



European Parliamentary Pension Forum **The portability of supplementary pension rights** **20 April 2004**

Introduction

On April 20, 2004, the European Parliamentary Pension Forum held its third meeting at the European Parliament in Strasbourg. This meeting had as central theme the portability of pension rights in case of professional mobility.

The European Parliament and the Council adopted Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision (IORP) on 3 June 2003.¹ The objective of this Directive is to allow pension funds to benefit from the Internal Market principles of free movement of capital and free provision of services. At the same time, the Directive seeks to establish rigorous prudential standards ensuring that pension fund members and beneficiaries are properly protected. The Directive is in line with the Financial Services Action Plan.

The creation of an Internal Market however, also requires the removal of fiscal barriers and barriers to the transferability of pension rights. The European Commission has taken initiatives in this respect. It launched in September 2003 the second consultation phase of the social partners on possible community action to improve the portability of supplementary pension rights. The debate of April 20 made clear that the social partners are all in favour of this improvement. However, the social partners stressed that some issues need more consideration, such as the approach taken by the Commission with regard to the improvement of the portability of pension rights. This document summarizes the speeches that were held at the meeting.

Speakers

- *Mr. Jérôme Vignon*, European Commission, Director in DG Employment and Social Affairs
- *Mrs. Lorena Ionita*, Union of Industrial and Employers' Confederations of Europe (UNICE)
- *Mr. Henri Lourdelle*, European Trade Union Confederation (ETUC)
- *Mr. Withold Galinat*, European Federation of Retirement Provisions (EFRP)
- *Mr. Gérard Ménéroud*, Comité Européen des Assurances (CEA)
- *Mr. Philip Shier*, Group Consultif Actuariel Européen (CGAE)

¹ Directive 2003/41/EC of the European Parliament and of the Council of 3 June 2003 on the activities and supervision of institutions for occupational retirement provision, OJ L 235, 23/09/2003, p. 0010 - 0021



Mr. Othmar Karas

MEP (EVP-ED), vice-president of the EPPF

Free movement is the most important right that we as citizens of Europe have

In his welcome address, Mr. Karas stated that free movement is the most important right that we as citizens of Europe have and the most important right for the Community. The free movement of individuals means that one should be able to choose where to work. The aim of the European Union must be to have a more competitive labour market and to have a higher level of employment throughout the countries of the European Union.

The question of the mobility of our workers is inseparable from the question of social security and social safety. This social security is also dependent upon the pension regulations covering our all workers throughout the European Union. From Mr. Karas' point of view, this has got to be one of the central themes of the European Union, closely connected to the very concept of the internal market and the Lisbon strategy.

It is important that we have greater mobility of our workers and that we are able to guarantee social security for these workers. When we look at the issue of mobility, we also have to take the question of pension rights and social security rights into consideration. We look at the content of the different national systems and the ways in which social security systems are organized in every Member State, we also have to look at the different political conditions that govern the provision of social security care. The impression always seems to be that we need to have the mutual recognition of rights.

In the European Union we have had legislation on this. We have had further improvements on this to ensure that people could benefit from the free movement of individuals. The Directive on the free movement of individuals has been accompanied by legislation to ensure that they could also be guaranteed social security coverage and pension coverage.

This did not succeed in first instance. What is achieved so far is that people who move to another Member State will be treated in the same way as nationals. We are now pushing towards having a system whereby the premiums will be maintained in the home country, while the person who's actually paying the premium has coverage in the country he goes to. The European Commission published a communication on the mobility of workers, where it was said again that the failure of the Community legislation was to cover the rights of the pension holders or workers in other countries. This has been an obstacle to the free movement of workers. The Lisbon objectives will not be achieved unless we're able to overcome these obstacles. That means that we need to have mutual recognition of the coordination efforts that have been made in pension and social security provision.



Mr. Jérôme Vignon

European Commission, Director in DG Employment and Social Affairs

It's important to really look at the question of transferability of pension rights

The mobility of workers is at stake. This mobility is very closely linked to the fundamental rights that are anchored in the Treaties of the European Union. It's part of your identity and democratic nature. Existing supplementary pension schemes all have the same objectives: providing a supplement to the state statutory pension.

Supplementary pensions are linked to ethics at work. These characteristics are common to all schemes and concern us all. It should help us to overcome differences between each Member State, to come up with a compromise between what we see as the necessary need for mobility and transferability at European level and at the same time guaranteeing subsidiarity and respect for national differences.

We need to see how this can work as a positive thing in the long term for all of the industrial partners and others concerned. It is in the interest of the employers to have portability at European level and that there are no obstacles to organize complementary pension schemes across the European Union. But it is also in the interest of the employed, because sometimes they are obliged to be mobile. It is important that they are able to benefit from the complementary pension rights for which they contributed to throughout their life. We should be able to work out a feasible scheme to benefit from these joint interests.

The Commission organized a consultation of the social partners on measures to improve the portability of occupational pension rights in June 2002 and it understood three things from that. One is that the main porter for transferability of pensions is often the result of negotiation between the social partners and the industrial partners. It is something that results from social dialogue and from collective bargaining at national level.

Secondly, the Commission has seen that Member States are often the guarantors or the guardians of these complementary pension schemes. Authorities often encourage complementary pension schemes via fiscal measures. Some divergences exist on this. Subsidiarity is one of the main problems in the Union. The Commission knows that those who organize and manage these extra, supplementary, funds have played a constructive role. They have useful proposals. The agreements they have reached amongst each other are very often seen as agreements on to which Commission bases its public policy.

Thirdly, it is often said that another lesson learnt from the Commission's Pension Forum is that no decisive progress can be made taking us beyond the 1998 Directive, which is safeguarding the minimum pension rights on the basis of a supplementary scheme. Any step further is only possible in a significant way if we have the agreement of the industrial partners. Although the agreement of other players is needed, it really are the social partners who are to play a main role here.

Mr. Vignon said that the Commission's consultation in 2002 with all stakeholders confirmed the believe that nothing important can be done without the two sides of industry playing a full role. The Commission learnt a lot from the industry and understood how far it could go with these supplementary pension measures. The Commission also recognized the importance of understanding that this problem exists. At the same time one needs to look at this being a developing set of rules, which would be valid for all types of mobility.



The Commission adopted the principle that was worked on with the employees, which developed a set of principles as guidance for any future work. It learnt from the other consulted players, such as the employers, to see what types of possibilities were offered by non-obligatory methods. The value of these negotiations was very great indeed, because it created a climate that enabled the Commission to make progress with the participation of many different players.

Having said that, the Commission also feels that there now is an urgent situation. One cannot wait until the climate changes or until knowledge enables to develop further negotiation between the social partners at European level. The Commission feels that it's important to really look at the question of transferability of pension rights. The urgency has been created because of the oncoming enlargement of the EU. The enlargement results in a greater mobility of workers and a greater need for transferability of rights. In addition, the IORP has been voted on. This Directive offers new instruments, which would enable us to manage one aspect of transferability by having a possibility to work cross-border and to be able to be a member of multiple schemes.

The Commission has also assumed a role in the open coordination on the reform of pensions *per se*, not just the supplementary pensions. The fact that workers are very often following a typical path today leads our revision of the situation to be much more urgent. In the framework of the social dialogue, Mr. Dimas, the Commissioner of Employment and Social Affairs, announced that he has the intention of submitting to the College of Commissioners in September, draft legislation which would then be transmitted to the European Parliament and to the Council.

What lies behind this draft Directive? The idea behind this text is that there should be a minimum basis, a minimum level for the parameters that the Commission Pension Forum has been studying, which looks at the acquiring, the preservation and the transferability, the possibility of belonging to different schemes and trans-border situations. The aim of this Directive is to establish a minimum set of conditions for all of these parameters. In such a way, the Commission is able to create a legislative basis on which other aspects can be developed at a later stage. Other developments, not necessarily legislative, would be voluntary agreements, codes of behavior, sectoral agreements. A clear basis has to be established for this to be used for these parameters.

However, these parameters should not cause any harm to the enterprises that develop them. In Member States fears of this nature exist and Mr. Vignon hopes to be able to abolish those fears by establishing a status quo. As a given, this is a basis without any possibility for backtracking. These are not legislative agreements, but they are agreements, which will give the social partners a priority in decision-making. The idea behind this basis is that this Directive would not be proposed without a prior impact assessment study being carried out first.

The Commission believes that the Forum is going to help by replying to the questionnaires it sent out. The Commission expects to get results back at mid-June. It hopes that this will enable it to establish a clear set of parameters to ensure that there are minimum standards on these points. At the same time, this impact study will give the Commission an idea of how many workers there are in different Member States that might be positively affected by a development of these parameters and by the minimum level of harmonization.



Mrs. Lorena Ionita

UNICE

A one-size-fits-all approach could hamper the development of second pillar schemes in the Member States

Mrs. Ionita began with two general remarks on the question of portability. First of all, employers in Europe are in favour of the free movement of workers and for improving trans-border labour mobility. They welcome the debate on how to improve portability on supplementary pension rights for mobile workers. Nevertheless, UNICE thinks that any EU initiative should only deal with cross-border portability of supplementary pensions. It should not interfere with the organization of the supplementary pension schemes within the Member States. This area of supplementary pensions is characterized by a very high degree of subsidiarity and the diversity of these systems should be respected.

Mr. Vignon mentioned that it is the Commission's intention to propose basic requirements for the acquisition, preservation and transferability of supplementary pensions. Nevertheless, these minimum requirements are common and there is a tendency in the Commission's thinking in favour of a one-size-fits-all approach. This can be counterproductive.

The differences between the systems in Member States are very large. One has to look at the nature of the pension schemes: are they compulsory or are they voluntary? How are the pensions financed: by the employers or by employees? At which level are they organized: company or industry level? What is the type of the scheme: defined contribution or defined benefits? These are just a few parameters that describe the diversity of supplementary pension systems that exist today.

UNICE calls to avoid a one-size-fits-all solution, which will impose additional costs to the systems. Supplementary pension schemes are primarily the responsibility of social partners in Member States and most of them are voluntarily. Given that voluntary character, it is difficult now to have legislation coming from EU level with compulsory elements, which in some cases can bring about more restrictions in national contexts. Employers will be reluctant to offer second pillar pensions to their employees since there will be more compulsory elements and more restrictions. A one-size-fits-all approach could hamper the development of second pillar schemes in the Member States.

Mrs. Ionita's second general remark was that the question of taxation should not be underestimated. The Commission proposal will not deal with taxation, but there are considerable fiscal obstacles to cross-border portability of supplementary pensions. Unless these problems are solved, the real possibility of supplementary pensions won't be achieved in the EU.

Mrs. Ionita gave some of the arguments why UNICE thinks that certain elements should not be dealt with by European legislation. One is the acquisition of supplementary pension rights. Mrs. Ionita hereby referred to the vesting period, which is the period during which the employee should be affiliated to a pension fund before he or she gets pension rights. The Commission wants to propose that a maximum vesting period would be set at European level. UNICE believes that one vesting period cannot be set at European level, because the duration of the vesting period depends on the nature of the fund. In many Member States, vesting periods have been reduced and they will be further reduced. According to UNICE, reducing vesting periods should be done gradually and compensatory tax measures should be considered to compensate the reduction. The right to have compensatory tax measures can only be set at national level. Vesting periods should not be prolonged because this isn't the time of life-long careers.



UNICE does not believe that the preservation of indexation rights and on indexation mechanisms, should be dealt with by EU legislation on portability. The decision as to how to index the rights left in the pension fund, or whether to index them or how to index them, should be left at national level, because this depends on the economic variable of the pension fund and of the economic context of the country and should be adjusted accordingly. Having legislation on one single type of indexation mechanism cannot be done at EU level.

The third parameter is the transferability of supplementary pension rights. The cross-border transferability should be facilitated. Having a mutual agreement between all parties involved, meaning employers, employees and the pension institutions should do this. Looking at how to facilitate this cross-border transferability, it is worth defining principles in the Member States at the appropriate level. To look at principles to value the pension rights to be transferred, on the basis of actuarial criteria that are defined at the appropriate level in the Member States. In that way, a company or a person can make an informed decision whether to transfer the rights or not. In more simple terms: it would be good to define principles to calculate how much is in the pot. It would be good to have transparent principles in Member States to value the pension rights. You have to see how much is in the pot in one country and how to value it in another pot in another Member State. The idea is to have an informed decision by companies or by employees whether to transfer or not. UNICE is definitely for giving the employees the full information on the values acquired, so that they are well informed.

To conclude, Mrs. Ionita warned that one should be careful that EU legislation should not bring more restriction and more compulsory elements, which would increase costs for employers and pension providers. UNICE agrees that portability should be improved but not at the expense of the employers or the pension providers. A EU initiative should not interfere with the organization of pension systems in the Member State nor should it deal with acquisition or preservation of supplementary pension rights. Although UNICE welcomes the questionnaire and the planned impact assessment ahead of the Commission proposal, the organization doubts whether the Commission's approach can provide with a deep analysis, because the issue is so complicated.



Mr. Henri Lourdelle

ETUC

A set of standards should be implemented to guarantee the employee's rights

Supplementary pensions concern all sides of industry, workers and employers. They have to be seen as a kind of deferred salary. As it's the case with any kind of salary, a supplementary pension has to be negotiated. Portability of pensions is an important issue for ETUC, who welcomed the Commission's initiative to proceed with consultation of the sides of industry.

Mr. Lourdelle recalled that this is a very pressing matter. ETUC organized already in 1990 a seminar in Bremen on this issue. Another seminar was organized by the Commission in 1991, where ETUC came up with a whole series of demands for the transferability of rights. At that time, ETUC was already demanding some kind of actuarial coordination and a greater deal of transparency. In addition, ETUC wanted tax harmonization. The organization also called for a Directive that would set some kind of minimum standard for guaranteeing transferability. This goes to show how important this is.

At the time, mobility was always viewed from the employer's point of view. Then it was realized that mobility also concerns other types of salary workers who work in the construction sector, the catering and restaurant sector. In social terms it was important to implement properly provisions, which would guarantee these groups of social sectors. This certain set of standards, safeguards as it were, should be implemented to guarantee workers rights. For this reason, ETUC has always and will continue to support the Commission's initiative.

The vesting period could be very different depending on whether one works in the catering industry, building industry or other sectors of industry. This could form part of negotiations. One could say: you have a given sector of industry with a collective type of agreement so they need a certain type of provision. It is very important that we do set priorities for negotiation.

The Commission calls for a minimum set of rules, which would be a kind of foundation for more extensive provisions. What should go into this minimal foundation? A number of objectives that were set in the open coordination method. In particular, when the open coordination method talks about pensions, there is the idea that pension systems be modernized. This means that one has to take account of the new salary situation that can be experienced today. In many systems certain clauses relate to minimum working time and certain salary acquired rights. To this one has to add the vesting periods. If one does this and sets a two-year vesting period, there are certain types of contract, which are only valid from a certain period of time, which would be ruled out. Modernizing pension systems, even in the case of occupational pension systems, means that we have to take account of that aspect. ETUC would not like to see the technical problems being discussed before there is a political discussion, i.e. a discussion about the will to make a progress. Once progress is made, the technical problems can be solved.

At the same time, one should look at equal treatment between men and women in the field of occupational pensions. If one looks at the various pension schemes, obviously it is going to be easier to guarantee equal treatment in certain cases than in others. ETUC is particularly interested in the draft Directive that the Commission proposed in November 2003. The European Committee on Insurance Sectors expressed certain reserves, but that's part of the game. This draft Directive is rather interesting because it takes account of some of the fundamental concerns ETUC has expressed. Although there are technical problems, which all of us are aware of, if everyone is willing to make progress, we should be able to come up with solutions to these technical problems.



Consideration has to be given to the transferability of capital. Some issues for discussion are the amount, the criteria and the kind of tables? Mr. Lourdelle thinks that time is ripe for this debate, because all sides have acquired knowledge, but they have also questions and concerns. This knowledge should provide answers to some of the questions. Progress has been made since 1991. According to Mr. Lourdelle, there is an opportunity today to take a further step. Although the IORP Directive is an important Directive, all sides are now in the position to take another step forward, because they have realized how important the technical elements are. This is absolutely essential to have a credible, serious debate and to be in the position to come up with the right kind of solutions. It is only by properly defining the problem that you can come up with the correct answer.

ETUC is for this reason very much in favour of a new legislative initiative from the Commission. It has been impossible to find a solution with social dialogue; therefore the Commission now assumes its responsibilities; legislation and submitting draft texts. Mr. Vignon said that this is an urgent matter and therefore Mr. Lourdelle believes that one should move forward as quickly as possible, although one has to be careful not to rush this process. But as Mr. Vignon pointed out, if we wait until everything is in place to move forward, we will never manage to make progress. That is the clear position of ETUC.



Mr. Withold Galinat

EFRP

Portability can be a Trojan horse

Before turning to portability as such, Mr. Galinat raised some basic points in order to define the framework within which to discuss the issue of portability.

The first point to start with, is that occupational pensions are still a benefit, provided voluntarily by employers as a supplement to state pensions.

Point two, occupational pensions will most likely become more important in the future, because state pensions are expected to deteriorate due to the foreseeable demographic pressure in Europe. Looking at occupational pensions from the sponsoring employers perspective, one needs to note that they are the financially most significant benefit provided. From a sponsor's perspective, occupational pensions are a very expensive item in the remuneration package.

A further point to consider is that there is quite a broad coverage in terms of occupational pensions in some Member States, typically the Member States with a sector wide or industry wide occupational pension arrangement. However, in most Member States, because of the voluntary nature, the coverage in terms of occupational pensions is about 30 to 60% of the total work force. That leads to the conclusion that the more important task probably is to extend the coverage under occupational pension systems rather than sort of optimizing the terms and conditions under which they are accrued or actually transferred. There is a priority issue there.

Mr. Galinat's fourth point in setting up the framework has been mentioned already. The occupational pensions approaches in the various Member States are quite diverse. Each of these approaches represents a specific cultural and economic history that led to a very fragile balance of basically benefits and costs. Because of this, any hasty measures with respect to defining a new balance via a set of pan-European minimum standards will most likely have negative, counterproductive side effects. For this reason subsidiarity should be sought rather than uniform EU measures.

Turning to the portability of occupational pensions per se, it is noteworthy to consider the recently published results of a survey conducted by Taylor (et al.). A large number of European business leaders were polled in this survey. According to the results of this survey, the ability to transfer retirement benefits across the EU is relatively low on their agenda. Only 5% of the respondents rated the transfer of retirement benefits across Europe as important. Why is this the case? There are probably two answers to this.

The first thing is that for business leaders the most serious question relates to challenges associated with globalization and competition. Secondly, the multinational groups within Europe probably have found ways to actually manage the transferability of pensions and pension entitlements for their mobile workforce, so it's not moving up to the business leaders.

The Commission basically starts with emphasizing that there is a considerable degree of mobility within Europe. From his personal experience, Mr. Galinat challenges this to some degree. Because of language, family relationships and culture, EU citizens tend to look for employment within their Member State. Therefore Mr. Galinat thinks that we are talking about mobility of a relatively limited group of people. He has not seen statistics, which he found satisfactory in terms of showing validly and reliably that there is a very significant mobility occurring within Europe.



When the Commission talks about portability, one can find this to be sort of a Trojan horse. Portability not only means the transfer of pension entitlements from one occupational pension scheme to another. No, within this Trojan horse one also finds the terms and conditions under which the occupational pension entitlements are becoming indexed. These are certainly issues that go beyond portability as such.

When one look sat portability, certainly the EFRP welcomes all sensible measures, which allow for the transfer of accrued pension assets from one occupational pension scheme in a Member State to another one in another Member State. This requires two major things. On the one hand one needs to find a solution with respect to the tax hurdles that exists. On the other hand, it must become possible that if a pension scheme or an employer transfers the liabilities under the pension scheme via a capital to another pension scheme out of the Member State, that this scheme and the employer behind it are freed from those liabilities. As far as German occupational pension laws are concerned for example, this is still not possible. Thus the employer would always be in some danger that the employee comes back and claims to receive again the pension entitlement, which has been transferred with the pension assets already out of the country.

It is only too obvious that it is necessary and vitally important to provide the employee with adequate information about the reserves accrued and what can be bought with those reserves. EFRP does not only recognize this, it also welcomes appropriate information to be provided to the employees concerned. However, EFRP also wants to emphasize that providing such information is not for free. It certainly comes with some costs, mainly from additional administration, which is associated with dealing with the transfer and making the relevant information available and actually transferring the assets across. It is hardly conceived to leave those costs with the employer, which the employee is leaving. Nor could one imagine imposing it on the non-mobile employees, being those in the scheme the employee leaves from, or being those employees in the scheme to which the employee moves to. Therefore, isn't it logical that all that administration costs associated with portability should be borne by the mobile employee him or herself?

The most important issue about portability per se is clearly money. More concretely, it is about the amount of pension assets representing the occupational pension entitlement accrued prior to leaving. A layman may assume that there is something like a true capital value of the pension entitlement and that this can be quite easily be determined. This is exactly the case for defined contribution schemes where the amount we talk about to be transferred, is simply the accrued contributions plus the interest earned on those.

It is more tricky and difficult in respect of defined benefits schemes. That becomes easily visible when one looks at different financing carriers such as pension funds on the one hand and insurers on the other. There are clearly different sorts of valuation bases used, which certainly then lead to different amounts representing the entitlement. But this is not only the case when one talks about different financing vehicles. It is also the case when one talks about pension funds, which transfer issues from one to the other. The issue there is that of risk management and risk perception between the different trustees and employers concerned. Some trustees are more cautious than others and therefore some conceive that they need more money to finance pensions than others. Transferring money would always require negotiation on the amounts of money being transferred across.

The only solution Mr. Galinat sees to get out of this is, is to accept the principles that the scheme applies from which the employee leaves for determining the money going out. And as far as the scheme concerned into which the employee transfers in, one could apply the principles that apply there. However, this would mean that the total transaction would be based on a capital basis and that there could be fluctuations of the entitlement behind this and the one or the other direction, depending on the valuation basis chosen by the scheme.



A final consideration on portability, which should not be forgotten, is: who actually has the right to determine whether or not pension assets are transferring from one occupational pension scheme to another? As mentioned earlier, occupational pensions are in most countries a voluntary benefit. In such a voluntary environment, there is not much room for either forcing trustees or employers to pay out money or accept money without their consent. That would mean that in order to allow for portability, one would put this in a framework of consent of all the parties involved; the scheme from which the employee transfers out, the scheme into which he or she transfers in and of course the employee him or herself.

Returning to this Trojan horse, to those aspects which are discussed by the Commission under portability but which are not portability per se, Mr. Galinat mentioned the aspect of waiting periods associated with acquiring the pension right and the vesting periods. These requirements vary considerably; from immediate vesting to no vesting at all prior to retirement. It's basically the maximum difference one can have. There is a huge discrepancy, which is for a layman's eye probably difficult to believe at all.

The indexation of pension entitlements of vested leavers means a huge amount of additional costs. That tremendous additional cost could make employers and scheme sponsors to rethink the budgeting of their schemes. When there are additional costs with the same budget for our pension systems, this would simply mean that the pension benefits could then be lowered and we would have a solution, which is probably not intended at all as a side effect here. This cannot be what the Commission tries to achieve by bringing indexation into the debate.



Mr. Gérard Ménéroud

CEA

In this process, a degree of fairness should be guaranteed

CEA feels that it should be possible to define a framework to build up some kind of system that will offer and supply high quality services to the client or to the insured, whether the employers or the employees. This will allow them to have a more mobile professional life and a more diverse professional life. Certain principles have to be newly defined or redefined, but obviously one has to be careful not to be too precise and too rigid. The framework is far too rigid if you look at the existing various national schemes. That is going to discourage employers to have a second level scheme. This is a very important element, especially if you think in terms of the way in which the population is evolving in Europe.

Mr. Ménéroud believes that there is an opportunity to offer the employee a choice through transparency and increased information, which will allow an efficient working cross-border system based on transferability. The solution that comes up for trans-border transferability must not be unfair and less favourable than the schemes that exist at national level, i.e. somebody who moves from one country to another should not lose out. A degree of fairness should be guaranteed.

One also has to make sure that there is fairness when it comes to those who make up the community pension schemes and systems, whether this is the company the employer is leaving or the receiving company with the receiving scheme. Obviously one has to look at the various indexation systems and the various schemes that exist from one country to another. In addition to considering the interests of the individual employee, also the interests of those who remain in a company and are going to receive new colleagues need to be considered. Nobody should be affected if there is a flow of capital or if you look at the market value, historic value and the various fluctuations that could come about.

Another element that is important for CEA is the idea of individual transfer or even collective transfer from one sector of industry to another. As said before, one has to make sure that there is real negotiation. It is not at all desirable in the long term that liquidity is replaced by transferability of the schemes. This will lead to a drop in the efficiency of the schemes. One has to look at individual transferability, without making the pension system too flexible, which would mean that somebody would lose out. CEA is not talking about a change in pension scheme management, but moving from one pension scheme to another on the part of one group of people. That would endanger certain pension schemes.

CEA agrees in principle to continue with discussions following the impact assessments studies. A general framework is needed to set minimum requirements for acquiring rights, preserving the transferability of acquired rights and technical aspects as well. These elements need to be studied properly. There are no uncertainties for an employee when he moves from one country to another or changes employer. Obviously this is going to entail work, the kind of work that is already being undertaken by the Commission's Pension Forum.



Mr. Philip Shier
Groupe Consultif Actuariel Européen

You have to recognize that there are different schemes provided by different employers

For a defined benefit scheme the proposal of the GCAE is that the transfer values should be calculated as being fair value for the benefits, which the member is entitled to on leaving the scheme. This recognizes the fact that there are different schemes provided by different employers. There are different statutory provisions in different Member States. But if a member is entitled to benefits, assuming that he or she has completed the necessary vesting period, then the transfer value should be calculated as a fair value for those benefits.

This principle is reasonably easy to accept. It would recognize whether or not there is revaluation between leaving and joining the pension, whether there is indexation of the pension employment and whether there are pensions payable to survivors on the death of the employed member. The actuarial calculation would allow for the benefits for which the members are entitled and would then capitalize the future benefits into a long-sum payment.

In doing that capitalization there are really two issues, which the actuary has to consider and make assumptions about. The first one is the most important. It is the interest rate to discount the future payable benefits. The second, also important but with less impact on the calculation, is the assumed mortality table underlying the calculation.

The more important issue is the interest rate used to discount the future benefits. This is actually an area that has been debated intensively in actuarial circles over the last five, six years. It reflects both the funding of benefits the calculation of pension costs for company accounts and the calculation of transfer values for people who move from one scheme to another.

The general principle is that the discount rate should be a rate, which reflects the return on assets, which are appropriate to match those liabilities. The issue that is still hotly debated is what assets should be considered in that calculation. Should it be government bonds, which have a guarantee and a relatively low return, or should it perhaps be a mixture of assets, including company shares and property, which would have a higher return but would not have a guarantee? That is a question that is certainly not being resolved in terms of agreement between actuaries in one country, let alone across Europe. If an employer is funding a pension scheme on the basis that he is going to invest in equities to get a higher return, than if the calculation of the transfer value is done using a bond yield, the answer would come out significantly different.

In relation to cross-border transfers, obviously these issues are magnified because different actuaries in different countries have different approaches. The IORP will help the transferability in terms of regulatory requirements, which is currently inhibited. Hopefully the actions taken by the Commission in relation to taxation issues will also help the issue of transferability.

Finally, just to comment on convergence across the EU; clearly mortality is different. In relation to interest rates there is a considerable convergence across the EU and in particular within the Euro-zone itself. One would expect that in the longer term the calculation of transfer values in different countries would come closer together.