to over 28,000 claims and then dropped again, whereby again over 23,000 claims have been noted in 1999.

The average age at which Austrian old age pensions were accessed in 1970 was 64.2 for men, and 61.5 for women and this has consistently dropped to 60.9 for men and 58.2 for women in 1999. The growth in the average length of time a pension is received has increased accordingly (in conjunction with the increase in life expectancy) for male workers as follows: 13.82 years in 1981, 15.98 (1990), 16.56 (1994) and 16 (1998). There is an increase for women from 18.58 (1981) to 21.60 years 91994) and to 22 years (1998). The increase in the life expectancy of the population (based on birth0 is significant for the future in this connection. In 1994 this was 73.3 years for men, and 79.7 years for women. Prognoses for the period from 2030 to 2050, assuming an average increase, this should grow to 79.0 for men and 85.0 for women.

IV. Benefits from the old age insurance system

1. Determining factors

The calculation of the Austrian pension depends upon two decisive factors. First of all the length of time to which a person has belonged to the system is relevant. To put it another way: the longer a person has belonged to the system, the greater the pension will be. Contribution periods (periods for which contributions have been paid are taken into account, as well as contribution-exempt comparable periods.

As a second decisive factor the insured income is relevant for the pension rates. This has the effect that contributions are only payable up to a certain maximum contribution base (2000: 43,200 ATS per month + 86,400 ATS for the 13th and 14th monthly payment). At the moment however the entire working career is not taken into account, but the best 15 years are determined from all periods, whereby periods further in the past have to be adjusted accordingly. The average of these best 15 years forms the basis of the pension calculation. The maximum pension calculation basis in 2000 amounts to 38.185 ATS. A separate pension calculation basis of currently 8,312 ATS is added to the calculation basis for the contribution periods for periods during which children have been brought up. The maximum pension in the year 2000 is 30,548.548 ATS per month, to which a further 13th and 14th pension payment is awarded in May and October of each year.

With regard to the changes in the law introduced recently, reference should in particular be made to the fact that there has been no change in the fundamental principles of the Austrian pensions' insurance scheme. However, attempts have been made for a long time to introduce more transparency and fairness with regard to contributions, into the Austrian pensions' insurance system. Thus it was planned, as far back as 1.1.1988, only to take the comparable school and further education periods into account for the benefit rates, if the corresponding contributions were paid for these periods in the past. The regulations relating to this were subsequently further strengthened. At present school and further education periods have to be purchased for the entitlement as well as for the benefit rates.

With regard to the pension calculation basis, the number of years to be taken into consideration were increased in stages, in order to relieve the strain on the pensions' insurance system, as each extension in the period leads to more contribution fairness. From 1.1.2003 the number of years to be taken into consideration for the early pensions will be raised to 18. Furthermore, attempts have been made to make the special civil servants' schemes more like the general system. A significant step here is that the calculation basis for civil servants' pensions, which was previously only geared to take into account the most recent pay, was converted into a calculation of the best 15 years.

It is interesting to note, however, that the changes in the law are not only aimed at reducing benefits. Thus, for example, the calculation basis for periods of bringing up children was raised from a previous 6,685 ATS to the aforementioned 8,312 ATS from 1.1.2000. Accordingly it is clear that all reforms do not only have finance-policy aims, but at the same time follow social policy aims. People who have been widowed whilst bringing up children had particularly , until now, to always be afraid of being disadvantaged when their pension was determined.

2. Pension formula

The calculation of the Austrian pension was always characterised by the same principles. A certain percentage of the pension calculation basis is earned for each month of insurance completed. If one studies these percentages, however, a strong development becomes evident, characterised in particular by the intention of getting a grip on the growth in costs.

Initially the formula was comparatively simple, whereby 1.9% of the calculation basis was due for the first 30 insurance years and 1.5% of each of the subsequent insurance years. Then the maximum pension was 79.5% of the calculation basis after 45 years of insurance. Actuarial increases or deductions were not proposed. From 1.9.1996 this formula was changed to the effect that the percentage for the first 30 years of insurance was 1.830% for each year, and 1.675% for the subsequent years of insurance, whereby these percentages were only valid when claiming the pension at age 56, for women, and age 61 for men. Where the pension is taken earlier, or postponed, these percentages were increased or reduced by certain factors depending up the age at the relevant time. It is interesting to note here that the regular pension age is not used as the guide line but the age 4 years prior to that age. The highest amount of old age pension was in any case limited to 80% of the pension calculation basis. The calculation formula was very complicated and not easily comprehensible for those concerned. There were tables from which the relevant various percentages could be read, for each age (graded in months), shown separately for men and women, and for the relevant number of completed insurance months. Only marginal effects relating to trends for uptake of early old age pensions or the lowering of the actual age at which a pension was taken up were therefore able to be ascertained (furthermore, these trends were more attributable to the tightening of the entitlement conditions than to the altered calculation methods). In order to illustrate the effects of this pension calculation formula, it can be noted that 40 years of insurance was sufficient for entitlement to the full pension (80%) at the usual pensionable age, if the pension was taken earlier, however, up to 45 years of insurance were required.

The pension formula was therefore changed once again from 1.1.2000. Now each insurance year is granted a standard 2% of the calculation basis. The actuarial deductions were made more transparent in order to make the raising of the actual age at which a pension was taken more effective. It is interesting to note that the regular pensionable age is used as a starting point to calculate the reductions. Accordingly 2% of the pension calculation basis is deducted from the pension for each year of early receipt prior to the ages of 60 / 65 (limit: 10% of the calculation basis or 15% of the pension). The pension rates are again limited to 80% of the calculation basis. The increases formerly provided for in the case of pension postponement were however kept unchanged. Accordingly for every year of postponement between 61 and 65 (only for women) 2% of the pension is granted, 3% from age 66 to 70, and 5% from the age of 71. However, nothing has generally changed with regard to the insurance months required for a full pension at the basic ages of 65/60 or 60/55.

Nevertheless it is likely that this pension reform will not enjoy a long existence. It is the intention of the new Austrian government that the actuarial deductions and increases be given greater emphasis, in order to increase further the actual age at which a pension is taken. The intention is that from 1.10.2000 the deductions be increased to 3% (limit 10.5% of the calculation basis or 115% of the pension), furthermore, the increases in the event of pension postponement are to be raised to a standard 4% of the calculation basis per year. Where the pension is postponed the maximum pension is to be 90% of the calculation basis.

An important indicator for the pensions' system is without doubt the substitute rate. In this we have to distinguish between the gross substitute number (initial gross pension as a percentage of the most recent gross income) and the net substitute rate (initial net pension as a percentage of the most recent net income). If the Austrian pension system were retained (however without taking into account the pension reform which came into force on 1.1.2000), it was estimated that the gross substitute rate would increase from 60.8% to 62.4% in the year 2030. In this period the net substitute rate would show an increase from 76.8% to 78.9%. There are calculations available concerning the net substitute number for the pension reform which has now come into force. Thus the net substitute number for 2000 is 76.4%, and 76.8% for 2030. The difference between the gross and net substitute rates in Austria is based above all on the discontinuation of pensions' insurance contributions and on the Austrian tax system.

3. Elements of basic security / contribution dependency

The Austrian pensions' insurance system is a classic Bismark pensions' insurance system. It is therefore in the main dependent upon contributions. Nevertheless certain comparable periods are also taken into account, which have no corresponding contribution equivalent and a minimum security is provided for irrespective of contributions by the compensation allowance system (see Table V1- minimum pension for further details on this). The part played by the compensation allowance can be demonstrated by the fact that in 1989 a compensation allowance was granted to 14.4% of all pensions; in 1999 only to 12.5%. However there is evidence of a great difference between the individual groups of insured people. In the case of employees this is only 2.8% of the pensions, in the case of the agricultural situation this is still 30.6%.

4. Pensioner's family situation

In principle personal pensions in the Austrian pensions' system are built up on the insurance record of each individual person. That means, that the relevant family situation does not play any part. Only a child increase of 300ATS per month is awarded for children entitled to be maintained. Furthermore, the family situation of the pensioner is taken into account, in the case of the minimum pension, whereby the guide rate (upon which the pension is to be built up) is 11,859 ATS for a married couple and is to be increased by 885 ATS for each child entitled to be maintained.

5. Pensions' adjustments

The Austrian pensions' adjustments measures are at present based on the principle of 'net adjustment', this means the pensions are adjusted in accordance with the developments in net pay. In other words; if a greater strain is placed on the working population by increases in taxes and contributions, then at the same time stress is also placed on pensioners. However the adjustment values determined in this way are only guide values. The determination of the actual adjustment values was as a rule a political decision, in which distribution policy considerations played an important role.

In the pension reform measures currently under preparation, the net adjustment is to be fixed as a single adjustment formula. If, as a result of this, the pensions' increase is below the relevant inflation rate, then this detrimental situation will be rectified by a one-off payment. This measure has the advantage that this inflation settlement is not an integral component of the pension and therefore in subsequent years not this higher pension rate, but only the rate increased as a result of the net adjustment, will be used for the next adjustment.

If one examines previous adjustments, then it becomes clear that the adjustment factors calculated for the net adjustment were as a rule above the inflation rate. A lowering of the net adjustment to below the inflation rate is to be expected only from the year 2000 (2000: 0.6 net adjustment, 1.1 inflation rate – estimated).

The agreement made by the new government has also provided that the pensions' adjustment will have to be geared towards safeguarding value and that in doing this life expectation factors will have to be taken into account. The committee of experts engaged by the government however have advised against the introduction of life expectation factors and have favoured the pure net adjustment (without policy revisions). This recommendation has been taken into consideration in the draft for further pension reform currently under discussion.

V. Demographic change and pensions' system

1. Age quotient

The so-called pension burden quotient is ascertained in the Austrian pensions' insurance scheme. This concerns the question as to how many pensions are allotted per 1,000 persons insured for pension purposes.

In the period from 1989 to 1999 there was an increase from 598 to 617. The following growth is predicted for the future: 2005: 686, 2015: 764, 2020: 820, 2025: 900 and 2030: 980. In 2030, therefore, just about one insured person will have to pay for one pension. Direct as well as survivors' pensions are included in the pension payments.

The demographic change can be easily seen from the following illustration, which shows the proportion of those people aged 65 and over 65 in the population:

	Men	Women	M + W
1980	11.7%	23.0%	15.3%
1985	10.4%	24.2%	14.3%
1990	10.8%	24.2%	15.0%
1995	11.4%	23.4%	15.2%
2000	12.2%	24.3%	21.1%
2005	14.0%	25.8%	22.7%
2010	15.6%	27.0%	24.4%
2015	17.3%	28.4%	26.0%
2020	18.9%	30.7%	28.5%
2025	21.3%	34.0%	31.9%
2030	24.6%	37.1%	35.0%

2. Changes in the law / main focus of future pensions' reforms

All pension reforms in recent years, as well as current discussions concerning further advances in reform, are aimed, amongst other things, at taking countermeasures with regard to demographic developments. To do this, Austria obtained an extensive report from a notable German expert. The recommendations contained in this report concerning old age pensions can be summarised as follows:

- extending the pension calculation basis to more than the 15 best insurance years
- creating a standard linear pension calculation formula arising from the regular pension ages 60 / 65;
- bringing forward the raising of the women's pension age to that of men;
- transparency of expenditure, whereby the costs for comparable periods such as, for example, military service, periods during which children are raised, periods during which sickness benefit is paid to be met by the relevant 'responsible party' (e.g. defence budget, health insurance funds);
- the building up of the capital covered second and third pillars as well.

To a large extent Austria has followed these recommendations in the latest pension reforms.

The new Austrian government has appointed a committee of experts for the preparation of the pensions' reform currently being drawn up, which is to make a more detailed analysis of the government agreement. A more important part of this government agreement is contained, in particular, in the following points, which have already been dealt with in previous sections:

- staged raising of the age at which the early old age pension can be taken by a total of 1.5 years, so that disadvantages for older workers are ruled out, in connection with existing employment market measures,
- intensification of actuarial deductions and increases;
- review of the pensions' adjustment.

These aims are to be part of the pensions' reform currently under discussion. Emphasis is also to be made on the fact that a 'committee for long term pension security' is to be appointed, whose aim – on the basis of a corresponding legal commitment – is to be the continual monitoring of the developments in pensions' insurance as well as the calculation of the pensions' adjustment factors.

The pensions' reforms expected in the near future are in no way concluded by this plan. In concrete terms a review of the various invalidity pensions is planned, for example, for the near future, in order to make these more accurate. In addition, further observations are to be expected with regard to pushing forward the second and third pillars.

I. Basic principles of the old-age insurance system

1. Category of persons concerned

In Portugal, old-age insurance falls within the field of application of all of the social security system schemes.

The following categories are covered by such protection:

General social security scheme: All salaried workers and all independent workers. Contributory system with mandatory membership.

Voluntary social insurance scheme: All of those affiliated to this scheme, which is open to residents of Portugal at least 18 years of age and capable of working who are not covered by the mandatory social security scheme, as well as Portuguese nationals resident or working outside of the national territory who are not covered by a social security convention to which Portugal is a signatory. It is a contributory scheme.

Non-contributory scheme: Persons aged 65 or more in a situation of economic or social need who are not properly covered by the general scheme or by other mandatory social security schemes. Benefits are granted in line with the resources available.

The personal scope of application of these schemes has not undergone significant change over the past ten years.

2. Role played by supplementary schemes

The supplementary schemes are not mandatory. Although the framework law on social security provides for the establishment of supplementary social security schemes, such schemes are not widespread.

In general, those that do exist take the form of pension funds administered by private institutions, essentially insurance companies and pension fund management companies.

The incentives to take up individual private pension schemes include tax breaks.

The implementation of supplementary social security protection is one of the objectives of the current government, which has submitted to the parliament a draft framework law concerning social security in which this theme is a very significant component.

II. Financing of the old-age insurance system

General social security scheme and voluntary social insurance scheme: Financing is based on the principle of distribution.

Non-contributory scheme: For the non-contributory old-age insurance scheme, financing is based on the principle of public solidarity through taxation.

The **general social security scheme** for salaried workers is financed by contributions from workers and employers in the form of a global contribution of 34.75% of real remunerations, 11% of which comes from the worker and 23.75% from the employer. This global rate of contributions covers the financing of all benefits included in the field of application, notably old-age pensions.

Financing of the general social security scheme for independent workers is borne by the workers themselves. The level of contributions varies between 25.4% and 32%, and corresponds, respectively, to the benefits under the mandatory or voluntary schemes. Old-age insurance is included in the benefits under the mandatory scheme.[27]

The amount of the contributions results from the application of these rates to a fixed sum of remuneration selected by the worker from 11 levels indexed to the highest national minimum salary.

[27] The benefits under the mandatory scheme cover maternity, invalidity, old age and survival. The voluntary scheme also covers sickness, occupational illness and family allowances.

The level of contributions to the general scheme for salaried workers has not undergone significant change during recent years. However, the law 34-B/94, of 27 December (law concerning the state budget for 1995) established a fall of 0.75% in the general contribution rate for employers with a view mainly to alleviating the effects of the payroll burden on the competitiveness of enterprises.

For independent workers, the current financing arrangement was adopted by a decree-law of 25 September 1993, which came into force on 1 January 1994. This legal text made profound changes with a view to adapting the level of contributions and the level of insured protection to the reality of the diverse situations of independent workers. The contribution rates were therefore fixed in line with the real cost of the benefits, which was not previously the case.

Under the former scheme the contribution rates were 8%, 12% and 15%, depending on the type of activity. Under the provisions of the above-mentioned decree-law, these percentages were raised progressively up to the current levels.

The **voluntary social insurance scheme** is financed by the payment of a contribution of 16% of an amount selected from a range of amounts by the insured person.

The minimum level corresponds to one minimum national salary and the maximum to four times this salary.

This contribution covers the financing of all benefits provided under the basic scheme of this scheme: invalidity, old age and survival.[28]

This financing scheme has been in force since 1 February 1989 and has not been changed since that date.

The **non-contributory scheme** is financed by state transfers.

III. Conditions for granting a pension

General social security scheme. The law states that the amount of the pension, calculated according to the general calculation formula, may neither be less than 30% of the reference remuneration taken into account in the calculation nor greater than 80% of this remuneration.

Thus, in compliance with the above-mentioned calculation rule, insured persons are entitled to a pension at the full rate as soon as they have completed a contribution period of 40 years.

Insured persons have the right to a partial pension as soon as they have completed a waiting period of 15 calendar years, either continuous or interrupted, of recorded remunerations (a contribution density of 120 days per year is required for the calendar year to be taken into account).

The annual formation of the pension of 2% included in the pension calculation rule has been in force since 1 January 1994. Prior to this, the rate was 2.2%, which led to a pension at the full rate when insured persons had completed a contribution period of approximately 36.5 years.

This change had the primary objective of adapting the scheme to the rise in life expectancy with a contribution period of 40 years to achieve a full rate pension that was more suitable and more in line with what was happening in almost all countries in the European Union.

The same conditions as those for the general scheme apply to the **voluntary social insurance scheme**, whilst under the **non-contributory scheme**, the amount of the old-age pension is a fixed sum.

1. Age

General social security scheme: The retirement age has been 65 years since 1 January 2000 for both men and women. Retirement age equality was gradually introduced under the decree-law of 25 September 1993, which came into force on 1 January 1994. Prior to this, the retirement age was 62 years for women and 65 years for men.

A decree-law of 14 April 1999, introduced flexibility to the age conferring the right to an old-age pension before or after the age of 65 years for workers aged at least 55 years who had com-

[28] This scheme provides other more extensive protection schemes for professional groups with a higher level of contributions.

pleted a waiting period of 15 years and with a period of 30 calendar years of recorded remunerations.

The right to claim an old-age pension after 65 years is not subject to special conditions.

These measures in combination result in a reduction of the amount of the pension for each year before 65 and a premium of the same amount for workers who claim their pension after the age of 65 years, if they have completed a waiting period of 40 calendar years of recorded contributions.

Early retirement is also possible for the long-term unemployed under the following conditions:

- as from 60 years for unemployed persons who, on the date of the request for unemployment benefit, were aged 55 years or more and, having used up the periods for the allocation of unemployment benefits, fulfil all of the legally prescribed waiting period conditions;
- as from 55 years for those who, having completed a period of recorded contributions of 20 calendar years, are aged 50 years or more at the time of becoming unemployed. In such cases, the amount of the pension is reduced.

The law also stipulates that early retirement on an old-age pension is also possible for certain categories of workers whose activity is considered to be unhealthy or stressful, when the specific legal conditions concerning the waiting period and the exercise of the activity have been fulfilled.

The following are categories governed by these conditions:
underground miners – 50 years;
seafarers – 55 years;
flight personnel in the aviation sector – 60 years;
air traffic controllers – 55 years;
dancers – 55 years.

The age opening the right to a pension within the framework of the **voluntary social insurance scheme** and the **non-contributory scheme** is the same age as for the general scheme. Moreover, the law makes no provisions concerning early retirement under these two schemes.

At the present time there are no plans to change the age opening the right to an old-age pension.

As for the size of the early retirement pension, below are the statistical data available since 1992 (see table 1).

Table 1	**Early retirement pensions**	**Amount of expenditure (millions PTE)**
1992	13.246	13.358
1993	15.905	16.892
1994	19.382	21.350
1995	24.123	26.996
1996	29.244	33.169
1997	33.437	39.110
1998 *)	36.360	44.486

**) 1998 – Provisional data*
***Source:** – Institute of Financial Administration and Social Security – National Institute of Statistics*

IV. Benefits under the old-age insurance system

1. Factors affecting the amount of the benefits

General social security scheme: The amount of the old-age pension depends on the amount of the reference remuneration taken into account in the calculation as well as the contribution period of the insured person.

For early retirement pensions, the amount also depends on the number of years prior to the retirement age, which is taken into account in the pension reduction factor applied to the amount resulting from the general formula for calculating the pension.

Moreover, when the old-age pension is claimed after the age of 65 years the amount is increased by a premium factor per additional year, if the insured person can prove 40 years of contributions at that age.

Insured persons who claim an early retirement pension and have ceased to work can continue to contribute in order to increase the amount of the pension.

Voluntary social insurance scheme: The factors governing the amount of the pension are the same as those for the general scheme with the exception of those that apply to early retirement (not covered by this scheme).

2. Method of calculation

General social security scheme: The amount of the pension is determined using the following formula:

$$\frac{0.02 x N x R}{140}$$

N = number of years of insurance
R = remuneration over 10 years based on the highest in the last 15 years.

(14 pensions paid out per year: Christmas bonus and holiday bonus for an amount equivalent to the amount of the pension paid for the corresponding month).

The amount of the pension calculated in this manner may neither be less than 30% of the reference remuneration taken into account in the calculation nor greater than 80% of this remuneration.

The calculation formula has been in force since 1 January 1994 following the adoption of a decree-law of 25 September, which introduced a major reform of the pension system.

Other changes include a change to the calculation formula with a reduction in the annual rate of formation of the pension from 2.2% to 2% and a modification of the reference remuneration taken into account in the calculation, which corresponded to an average monthly salary of the five best years over the past ten years.

The pensions covered by the general pension scheme and the voluntary social insurance scheme are both contributory in nature.

However, for pensions covered by the general scheme, a supplement from the non-contributory scheme is granted in the case where the amount of the pension, calculated using the above formula, is less than 30% of the reference remuneration in order to bring it up to the minimum amount allowed under the law.

Finally, non-contributory periods are taken into account in calculating the pension, such as periods of military service, unemployment, sickness or maternity.

3. Family situation

Within the framework of the general scheme and the voluntary social insurance scheme, the family situation of the pensioner is not taken into consideration when determining the amount of the pension.

Under the non-contributory scheme, granting a social old-age pension is subject to means testing with the family income being taken into account. The law stipulates that the gross monthly income of the person may not exceed 30% of the minimum salary in the case of a single person, or 50% in the case of a household.

4. Review

As a general rule, pensions are revised each year by a government decision, taking into consideration the level of consumer prices.

Based on the principle of positive differentiation, the Ministerial Decree no. 359/99 of 18 May that came into force on 1 June 1999, established minimum amounts indexed to the minimum salary (deduced from the contribution rate of the worker – 11%) for pensioners with a contribution period of more than 15 years.

These amounts vary by percentages between 65% and 100% of the minimum salary, in line with the contribution period of the insured person. Previously the law established a single minimum value for the pension.

V. Demographic changes and the pension system

The tables 2 and 3 show the statistical data available on these trends in the general social security scheme.

Table 2	Persons aged more than 65 years compared with the population as a whole
1981	11.5%
1991	13.8%
1995	14.7%
1996	14.9%
2000 (*)	15.4%
2010 (*)	16.3%
2020 (*)	18.1%

(*) M.E.P.A.T. – Portugal - National Economic and Social Development Plan.

***Source:** – Institute of Financial Administration and Social Security – National Institute of Statistics*

Table 3	Working population / Pensioners
1992	3.5%
1993	3.3%
1994	3.4%
1995	3.4%
1996	3.3%
1997	3.2%
1998	3.2%

***Source:** – Institute of Financial Administration and Social Security – National Institute of Statistics*

During recent years, the old-age insurance scheme has been gradually adjusted. This includes the 1994 reform that introduced major changes. In addition to the aspects already mentioned, such as modification of the calculation formula, extending the waiting period from 120 months of contributions for 15 calendar years of recorded remunerations and increasing the retirement age to 65 years for women, there was also the review of the remunerations taken into account when calculating pensions, with the application of the general consumer price index.

Under the former scheme, the values of the remunerations taken into account when calculating the pension were nominal values, which had a significant weight in fixing the respective amounts.

As for the future, two fundamental issues will dominate the debate on reform:

- the ceiling for remunerations from work subject to social security contributions;
- the implementation of supplementary schemes.

I. Introduction and basic principles

The main aim of the Finnish pension system has been to ensure that the whole population is covered against the social risks caused by old age, disability and death of the family provider. Coverage and benefits are based on individual entitlement instead of derived rights. This is natural, as the proportion of women participating in working life has already been high for several decades.

Pensions are provided through a combination of a statutory insurance scheme with earnings-related benefits and universal pension coverage for all residents. The schemes are integrated in order to provide reasonable benefits. The role of voluntary and private pension arrangements is fairly limited.

The Finnish pension system has some special characteristics. The employment pension scheme is based on tripartite agreements with all major changes being agreed upon by the social partners and state authorities. Moreover, the employment pensions of the private sector are administered by private pension institutions: pension insurance companies, pension funds and pension foundations. The public sector has its own pension institutions.

The protection of the population on the basis of residence is in conformity with what is known as the Nordic Model. However, Finland provides only a minimum pension on the basis of residence. Today, the earnings-related employment pension scheme and the national pensions scheme together provide most pensions. The gradual maturation of the employment pension scheme means that pensions only started to reach the target level of 60% at the turn of the century. Pensions, which are based on a full working career, will not normally include a national pension in the future.

II. Statutory pensions

The National Pension Scheme provides a minimum pension on the basis of residence only. The amount of the pension is proportional to the length of residence in Finland. To be entitled to a full minimum pension, the person must have been resident in Finland for at least 40 years after the age of 16.

The Employment Pension Scheme provides statutory and insurance-based pensions. The purpose of employment pension is to guarantee that the level of consumption attained during the working career is maintained. The scheme covers virtually all gainfully employed persons and consists of several pension laws. The main laws were enacted for private sector employees and for the public sector. There are also similar laws for self-employed persons, farmers and some other groups of employees. However, the basic entitlements and benefits are similar.

Both schemes pay old-age, disability and survivors' pensions and unemployment pension. Both schemes apply more or less the same eligibility criteria.

1. The National Pension Scheme

In order to qualify for a national pension, a Finnish citizen must have been resident in Finland for at least three years after the age of 16, and a foreign citizen for the last five years. For disability and survivors' pensions special time limits apply. Residence in other EU/EEA Member States is taken into account on the same basis as residence in Finland.

Benefits

- ***Old-age pension*** is payable from age 65 for both men and women. The old-age pension can be taken early or deferred with actuarial adjustment. Early retirement is possible from age 60, but the pension is reduced permanently.

- ***Disability pension*** is payable to a person who has lost his/her work capacity through illness, defect or injury and whose incapacity is estimated to last for at least one year. A disability pension is either full or partial.

- ***Individual early retirement*** *pension* is payable to a person aged at least 60 and whose capacity to work has been permanently reduced. Also factors such as length of service and working conditions are taken into account. According to transitional provisions, the age limit is 58 for persons born in 1943 or earlier.

- ***Unemployment pension*** may be paid to a person aged at least 60 years and who has been unemployed for a prolonged period and who has received an unemployment allowance for the maximum period.

- ***Survivors' pension*** is payable to widows and widowers under age 65, provided that the deceased was under 65 years at the time of marriage (surviving spouse's pension) and to orphans (orphan's pension).

Unemployment, disability and individual early retirement pensions are automatically converted to old-age pensions when the person reaches the age of 65.

Pension amounts

In 2000, the full national pension amounts to FIM 2,231 - 2,655 (375 - 446 euro) per month depending on marital status and place of residence (municipality) of the pensioner. In addition, the duration of residence in Finland and the amount of other pensions affect the amount of an individual pension. When the monthly employment pension is above FIM 4,542 - 5,380 (763 - 904 euro), no national pension is paid.

Furthermore, the pension may be supplemented with benefits based on wartime service, housing costs and need for care. A pensioner who gets only a national pension is normally entitled to compensation for housing costs.

Before 1996 a basic flat-rate amount was paid to all pensioners irrespective of other pensions. No new basic amounts have been granted since 1995 and the basic amounts that were already in payment will be phased out in a five-year period.

Pension adjustments

Pensions in payment are adjusted annually on 1 January according to changes in the cost-of living index.

Financing

National pension is a pay-as-you-go financed scheme. It is financed by employer contributions and state subsidy. In 2000, the private sector employer contribution is 2.40/4.00/4.90% of payroll. The contribution class depends on the size of payroll and the ratio between investments and payroll in the company. Public sector employer's contribution is 3.95% of payroll for state and 3.15% for local authorities and the church.

In 1999, the state financed 47% of the national pension expenditure.

2. The Employment Pension Scheme

The target pension level is 60% of pensionable wages after about 40 years of accrual. Old-age pension starts to accrue from the age of 23, but insured persons younger than this are also covered for disability pension benefits, and their dependants are covered for survivors´ benefits. An employee is covered from the first day of work. Self-employed persons and farmers have special rules.

Benefits

The basic benefits are almost the same in all employment pension laws. There are a few differences, which are mostly due to the need to adapt the particular circumstances of the group covered; e.g. the pensionable wages are defined differently for the different groups. The following describes the benefits of the Employees´ Pensions Act (TEL) which covers most of the private sector employees.

- ***Old-age pension*** is paid at the age of 65. The pension can be taken early at the age of 60 years or deferred beyond the age of 65. If the old-age pension is taken early, it is reduced permanently. A deferred old-age pension is increased.

- ***Disability pension*** is payable to persons who have lost their work capacity through illness, defect or injury and whose incapacity is estimated to last for at least one year. A disability pension is either full or partial.

- ***Individual early retirement pension*** is payable to a person aged at least 60 and whose capacity to work has permanently reduced. Also factors such as length of service and working conditions are taken into account. According to transitional provisions, the age limit is 58 for persons born in 1943 or earlier.

- ***Part-time pension*** is payable to a person who has reached the age of 58 and who cuts down on working considerably. The age limit has been temporarily lowered to 56 years until the end of the year 2002.

- ***Unemployment pension*** may be paid to a person aged at least 60 years and who has been unemployed for a prolonged period and who has received an unemployment allowance for the maximum period.
- ***Survivors' pension*** to the children and surviving spouse of a deceased.

Unemployment, disability and individual early retirement pensions are automatically converted to old-age pensions when the person reaches the age of 65.

Pension amount

The target level for the old-age pension is 60% of the pensionable wages after 40 years of employment. The pension accrues at the rate of 1.5% per year of gainful employment.

Employment pension =
1.5%/100 x length of service x wage

However, from the age of 60 the accrual rate is increased to 2.5 % per year of employment.

In calculation of disability, unemployment and survivors' pensions, the time between the contingency and the general retirement age is credited (*'future period'*), if the contingency occurs while the person is still in employment, or within one year after of the termination of employment. For disability and unemployment pensions an additional requirement is a working history of at least 12 months within the last 10 years and residence in Finland for at least 5 years.

Since 1996 the time between the contingency and the general retirement age pension accrues at the rate of 1.5% before the age of 50, at 1.2% between the ages of 50 and 60 and at 0.8% between 60 and 65. Thus a disability pension is always lower than the old-age pension would have been if the person had been able to work until age 65.

Before pensions where the *future period* was taken into account equalled the old-age pension that would have become payable. It was considered to cause an incentive to early retirement, especially within the individual early retirement pensions.

The wages (pensionable wages) on which the pension is based is calculated by taking average earnings over the last 10 years, separately for each different employment relationship. Before 1996 the pensionable salary was calculated from the last four years. The new rule will slightly reduce the pensionable wages.

There is no upper limit to the earnings that constitute the basis for the pension. The pension itself, however, is limited to 60% of the pensionable wage.

Pension adjustments

Pensions are adjusted annually. Accrued pension rights and pensions of those under the age of 65 are adjusted in line with a TEL-index where changes in prices and wages have the same weighting. Pensions of those over the age of 65 are adjusted by a TEL index where changes in prices have a weighting of 80%, whereas changes in wages have a weighting of 20%.

Financing

Employment pension insurance is a partly funded scheme financed by employer and employee contributions. For self-employed persons, seamen and farmers there is also a state subsidy. In 2000 the employee contribution is 4.7% of salary or wage. The employee contribution is the same for all employees, whereas the employer contribution varies. For private sector employers the average contribution is 16.8% of the payroll. The contribution of the employer depends on the size of the enterprise. Small companies pay a fixed contribution equalling the general average. Larger companies (>50 employees) pay individually calculated contributions. In the public sector the employer contributions are higher.

The contributions for self-employed persons and farmers are fixed annually by the Ministry of Social Affairs and Health. In 2000, the contribution is set at 21.1%. However, farmers are entitled to a contribution reduction, which depends on the insured pensionable earnings, and thus the level of the average contribution is lower.

Within the private sector, old-age as well as disability and unemployment pensions are funded. Other pensions and index increments are financed by a pay-as-you-go system. At the moment about 1/3 of the total annual contributions are funded.

Public sector schemes started funding in the 1990s. The aim is to build up reserves to ensure the increasing pension expenditure, which is foreseen in the next decades. The funding takes place at a lower rate and it is based on separate annual decisions.

3. Beneficiaries

In 1998 there were 1,255 million pensioners which of them 847,000 received old-age pension. In the age group 60-64 years 80% received a pension.

Most beneficiaries (77%) received a pension from both the national pension and the employment pension scheme. Just a national pension was paid to 10% of all pensioners.

In 1998 the average overall old-age pension was 5,440 FIM/month (914 euro/month). All pensions are taxable income. However, pensioners who have no income other than national pension are exempt from taxation.

III. Voluntary arrangements

1. Supplementary pensions

Supplementary pensions are only of little importance in Finland. An employer provides them and they are most common in large companies. The target is to lower the retirement age or to raise the replacement rate to 60% also for those elderly employees who are not able to have enough working history under the statutory scheme. Voluntary supplementary pension schemes cover approximately 15% of employees.

Contributions are almost entirely paid by employers, although in some pension arrangements there is also a small employee contribution.

2. Individual supplementary pension insurances

During the last few years the number of personal pension plans has increased rapidly. At the end of 1999 about 170,500 private persons (5% of the working-age population) had private pension insurance. About half of these pension plans were contracted by persons aged less than 45 years and 52% of all were women. The average annual contribution was around FIM 10,500 (1,765 euro), and the most common provision included in the insurance was a lowered retirement age.

Contributions to these individual supplementary pensions are up to FIM 80,000 (13,445 euro) a year deductible in taxation if the targeted retirement age is no less than 60 years and the pension level is not more than 60% of pensionable salary. The rules were changed in 1999. Previously they were more generous.

IV. Changes introduced in the 1990s

Private sector employment pension contributions were expected to rise gradually until the 2030s. However, the economic recession in the 1990s speeded up the increase from what had been expected. At the same time the number of elderly people permanently withdrawn from the labour market increased considerably, which was mainly due to general changes in the labour market. Already before the recession, the low effective retirement age was a matter for concern. The high rate of unemployment further weakened the financial situation of the pension schemes.

A major pension reform was carried out in 1993 - 1996.

The reform had the general purpose of:

- clarifying the role of the national pension and employment pension

- cutting future expenditure and keeping pension contributions at a reasonable level
- raising incentives for longer working careers
- reforming the financing and investment policies of the employment pension funds to better fit new financial markets.

In addition, the index adjustments for people aged 65 and over were lowered and an employee contribution was introduced. As a part of the reform the pension benefits of public sector employees were lowered to gradually equal the benefits of the private sector. Also the retirement age in the public sector will be gradually adjusted from the initial retirement age of 63 to 65.

To raise incentives for a longer working career, the following specific changes were made:

- the minimum age for individual early retirement pension was raised from 55 to 58
- the minimum age for part-time pension was lowered from 60 to 58 (now temporarily reduced to 56)
- the criteria for unemployment pension were tightened
- the accrual rates for the future period were lowered in order to reduce the level of disability and unemployment pensions
- a higher annual accrual rate from the age of 60 was introduced to increase incentives for remaining longer in the labour market
- rehabilitation measures were encouraged and new initiatives were introduced including a five-year programme *The National Programme for Ageing Workers 1998-2002.*

The unemployment insurance scheme with extended payment periods for those over 55 years of age - in combination with the pension rules - proved to create a situation where it was clearly unfavourable for elderly unemployed persons to take up work. As the situation was not acceptable, the unemployment insurance rules were tightened. Moreover, safety net rules were introduced in the pension scheme so that new jobs with a significantly lower salary will not diminish the foreseen pension based on an earlier working career.

As of 1998, the employment pension scheme was extended to cover very short employment periods as well.

V. Demographic changes and challenges for the future

The effective average retirement age has been about 59 years. In recent years it has slightly raised. Reducing early retirement is still a key challenge for the Finnish pension schemes. Success in this area depends on different activities, e.g. on measures in the labour market, keeping education up-to-date, better options for part-time work and early rehabilitation.

At the moment the age structure in Finland is fairly favourable. However, in around 2020, the number of old-aged people will grow faster than in other industrialised countries where the growth will be extended over a longer period of time. The share of people 65 years and over is at the moment about 15% but it will rise to 26% by 2030.

1980	12%
1990	14%
2000	15%
2010	17%
2020	23%
2030	26%

Source: Statistics Finland

The ageing of the population poses a serious challenge. Another reason accounting for the envisioned growth in pension expenditure is the fact that the entire earnings-related pension scheme for the private sector is becoming fully operational.

However, these foreseen changes and trends will not have such a notable effect on pension expenditure as could have been expected. Due to reforms in the Finnish pension system during the 1990s, pension expenditure will be substantially lower in the long term (by the year 2040) compared to what it would have been without the reforms.

The already partly funded pension system will help to keep the pension costs at a reasonable level. According to present predictions the raise in annual contributions of the earnings-related pension scheme will be approximately a 10% unit of payroll by 2030 with current trends and a reasonable annual economic growth. However, calculations show that the changes in the benefits will make it possible to finance benefits even under economic conditions with a growth rate that is slower than the predicted growth. If the economy should develop less favourably, financing will become more difficult.

Since 1997, the solvency and risk-bearing capacity of the pension institutions have been actively strengthened and the pension institutions' opportunities to invest, for example in shares, have been increased. By diversion of the good returns to support the funding of pensions, the future contribution burden can be eased.

However, some further measures may be needed. To this end, the Ministry of Social Affairs and Health has recently set up a special group to examine the future development of social protection expenditure and how to secure its financing. The group has a wide representation including all interested parties.

I. The basic principles of the old-age insurance system

A new national pension scheme was introduced on 1 January 1999. The first pension payments according to the new system will be made in 2001. The new national pension scheme will replace the ATP scheme introduced in 1960 as well as the basic pension scheme introduced in 1947.

The entire population is covered by the old-age insurance system. One of the reasons for reforming the system is the fact that the number of old-age pensioners in proportion to the working population is rising. Furthermore, life expectancy is on the increase, which means that people receive a pension for a longer period. (More on this subject under the heading: "Demographic changes..." below.) The increased cost of pension payments combined with low growth were the main reasons for the reform of the pension scheme.

The reformed pension scheme has a number of different components: an income-related pension, a pre-funded pension and a guaranteed pension. The new system completely replaces the basic retirement and national supplementary pensions for persons born later than 1953, while some parts of the old system will continue to apply to persons born between 1938 and 1953. The social insurance office will send out pension statements to all insured persons by March 31 each year. This will show the changes in assets compared with the year before, their income-related pension-assets and the balance in their pre-funded pension account. The statement will also contain a forecast of the size of the future pension. In addition to the new scheme, most people qualify for contractual pensions/occupational pensions and may have personal pension savings.

II. Financing the old-age insurance system

The new old-age pension system is good for the state economy. In the old system it was difficult to estimate the costs for future pensions for those who were working and paying contributions. In the new system contributions are fixed. The amounts paid out depend on the development of the state economy. There are not supposed to be any discrepancies between the development of pension costs and the state economy.

From the financing point of view, the system consists of two kinds of pensions: income-related pensions and pre-funded pensions.

Income-related pensions will be paid for all those who are in employment during any given year under a pay-as-you-go system. The size of the income-related pension will depend on how much each individual contributes to the system during his/her working life. Since pension assets will be adjusted in accordance with general income trends, this factor will also affect the size of the income-related pension. In the pre-funded pension system, paid-in contributions will be deposited in individual accounts and invested. Persons who have not earned any pension, or only a few pension entitlements, have in principle the right to a guaranteed pension.

Pre-funded pensions are new in the Swedish pension system and were introduced together with the new old-age pension. Previously, it was a clean pay-as-you-go system.

Pensions in the new scheme are based on a fixed contribution amounting to 18.5% of pensionable income. 16% of the contribution is deposited to pay for current pensions in a pay-as-you-go system. 2.5% is transferred to an individual pre-funded pension account. The contributions – or premiums – are deposited in a special fund. This pension is known as the pre-funded or premium pension. Individuals are free to select their own fund manager to handle this part of their pension. The assets in these pension accounts will vary in accordance with the return generated by the investment. Individuals may themselves decide how to invest their money and will thus be able to influence the size of their future pensions.

Contributions to the system are paid in connection to the pensionable income. Employers and self-employed persons pay 10.21%. In addition, there is a general contribution of 7% paid by all employed persons in Sweden. Different benefits from the social security system replacing income are also pensionable income. The contributions for social security benefits are then paid by the state.

The general contribution is new and is a part of the old-age pension reform.

III. Conditions for entitlement to a pension

All residents in Sweden have compulsory coverage from the old-age pension scheme. A person's pension is based on his/her full life-time earnings from the age of 16. In principle, all taxable income that is returned will qualify for pension rights:

- income from employment such as wages, commission fees, taxable benefits, etc.,
- income from other gainful employment (self-employed persons, etc.),
- social security benefits, including sickness allowances, rehabilitation allowances, parent's allowances, childcare allowances, unemployment benefit, certain training allowances and adult education grants, life annuities under the Work Injury Insurance Act and disability pensions,
- some payment from collective agreement insurance policies (group health insurance and employer's industrial injuries insurance).

Income up to a limit of 7.5 higher base price amounts will carry pension rights. In 2000, 7.5 higher base price amounts correspond to a monthly salary of SEK 23,312. Wages from the same employer under a threshold of 1,000 SEK per year are not pensionable. No contributions are paid on such income and withholding statements do not have to be submitted. The same applies to self-employed persons. Pension rights only accrue to income declared in tax returns. Time spent caring for young children, military service and studies also confers pension rights. Parents will be eligible for childcare rights during the child's first four years. Parents who have more than one child during this four-year period will only be eligible for pension rights for one child at a time. Only one of the parents will be eligible for pensionable amounts for each year.

The retirement age is flexible. Both the income-related pension and the pre-funded pension are payable when a person reaches the age of 61. There is no upward limit. Full or partial pensions are available. Pensioners will be able at any time to switch from a full pension to a partial pension or to suspend pension payments until further notice. The balance of the pension not withdrawn will grow at the same rate as the income trend.

Income earned after retirement will also earn pension rights and will thus top up the future pension. This will create an incentive for pensioners to continue to receive an income from work on top of their pension income. In the new system all earned income will be pensionable, and thus it will be worthwhile doing even a small amount of work.

Guaranteed pension is payable from the age of 65.

Previously, the pensionable age was 65 and early drawing possibilities existed from the month the person reached 60 (with reduced pension) and deferred drawing until the month the person reached 70 (with increased pension).

Except for the rules described above, early retirement pensions are only available to persons with disabilities. To receive a disability pension, an individual's working capacity should be reduced by at least 25%. At the end of 1999 there were 424,950 persons in Sweden with disability pensions. That is 7.6% of persons of working age. In 1998, the average age at which an old-age pension is first received was 60.5 years for women and 61.1 years for men.

IV. Benefits provided by the old-age insurance system

The pension will be based on all lifetime earnings reported to the scheme from the age of 16. At the time of retirement, the pension is calculated on the basis of the total pension rights collected. A guaranteed pension provides basic security of income. Pensions are linked to economic growth in Sweden. Pensions in the old system were calculated on the 15 best earning years. Only 30 years were taken into account for receiving a full pension. Consequently, persons with a "short" well-paid carrier on the labour market had an advantage compared to less-paid persons with a longer career, even if their lifetime earnings were the same.

The way of calculating pensions differs somewhat between the three different parts of the system.

1. Income-related pay-as-you-go pension

Age of retirement.

Income-related pensions will be calculated by dividing total pension assets by a coefficient related to the average life expectancy for the year-cohort to which the pensioner belongs. Consequently, coefficients will vary between different cohorts. Persons who draw their pension before the age of 65 will have their pension calculated on the basis of a preliminary coefficient. Life expectancy tables will be based on the most recent average life expectancy statistics over a five-year period.

Development of the economy.

The pensions will be indexed yearly, based on the development of the growth rate. Pension payments are to be indexed on a notional future growth rate of 1.6%. If real growth is higher than this 1.6% norm, pensions will be adjusted upwards by the rate of real growth in excess of 1.6%. If real growth is lower than the norm, full compensation will not be made for price increases, which means that pensions will fall in real terms. Net income-related pension assets will also be adjusted with the assets of those who die before reaching pensionable age. These assets will be shared out among the survivors of the same cohort.

The costs of administering old-age pension insurance will be shared among all he individuals insured.

2. Fully funded, premium reserve pension

Ordinary insurance principles. When people retire, they will be paid in different forms of lifelong annuities the capital they have saved plus interest. Only such life annuities are granted. Married couples who are covered by the reformed pension system will be entitled to transfer their pension rights accruing under the pre-funded system. In that case, the couple must notify their local social insurance office to this effect not later than January 31 of the year of the transfer. In subsequent years, transfers will be made on a year-by-year basis. The transfer of rights will cease to apply following the year when the spouse who has transferred pension rights, or both spouses jointly, notify that they wish to terminate the transfer.

3. Guaranteed pension

For a full pension there must be 40 years of residence in Sweden. The maximum total is 2.13 base price amounts for single persons and 1.90 base price amounts per person for married couples. The guaranteed pension will be reduced in relation to income-related pensions.

The Government decides the base price amount every year according to changes in prices.
The family situation is not taken into account when calculating the income-related old-age pension.

The former old-age pension system as a whole was indexed through the base amount, which was linked to the consumer price index (CPI).

4. Appeals

The tax authorities and the social insurance offices will be responsible for calculating pensionable income and other pensionable amounts for all insured persons. Other authorities will be responsible for submitting the necessary data to the social insurance offices. Decisions relating to pre-funded pensions will be taken by the Pre-funded Pensions Administration.

If individuals are not satisfied with a decision on their pension rights taken by a social insurance office or the Pre-funded Pensions Administration, they can request a review or appeal against the decision.

The social insurance offices and the Pre-funded Pensions Administration must review decisions on pension rights or pre-funded pensions. If the complaint relates to the pensionable income, the tax authority must also review its calculation. Appeals will be reviewed by county administrative boards, but only after the social insurance office or the Pre-funded Pensions Administration has reviewed its decision. Afterwards, an appeal can be lodged with the administrative Court of Appeal, but for this a review dispensation must be granted first.

V. Demographic changes and the pension system

Population in Sweden 1980 - 2030 (Statistics Sweden):

Year	65+ Pop.	Tot. Pop.	% 65+ / Tot. Pop.	65+ / 20-64 Pop.
1980	1362099	8317937	16.4	0.29
1985	1454111	8358139	17.4	0.30
1990	1526196	8590630	17.8	0.31
1995	1543332	8837496	17.5	0.30
2000	1530593	8875038	17.2	0.29
2005	1559753	8955422	17.4	0.30
2010	1716384	9054817	18.0	0.32
2015	1905808	9171463	20.8	0.36
2020	2027388	9307198	21.8	0.39
2025	2130257	9422264	22.6	0.41
2030	2248156	9481217	23.7	0.44

The demographic development as described above and the influence it will have on the financial situation are two of the main reasons why a new pension system was created in Sweden. In order to make the system stable, the pensions are related to demographic changes as well as changes in the Swedish economy.

Except for necessary adjustments on additional benefits such as housing allowances, survivor's pensions and transitional rules for the former basic pension scheme, one important issue remains to be solved. This has to do with an automatic balancing of the system in order to increase its financial stability and make it even more autonomous while it functions automatically. A special report has been presented on this matter.

The UK pension system is a partnership between the State (providing the contributory basic state pension and the State Earnings-Related Pension Scheme [SERPS]), employers (providing occupational pension schemes) and private pension providers (providing personal pensions).

I. Basic Principles of the Old-Age insurance system

The UK pension system is composed of three tiers.

- The first tier is the basic state pension.
- The second tier is a mix of state and mainly private pensions which are additional to the basic state pension. The second tier comprises SERPS, occupational and personal pensions.
- The third tier comprises voluntary private provision above the compulsory minimum. Some 14 million workers make such extra provision.

The combination of the first-tier basic state pension and a second-tier pension helps provide many people with a good degree of security in retirement. However, a means-tested minimum income guarantee is available for those who have not been able to build up a decent second pension.

All employees and self-employed people, except the very lowest paid, must pay National Insurance contributions. These give entitlement to a basic state pension. In addition, employees have to pay towards a second-tier pension – SERPS – unless they opt out and make their own provision. This is known as "contracting- out". If people are contracted-out of SERPS into a private scheme then they pay a lower rate of National Insurance contributions and the Government pays a National Insurance Contribution rebate to the employee's own scheme. A person who is in a pension scheme that is contracted-out of SERPS accrues second-tier pension rights in that scheme rather than SERPS.

People who are unable to work because of sickness or unemployment, if certain conditions are satisfied, may be credited with contributions which count toward the basic state pension and certain other benefits administered by the state. People who are not available for work for a reason other than illness or unemployment (for example mature full time students), or those whose earnings are below a certain level, may also contribute to the state scheme on a voluntary basis. Home Responsibilities Protection is available to people with low earnings or out of the labour market because of childcare or other caring responsibilities. Home Responsibilities Protection is not a credit, but instead shortens the period over which contributions are needed to acquire the full rate of basic pension. It cannot reduce the period for qualifying for a full basic pension below 20 years.

Occupational pension and personal schemes are one of the great welfare success stories in the UK. These pensions which are funded provide an individual with a sense of ownership which is largely missing from state unfunded schemes. The market value of the financial assets of occupational and personal pension schemes in the UK is estimated to be about £975 billion – more than all the other EU countries out together. Occupational pension schemes are run voluntarily by employers, or groups of employers, for their staff, and provide a pension on retirement and often other benefits, such as a death-in-service lump sum. Employers pay contributions (in addition to the employee's contribution) and also meet the scheme's administrative costs. Personal pensions are open to anyone who is working. There are two main types: an appropriate personal pension (not available to the self-employed, because they are excluded from SERPS) and an ordinary personal pension (available to both the employed and self-employed).

Of 35 million people of working age in Great Britain, some 10.5 million are members of occupational schemes and further 10 million hold personal pension schemes.

A large proportion – about 86% – of pensioners receive an income from both the State and also from private sources. Latest figures show that 60% of all pensioners (67% of recently retired pensioners) receive income from occupational pensions; the average weekly occupational pension in payment is £92, and recently retired pensioners receive £126 on average. These figures are exclusive of any entitlement to the state basic pension.

II. Financing

The state retirement pension scheme is financed on a pay-as-you-go basis. There have been no changes in the financing system in recent years. In 1998/99, total expenditure on state pensions amounted to £35.6 billion, or 37 per cent of all benefit expenditure.

With very few exceptions, occupational pension schemes and personal pensions are fully funded. An occupational pension scheme may be "non-contributory" which means that only the employer pays contributions, or "contributory" which means that the employee members contribute as well. The employer, in setting up the scheme, will determine and lay down in the scheme rules whether members must contribute and, if so, at what rate. To satisfy tax requirements employers must contribute to the scheme.

III. Conditions for entitlement to a state pension

State pensionable age is currently 65 for men and 60 for women. Under the provisions of the Pensions Act 1995, women's pension age will be increased gradually from 60 to 65 over a 10-year period between 2010 and 2020.

The full rate of the basic state pension is payable to persons who have paid (or been credited with) National Insurance contributions at a requisite level for at least 90% of the years in their working life. Currently working life is from age 16 to 59 for women, 39 years and 16 to 64 for men, 44 years for a full pension. The period of a woman's working life will be increased in stages at the same time as the pension age is equalised). Individuals with requisite contributions paid or credited in less than 90%, but at least 25%, of the years of their working life are entitled to a basic pension at a pro-rata reduced rate. Those who have paid contributions for less than 25% of the years of their working life (around 10 years) are not entitled to a basic pension.

There is no provision for the payment of the state pension earlier than state pension age. A person who continues working beyond pensionable age may receive a retirement pension irrespective of earnings and without any reduction to take account of earnings. If, however, a person defers claiming a retirement pension for at least 7 weeks up to a maximum of 5 years and during that period receives no other state benefit, the pension rate will be increased by 7.5% a year to take account of the pension forgone. From April 2010 men and women will be able to give up their pension for an indefinite period and the rate of increment will be raised to around 10% a year.

IV. Benefits provided by the old-age insurance system

Basic Pension

The basic pension is a flat-rate benefit the amount of which is dependent on the number of years of contributions paid or credited (as described above). A married woman can qualify for a basic pension at age 60 either on her own contributions, or she can qualify for a pension based on contributions paid by her husband providing he is age 65 or over and receiving his basic pension. She will be entitled only to the higher of these pensions. If the pension based on her own contributions is less than the maximum that a married woman can receive on her husband's contributions, the two will be combined up to that maximum. From 2010 a man will be entitled to a basic pension based on his wife's contribution record, provided that his wife was born after 5 April 1950.

A person in receipt of a basic retirement pension is entitled to claim an increase of the pension in respect of dependent children, but the increase is reduced if the pensioner's spouse earns over a specified level. A man in receipt of a basic pension is entitled to an increase of the pension in respect of his wife under the age of 60 who lives with him or whom he maintains provided she does not earn above a prescribed level.

Basic pension rights can also be inherited or transferred between partners on death or divorce. On termination of marriage before pension age through death or divorce a person may substitute the deceased or former spouse's contribution record, if more favourable, for the years of the marriage, or for the whole working life until the year of the termination of the marriage provided that person does not remarry before pension age.

The State Earnings-Related Pension Scheme (SERPS)

The second-tier of the state pension scheme is an earnings related element called SERPS. People can contract out of SERPS by joining an occupational pension scheme or an appropriate personal pension scheme. In these cases people will get an earnings based pension from the occupational or personal pension scheme rather than from SERPS.

Under SERPS, a pensioner receives an additional pension calculated on a formula in relation to contributions and earnings paid after the start of the scheme in 1978. The amount of SERPS was originally intended to provide an additional pension equivalent to 25% of earnings between prescribed lower and upper limits over the best 20 years of the working life. However, the accrual rate is being reduced to 20% for contribution years from 1988 onwards. This change is being phased in for people reaching pensionable age between 1999 and 2010. The best 20 years provision was also abolished so that SERPS will eventually be based on the whole of the working life. Widows entitled to widow's benefits (and widowers over state pension age whose late wife was over state pension age) may currently inherit 100% of their late spouse's SERPS. However, the amount of SERPS that may be inherited will be reduced to 50% for deaths occurring on or after 6 October 2002.

Annual adjustment of state pensions

Both the basic pension and SERPS in payment are increased annually in line with increases in the retail price index (RPI). The increase comes into payment each year in April, taking account of the previous September's RPI.

V. Demographic changes and the pension schemes

1. Challenges facing the scheme

The United Kingdom population, like that of most European countries is slowly ageing. Between 1998 and 2040 the number of pensioners is forecast to increase by around 50%, from 10.5 million to 15.5 million. This is due to baby booms following the Second World War and in the 1960s, and significant improvements in life expectancy due to better health. Support ratios for the UK are expected to fall between 2000 and 2020, although nothing like as dramatically as in many other European countries. In the UK by 2040 there will be 2.4 people of working age for every pensioner, compared with 3.4 now. However, demographic pressures are far greater and more imminent in most other industrial countries.

State spending on pensions will increase as the number of pensioners increases. But as the table below shows, based on current policies, the share of Gross Domestic Product (GDP) devoted to state pensions is expected to decline, despite the increase in the number of pensioners. These trends reflect the growing role of private pension provision and the linking of increases in the basic state pension to prices rather than earnings.

Projected future UK state spending on pensions (basic state pension, SERPS and Second State Pension)

Years	2000-01	2020-21	2050-51
Spending as percentage of GDP	4.3	3.9	3.0
Millions of pensioners	10.5	11.7	15.1
State spending per pensioner in relation to GDP (Year 2000=100)	100	81	49

Notes: (1) Based on assumed real GDP growth of 2%.
(2) Projections should be treated as broad orders of magnitude due to the uncertainties involved.

2. Problems with current pension system

The UK Government's objectives are to provide security for those who cannot provide for themselves and to make it easier for people who can save, to do so. The current pension system fails to provide security for those people who cannot provide for themselves in retirement either because they are outside the labour market or because their earnings are low.

Those who currently earn less than approximately £3,300 a year do not pay National Insurance contributions and therefore are not entitled to either the basic state pension or the State Earnings Related Pension Scheme (SERPS). They therefore depend on the means-tested minimum income guarantee to give them security in retirement. Some people fall into this group because they work very low numbers of hours; others have very low hourly rates of pay. The introduction of the national minimum wage in April 1999 will ensure that those working substantial numbers of hours are paid at levels which mean they are able to build up entitlement to a basic pension. However there still remains a group of people, mainly women, who are active in the labour market but whose access to contributory pensions is affected by the fact that they work part-time, on low earnings for long periods.

Lower earners, earning between approximately £3,300 and £9,500 a year, are not generally in the market for private, funded pensions. The administrative costs and charges of private, funded pensions mean they too have to rely on state provision, which is declining in relation to average earnings, unless they are fortunate enough to belong to an occupational pension scheme. The small contributions which people in this group could afford to make to a personal pension would be eaten up by fees and charges and they may not see the benefits of those savings.

Carers and disabled people who have to give up paid employment tend to be in a similar position to lower earners. They usually find it impossible to make pension provision or other savings once they leave the labour market.

For lower earners, carers and disabled people who can no longer work, only the State can really provide them with a secure second pension. But the current State Second Pension, SERPS, gives least help to those on the lowest earnings.

3. Changes introduced or planned

To address the problems set out above, the UK Government has proposed a new system of old age pensions that will provide a public-private partnership, building on the best features of state and private provision. It has also announced that the basic state retirement pension will remain as the foundation of retirement income for rich and poor alike and that it will not be means.

SERPS will be reformed through the introduction of a new State Second Pension. It will cut the numbers who need to rely on means tested benefits. In stage 1, there will be a dramatic boost for those earning below £9,500 a year by more than doubling the value of the second pension. There will be more help for those earning between £9,500 and £21,600 through higher rebates. In stage 2, when stakeholder pensions (see below) have established themselves, the State Second Pension will become flat rate. The aim is for middle and high earners to have private funded pension schemes.

The new scheme will also credit carers, some disabled people with broken work records and mothers with young children into the new Second State Pension. They will receive flat-rate credits for the new pension. Legislation is currently before Parliament to provide for the introduction of stage 1 of the State Second Pension in April 2002.

Since April 1999, all eligible pensioners are guaranteed a minimum income in retirement through the Minimum Income Guarantee. From April 2000, this was £78 a week for single pensioners and £121 for couples, with increased amounts for older pensioners. The Minimum Income Guarantee will be increased in line with earnings during the lifetime of this parliament. In the longer term, the Government's policy is to increase the MIG inline with prices as resources permit.

The Welfare Reform and Pensions Act 1999 created the framework for flexible, secure, low-cost *stakeholder pensions schemes*. These will be open to everyone, including the self-employed, and targeted at people earning £9,500 to £21,600 a year and who are not in an occupational pension scheme. The introduction of stakeholder pensions is planned for April 2001.

Old-Age Insurance Systems in Europe

At the last MISSOC meeting in Dresden, it was agreed that the next MISSOC-Info Special edition would describe the old-age insurance systems in the Member States of the European Union. This issue should contain essentially the following information:

- a short description of the current insurance system and its basic principles,
- the central problems faced by insurance systems with regard to financing and the provision of benefits in view of demographic changes,
- a description of the latest reforms: which are the objectives targeted? Which are the measures taken to achieve these objectives?
- a sketch of the current discussion on future reforms and alternatives.

In order to complete the information contained in the Comparative Tables, the presentation should focus on the various aspects of the reform (whether a reform has been already implemented or it is planned for the future).

For all this, we kindly ask you to provide us with a short article on your country (maximum 8 pages), taking into consideration the points listed below.

The basic principles of the old-age insurance system:

- Which group of people is covered (the entire population, employees and self-employed, or employees only)? Has the group of the entitled been enlarged in the recent years?
- Apart from the general system, which is role played by supplementary schemes? Are there compulsory supplementary schemes? What significance can be attributed to supplementary company pension plans? Are there any state-offered incentives for making individual private insurance provisions?

Financing the old-age insurance system:

- On which financing system is the general old-age insurance based (capital coverage, pay-as-you-go, mixed system)? Have there been any changes here in recent years?
- How is the system financed (contributions, state, mixed system)? Which is the percentage of financing coming from contributions? Have there been any changes in the recent years?

Conditions for entitlement to a pension:

- Which are the conditions to meet in order to be entitled to a partial or full pension? Have these conditions changed in the recent years?
- What is the age limit set for receiving a pension? Has this limit been changed? Are any changes planned?
- At what point and under which conditions is it possible to receive an early retirement pension? What significance in terms of quantity does the early retirement pension have in your country? Is there any statistical information available on the average age at which a pension is first received?

Benefits provided by the old-age insurance system:

- What are the most important factors establishing the amount of benefits? Have there been any changes in the recent years?
- According to which method or formula is the amount of benefits calculated? Has this method changed in the recent years or are any changes planned?
- Is the pension based on elements of the basic protection system or does it depend only on the contributions?
- Is the family situation of the pension recipient taken into consideration in the calculation of the pension amount?
- According to which formula are the pension amounts regularly adjusted (price development, wage development, etc.)? Has this procedure changed in the recent years, or are any changes planned?

Demographic changes and the pension system

- How did the proportion of old people (over 65 years of age) related to the entire population change in recent years (1980, 1985, 1990, 1995)? What are the tendencies expected for the future (2000, 2010, 2020, 2030)? For systems that are financed through contributions, how did the corresponding relationship between employed contribution payers and pension recipients change?
- Has the insurance system been adjusted to take these developments into account (change in the financing principle, change in contribution rates, change in conditions for entitlement, change in amount of benefits) or are any changes planned? Can you describe, whenever they exist, the implemented adjustment measures or those planned for the future?
- With regard to future reforms, are there any central questions actually debated?

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