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Developments and prospects of the pension systems for public employees in Europe

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Foreword

In the context of the preparation of its 2004 Congress, the Federation wished to obtain an overview of the recent changes which have occurred in pensions systems as a whole and more specifically in those of the public administrations of the Member States of the enlarged European Union.[1]

In the past two years, large-scale trade union mobilisation in favour of solidarity-based reforms of the public sector pension systems has left its mark on Europe from Italy, through France, Germany and Austria and shortly in the United Kingdom.

It is therefore in a very hard political context that this study tries to take stock of the complex developments in the pension systems of public sector employees and civil servants in Europe. It was carried out by the Association CSE-développement, at the request of the European Federation of Public Service Unions (EPSU). This work was drawn up on the basis of information and studies carried out or received by CSED. This information has been updated and supplemented by the members of the Association's network.

This document therefore aims to facilitate the development of an EPSU pensions policy. A first part describes the recent reforms undertaken in Europe. In a certain number of countries, the argument of equity between the private sector and the public sector is put forward to justify reforms which are frequently to the disadvantage of the public sector employees; pension reforms and calling the status of the civil servant into question would appear to go hand in hand. In other countries, the status of the civil servant is not taken into account in the pensions debate.

In both scenarios, and whilst stressing the wide variety of pension systems of public sector employees, the report confirms the trend towards «individualisations» of pension rights in the public sector, that threatens to undermine pay-as-you-go pensions schemes.

The persistent discrimination against women employees, whose pension is far smaller than that of men, exists to varying degrees in all the countries studied. Whilst the objective of gender equality increasingly appears on the trade union agenda, governments are still a long way from making it a national and European priority, in spite of the real risks of the impoverishment of a proportion of pensioners.

In a third section, the focus is placed on the role of the social partners in the pension reforms, both past and present, as well as on the trade unions' counter-proposals. Here too, trade union and social dialogue practices differ from country to country, especially as regards the management of supplementary pensions.

Finally, the last part of the report takes stock of the role of the European Union in the pensions field. According to the subsidiarity principle, the Member States retain competence for pension issues. However, under the open method of coordination, the European Council of Laeken (2001) set common objectives, i.e.:

- financial sustainability,
- adequate pensions,
- modernisation (new forms of employment and equality between men and women).

Although these objectives therefore cover both the financial and the social aspects of pensions, the former seem to take precedence over the latter. The absence of political consensus in the social field and the very limited role of parliament and the social partners in

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the open method of coordination partly explain this imbalance. At the same time, the mobility of public sector employees requires the harmonisation of the national regulations, whilst the single market exacerbates the demands for competitiveness and leads to risks of undercutting in the social field. Finally, the predictable increase in public spending on pensions comes into conflict with the stability and growth pact.

The tendency of governments to shift a greater portion of the responsibility for pensions of employers and the State to the individual remains a major work zone for the trade unions. This logic gives considerable cause for concern, especially for those on low salaries, the majority of whom are women. The attempts to establish pension funds in the public sector are not really convincing and, seeing what happens when the stock markets collapse, will not alone resolve the question of the financial viability of pensions.

This report indicates that it is a matter of urgency to strengthen the action of the trade unions in order to ensure an extension of pension rights. Faced with the development of supplementary pension schemes in the public sector, the access of all public sector employees to these schemes must be assured, irrespective of their sex, age, seniority or contract of employment.

Whilst it is admissible that the public sector pension systems are also the subject of reforms, it is not acceptable for these reforms to be confined to levelling down between the public sector and the private sector. The interprofessional balance must also, and above all, involve a more active quality employment policy. Increasing jobs would allow consolidation of the pension on the basis of allocation and guarantee a fair level of pension for all, men and women. It would also be a matter of reversing the constant decline of the share of the total wage bill in the wealth produced.

An employment policy associated with better distribution of the national income between employers' contributions and/or statutory pensions and employees' contributions should form the cornerstone for viable solidarity-based pension schemes. More effective consideration of equal treatment of women and men inevitably involves combating inequalities in pay throughout the professional career and reasserting the value of «women's» jobs.

At European Union level, it is not possible to speak of pension reforms without taking account of the need for harmonisation of the social legislation and coordination of taxation in order to limit competition through social undercutting. Otherwise, there would be a high risk of the increase in the mobility of goods and employees forcing a hefty reduction in the redistributive nature of the European social systems.

We hope that this report will provide our affiliates with the keys for analysis with a view to amplifying trade union coordination in Europe on the future of pensions which remains, above all, a question of social justice and political and economic choice.

Carola Fischbach-Pyttel

General Secretary

Introduction

Public employers were the first to assure their employees of some form of security in retirement by paying pensions to enable them to meet their needs when they were no longer able to work. This obligation is considered to be a just return for the service rendered to the State. It is essentially justified by the specific nature of public sector employment. This specific nature has nevertheless been called into question in certain countries **(Sweden, Finland,** the **Netherlands, Italy)**, where the status of the civil servant has been to a large extent aligned with that of private sector employees.

Pension systems need to adapt to this trend in public sector employment, as well as to the financial challenges facing public pension systems, arising from both demographic (an ageing workforce and greater life expectancy) and economic factors (control of public deficits).

It is in this context that both old and new Member States of the European Union have embarked on a process of reform. In most countries these reforms were undertaken first of all in the private sector and then later in the public sector. They were not easy to implement, as the measures they involve are often perceived as unpopular. Trade union opposition in **France**, **Italy**, **Austria** and **Germany** has shown how sensitive an issue this is.

The principle of subsidiarity means that European Union Member States have sole competence to legislate in the pensions field. The European Union can only intervene where the objectives of the action envisaged cannot be met adequately by the Member States. However, confronted by the common challenges posed by the ageing of the population, the European Council of Laeken (December 2001) laid the foundations for the open method of coordination. This process is based on eleven common objectives[12] coming under three main headings: safeguarding the capacity of systems to meet their social objectives, maintaining their financial sustainability and meeting changing societal needs.

In order to understand more clearly what is at stake and the consequences for pension systems in the public administrations in Europe, this report begins with a review of the reforms undertaken by national governments, taking account of the parameters used to implement them. Secondly, it examines the role of the social partners and then analyses European Union initiatives in terms of their impact on the future pension rights of public employees.

1. Public sector employees and pension reforms

1.1. An outline of the various pension systems

Although pension systems in Europe are characterised by their diversity, they are of similar composition and are facing the same challenges.

The first level of pension (first pillar) covers the public pension systems linked to income (and to residence in **Finland**, for example), the second level comprises the occupational systems and the third pension plans which tend to be taken out by private individuals.

As far as civil servants are concerned, the structure of the pension system is somewhat different on account of the individuals covered (established civil servants or contractual staff) and the proportion represented by the occupational systems in the retirement pensions of civil servants *(see below)*. A differentiation can be drawn between three types of systems:

- The basic pension systems, said to be «universal» as they apply to all residents. These exist in **Ireland**, the **United Kingdom**, **Finland** and the **Netherlands**. In these countries, civil servants benefit in the same capacity as the other residents. Occupational pensions account for the bulk of the retirement pension. They may also contain special provisions for civil servants (**Ireland,** the **Netherlands**).

- The pension systems where the public sector employees come under the basic social security system in the same capacity as private sector employees. Their supplementary pensions will be optional (**Bulgaria**, **Romania**, **Hungary**).

- The special systems where the basic system is reserved exclusively to civil servants. It differs from the general social security system which is applicable to the private sector employees (**Germany**, **Austria**, **Belgium**, **Luxembourg**, **France** and **Spain** for its State civil service). The financing of the system generally comes from the State budget. In these countries, occupational pensions, whether optional or compulsory, may cover only certain categories of officials (**Spain**, **Italy**, **Portugal**, **France,** etc.).

However, this classification doesn't cover all categories of employees. For instance, members of the armed forces or the police may benefit from special arrangements regarding their pension system. These tend not to have been affected by the reforms undertaken by both old and new Member States.

1.2. Pension reforms

1.2.1. Trends

Public service pensions systems have been altered as a result both of general reforms but also following attempts by Member States to align public sector arrangements with those of the private sector. Their aim, inter alia, is to increase the retirement age and to overhaul the method used to calculate pensions.

The civil service «standardisation» policy, embarked upon as early as 1989 in the **Netherlands**, aimed in particular at the gradual integration of civil servants into the private sector social security and pension system. This integration has been effective since 1 January 2001.

In **Italy**, officials recruited from 1995 benefit from a pension system equivalent to that of private sector employees.

Other countries have undertaken policies for convergence between the two sectors, irrespective or not of the trend in the status of public sector employees.

In **Luxembourg**, following a reform of 1998, the pension system applicable to civil servants has changed from a statutory system to the general system.

Having hitherto benefited from more favourable conditions, the revision of the methods for calculating public service pensions and the extension of the contribution time required (**France**, **Portugal**, **Greece,** etc.) result in a reduction in the level of basic pension.

In **Portugal**, for example, for a long time the contribution system of civil servants (CGA) allowed a replacement factor in excess of 100% for a full career of 36 years of contributions. The annual rate at which the pension is built up was reduced from 2.77% to 2% following a reform of 1993. It is from that date that new civil servants are subject to the same rules as those of the general system.

New rules for public service workers generally tend to be less generous. In **Luxembourg**, for example, the level of pension of civil servants was reduced by 13%. In **Austria**, the reform proposals should limit the fall in the level of pensions to 10%, at the request of the trade unions.

On the other hand, in **Spain** the supplementary system for local authority employees (MUNPAL) was integrated in 1993 into the general system, which curiously was more advantageous than that of the State civil servants.

Most Member States have increased the number of years of work on which the calculation of benefits is based.They have also altered the amount taken into account in working out life-long income with a view to encouraging workers to remain in the formal labour market.

France, together with **Italy**, **Sweden** and **Germany,** is among the countries where reforms are set to bring about a fall in the order of 20% (in the basic pension). This shows that reforms have consisted in tightening up certain parameters affecting how pensions are calculated, without changing the logic of the systems.Likewise, the elements taken into account to calculate the pension vary from country to country. For instance, this calculation may integrate or exclude benefits.[3]

In some cases reference salaries have been revised downwards. In fact the final salary, which hitherto formed the basis of the calculation, is often replaced by average salaries calculated over several years.

For example, **Italy** takes account of the entire career to calculate the pension of public service employees. Furthermore the pension eligibility criteria will be the same for both public and private sectors by 2008.

In **Greece**, the 2002 Social Security Act provides that the pension corresponding to years of service after 1 January 2008 will be calculated on the basis of the average monthly remuneration over the last five years of service.

In **Finland**, a reform of August 2003 proposes a new method based on the average salary calculated over the employee's entire professional career.

In **Germany**, the key measures presented by the Rürup Commission on 28 August 2003 aimed to increase the length of service (40 years) and to reduce the rights. These reforms are also applicable to the present pensioners. The replacement factor of the system for **German** civil servants will fall from 75% to 71.75% maximum by 2030.

In **Austria,** it was recently announced that the reference period would increase from 15 years to 40 years between 2004 and 2028. The government also wishes to cut the percentage cover, which is currently a maximum of 80%, thereby causing a decline in the standard of living of pensioners (the extent of the cuts may vary according to the status of the employee).

Recent recruits to the civil service in **France**, **Greece**, **Italy**, **Portugal** and **Luxembourg** will benefit from less generous pension arrangements.

Since the 1990s, the intention of several reforms has been to bring the conditions of entitlement and the level of benefits for civil servants or public sector employees very closely in line with those of private sector employees.

This is the case in **Finland**, where the aim of the reforms of 1993 and 1995 was to redress the balance between the two sectors. The annual rate at which the pension is built up was reduced (from 2% to 1.5% from 1995) and the method used to revalue pensions changed.

The occupational pension systems for civil servants – the VEL (civil servants and other state sector employees) and the KVTEL (local and regional government) – which were more advantageous than those of the private sector no longer possess any specific characteristics.

In **Italy**, eligibility conditions for pension rights and the terms and conditions for the calculation of pensions of public sector employees are gradually being aligned with the private sector systems. In ten years' time, the only differences between public and private sector employees will lie in the application of different technical parameters in certain very specific situations.[4]

These measures, which aim to reduce the level of pensions, will have more of an impact on those on low salaries This will result in aligning the replacement factors of pay-as-you-go pensions. This reduction in the differentials between replacement factors seems to be the logical corollary of reforms designed to make pensions systems more contribution-based and to link benefits and contributions more closely. From this point of view, the reforms replicate the salary inequalities of the labour market more closely, limit career breaks and in the future will lead to greater inequality in the distribution of pay-as-you-go pensions, compared to previous rules.

1.2.2. Raising the retirement age

The statutory retirement age is a decisive factor in the calculation of workers' pensions. At present, in the Member States of the European Union, it is between 60 and 65 years. However, in practice, the real age of retirement is below the statutory age. This generates financial costs for the pensions systems, which have to pay retirement pensions earlier and for longer. This is true for both the public and private sectors. Instead of enabling employees to work to the end of the normal duration of their career, a large number of old and new Member States preferred, first to raise statutory retirement ages and then to limit early retirement.

In **Italy**, for example, the retirement age has been raised from 57 years to 65 years, provided the necessary number of years of contribution has been reached. In **Finland**, it was set at 63 years until 1993, then was raised by reforms in 1995. Since the mid-1990s reforms in the new Member States have consisted in raising the retirement age by two or three years for men and by three to eight years for women, with retirement ages now tending to be around 62 or 63 depending on the country.

Statutory ages are being replaced to a growing extent by minimum or maximum ages in order to introduce greater flexibility. For instance, in Sweden it will be possible to retire from 61, but the required number of years of contributions will be needed to claim the full pension. In **Austria,** the reform proposals set the age limit at 55 years for women and 60 years for men, if they have contributed for 40 and 45 years respectively.

1.2.3. Reducing early retirement

This flexibility in retirement age has not had that much impact on early retirement for reasons of illness, invalidity or arduousness of the work. Member States have therefore taken steps to reduce early retirement.

Given the renewed rise in the number of claimants of invalidity and sickness benefits, the **Netherlands**, the **United Kingdom**, **Finland** and **Denmark** have restricted the conditions of access (in terms of age, for example) to these benefits.

At the same time some countries are implementing policies with a view to gradually banning early retirement for both sectors but for the public sector in particular. For instance, in **France** the CFA (end-of-career leave), introduced for public sector employees in 1996, was

abolished by the 2003 Finance Act. In **Austria**, early retirement is to be prohibited from 2014.

Measures to reduce early retirement aim to dissuade workers from leaving before normal retirement age by docking their pensions by a percentage proportional to the missing years of contribution. These pension reductions are practised in **France**, **Germany**, **Italy**, the **Netherlands** and **Finland.**

In France civil servants retiring early from 2006 will see their pensions reduced. The rate is set to reach 5% per missing year in 2015. In **Spain**, the reduction may reach 8% per year of early retirement; in **Greece** it is 6%. In **Italy**, it may be 13% for seven missing years. Through this measure, the Italian government's policy clearly aims to align the public and private sectors. The situation is the same in **Portugal**, **Greece** and **Luxembourg**.

On the basis of the objectives set at the European Council of Lisbon, Member States argue that raising retirement ages is legitimate and necessary. According to the Council, higher retirement ages would preserve the balance between the length of the working life and that of retirement and this would allow adequate pensions to be maintained without any need to increase contribution rates. However, in practice, member countries have also increased contribution rates. The solidarity between the generations and within each generation does not prove to be sufficient. In this case, the risks are shifted on to future pensioners who must remain longer in the labour market if they wish to enjoy a reasonable standard of living in retirement.

1.2.4. Development of occupational pensions

The aim of pension reform in much of the European Union has been to limit future expenditure on pay-as-you-go pensions and to promote, to a certain extent, systems of funded pensions schemes.

In most countries, the introduction of supplementary pensions of the «pension fund» or savings type is encouraged through tax incentives. The study of these supplementary pension systems is complex on account of their form, the way they are run and the various ways in which they operate. Whatever pillar they supplement (first or second pension pillar), they all aim to make up for the reduction in the basic retirement pension.

Pension replacement factors for civil servants have tended to be generous, which rendered the development of supplementary systems superfluous. The reforms undertaken by Member States are leading to lower replacement factors., although they vary between countries from 50% to 70% of average or final salary.

In **Portugal**, for example, it stands at 80% and in **Greece** the replacement factor may be as much as 100%. In **Italy**, the replacement factor of the basic system is to fall sharply; from 67.3% in 2000, to 48% in 2050, considering all categories of workers together. Finally, in **Germany**, the replacement factor of the special system for civil servants is to fall from 75% to 71.5% by 2007 for a full career.

The fall in the level of basic pensions, mainly on account of the fall in the replacement factor, serves as justification for Member States to develope or improve funded pension systems.

The timing of the introduction of occupational pensions varies for social, historical and political reasons. A differentiation can be drawn between two categories of countries: those which have only recently created supplementary pension systems and those where such systems existed for some time.

In this latter category , supplementary systems for public sector employees may cover the entire civil service (the **Netherlands** with the ABP) or the State civil service and the local civil service separately (**Finland**, **Sweden** and **Ireland**, for example).

These supplementary systems may also cover different sections of the public services (**United Kingdom**) where certain public sector employees (firemen, teachers and some of the health professions) have their own specific pension systems. Finally, in some cases, supplementary systems are organised on a geographical basis, as in the autonomous communities in **Spain**.

The Member States which recently developed supplementary pension systems for civil servants did so primarily for financial reasons.

In **France**, the additional cost of financing civil servants' retirement pensions between now and 2020 has been assessed at 28 billion euros by the Conseil d'Orientation des retraites. The reform of 21 August 2003 therefore created additional pension systems to take account of benefits, hitherto excluded, in the calculation of civil servants' pensions. These additional systems are compulsory.[5] They coexist with the «pension fund»[6] type systems to which civil servants may contribute on a voluntary basis. Economic simulations have revealed that life assurance was very often more financially worthwhile than the funds.

1.2.5. The introduction of reserve funds

The need to ensure the long-term viability of their pension systems has led some Member States to introduce reserve funds. In fact, reserve funds were among the alternatives proposed by the Council of the European Union as a response to the problems of financing encountered by both basic and occupational pension systems in Europe.

These «smoothing funds» allow for the accumulation of assets in order to make up any deficits in pension systems and in anticipation of the effects of the generation born after the Second World War.

They guarantee the maintenance of the level of pensions for current pensioners and avoid higher contributions for the next generations of workers. Although set up mainly for the private sector, some reserve funds are devoted specifically to public sector employees.

A distinction can be drawn between two groups of countries:

1) Those which have established reserve funds recently: **Ireland**, the **Netherlands**, **Spain**,[7] **Portugal**[8] (for the general system), **Norway**, **Ireland**, **Belgium**, **Germany** and **France** (for the private sector only)[9].

These countries have chosen to create funds by adopting various rules for administrative organisation, funding and financial management, taking account of their budget situation and the structure of their pension system.

Some funds are dedicated specifically to the pension funds of public employees (as in **Germany** or **Finland**) or in part (in **Ireland**).

2) Those which have had funds in place for longer: **Luxembourg**, **Sweden**, **Denmark** and **Finland**, where the terms and conditions for partial financing are in place.

For these countries, the reform of their pension system led to them changing the rules of financial management of existing reserves in order to improve the spread of investments and in this way to increase the financial yield.

The accumulation of reserves in pay-as-you-go systems and the optimisation of their financial management have therefore become predominant factors in the pension reform process.

This does not mean that a new «model» for the organisation and financing of pensions has appeared. On the contrary, there is a wide variety of national practices as regards the objectives assigned to the reserve funds, the amount and the nature of the financial resources allocated to the funds, the terms and conditions of the financial management and the rules for the use of the reserves. The present and future volume of assets of these funds is not easy to estimate. The problem lies in the fact that there is no universal method to assess the commitments. The statistical uncertainties surrounding the very long-term trend in the principal economic variables add to this difficulty.

The various countries do have two points in common, however: the choice of setting aside reserves is closely linked on the one hand to the improvement in public finances and budget indicators during the past five years and on the other hand to the conduct of the long-term budgetary policy which aims to ensure sustainable public finances over the next 20 or 30 years' time taking account of an ageing of the population

The effectiveness of the funds will depend on the ability of public authorities to accumulate significant reserves rapidly and this is a real challenge for the countries which set up funds more recently.

There is not necessarily any link to be seen between the size of the fund and its permanence. There are plans only to fund the **French** reserve fund, for example, until 2020. The accumulated funds should be used from 2020 until they are exhausted. However, the financial details are vague and it is possible that further contributions will be made to the fund beyond 2020.

Whatever the type of reserve fund, the smoothing function always exists:

- either because the date has been provided for by law on which the reserves are to be used to finance pensions (the **Netherlands**, **Ireland**),

- or because the financial revenue of the reserve fund is a component of the current income of the funded schemes (**Sweden**, for example). To these types of fund should be added those used to set aside part of the surpluses from the budget and/or pension systems in a reserve (the **Netherlands**, **Spain** and **Portugal**).

Usually, the way in which reserve funds are funded is independent of their status; the fund may be autonomous or integrated into the State budget.

1.3. Consequences of these reforms

1.3.1. Occupational pensions – funding or pay-as-you-go

In most countries there is no distinction between supplementary pensions for private sector workers and those for public sector workers. This is because existing schemes for private sector employees have been extended to public sector employees and the concept of civil servant has changed.

Supplementary pensions can be funded or pay-as-you-go. Although the difference between these systems is often stressed, trom a strictly economic point of view, they are almost equivalent since they are equally affected by demographic issues; in both cases, the «baby

boom» generation reaching retirement age and the greater life expectancy result in an increase in contributions or payments by the labour force and/or an adjustment of pension rights (amount or duration of benefits provided). The choice between the two is the subject of heated discussions in countries which are setting up or developing occupational pensions.

In a pay-as-you-go system, all generations of the labour force pay contributions which are used immediately by the pension funds for the pensions of retired people. Solidarity is collective and inter-generational.

In funded systems, the risks are borne either by the employer (defined benefits) or by the individual (defined contributions). The level of yield of the retirement pensions based on capitalisation of a generation of pensioners will depend on the yield from its investments.

1.3.2. Defined benefits or defined contributions

In defined benefit systems the retirement pension is calculated on the basis of a reference salary, multiplied by the number of years of service, multiplied by an annual rate at which the pension is built up. The latter differs from country to country. Defined benefit systems place the risk of insufficient assets of the pension fund, in the case of underestimation of the costs or of a fall in financial yields, on the employer. This system is in force in the **United Kingdom**, the **Netherlands** and **Finland**.

Defined benefit systems ensure a certain level of solidarity, both between the affiliated members and the employers.

In defined contributions schemes, the final salary is not taken into account and the benefit depends solely on the volume of the contributions paid throughout the career and possibly a coefficient linked to the age of the affiliated member at the time of retirement. Under this system, the risk is borne by the workers, the amount of whose pension will depend on the financial markets, the competence of the fund managers, the level of administrative and management costs and finally the efficiency of the control and supervisory bodies.

In Spain draft proposals for setting up a supplementary scheme for civil servants, are based on defined contribution principles.

Supplementary pension schemes may nevertheless evolve, with some countries transferring from one system to another. **Sweden**[10], for instance, has opted for a compromise between the two systems for supplementary pensions for State civil servants. The local authority staff scheme has, for example, been switched to a defined contributions system. **Lithuania** also opted for this system in 2002, as a result of financial difficulties experienced by its pay-as-you-go arrangements.

This system differs from another alternative proposed by the European Commission: that of notional defined contributions.

In a system based on notional defined contributions, all contributions made throughout a career are taken into consideration in the calculation, but contributions and benefits are not matched totally. This mechanism allows the integration of certain solidarity elements. This is not a defined benefits system as no reference is made to the final salary, but it is not entirely a defined contribution system either as no reference is made to the real amount of the individual contributions. The majority of new Member States have undertaken radical pensions reform by introducing notionally defined contributions systems.

The choice between these various systems is based on the desired degree of solidarity, the system of taxation of pensions (status on entry into the fund, on withdrawal, level of maximum amounts for exemptions or deductibles, possible surrender, etc.).

In the **United Kingdom,** the general architecture of the system for public sector employees is similar to that for other categories of the working population. Given the low level of the basic pension (for both the private and public sectors), the majority of employees need a supplementary pension to make up the. However, whereas supplementary pensions cover 78% of public sector employees, this is the case for only 46% of employees in the private sector.

In **Italy**, the supplementary pension arrangements introduced by the reforms of 1993[11] and 1995 for the private sector, were recently extended to cover civil servants. The prospect of a gradual reduction in the replacement factor, brought about by the reforms, led to the Italian authorities to develop supplementary pension systems for civil servants. A framework agreement signed by the social partners in July 1999 and the decrees published in 2000 and 2001 put the extension of the supplementary provision to the public sector employees into practice. A pension fund was set up, by an agreement signed on 24 January 2001, for the *«Fondo Esperia»* teachers working for public and private schools, but this practice has not spread to the other categories of public sector workers. The government is introducing incentives mainly in the taxation field to extend this possibility to all workers. For the time being however the participation rate in the pension funds is moderate

In **Germany**, since the reform of May 2001, which entered into force on 1 January 2002, all insured persons are encouraged to subscribe to a personal pension plan, known as the «Riester contract». The principle consists in paying a contribution into a certified pension savings product of an amount equal to a fraction of the gross earned income. Since the reform of their social protection system in 2001, German civil servants, judges and servicemen are eligible for this. These contracts are assisted through public subsidies and tax deductions for both employee and employer. Furthermore, German contractual staff[12] may also belong to the schemes resulting from the Riester reform.

At the end of 2002, 5 million people had subscribed to the scheme out of a potential 32 million beneficiaries. This figure is therefore well below the target hoped for by the German government. In fact, 84% of people over 50 years of age are reluctant to embark on a pension savings plan. Many employees would choose other forms of tax incentives which are more attractive in the short term in the context of group savings schemes.

An alignment between the two sectors of activity is also to be found in the **Netherlands**, where the second pillar comprises private occupational pension funds. These are organised within a sector or an enterprise at the request of the social partners. The ABP created specifically for State civil servants in the education sector was privatised in 1996, thereby aligning the situation of civil servants with that of private sector employees. Today, the ABP is the largest pension fund in Europe with 2.4 million members and 4.5 billion euro per year in payments for pensions and benefits.

The new Member States make no specific provision for supplementary pensions for civil servants, since, as far as their pension is concerned, they are similar to those of private sector workers. In view of the persistent deficits in retirement pension systems, these countries have followed the advice of the World Bank and recently developed supplementary pension arrangements (of the «pension fund» or savings type) (**Hungary** (1998); **Poland** (1999); **Bulgaria** (2000); **Latvia** (2001) and **Estonia** (2002)). Since they have been established only recently, it is not yet possible to assess their impact on the level of retirement pensions.

The majority of Member States offer tax incentives (the **United Kingdom**, **Italy** and **Germany**) to develop the share of supplementary pensions in retirement pensions. In some cases, the State may contribute to financing such supplementary pension systems. State aid is generally in phases. For instance, in **Italy**, the State pays a 2% contribution in the first year, 1.5% in the second year and finally 1% the third year in order to encourage affiliations to the teachers' pension fund (*cf. above*). In **Germany**, the State will pay a public subsidy to assist in the development of private supplementary pensions. This State aid should amount to a maximum of 10 billion euros in 2008. In **Greece** too, the State employer pays 3% for the auxiliary pensions of civil servants insured with the TEADY (Auxiliary insurance fund for State civil servants).

1.3.3. Higher contributions for civil servants

The development of systems based on the ability of each individual to contribute to his own pension results in a partial disengagement on the part of the State. The amount of the pension will then depend on the professional and financial situation of each individual.

Many civil servants must now make financial efforts to build up a supplementary pension for themselves, just like private sector workers. This financing obligation depends on the social security systems in force and also on the way in which the basic pension of the civil servants is financed.

For example, the countries where civil servants benefit from special schemes (*cf. introduction*) generally provide for a supplementary pension for these staff members. Other countries leave them free to build up supplementary pensions for themselves, in this way aligning the public sector with the private sector as regards pensions (*cf. above)*.

In **Italy**, civil servants contribute to the same extent as private sector employees. As regards the financing of supplementary retirement pensions, the Italian authorities have adapted existing systems by transforming the TFS (social benefit provided by the employer for civil servants) and the TFR *(trattamento di fine rapporto:* savings from wages for the private sector). This is a lump sum paid on retirement and regulated by collective agreements. For civil servants, the term used is that of pension capital *(indennità di buonoscita)*, rather than TFR. However, the TFR will apply to civil servants recruited after 21 January 2001. Those who were already in service before that date have the option to choose between retaining the TFS or renouncing it and benefiting from the TFR.

The participation by civil servants in the financing of their pension is a new phenomenon in countries where they did not contribute or only made a fictitious contribution to their basic pension. Pensions were then guaranteed by the State budget (**Germany**, **Ireland**, **Austria** and **Denmark**). In other States, civil servants contribute and there is an explicit contribution by the employer (the State) (**Sweden** and the **Netherlands**, for example).

In the **new Member States**, the responsibility for financing their basic pension is generally assumed by public sector employees themselves, apart from certain categories of senior civil servants (diplomats, magistrates, servicemen, etc.). Only these senior civil servants will be able to contribute to the supplementary pensions in order to receive a decent retirement pension. There is a real *risk* of impoverishment for the other public sector employees, especially in the States where building up a supplementary pension is a matter for the individual.

1.3.4. Indexation clauses

The majority of reforms undertaken by Member States aim to suspend the indexation rules, especially with regard to wages, replacing them with temporary more restrictive measures in order to resolve financial imbalances and to avoid increases in pension contributions.

The most recent example in this respect is that of **France**, where the indexation method was changed during the last reform of August 2003. Retirement pensions are henceforth indexed to the price trend and no longer to the wage trend as previously. The increases are therefore smaller and lead to a fall in the purchasing power of civil servants. The situation is the same in the other Member States.[13]

The indexation of pensions to salaries is a key trade union demand.

1.4. Equal treatment of men and women

As many pension schemes are earnings-related the differences in pay between men and women are reflected in the level of pensions. For example, the pensions differential between women and men is 37% in **Spain,** 45% in **Austria,** 43% and in **France**.[14]

Since 1979, European legislation has required equal treatment of men and women as regards social security, but it allows different treatment for a *different* situation, such as the retirement age, survival benefits and pension rights associated with the education of children (Directive 79/7). The ECJ has however interpreted these derogations restrictively.

Despite the equal treatment of men and women being taken into account in the context of the common European objectives of Laeken, the effects of pension reforms on women employees are debatable. In **France,** the increase in the number of years of contribution will penalise women more, since they do not currently manage to achieve the necessary number of annual contributions to be eligible for a full pension. At present women often take retirement on average two years later than men to make up for too few years of contribution and to try to limit the loss of purchasing power of their pensions.

1.4.1. Equalising retirement ages

Most States have harmonised the retirement age of men and women. By 2020, the retirement age should be the same for both sexes, i.e. 65 years[15] in the Member States. New Member States have also aligned the retirement age of women with that of men.

For instance, **Estonia**, **Latvia** and **Hungary** are set to achieve this objective by 2010, which would prolong the working life of women. **Slovakia** is preparing to adopt similar measures. On the other hand, for cultural reasons, **Poland** and **Slovenia** wish to maintain the retirement age differential between the sexes.

What is more, some States, such as **Sweden** or **Germany**, have raised the retirement age whilst reducing the duration and the amount (of retirement pensions). Minimum old age pensions, the majority of whose beneficiaries are women, have also been reduced in these countries, .

A few States, such as **Sweden**, **Italy** and **Spain**, nevertheless also allow a certain flexibility in pensionable ages so that people with a shorter professional career (i.e. a large number of women) can qualify for a full pension. After introducing the new pension system in **Italy**, the same flexible retirement age will apply to both men and women.

1.4.2. Child premiums

The reassessment of the methods used to calculate pensions has led to the States taking the situation of women into consideration through premiums granted to working mothers. These advantages are being reviewed in a certain number of States in accordance with the case law of the European Court of Justice, according to which the benefit of the premium is applicable to male civil servants who are able to prove that they have taken charge of the education of their children.

Luxembourg introduced *«baby years»* (2 years minimum per child) for one parent. In **Germany,** pension credits are provided for one parent.

The reform of 2001 introduced the principle of the premium for the education of children at the same time as the option to choose between reversion pensions and the sharing of pension rights between spouses *(Rentensplitting)*. Pension sharing is seen as a way of promoting the women's access to pensions based on their own rights. Special measures are provided for women working part time.

The same is true of **Sweden**, where this credit will be paid to the parent who has the lower income. **France** grants contribution periods to mothers, whether or not they have a career break, as compensation for their occupational and family obligations (1 per child in the civil service). These premiums have been restructured and extended to men working in the public sector since the Act of 21 August 2003. At the same time, the conditions of access to the increases and premiums for children will be tightened up in the public sector for children born from 2004.

1.4.3. Atypical employment

The situation of staff working part time or having had career breaks or incomplete careers (predominantly women) have only been partly taken into account in reforms introduced by Member States. The impact of part-time work on pensions varies depending on the career and the job. It has repercussions on the level of supplementary pensions, as the acquisition of points is strictly proportional to contributions and therefore to salaries. The level of remuneration is therefore of greater importance than the form of work. Part-time work is nevertheless at the centre of the debate on the **German** reform and is a major concern for trade unionists in **Italy**.

The **French** system has taken measures in favour of civil servants working part time by considering the periods worked as periods of full-time work, but staff must pay the relevant contributions.

1.4.4. Survivors' benefits

Pension systems were designed taking account of the socio-professional situations of the time, i.e. for men working full time and without career break as the main breadwinner for the family. Women were confined to the roles of wife and mother and rather than their own rights, they benefited from derived rights. The logic behind establishing survivors' benefits is the protection of women and not equality. These benefits are still an important means of ensuring an adequate living standard for elderly women (nearly 60% of elderly people of over 65 years of age and nearly two thirds over 75 years of age are women).

Several countries are currently reducing these benefits in various ways (**Austria**, **Germany**, the **Netherlands**, the **United Kingdom** and **Sweden**).

Germany has reduced survivors' benefits from 60% to 55% of the spouse's pension, at the same time increasing pension credits for the education of children. In **Sweden,** the survivors' pension is due to be gradually abolished. On the other hand, the **Greeks** intend to maintain survivors' benefits based on derived rights.

In a context of the development of single parent households, the low level of personal pension rights may increase the risk of impoverishment of women, especially if they live alone and have no other source of income, such as derived rights (survivors' pension). It is therefore a matter of urgency to personalise these rights. This has to be done from a perspective of equality, accompanied by measures designed to improve women's access to the labour market and to combat wage discrimination. Furthermore, promoting women's employment would at the same time enable pension inequalities to be reduced and to improve pension financing (in pay-as-you-go pension systems).

1.4.5. Actuarial neutrality

Women may be disadvantaged in the setting up and financing of their supplementary pension. In the majority of countries, the application of actuarial neutrality in the defined contributions systems means that women either pay higher premiums for their pension, or receive a lower pension per year.[16] According to this principle, the contributions paid go towards accumulating a capital sum which is then converted into monthly pensions which will be lower if they have to be distributed over a longer period. The result is an accentuation of the inequalities of income between men and women on account of the differences in life expectancy.

This principle of actuarial neutrality is already the rule for the majority of financial products. In the European Union, only pay-as-you-go systems with defined benefits, are strictly bound not to take account of differences in life expectancy between men and women. The ECJ case law considered that pensions paid under supplementary occupational schemes constituted remuneration and that they should be the subject of formal regulations pursuant to the Treaty of Rome.[17] However, this Directive authorises funded systems and pay-as-you-go systems based on allocation, with defined contributions, to take account of the differences in life expectancy. This boils down to granting higher benefits to men for identical contributions or to requiring higher contributions for women.

In **Germany**, for example, the German insurance federation (GDV) justifies the disparity in rates for retirement, life and sickness contracts; these are three sectors in which discrimination targets women (extra 10% for women for retirement products justified by their longevity). If unisex rates are introduced, the GDV is worried that a deathblow will be dealt to the so-called Riester personal pension plans as only women would still be interested in them.

It is in this context that the European Commission presented a proposal for a Directive on 5 November 2003 (IP/03/1501) on equality of treatment between women and men in the supply of goods and services. The use of criteria based on gender in calculating bonuses, insurance benefits, and other financial services will be prohibited. However, the proposal is designed to be flexible by providing for exemptions. In principle, the distinction between men and women should be banned within eight years, but there is no guarantee that the project will succeed. The text still needs to be unanimously approved by the Council of Ministers of the fifteen old Member States, after consultation with the European Parliament. The European insurers (FFSA) intend to protest and hope for a rejection of this Directive by one of the Member States.

2. Role of the social partners

2.1. Trade union reaction to pension reforms

In Europe, the trade unions emphasise the long-term potential consequences of the reform measures on the social rights of public sector employees. They essentially denounce the fall in the level of pensions and the undermining of some of their rights (retirement age, for example), which they consider to be vested social rights. In many countries, public sector unions have gone beyond simply making demands.

The positions which may be adopted by the civil service unions and the alternatives they may propose depend on the extent to which they can negotiate the terms and conditions for public sector employees. Bargaining is increasingly recognised as a means of determining conditions of employment for public sector employees. However, practical experience means that nuances have to be made to this finding.

In **Portugal**, for example, the government is legally bound to translate into law agreements entered into with the trade union organisations . However, in the absence of any agreement, the government retains its power to legislate unilaterally, which is usually the case in periods of budgetary restraint. . The trade union SINTAP (union of workers in the public administration) has called on the government, in reaction to the measures reforming the pensions system, to increase the level of retirement and reversion? pensions by 4% and 10% respectively for all pensioners, whatever the amount of the pension and the year of its payment.

In **France**, the majority of civil service trade unions consider that other policies are necessary for public sector finances. These imply different growth dynamics, putting employment and purchasing power to the fore. They also require choices other than those aiming to weaken tax revenue.

Furthermore, countries which have only recently had recourse to collective agreements to establish the conditions of employment of their staff, such as **Greece**, exclude the determination of pay or retirement pensions from the scope of the bargaining.

The role and clout of the social partners remain all the more variable and uncertain as a result.

For instance, in **Germany** the trade union members of the committee of experts (Rürup), established to prepare the government's pension reform, rejected the latter in a minority vote. For some unions, the solution does not lie in lengthening the contribution period but widening the base of contributors. Taking the Swiss model as an example, they call for civil servants, whose pensions are currently financed from tax revenue, and the self-employed to contribute to the compulsory system. Some also advocate that a capital income tax should contribute to financing the system. For its part, the DGB trade union confederation, in response to the raising of the retirement age to 67 years, proposed taking initial steps to increase the actual retirement age before increasing the official age from 65 to 67 years. All these demands have already been rejected by the government.

In **Austria**, the civil service trade unions, and in particular the GÖD, consider that harmonisation between the private sector and the public sector, planned by the government, must take account of several factors for the reform to be fairer: for example, a maximum rate must be set for contributions and better cooperation organised between the sectors. In addition, the retirement age of men and women must be identical, i.e. 65 years.

The trade unions, more generally, wish the law to serve the general good and not political or private interests.

2.1.1. The role of the social partners in pension fund management

Trade unions may not support the switch to funded pensions systems but where they have become a fact of life then it could be important for unions to use whatever means they can to control these funds in the interests of their members.

In the **Netherlands**, the public services unions have a right to take part in the management of their pension funds. They designate a proportion of the administrators (*trustees*) who have the responsibility[18] either themselves to define the investment policies of the funds or to choose the specialised managers to whom the management of these funds is delegated; both decisions are sometimes taken by the same body.

The role of the social partners in the countries of **Southern Europe** and in the **new Member States** is not so developed. Nevertheless, in some of these countries, the social partners have taken part in the introduction of supplementary pension systems of the «pension fund» type in order to make up for the decline in pension rights suffered by the public sector employees. This is the case in **France** (PREFON, for example) and **Italy** (*Fondo Esperia* (pension fund for teachers)).

Supplementary pensions may be established on the initiative of the employer in the private sector, as in **Germany**, **Ireland** and the **United Kingdom**, by sectoral collective agreement, as in the **Netherlands** and **Denmark**, or by national agreement, as in **Sweden** and **France**. This diversity is also found in the public sector.

In **Italy**, the *Fondo Esperia* was established by collective agreement.[19] In **Germany**, the new supplementary pension for contracting staff in the civil service is also the fruit of negotiations between social partners[20] who concluded a collective agreement to govern this system on 1 March 2002. In **Finland**, the future of the income-linked pension systems depends on negotiations between the social partners which parliament then translates into a law. The legislative amendments relating to the funds cannot be negotiated without the social partners.

On the other hand, in **Greece**, the supplementary systems come within the regulatory framework of the social security system; they are placed under the supervision of different ministries. It is the legislator who decides whether to establish supplementary pensions. The law is the basis and not bargaining.

Trade unions have different roles depending on the form taken by the pension funds[21] (legal entity independent of the enterprise in mutual or other form) but also depending on the way they operate (capitalisation or allocation).

The supplementary systems, like the basic systems, show great diversity in the way they operate (financing, management) and in their nature, which may be compulsory or voluntary. In both scenarios, the pension funds encounter the same difficulties.[22]

The trend towards compulsory systems,[23] whether or not in the context of collective agreements, may appear to be a solution which not only allows improvement of the cover of employees (considering all sectors together) – which would therefore attenuate the inequalities in relation to this kind of pension – but also limits the tax expenditure for the public budgets, provided that once these systems have become compulsory, the tax advantages from which they benefit are reduced. It would appear that the compulsory nature

does not necessarily provide public sector employees with a better retirement pension. In fact the level of the «final» pension depends on the level of the basic pension.

The role of the social partners varies from one pension fund to another depending on the place and the role of the workers in these funds. They may play a role in determining the investment policies both to benefit the public sector and to protect the interests of the workers and especially women.

2.2.1. Socially responsible investments

The idea of promoting the development of «socially responsible» investments or «ethical investments» has been winning over a certain number of pension fund operators for several years and in particular the trade union organisations.

Following a certain number of trade union initiatives, the Public Services International (PSI) developed recommendations, for example, with a view to:

- developing mechanisms for the exchange of information intended to improve pension fund management,

- encouraging the funds to develop a broad approach to socially responsible investments, with the help of an international network of advisers close to the trade unions and

- to help the trade unions assist their fund administrators.

2.3. The mobility of public sector employees in Europe

”The European Commission is calling on the social partners to play their role in tackling problems faced by workers who lose out on occupational pension rights when moving job, particularly to another Member State, and to adapt occupational pension schemes under their responsibility in such a way that workers who change jobs or interrupt their careers do not suffer undue losses of occupational pension rights. The Commission invites the social partners to negotiate an EU-wide collective agreement allowing for more mobility-friendly occupational pension arrangements.”[24]

The European Commission has defined the current regulations relating to supplementary pensions as one of the main obstacles to mobility. The trade unions and employers (private and public) together bear the responsibility to set up occupational pension systems. This mobility problem is encountered particularly in countries where supplementary pensions are compulsory and collective. However, the employers have refused to negotiate a common regulatory framework with the trade unions.

3. Is there a European pensions policy?

3.1. The principle of subsidiarity

Pursuant to Article 5 of the Treaty of Rome, each Member State has sole competence to regulate social protection. This text, of general scope, also applies to the pensions of public sector employees. Whilst the European Union has no powers of its own to regulate pensions, it is however capable of influencing the national pensions systems. In fact, even though the European Union recognises that each Member State remains responsible for the organisation and financing of its own social protection system, it is in charge of coordinating the national social security systems of all the workers (who are nationals of one of the Member States or legally resident within the territory of one of them and who were not already covered by accords or agreements).[25]

Exceptions exist for civil servants, who are considered as a special case from the point of view of their pension rights. Hence Regulation 1408/71 of 14 June 1971, on the coordination of the social security schemes[26] of the fifteen Member States, excluded them from its scope. This exclusion seemed logical since the civil servants were excluded from the freedom of movement and freedom to work pursuant to Article 48(4) of the EC Treaty.

Nevertheless, the case law of the Court of Justice of the European Communities[27] forced the Council to take measures to extend the coordination of the social security schemes to cover the special schemes for civil servants through Regulation 1606/98 of 29 June 1998. The provisions relating to coordination are therefore henceforth applicable to them. As regards old age pensions, they mainly concern the addition[28] of the periods of insurance and the acquisition and retention of the rights acquired in different Member States. This extension enables civil servants coming under special schemes not to lose their pension rights, in principle, even when the qualifying period has not been completed in one of the schemes to which they contributed. The Community regulation is not however very constraining in so far as the national pension schemes of the civil servants may refuse to apply the addition of the periods and therefore to transfer the pension rights.

3.1.1. Mobility of public sector employees in Europe

The mobility of public sector employees in Europe may also be curbed where the legislation provides for a minimum insurance (affiliation[29]) condition in the context of the special scheme or assimilated scheme of that State. Only the periods validated by the legislation of that State will be recognised. If the person concerned does not meet the requirements to be able to benefit from the special scheme, the insurance periods covered under this scheme will be taken into account under the general scheme.

These periods are of varying length depending on the country and the system. They range in general from 0 to 20 years. They are higher in the countries where special schemes exist (**Greece**, **Austria**, **France**, **Spain and Portugal**). Conversely, in the countries of Northern Europe (the **Netherlands**, Scandinavia), the requirement of a period of affiliation is tending to disappear for supplementary pensions. In fact, long qualifying periods were established at a time when the aim was to secure the loyalty of civil servants. Today, they constitute an obstacle to their mobility.

The Commission has condemned these discriminatory practices.[30] It calls on the Member States to apply similar rules on the subject and to reduce these qualifying periods.

In **Belgium**, the original qualifying period of 30 years has been reduced to 5 years. The same is true of **Italy**. In **Finland**, this qualifying period was abolished in order not to disadvantage short careers and atypical employment. In **Portugal**, a move has been made in the opposite direction to that taken in the other Member States and civil servants appointed after 1993 must complete a 15-year qualifying period instead of 5 years for civil servants appointed before 1993.

This problem is accentuated when occupational pensions form a major part of the retirement pension. In fact, since occupational pensions are not included in the scope of Regulation 1408/71, the principle of addition does not come into it. This is particularly true of the group supplementary pension arrangements. A variety of practices exist at national level. They may be offputting civil servants wishing to change fund, public authority or country.[31]

Certain countries (**Sweden**, **Finland** and the **Netherlands**) accept more or less readily the transfer of vested rights from one fund to another. Other countries discourage these transfers by penalising their members. In Portugal, for example, 54% of pension funds

confer no pension rights on public or private sector employees who leave the scheme before retirement.

In view of the development of discriminatory practices by certain supplementary schemes (loss of vested rights in the case of the employee changing pension fund or moving to another country, for example), the European Union decided to provide a framework for national practices by laying down minimum rules which the Member States must respect.

After ten years of vicissitudes, a Directive on the activities and supervision of institutions for occupational retirement provision was adopted on 12 March 2003.[32] This Directive follows on from a Directive of 29 June 1998 on safeguarding the supplementary pension rights of employed and self-employed persons moving within the Community. It is a key component of the Commission's Financial Services Action Plan, which is to be implemented by 2005[33] and aims to ensure a secure legal environment for supplementary pensions. It is directed at occupational retirement institutions, in both the public and private sectors. The Directive does not provide for the participation of the social partners in setting up and supervising the management and strategic investment choices of a pension fund or the need for criteria for investments contributing to sustainable development. This deficiency was criticised by the trade unions, which were worried that the interests of the fund investors would prevail over those of the affiliates as regards their pension rights.

3.2. Determination of a joint working method

Since the adoption of the Amsterdam Treaty in June 1997 and the Summit on employment in Luxembourg (in November 1997), the concept of «Social Europe» has received new impetus. Since then, the questions of social protection have been included as elements in the economic construction of Europe. In this context, a European strategy was developed, objectives[34] were set in Lisbon in 2000 and then further elaborated by the European Council of Stockholm in June 2001.

To enable the Member States to achieve the objectives determined by the European Council, they have adopted the open method of coordination, which is also known as the «method of management through objectives». This coordination presupposes cooperation between the national departments or institutions responsible for the payment of the pensions of civil servants and related public employees. Each Member State is presumed to dispose of the information necessary to understand the various pension systems for civil servants. In practice, the exchange of information is limited to the States in which a significant number of civil servants have a «mixed» career.[35]

This method is to allow the best practices to be disseminated and to ensure greater convergence of the national policies from the point of view of the principal objectives of the European Union. In this way, it represents a lever for the national reforms, whilst preserving the specific features of each system. harmonisation of pensions systems is still ruled out, and in particular for those public sector workers.

The open method of coordination supplements the action of European working groups: the Pensions Forum,[36] in which the social partners participate, a High-Level Group and the Social Protection Committee.[37] The work carried out within these entities has thrown light on certain fields, such as the portability of rights (work currently in progress).

Even though the opinions expressed are not legally binding, they are not without consequences and contribute to the drawing up of European policies and to the fixing of their objectives.

The European Union also refers to the fall in the level of basic pension in the context of the modernisation of the pension systems. It defines general policies with a view to prompting the States to develop supplementary retirement pension systems. Although it does not impose any particular form, it advocates retirement systems financed from private and public funds so that the latter offer effective, affordable, transferable and secure pensions. Funded pension schemes, as an operating method, are not ruled out, but they must not under any circumstances supplant pay-as-you-go systems, which should remain the rule in order to maintainsolidarity between generations.

Conclusions

The reforms undertaken by the Member States lead to a «generalisation» of civil servants' pension schemes which were hitherto specific for the main part. In fact, the common reform criteria used by the Member States aim gradually to align the pension systems of employees of the private sector and those of the public sector.

At European level, the finding is the same. In fact, the principle of the coordination of the social security systems has ended up being applicable to civil servants. However, the application of this coordination does not go unchallenged on account of problems of interpretation, mainly deriving from national courts and administrative practices. Even though the harmonisation of pension schemes remains excluded from the scope of Community action, the incompatibilities between the pension schemes are becoming blurred. In the future, single coordination, common to all employees of the public sector and the private sector, remains conceivable.

This convergence in national government policies on pensions also results from the guidelines set by the European Council. However, the recent changes undertaken in the Member States do not mean that the common objectives of adequate pensions, financial viability of the pension systems and modernisation, including the questions of gender equality, will be achieved. European citizens very often have the choice between lower pensions and/or longer careers. The compromise between the economic and social interests necessary for the achievement of the *European social model* therefore seems hard to reach.

Progress is also necessary in order to promote the recognition of pension rights of public sector employees in the context of their freedom of movement. Even if the portability of rights is more or less resolved for the basic pension systems, the question still remains entirely open for supplementary pension schemes.

However, it is also justifiable to wonder whether the Commission is not pushing the development of supplementary pensions on the pretext of improving pension rights in the context of mobility. In fact, the pension system model which is emerging for the civil service calls to mind more personal saving, without necessarily involving capitalisation.?? National governments will have to adapt to these changes. In the absence of pension systems with greater solidarity, the latter will concentrate their policies on solidarity linked to the validation of periods not worked or through granting a minimum old age pension.

Annexes

- Table 1: Normal minimum and maximum pension qualification ages for private sector workers
- Table 2: Normal minimum and maximum pension qualification ages for public sector workers
- Table 3: Age when people stop working and “statutory” retirement age
- Table 4: Flexibility as regards age and possibilities of concurrent drawing
- Table 5: Retirement ages for men and women in EU Accession Countries
- Table 6: Summary of pension systems in EU Accession Countries
- Table 9: The second pillar in the European Union
- Table 12: The role of European institutions and policy committees related to the future of pension systems
- Table 13: Access to private pension provision in Europe
- Table 15: Details of pension systems for civil servants in Europe

Table 1: Normal minimum and maximum pension qualification ages
- Private sector workers -

Country	**Normal age**	**Minimum age**	**Maximum age**
Germany	Age 65 for men Age 65 for women (age 65 in 2005)	Age 60 until 2010 for women Age 63 for minimum insurance period of 35 years (age 62 from 2010)	Deferred pension possible
Belgium	Age 65 for men, from age 61 (in 1998) to age 65 (in 2009) for women	Age 60 if 28 years of employment (rising gradually to 35 years by 2005)	No deferred pension
Canada	Age 65	Age 60	Age 70
Denmark	Age 67 for the basic system and the ATP supplementary system (age 65 from 2004 for the basic system)	Age 65 for the ATP system	Age 70 for the ATP system
Spain	Age 65	Age 65, Age 60 provisionally for persons insured under the system abolished on 1/1/1967, reduced age for physically demanding occupations	No age limit except if there is a collective agreement
United States	Age 65 (gradually rising to age 67 in 2022)	Age 62	Age 70
France	Age 60 for the CNAV Age 65 for the ARRCO and the AGIRC	Age 60 for the CNAV Age 55 for the ARRCO and the AGIRC	Age 65
Italy	Old system: age 65 for men and age 60 for women New notional accounts system: no explicit notion of *normal* age	Old system: age 57 if 35 years validated, no age condition if 37 years validated (40 years in 2008). New system: age 57. Age 57 for everyone from 2013	Age 65
Japan	Age 65 for the basic universal system Age 60 for the supplementary system (rising to age 65 between 2013 and 2025 for men, between 2018 and 2030 for women)	Age 60	Age 69
Netherlands	Age 65 for the AOW basic universal system and for pension funds	Age 65 for the AOW basic system Age 60 for pension funds	No deferred pension for the AOW system
United Kingdom	Age 65 for men Age 60 for women (rising to age 65 between 2010 and 2020)	The minimum age corresponds to the *normal* age	Maximum extension of 5 years
Sweden	Old system: age 65 New notional accounts system: no explicit notion of normal age. Age 65 for the guaranteed means-tested pension	Old system: age 60 New system age 61	Old system: age 70 New system no limit *a priori*

***Sources**: MISSOC (on 1.1.2001), CPE (2000), Retirement Issues.*

Table 2: Normal minimum and maximum pension qualification ages
-Public sector workers-

Country	**Minimum age**	**Insurance period**	**Maximum amount**	**Basis for calculation**
Germany	Age 63 with penalties Age 65 without penalties	40 years	75%	Final salary including bonuses and allowances
Austria	Age 60	40 years	80%	12 best months in 2003 24 best months in 2004
Belgium	Age 65 with the possibility of early retirement		75%	Average salary received over the last 5 years
Denmark	From age 60 Statutory age: Age 70	37 years	Variable between 40 and 70% (57% on average)	Final salary + number of years of service
Spain	Age 65 Voluntary retirement at age 60, possibility of continuing to work to age 70	35 years	100%	Regulating salaries set each year by the Treasury
Finland	Age 65 with possibility of early retirement	40 years	60%	Average salary over the last 10 years
France	Age 60 with the possibility of continuing to work	37.5 years	75%	Pay for the last 6 months
Greece (1993 reform)	Age 65	35 years	60%	Salaries for the last 5 years excluding bonuses/number of months of insurance
Ireland	Minimum age 60 and maximum age 65	40 years	50%	12 last months (with some additional types of pay)
Netherlands Compulsory supplementary system	Age 65 minimum	40 years	70%	Final annual salary received
Portugal	Age 60 with possibility of continuing to work until age 70	36 years	100%	Basic salary
United Kingdom Supplementary system substitutable for Serps	Age 65, early retirement at age 60 Possible to continue working up to age 70	40 years	50%	Best salary received during the last three years
Sweden Compulsory supplementary system	Age 61 minimum	30 years	10% (supplementary only)	Average salary over the last 5 years (with an upper limit)

Source: *Protection for public sector employees in Europe – CSE-2001.*

Note: It is questionable to what extent the minimum ages indicated correspond to reality. In France, a number of categories are entitled to retire at a minimum age below the age of 60, and the age when people stop working is close to the age of 58 in the public sector, where you retire, whereas in the private sector people become unemployed.

Table 3: Age when people stop working and "statutory" retirement age

	Average age for withdrawing from the labour market in 2000/2001 (Source: Eurostat)	**Current "statutory" retirement age**
Luxembourg	57.5	65
Belgium	58.1	Men: 65, Women: 62
France	58.7	"60[1]"
Italy	60.4	Men: 65, Women: 60[2]
Greece	60.4	65
Austria	60.9	Men: 65, Women: 60
Spain	61.4	65
Germany	61.6	65
Netherlands	61.7	65
Finland	62.2	65
Sweden	63.2	65[3]
United Kingdom	63.2	Men: 65, Women: 60
Denmark	63.6	65[4]
Ireland	64.3	65[5]
Portugal	64.5	65

Source: *Lettre de l'Observatoire des retraites – July 2003, no. 13 (France).*

1. France: 40 years of insurance for a full pension.
2. Italy: between the ages of 57 and 65 in the new actuarial calculation system.
3. Finland: between the ages of 63 and 68 in the new partially actuarial calculation system.
4. Sweden: between the ages of 61 and 67 in the new actuarial calculation system.
5. Denmark: age 67 for the ATP compulsory supplementary pension (small pension integrated into the basic system).
6. Ireland: age 66 for the contributory supplementary pension (small state pension which is added to the fixed state pension).

Note: With the exception of **Portugal**, the age when people actually stop working is lowest in countries which have the "Bismarkian" system. Some experts see this as a cause and effect relationship. Be that as it may, the gap has widened between the age when people stop working and the now theoretical statutory retirement age in every country.

Table 4: Flexibility as regards age and possibilities of concurrent drawing

Country	Early retirement	Age	Possibility of deferred retirement	Concurrent drawing job/pension
Germany	Yes, penalties	Age 65	Yes	**Possible**
Austria	Yes, penalties	Men: 65 Women: 60, age 65 by 2033	Yes	Possible
Belgium	Yes, penalties	Men: 65 Women: 62, age 65 by 2009	Yes	Limited
Denmark	No	Age 65	No	Limited
Spain	Age 60 for persons insured before 1967	Actuarial pension between the ages of 63 and 68	Yes	No
Finland	Yes, abolition planned	Age 65	Yes	Possible
France	No	"Age 60"	Yes	Limited
Greece	Yes	Age 65	No	Reduced pension
Ireland	No	Age 65	No	Possible
Italy	Yes, being abolished	Actuarial pension between the ages of 57 and 65	Yes	Possible
Luxembourg	Yes	Age 65	Up to age 68	Possible
Netherlands	No	Age 65	No	Possible
Portugal	Yes	Age 65	Yes	Possible
United Kingdom	No	Men: 65 Women: 60, age 65 by 2020	Yes	Possible
Sweden	Actuarial pension	Between the ages of 61 and 67		Possible

Source: *Joint report of the Commission and of the Council on adequate and sustainable pensions, p.63. For a more detailed description, please refer to Com (362) 2001.*

Table 5
Retirement Ages for men and women in EU Accession Countries

Countries	Current Law	Men	Women
Bulgaria	2000	Increasing to 63 by 2005 by 6 additional months/year	Increasing to 60 by 2009 by 6 additional months/year
Cyprus	1995	65 (early retirement at age 63)	65 (63 for those born before 1/1/1935)
Czech Republic	1995	Increasing to 62 by 2006 by 2 additional months/year	Increasing to 57-61 (depending on number of children) by 4 additional months/year
Estonia	1998, in force 2000	63	Increasing to 63 by 2016 by 6 additional months/year
Hungary	1996	Increasing to 62 by 2001 by 1 additional year every two years	Increasing to 62 by 2009 by 1 additional year every two years
Latvia	1998	Increasing to 62 by 2003 by 6 additional months/year	Increasing to 62 by 2008 by 6 additional months/year
Lithuania	1994, 2000	Increasing to 62.5 by 2003 by 6 additional months/year	Increasing to 60 by 2006 by 6 additional months/year
Malta	1987	61	60
Poland	1998 (in force 1999)	65; with early retirement abolished beginning in 2007[(1)]	60 with early retirement abolished beginning in 2007[(1)]
Romania	2000	Increasing to 65 by 2015 by 1 additional month/quarter	Increasing to 60 by 2015 by 1 additional month/quarter
Slovak Republic	1998[(2)]	60	53-57 (depending on number of children)
Slovenia	1999	63[(3)]	61
Turkey	1999	60	58

Source: *ILO: "Recent Trends in Pension Reform and Implementation in the EU Accession Countries", Elaine Fultz, (Informal Meeting of Ministers at the International Labour Conference (ILO)), Geneva, 10/6/2003*

1) Abolition of early retirement applies to those covered by the new system, i.e., those born after 1948. There will be exceptions for a narrow list of occupations, to be specified in future regulations. These pensions will be financed separately from the social insurance system.
2) A new act being prepared by the Ministry of Labour, Social Affairs and the Family which will gradually increase the retirement age to 62 for both men and women.
3) Retirement prior to the age of 63 for men and 61 for women entails penalties (this is a general rule, but there are exceptions for certain groups of insured persons). It is also possible to receive bonuses (i.e. higher accrual rates) if the working period is greater than 40 years for men or 38 years for women.

Table 6: Summary of pension systems in EU Accession Countries

	Estonia	Hungary	Latvia	Lithuania	Poland	Slovakia	Slovenia	Czech Republic
Statutory retirement age	63[3]	62[4]	62[5]	60 - F[6] 62.6 - M	60 - F 65 – M	53/57 - F[7] 60 - M	61 – F 63 - M	57/61 - F 62 - M[8]
Minimum number of years contributing to the State system	15	20	10	30	-[9]	25	15	25
Estimates of the proportion of capitalisation in the pension (2nd pillar)	25%	25%	20% target 50%	-[10]	37.5% target 50%	-[11]	15%	-[12]
Ratio of population over the age of 60 to the 15-59 age group[13]	21	21	22	20	18	16	20	20
Pension expenditure (as a % of GDP)[14]	6.9%	9.5%	9.2%	7.4%	12.1%	7.8%	12.5%	9.1%

Source: *Maija Kreslina - Robert Schuman Foundation - 2003.*

[1] The World Bank, the International Monetary Fund and the Organisation for Economic Co-operation and Development.
[2] The exchange value of 50 Czech Koruna on 08/04/2003 at the exchange rate of EUR 1 = CZK 30.50.
[3] Women will gradually reach the retirement age of 63 in 2016.
[4] Retirement age of 62 will be reached in 2009.
[5] Women will gradually reach the retirement age of 62 in 2008.
[6] In 2009, men and women will reach the target ages of 60 and 62.5 respectively [sic.]. In 2003, the retirement age set by the State was age 58 for women and age 61.6 for men.
[7] The retirement age for women depends on the number of children.
[8] Age 62 for men from 2007.
[9] No minimum period, everything depends on the contributions paid (notional accounts system).
[10] The 2nd pillar system has not yet been adopted. In accordance with the bill, pensions based on capitalisation will make up 20% of retirement pensions.
[11] The 2nd pillar system has not been adopted.
[12] So far, Slovakia does not have a 2nd pillar system. According to the proposal, the pension based on capitalisation will make up approximately 11% of the pension. The proportion of capitalisation will gradually be raised to 32% of retirement pensions.
[13] By way of comparison, the number of people who have reached retirement age (over the age of 60) per 100 people in the working population (between the ages of 15 and 59) is 17 in Ireland, 20 in the Netherlands, 22 in Finland and Denmark, 23 in Portugal and Austria, 24 in France, Germany and the United Kingdom, 26 in Belgium and Greece and 27 in Sweden and Italy (data from the UN “World Population Prospects. Population Data Base”).
[14] Census taken in 2001 by the national statistics institutes of the Candidate Countries “CANSTAT” bulletin no. 3/2002.

Table7: The second pillar in the European Union

	Year	**Cover for employees**	**Cover for the working population**	**Pensioners**	**Second pillar as a percentage of the pension**
Germany	1999	Commerce former FRG 28%, former GDR 16%, Industry former FRG 64%, former GDR 20%			**7%**
Austria	2001		Less than 10%	Less than 2%	
Belgium	1999	35%			12.8%
Denmark	**1998**	**82%**			**25 to 35%**
Spain	2001	32% private 36% occupational			
Finland	**1999**				**4%**
France	1999				1.7%
Greece					
Ireland	**2001**	**46.8%**	**51%**		**25 to 35%**
Italy	2001	Private sector: 13.8 Public sector: 0	8.7%		
Luxembourg					
Netherlands		**91% in 2001**		**83% in 2000**	**Approximately 40%**
Portugal	2000				4.2%
United Kingdom	**2000/2001**	**44%**		**60%**	**Approximately 40%**
Sweden	**2001**	**Approximately 90%**			

Source: *Joint report of the Commission and of the Council on adequate and sustainable pensions, COM 2002, p.36.*

Note: Despite the gaps it contains, this table clearly shows the significance of supplementary pensions (the "second pillar") in countries which have the "Beveridge" system (shown in bold) where they cover between half and all employees and provide between a quarter and slightly under half of the pensions paid. Although Finland seems to be the exception, this is due to the fact that its supplementary systems have been part of the "first pillar" since 1996.

Table 12
The role of European institutions and policy committees related to the future of pension systems

European Commission	Council		European Parliament
	ECOFIN	**Employment and Social Policy (ESP)**	
- proposes objectives for co-ordinating the reforms of national pension systems, - monitors national employment strategies, - proposes Broad Economic Policy guidelines and makes recommendations, - drafts reports assessing national strategies on employment and pensions and identifying good practice, - proposes employment guidelines and makes recommendations, - works with advisory committees on specific aspects, - liaises with European Social Partners and relevant NGOs	Broad Economic Policy Guidelines	Employment process and open method of co-ordination applied to social protection and social integration	- gives opinions (own initiative and in response to proposals by the Commission) - contributes to discussions in the Council - exchanges views with policy committees
Social Dialogue Committee - role of the social partners in pension reform processes **Equal Opportunities Advisory Committee** -gender issues in pension systems and reforms	**Economic Policy Committee (EPC)** - assists the Commission in examining the economic and budgetary implications of pensions systems as part of the multilateral surveillance process (article 99)	**Social Protection Committee (SPC)** - assists the Commission in assessing national pension strategies and their compatibility with the goals of adequacy of pensions and adaptation to a changing society **Employment Committee (EMCO)** - assists the Commission in assessing progress under the European Employment Strategy and in particular the evolution of employment rates	
- access to occupational pension schemes - portability of occupational pension rights			
European Council - gives general political guidelines and assesses progress at Spring meetings			

Source: *COM (2001) 362 final of 3 July 2001, Communication on national strategies for safe and sustainable pensions.*

Tableau n°13 : Accès aux régimes de pensions privés en Europe

Pays	Année	Importance des régimes de pensions privés
Belgique	1999	❑ Bénéficiaires: 12,8 % du nombre total de bénéficiaires d'une pension de vieillesse publique. ❑ 35 % des salariés cotisent à un régime professionnel de pension[1]
Danemark	1998	❑ 82 % des salariés à plein temps âgés de 15 à 59 ans cotisent à un régime de pension professionnel. ❑ Bénéficiaires du régime ATP = 68 % des plus de 66 ans.
Allemagne	1999	❑ 28 % des salariés étaient couverts dans le secteur du commerce et 64 % dans l'industrie (respectivement 16 % et 20 % dans les nouveaux Länder). Globalement, dans l'ancienne Allemagne de l'Ouest, la moitié environ des hommes qui avaient travaillé en dernier lieu dans le secteur privé perçoivent à l'âge de la retraite une pension professionnelle. ❑ Salariés du secteur public: 87 % des hommes et 52 % des femmes qui avaient terminé leur carrière comme salariés d'un service public dans l'ancienne Allemagne de l'Ouest bénéficiaient d'une pension de complémentaire de la fonction publique en 1999. Le service public (sans les fonctionnaires) est couvert par des conventions collectives prévoyant une pension complémentaire spéciale. ❑ Dans le revenu total des personnes âgées, le deuxième et le troisième pilier fournissent respectivement 7 % et 10 % de la pension de vieillesse.
Grèce		❑ Le régime de pension professionnel est essentiellement limité aux sociétés internationales. Les fonds de pension complémentaire sont appelés à se transformer en régimes de pension professionnels.
Espagne	2001	❑ Seuls 10 % des 5,89 millions de personnes couvertes par un plan de pension (fonds d'assurance vie individuelle ou d'assurance groupe, fonds commun de protection sociale, plans professionnels) sont membres d'un régime de pension professionnel, sur un total de 16,29 millions de cotisants au système de sécurité sociale en 2002.
France	1999	❑ Les versements des régimes professionnels volontaires représentent environ 1,7 % du total des prestations (régimes de base et régimes professionnels obligatoires) servies aux salariés et aux travailleurs non salariés. On ne dispose pas d'informations sur les réserves gérées directement par les sociétés.
Irlande	2001	❑ 46,8 % des travailleurs âgés de 20 à 69 ans sont affiliés au régime de pension professionnel de leur employeur. ❑ La couverture globale des régimes privés atteint près de 51 %.
Italie	2001	❑ 8,7 % des travailleurs cotisant au régime de pension public cotisent également à un régime de pension complémentaire (collectif ou individuel): salariés du privé =13,8 %; salariés du secteur public = 0,0 %; travailleurs non salariés = 3,7 %; hommes = 16,3 %; femmes = 9,5 %.
Luxembourg		❑ Pensions professionnelles servies principalement aux salariés des sociétés du secteur financier. ❑ Un nouveau type de plan de pension personnel a été établi en 2002.
Pays-Bas	2001	❑ 91 % des salariés sont affiliés à des régimes relevant du deuxième pilier.
	2000	❑ 83 % des ménages de retraités bénéficient d'une pension complémentaire.

Pays	Année	Importance des régimes de pensions privés
Autriche	2001	❑ 283 000 personnes ont acquis des droits à une pension professionnelle au titre d'un régime de pension par capitalisation (<10 %). ❑ 35 000 personnes perçoivent une pension professionnelle au titre d'un régime de pension par capitalisation (< 2 % des retraités).
Portugal	2000	❑ 293 530 affiliés aux fonds de pension (fermés ou ouverts) en 2000;184 075 affiliés à des fonds de pension fermés. ❑ 106 323 bénéficiaires en l'an 2000, pour un effectif total de2 964 926 retraités (dont 436 000 fonctionnaires retraités) (chiffres de décembre 2001).
Finlande	1999	❑ prestations de pension du deuxième pilier = ½ % du PIB (régimes légaux du premier pilier = 12 % du PIB)
Suède	2001	❑ Environ 90 % des travailleurs sont couverts par l'une ou l'autre convention collective prévoyant un régime de pension.
Royaume-Uni	2000/2001	❑ 60 % des ménages de retraités percevaient des revenus au titre d'une pension professionnelle. 71 % disposaient de revenus du capital, y compris de pensions privées. ❑ 44 % de la population en âge de travailler cotise à une pension professionnelle ou personnelle (hommes: 5 %; femmes: 37 %).

Source : *Projet de rapport conjoint de la Commission et du Conseil sur des pensions viables et adéquates, décembre 2002.*

(1) Ces chiffres sous-estiment la couverture parce qu'ils ne prennent pas en considération les pensions du deuxième pilier des plans sectoriels de pension régis par le fond de sécurité d'existence (secteur de la construction et de la métallurgie), les promesses de pension faite par les employeurs aux salariés et les pensions complémentaires volontaires pour les travailleurs non salariés.

Table 15: Details of pension systems for civil servants in Europe

Country	Nature of basic systems	Nature of supplementary systems	Minimum period of service	Basic system funding	Basic pension calculation	Pension amount
Germany	Insurance – compulsory national old age. Pension scheme for former GDR public sector employees since reunification. Law applicable to civil servants uniform.	System laid down initially for contractual civil service staff. Special system for Länder and local authority employees; the institutions for retirement provision are the VBL and the AKA. Nature: compulsory. 2001 Riester reform (came into force on 1 January 2002). Nature: voluntary.	5 years of service	Budget; system of imaginary contributions	1.875% of the complete final salary received for at least two years (for each year of service). The Rürup Commission of 28/08/03 proposed that the length of service should be 40 years.	Maximum: 75% of the salary; Minimum: 35% of the salary or EUR 1,125. The latest reform has announced a maximum of 71.75% by 2030. The drop in the replacement factor has been estimated at 20% by 2050.
Austria	Special basic system. Statutory.	Voluntary.	Before 1 March 1995: 10 years of service. Since 1 March 1995: 15 years. Proposal through a 2003 reform to raise it to 40 years.	Budget after the 1993 reform, Different contributions depending on the sectors (approximately 11.75%).	Basic retirement pension: 80% of the final salary based on statutory working hours (for 40 years of service) Supplementary allowances possible in the event of overtime up to a maximum of 25% of the salary in question. Change in 2003: civil servants' pensions are now calculated according to the average for the best 12 months. This new calculation method has been introduced gradually since 2003 and will take full effect in 2020. In 2004, 24 best months and should reach the 18 best years by 2020.	The law does not provide for any maximum amount. The average pension for a civil servant is EUR 2,391 gross, and the minimum pension (supplementary) depends on your marital status: e.g. for a single pensioner: EUR 585. The replacement factor is currently 80% of the final salary. As a result of the latest draft reforms, this factor looks set to fall (figure not communicated).

Country	Nature of basic systems	Nature of supplementary systems	Minimum period of service	Basic system funding	Basic pension calculation	Pension amount
Belgium	Special basic scheme. Statutory.	Nature: partially voluntary. Compulsory nature precluded since the Constitution does not provide for any extra-legal benefits to permanent State employees.	5 years of service but the employee must show proof of 20 years of service.	Budget: 7.5% of the salary forms the contribution towards the survivors' pension.	A specific proportion of the average salary for the last 5 years of the career for each year of service (generally 1/60); maximum amount considered 75% of the salary.	Maximum of 75% of the salary; for a single pensioner on 01.06.99: the minimum is set at EUR 901 gross per month; for a pensioner who is part of a couple: minimum of EUR 1,126 gross per month. Maximum on 01.06.99: EUR 4,762 gross.
Denmark	Special scheme in accordance with the 1969 law on pensions.	May benefit from the ATP supplementary system (intended for all Danes). Nature: optional. No specific features for civil servants.	Over 3 years of service starting from the age of 25	Budget: Contribution for the supplementary pension system but not for the basic pension system.	Between 1 and 16 years of service: 1.75% per year; Between 17 and 32 years of service: 1.5% per year; Between 33 and 37 years of service: 1% of the "pension eligible salary" = basic salary determined by the Treasury.	Maximum of 57% of the pension eligible salary, no guaranteed minimum amount. N.B.: Employees benefit from a private supplementary pension scheme (Collective Agreements). The employee contributes 4 or 5% and the employer 8 or 10%. This scheme is not specific to the civil service.

Country	Nature of basic systems	Nature of supplementary systems	Minimum period of service	Basic system funding	Basic pension calculation	Pension amount
Spain	Special scheme for State civil servants. Special scheme for local authority employees (MUNPAL) included in the general system since 1993.	The civil service modernisation agreement of 7 November 2002 mentions the future creation of a supplementary scheme for State civil servants. The new regulations relating to pension plans and funds are contained in the legislative decree of 27 November 2002.	15 years of service.	Budget: 3.86% contribution in 1995; This contribution is determined annually by the law.	Calculated using the "eligible salary" and a specific coefficient determined according to the post held, the number of years of service; The "pension entitlement salary" is determined annually by the law.	Maximum determined annually (EUR 22,325 in 1995); Minimum also determined by the law.
Finland	Special autonomous basic scheme. Public sector employees have their own funds.	Covers the State civil service (VEL) separately from the local authorities (KVTEL) (civil servants receive a pension linked to the job in addition or to replace a basic universal pension in whole or in part (sliding scale of benefits depending on the pension level linked to the job). This pension is no longer paid over a certain income level.	1 month of service.	Budget; employer and employee contribute to a reserve fund in order to limit increases in pension costs (employer's contribution in 1999: 18.8%; employee's contribution: 4.7% of the salary).	1.5% of the average salary for the last 10 years, for each year of service. Proposal in August 2003 to calculate the pension on the basis of the entire career. Annual rate at which the pension is built up reduced since 1995, before this date it was set at 2%.	Maximum amount: 60% of the salary in question; average amount: EUR 1,043 per month; no minimum amount established.

Country	Nature of basic systems	Nature of supplementary systems	Minimum period of service	Basic system funding	Basic pension calculation	Pension amount
France	Special autonomous basic scheme. Statutory.	Supplementary scheme became compulsory since the law of 21 August 2003 Pension fund type additional supplementary schemes exist (PREFON, COREM, etc.)	15 years of service.	Budget; contribution of 7.85%.	2% of the final salary per year of service provided that this salary has been received continuously during the last 6 months.	Maximum: 75% of the salary in question, special premiums possible. Minimum established depending on years of service. Following the recent law of 21 August 2003, the pension level to fall by 20% by 2050.
Greece	**Special autonomous basic scheme. Statutory.**	Supplementary schemes managed by so-called auxiliary insurance funds. **Nature: compulsory.** **No pension funds as such.**	**Length of service required depends on the number of years of service, gender and family situation (15-25 years of service).**	**Budget: contribution of 6.67% for the civil servant**	For employees recruited up until 31.12.1982: 22.857/1000 per year of service for 35 years of service and 16/1000 from this date up until 31.12.1992. For employees who ask for their pensions to be paid from 1 January 2008, the pension is calculated on the basis of pay for the last 5 years. If payment is made after 1 January 2008, the basis is calculated according to two scales. For services carried out up until 31/12/2007, the pension is calculated on the basis of 80% of the final salary and for services carried out after 1/01/08, on the basis of salaries for the last 5 years and 40 years of service (as for the private sector).	**Maximum of 880/1000 of the salary in question**

Country	Nature of basic systems	Nature of supplementary systems	Minimum period of service	Basic system funding	Basic pension calculation	Pension amount
Ireland	Special scheme. Specific scheme for central government staff. Since 6.4.95, new civil service recruits are covered by the general system.	Covers State civil servants separately from local authority employees. New civil service recruits are affiliated to general system supplementary schemes. Nature: voluntary. Investment funds are referred to for pension funds.	5 years of service.	Budget, imaginary contribution by civil servants. For new recruits: 1.5% of the gross salary but 3.5% of the available salary (the available salary corresponds to the gross salary less twice the maximum annual old age pension amount).	1/80 of the salary per year of service on the basis of the final salary received over the last 3 years.	Maximum (provided at least 40 years of service): 50% of the salary.

Country	Nature of basic systems	Nature of supplementary systems	Minimum period of service	Basic system funding	Basic pension calculation	Pension amount
Italy	Since 1 January 1996: civil servants' pensions have been part of the general pensions system.	Pension fund set up since 1993.	20 years of service (for mothers: 15 years and for local employees: 25 years). From 1.1.1996, 5 years of contributions and a minimum pension of EUR 3,867.	Budget: from 1.1.1996: financing funds; contribution of 24.2% of the gross salary for the public administration, special premiums are excluded, 8.75% contribution for the civil servant.	Budgeting system: 35% of the final salary with 15 years of service and 2% per additional year of service. Financing funds system: the total amount of contributions is revalued on the basis of the increase in the cost of living and economic growth X a special coefficient which is determined every 10 years. Transitional period for civil servants who show service of 18 years (from 31 December 1995). The old system is still valid. For the others, both systems are applicable in part**.	Maximum: 80% of the salary. In the new system with the financing funds, average amount: ITL 626,450 per month. The level of the basic pension should fall by approximately 20% by 2050. ** Calculation rules should be standardised with those of the private sector by 2008. The entire career will then be taken into account to calculate the pension.

Country	Nature of basic systems	Nature of supplementary systems	Minimum period of service	Basic system funding	Basic pension calculation	Pension amount
Luxembourg	Special basic system. Statutory. Reform: law of 3 August 1998. From 1 January 1999, new system for new civil service recruits	At the time of the 1998 reform, the government did not want to set up a supplementary pension scheme for civil servants although it exists for private sector workers. However, pension funds do exist	No vesting requirement or after 15 years in the event of voluntary resignation. From 1999: 15 years of service (deferred pension); 10 years (at age 65).	Budgeting: contribution solely for periods spent in the private sector or working for international organisations.	20/60 of the complete final salary and 1/60 for each year of service.	Maximum: 5/6 of the salary taken into account. Average amount: LUF 145,000 per month. Law of 3 August 1998: pension amount tailored according to length of service.
Netherlands	Since 1996, subject to the general system for their pension governed by the AOW law.	Pre-financed system. Covers the entire civil service: ABP pension fund (which has been privatised). For the PGGM hospital sector. Nature: compulsory (except for soldiers and senior civil servants, who pay into other schemes).	No minimum condition.	Financing: through the employer and employee's contributions i.e.. 17.90 for those with incomes above EUR 4,068 (2002).	Calculated using the last annual salary. Number of years of service X 1.75% of the salary preceding the year of retirement.	Under the basic pension, a single person receives 70% of the minimum wage, i.e. EUR 869.24 per month. For a couple: 50% of the minimum wage each, i.e. EUR 598.07 per month. *According to the 2002 scale.*
Portugal	Unique special basic scheme. Pension system reform on 10 August 1993. New civil service recruits are subject to the general system.	Optional. Pension fund for soldiers.	5 years of service.	Budget: contribution of 10% out of the salaries of certain groups of civil servants.	Since 1993, same calculation as the private sector system, with an upper limit of 80% of the civil servant's salary. Before 1993, 1/36 of the final salary per year of service. Following the 1993 reform, the annual rate at which the pension is built up has fallen from 2.77% to 2%.	Maximum: EUR 7,520. Minimum:1 EUR 67, in 2000 (determined annually by decree).

Country	Nature of basic systems	Nature of supplementary systems	Minimum period of service	Basic system funding	Basic pension calculation	Pension amount
United Kingdom	Principle: public sector employees covered by the general system.	Supplementary pension: Principle Civil Service Pension Scheme (PCSPS) (before SERPS). Other schemes for public sector employees such as teachers or police and healthcare workers. Closely related to the PCSPS. Nature: voluntary.	2 years. Civil servants who leave the civil service before statutory retirement age retain their pension rights and can transfer them to a supplementary scheme.	Civil servants pay a contribution of 1.5% of the salary giving pension entitlement.	1/80 of the final salary for each year of service.	Maximum: 50% of the final salary. Average amount: EUR 8,183 in 1998-99. No minimum exists The government's reform should lead to a 40% fall in the level of the basic pension by 2050.
Sweden	Subject to the national basic system.	Specific supplementary scheme. Covers State civil servants and local authority employees separately. Special scheme for soldiers. Nature: compulsory. Provides an additional pension of approximately 10% of the average salary for the last 5 years within the limits of the basbelopp (base amount). Supplementary scheme exists. Nature: optional.	No minimum period.	"*Pay-as-you-go*" (*PAYG*) system or financing method based on allocation. Pension funds for the 1st pillar: 16% of the salary (*PAYG)* and 2.5% for the pension funds.	Contributions for the *PAYG* and those for the pension funds are divided by a coefficient which takes average life expectancy into account; 2nd pillar: average salary for the 5 years preceding the implementation of the reform.	Maximum: 1st and 2nd pillars: 70%; average amount in the 1st and 2nd pillars: 70% of the average salary (in 1995: EUR 1,347 per month); guaranteed minimum for the 1st pillar: EUR 8,819 per year.

Country	Nature of basic systems	Nature of supplementary systems	Minimum period of service	Basic system funding	Basic pension calculation	Pension amount
Hungary	Subject to general system. Since 1 January 1998, new system which coexists with the old one. It is compulsory for those entering professional life to become affiliated to the new system. Those who are 15 years away from retirement age have the choice.	Mutual insurance funds set up in 1993, which changed the system. Mutual pension funds have been set up but they remain marginal. Nature: compulsory.	20 years	Employer's contributions (22% of the gross salary in 1999) are allocated to the basic old age insurance, 6% of the 8% payroll contributions is paid into the private pensions scheme.	The pension is 43 to 74% of the income depending on the contributions paid in and the length of employment. Beyond 36 years of employment, 1.5% of the income is added per additional year worked.	In 1999: minimum guaranteed pension of EUR 57.62 per month. By 2050, the pension level should fall by approximately 20%.
Estonia	Subject to the general system. Special system: Police officers, judges, public prosecutors, etc	Supplementary pension set up in 1996. Nature: voluntary. Funded by the State budget. Not applicable to certain categories: judges, police officers, magistrates, members of parliament, ministers, State financial auditors and frontier guards. As they are part of the criminal justice system, they have preferential pension rights	15 years			
Latvia	Subject to the general system.	Special scheme for certain categories: soldiers, managers in institutions which come under the Ministry of the Interior, national armed forces.	10 years			

Country	Nature of basic systems	Nature of supplementary systems	Minimum period of service	Basic system funding	Basic pension calculation	Pension amount
Lithuania	Subject to the general system. Special pension schemes for soldiers, police forces and staff with the security and judicial services.	Special scheme for certain categories: soldiers, managers in institutions which come under the Ministry of the Interior, national armed forces. Implementing an optional pension fund under consideration (heavy tax burden).	30 years			
Poland	Subject to the general system.	Individual 2nd pillar compulsory based on capitalisation before the 1999 reform. Since 1999, it is compulsory for people under the age of 30 or those who are entering the job market to become affiliated to the old system [sic.]. People aged between 30 and 50 have the option whether to join the 2nd pillar or not.	No minimum period.	Financed equally by the employer and the employee with a contribution of 19.5% of the gross salary, 9% of which is intended for the second pillar.	Basic salary for the calculation: average monthly salary for the best 10 years of the last 20 years.	Minimum pension under the old system: 39% of the average national salary (annual). In 1999, the average national salary was EUR 395.53 per year.
Slovak Republic	General system.	Not yet adopted. Proposal for a compulsory second pension pillar based on capitalisation. Optional voluntary pensions fund schemes under the third pillar have existed since 1996 and cover approximately 10.4% of the working population.	25 years.	Employer's contributions: 21.6% of income. Employee's contributions: 5.9% of income.	50% of the average salary received during the 5 best years of the last 10 years plus 1% per year between the 26th and 42nd year worked.	Minimum pension in 1999: EUR 76 per month.

Country	Nature of basic systems	Nature of supplementary systems	Minimum period of service	Basic system funding	Basic pension calculation	Pension amount
Czech Republic	Subject to the general system.	Supplementary pension insurance system for all citizens or residents. In 1994, supplementary pension insurance was set up with a State contribution. The law lays down the basic rules every pension fund must adhere to (promotes competition). Nature: optional.	25 years	Before 1989, pension schemes financed through taxation. After 1989, 6.5% for the employee and 19.5% for the employer.	Basic fixed pension to which is added a sum equal to 1.5% of the average salary per year of insurance (with a maximum of 30 years)	Basic pension represents approximately 45% of the average salary (unknown).
Romania	Subject to the general system.	Law of 1991 authorises a pension to be set up by means of a pension fund. Nature: optional.		Different contributions according to conditions of employment (laid down by the law). They are paid by the employer and the employee. 35% for normal conditions 40% for specific conditions 45% for special conditions. Law of 2003 provides for reduced contributions	Basic salary: average salary for the 5 best consecutive years during the last 10 years of employment.	Minimum pension per month: EUR 9.53 in 1999 for a full pension.

Source: *Table produced on the basis of CSED documents and works – 1 January 2004.*

[2]Objective 1: preventing social exclusion, 2: enabling people to maintain living standards, 3: promoting solidarity, 4: raise employment levels, 5: extend working lives, 6: making pension systems sustainable in a context of sound public finances, 7: adjust benefits and contributions in a balanced way, 8: ensure that private pension provision is adequate and financially sound, 9: adapt to more flexible employment and career patterns, 10: meet the aspirations of greater equality of women and men, 11: demonstrate the ability of pension systems to meet the challenges.

[3] **France** was hitherto almost the only country not to integrate benefits in the calculation of the pension for civil servants.

[4] Only valid for officials recruited since 1 January 1996.

[5] This additional system is common to all civil services. In the future, this system would yield little unless contributions started very young. For a full career, it will provide 5.5% extra. According to the projections made by the minister, a school teacher who has contributed for ten years to the additional scheme will gain an extra 1.5% to 1.7% for his pension.

[6] For example, PREFON is a pension system under the supervision of the Ministry of the Civil Service and the Ministry of Economic and Financial Affairs. This system is run by the Caisse nationale de prévoyance de la fonction publique (PREFON). The established civil servants of the State or local authorities, the spouse of a civil servant or a former civil servant is eligible for benefit.

[7] Created in 1997, it only started to be funded from 2000.

[8] The *Fundo de Estabilização Financeira de Segurança Social* is financed by 2% of the contribution to the general system.

[9] Created in 1999.

[10] **Sweden** embarked on the reform of its basic system from 1998, by introducing a proportion of capitalisation into a system traditionally run by allocation. In fact, from a contribution of 18.5%, 16% supplies a system based on allocation and 2.5% is placed in individual accounts run by capitalisation. This very specific model was adopted for the supplementary systems.

[11] In 1993, two types of pension fund were set up: the recognised «closed» (or «contractual ») pension funds set up on the initiative of the social partners (trade unions or employers' organisations) and the «open» pension funds set up by the various financial institutions (banks, financial managers and insurance companies).

[12] Prior to this reform, the contractual staff benefited from supplementary pensions (VBL), but they were designed to supplement the pensions of these staff members to align them with those of the civil servants.

[13] Where pensions are also indexed to the price trend.

[14] Joint report by the Commission and the Council on adequate and sustainable pensions, COM 2002.

[15] Under the reforms undertaken by the Member States, it is planned that the retirement age must be identical for men and women.

[16] Equalisation of the rate of yield from the contributions paid into the systems based on capitalisation or into the defined contribution systems based on allocation, of the «notional accounts» type in the absence of any «unisex» arrangement.

[17] Enshrined by Directive 86/378/EEC of 24 July 1986, amended by Directive 96/97/EC on the implementation of the principle of equal treatment for men and women in occupational social security schemes.

[18] The first stage in this delegation is the designation of trustees who are legally responsible for the proper administration of the funds. The collective agreements provide in general that these trustees must be designated by both the employers and the employees.

[19] The so-called «closed» pension funds of the contractual staff of the civil service can only be established by collective agreements. The funds of the other civil service staff are governed by internal rules or agreements promoted by the trade unions and trade union associations.

[20] This refers to the Federal Republic, the collective bargaining association of the Länder and the municipal employers' association with the trade unions of the police force, the construction industry, education and science and hospital doctors.

[21] The supplementary pension systems usually take the form of pension funds, but not necessarily. There are a variety of names: pension funds, provident funds, additional supplementary schemes. There is no one definition including at Community level. The latest Directive on the activities and supervision of institutions for occupational retirement provision, adopted on 13 May 2003, only refers to occupational pension institutions.

[22] A study by Martin Rein and John Turner proposes an analytical approach to understand the trend and how far these measures have gone. It shows that retaining the voluntary nature of supplementary pensions based on capitalisation does not allow the pension systems to cover more than one worker in two, even with very strong tax incentives which are costly for the public budgets. This configuration exists in the United Kingdom, where provision is made for tax incentives. Favourable to *contracting out*, the successive British governments have used tax incentives as a strategy designed to reduce the direct cost of pensions based on allocation.

[23] For example they are compulsory, or almost compulsory, in **Finland**, **Denmark**, **Ireland, France** and the **Netherlands**. In most other countries, they are voluntary, as in **Hungary**, **Poland**, **Sweden**, **Spain** and also **Greece**.

[24] Reference from communication: IP/03/1243.

[25] Since the extension of Regulation 1408/71 to the nationals of third countries on 14 May 2003. The ECJ case law has specified the conditions for this. Council Regulation No 859/2003 formalises this extension, subjecting them to the same rights and obligations as the Member State nationals.

[26] All social security risks are dealt with in this text. They refer to maternity, sickness, invalidity, family benefits and also old age.

[27] To start with, the ECJ considered that the exclusion of civil servants from the coordination of the statutory pension schemes was the logical consequence of Article 39(4) of the Treaty of Amsterdam, which excludes jobs in the public administration from the provisions relating to the free movement of workers within the Community. Today, this justification has been departed from since the Vougioukas case of 22 November 1995, case C-443/93, *Ioannis Vougioukas v. Idryma Koinonikon Asfalisseon (IKA)*, ECR 1995, p. I-4033, point 21. This judgment showed the need to legislate in the field of special systems for civil servants in anticipation of the Community texts.

[28] The principle of addition is inscribed in Article 18(1) of Regulation 1408/71, which provides that: «The competent institution of a Member State whose legislation makes the acquisition, retention or recovery of the right to benefits conditional upon the completion of periods of insurance, employment or residence shall, to the extent necessary, take account of periods of insurance, employment or residence completed under the legislation of any other Member State as if they were periods completed under the legislation which it administers».

[29] Also known as vesting periods, the minimum contribution periods permit validation of a pension right.

[30] Naturally, such practices exist in the private sector and are also condemned by the Community institutions. These discriminations are mainly in the field of taxation.

[31] Mobility within the same country is often restricted by the obstacles relating to transfers of rights on changing «funds».

[32] Directive 2003/41/EC – 2000/0260 (COD) LEX 440, PE-CONS 3630/03.

[33] The Directive defines a reference framework towards which the «pension fund» systems of the Member States should converge whilst complying with their national laws. The institutions coming under other provisions, such as life assurance, are subject to other regulatory provisions (Directive 92/93/EEC).

[34] Defined in Lisbon, the overall objective of the Social Agenda regarding social protection is defined as follows: «To modernise and improve social protection to respond to the transformation to the knowledge economy, change in social and family structures and build on the role of social protection as a productive factor». As regards pensions, the objectives were specified in order to guarantee minimum resources to the elderly who are living legally within the territory of the Member States, taking account of their specific needs, to offer the possibility to pursue an occupation beyond the minimum age for the granting of pensions, to ensure that the pensions system guarantees a reasonable level of replacement income, to reduce the penalisation of workers without a full career, gradually to work out the conditions for the acquisition of rights to supplementary pensions in order to eliminate the obstacles to the mobility of salaried workers, to adapt the pension systems in time to the demographic trends.

[35] This refers to those who alternate periods of work in the private sector or in the public sector or in different authorities from the initial authority. The question of the recovery of the contributions, between the various systems, will arise one day, notably through the pension fund responsible for the payment of the pension. This means everywhere apart from in **Denmark** and **Luxembourg** for civil servants in the strict sense of their national rights.

[36] This forum was created by a Commission decision of 9 July 2001. Its object is to assist the Commission in seeking solutions to the problems of cross-border mobility of workers associated with supplementary pensions and to contribute to the European debate on the future of pensions. It started its work at the beginning of 2000. The Pensions Forum intends to study the problem of the difference in qualifying periods, cross-border payments and taxation applicable to pensions (double taxation or tax avoidance).

This initiative comes within the framework of the will of the Commission to consult the social partners and other representative entities on the obstacles to professional mobility in the pension systems, the ultimate objective being to assist the workers forced to change supplementary pension scheme when they change employer. They are asked about Community action in the field of the portability of supplementary pension rights and on the form that such action should take (collective agreement, directive, recommendations, code of good conduct, guidelines, etc.). This initiative was supplemented by a Communication of 12 June 2002 requesting the social partners to comment on the means to combat the obstacles to the mobility of workers and civil servants in the context of their pension system.

[37] Advisory Committee set up by Council Decision of 13 October 2000, COM /2000/134.

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