Pensions Funds and the crisis - national policy actions
Executive Summary

Introduction:

Many European governments are currently facing public finances issues as a result of the financial crisis. As both tax and pension systems are extremely diversified among European countries, the ways to improve public finances differ. However, the workplace pension sector can become target when it comes to make short-term fiscal adjustments. As long-term investors, it is often seen that short-term fiscal and investment policies changes might not have big consequences on the workplace pension sector. However, these initiatives are likely to affect the adequacy of pensions in the long run. The aim of this survey, conducted among PensionsEurope’s Members, is to provide an overview of the different initiatives on tax, investment and other government policies that affect workplace pension sector at national level and which have been implemented as a direct or indirect result of the financial crisis.

In Chapter 1, a list of tax changes introduced for pension funds and other institutions for occupational retirement provision (IORP) is set out. It includes changes in tax rates (mainly on contributions, investment results and/or benefits), temporary taxes, nationalisation and/or transfer of assets. Chapter 2 focuses on macroeconomic aspects of policies that are detrimental for IORPs. It lists measures that have a negative impact on IORPs, while not targeting them directly. Chapter 3 lists initiatives taken by European governments to incentivise IORPs to invest in domestic economy. Chapter 4 focuses on actions taken by governments on statutory social security - first pillar - pension policies as a whole in order to improve budget imbalances. It mainly concerns increases in retirement ages or years of pension contributions and decreases in early retirement opportunities. Finally, in Chapter 5 we set out the views of PensionsEurope on the likely long term consequences of these policy interventions and what they will mean for pension provision.
1. Disincentives introduced for pension savings

The disincentives for pension savings introduced in several countries take different forms and have obviously different intensities. The following initiatives reflect the diversity of the tax and pension systems as well as the short-term adjustments made by governments:

- Decrease of the State subsidy to pension funds (Austria).
- Increase of the tax rate applied to pension contributions (France).
- Increase of Social security contributions applied to pension contributions (Belgium).
- Different temporary taxes: Property tax on pension funds (Iceland), temporary annual levy on pension funds’ assets (Ireland).
- Transfer of assets and/or nationalisation of some pension funds’ assets: Non-commercial pension funds e.g. universities (Ireland), banks schemes (Portugal), second-pillar pension funds (Hungary).
- Cancellation of stimulation of pension savings (the Netherlands).
- Decrease in amounts that can be saved tax-free (UK/Ireland).
- Increase in personal tax applicable to earned incomes, including pension incomes (Spain).
- Increase of tax on premiums of pension insurances (Spain).
- Lump-sum taxation (Austria).

1.1 Changes in tax rates

Currently in Europe, a majority of countries are using an EET (exempt – exempt – taxed) system to tax occupational pensions. This means that:

- (E): the contributions by both employer and employee are tax deductible,
- (E): the investment results of the pension fund are usually exempt and,
In recent years, European governments have often targeted one or more of the above-mentioned components in order to improve fiscal situation.

In **Belgium**, occupational pension plan contributions for employees are subjected to a Social Security contribution. A recent measure by the federal government of Belgium introduced an extra social security contribution of 1.5% for all contributions (under Belgian Social and Labour Law) that exceed €30,000 a year.

Taxation on pension plans has continuously increased during last 5 years in **France**. With regards to taxation of occupational pension contributions, a *special tax on pension contributions* (called "*forfait social*") was raised from 2% to 20% in July 2012. Incomes are now taxed at a rate of 15.5% (social contributions).

The development of the mandatory 2nd pillar in **Romania** foresees a contribution calendar redirection from PAYG to funded schemes (2% contribution rate in 2008 to go up to 6% in 2016). The calendar was affected in 2009 (with a freeze of the rate at 2%) and has been one year behind the initial schedule ever since (3.5% in 2012 instead of 4%).

In **Portugal**, while contributions to pension plans made by the employer are generally *exempt*, in some cases, these contributions are considered as income (wage) of the employee and taxed accordingly. Contributions made by the employee are not tax-exempted in the sense that these amounts are not deductible from the taxable income. Nevertheless, employees may consider as a *tax credit* part of their contributions to pension plans and other retirement savings products.
Also in Portugal, the income generated by pension funds’ assets and other retirement saving vehicles is generally exempt from taxation. The only taxable income is dividends received from shares of Portuguese companies\(^1\) held by the pension fund for less than 12 months.

Concerning pension benefits, if part of all of the benefits is paid as lump sum, an amount corresponding to the contributions that originated the benefit will not be taxed if they were taxed at the time they were made to the pension fund. If they were not taxed at entrance they will be partially taxed as wage in the year they were received. The income generated by the contributions, if paid as lump sum is subject to a withholding tax at the time they are paid to the beneficiary, although the tax-rates applicable are generally lower than “normal” rates. If the benefits are paid as an annuity, in cases when the contributions were not taxed, then the amount paid each year is considered as income from pensions and taxed accordingly.

In Spain, the rate of taxation has been increased to all earned incomes, including benefits from private pensions (2\(^{nd}\) and 3\(^{rd}\) pillar). To achieve this goal, the package of measures to reduce the budget deficit approved in 2011 included a temporary increase in the personal tax applicable to earned incomes in 2012 and 2013, with an additional rate which varies from 0.75% to 7%. The government has announced that this increase will be maintained in 2014.

Likewise, a small reform has been approved in Parliament in order to ensure that premiums of certain insurance products, which include retirement schemes from employers on behalf of a single employee, are taxed if they exceed €100.000 per year. These products target senior executives at big companies. Nevertheless, the impact of this measure on the pension savings system as a whole is not significant.

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\(^1\) The law mentions “profits distributed by companies subject to corporate tax”. This includes only dividends paid by Portuguese companies and does not include dividends or any other income received from domestic or foreign investment funds, whether or not they are held for at least 12 months.
The Government of the United Kingdom has made major reductions in the amounts that can be saved tax-free in a pension. In the Government’s annual Autumn Statement in 2011, the Chancellor of the Exchequer announced that the Lifetime Allowance -i.e. the amount that can be saved into pension tax-free over a person’s lifetime - will be reduced from the current £1.5m to £1.25m in 2014-15 and the Annual Allowance (the maximum tax-free amount that can be saved in a pension every year) will be reduced from £50,000 to £40,000 at the same time.

These latest changes follow major reductions introduced earlier in the current Government’s term: In 2010 Emergency Budget, the Lifetime Allowance was cut from £1.8m to £1.5m in April 2012 and the Annual Allowance from £255,000 to £50,000 in April 2011.

In Ireland the government in 2011 reduced the maximum earnings cap on benefits and contributions receive tax relief on to €115,000. Pay Related Social Insurance and Health Levy relief for employees on their contributions have been removed by the government. These contributions now only receive income tax relief. Furthermore, the government also reduced the maximum fund or value of benefits that can be accumulated from €5m to €2.3m. The government announced in 2012 that there will be a cap on pensions of €60,000 a year. From 2014, any pensions higher than that will be subject to an effective tax of 70%.
1.2 Temporary fiscal initiatives

In many European countries, temporary fiscal measures have been taken in order to rebalance fiscal deficits. These measures have taken the form of tax levy, an exceptional tax on pension funds or temporary property taxes. They have been supposed to be exceptional and/or temporary, highlighting the short-term aspects of these policy actions.

For instance, due to the rescue of a relatively big bank (Hypo Group Alpe Adria), the Austrian government searched for funds to finance the rescue. In this context, the Parliament enacted a law which provides for a one-time option (not mandatory) of retired participants and participants near retirement to tax their whole funds with a flat tax rate of 20 or 25% (depending on the monthly amount of the occupational pension).

Due to temporary amendments on Icelandic tax law, the maximum contribution from employees was reduced from 4% to 2% until the end of 2014. Moreover, a special temporary property tax was charged on pension funds in 2011 in order to finance a special support to families with heavy mortgage payments. The tax rate was set at 0.0814% of the assets under management of pension funds (which represent close to 130% of Iceland’s GDP).

In Ireland, a temporary annual levy of 0.6% on pension assets has been implemented since 2011 and will be in place until 2014.

In Spain, contributions to pension plans of public civil servants and employees of public companies have been temporarily suspended during 2012 and 2013. Likewise, public servants extra month’s pay, usually paid at Christmas, will be replaced in 2012 by a contribution to an IORP on their behalf, to be made no earlier than 2015, as a deferred salary.
In addition, the package of measures approved in December 2012 included an increase in the tax rates of advance payment to be made by all companies subject to Corporate Income Tax, as well as a minimum payment of 12% of the positive result of the profit & loss account. This payment has also been temporarily required from pension funds, which had to make it before 20 December 2012, although it will be fully returned when filling out the annual return, since pension funds are taxed at a Corporate Income Tax rate of 0%. For 2013 onwards, pension funds are exempt from this payment.

In Portugal, a measure included in the State Budget for 2012 made possible the suspension of Holiday and Christmas’ subsidies for a large part of public servants and pensioners. This measure was initially planned to cover the years 2012, 2013 and 2014. Given the principles of proportionality and equality enshrined in the Portuguese Constitution, this suspension was rejected by the Constitutional Court, so the cuts will not be implemented in 2013 and 2014, at least in the original form that was rejected by the Constitutional Court.

Also in Portugal, the State Budget for 2013 introduces also the payment of an extraordinary solidarity contribution to pensions exceeding €1,350\(^2\). This contribution foresees extraordinary cuts ranging from 3.5% to 50% and will be applied not only to pensions paid by the state but also to 2\(^{nd}\) pillar pensions (but excluding 3\(^{rd}\) pillar pensions). This is an extraordinary contribution that adds to “regular” taxes on income, which means that the part of annual taxable pensions exceeding €250,000 will suffer a cut of near 80%\(^3\).

\(^2\) It should be noted that average monthly first pillar pension is below €485 (the current Minimum National Wage) for pensions paid by the Social Security Regime and €1112 for pensions paid by the Civil Servants Regime.

\(^3\) The 50% cut is done on “gross” pensions, which means that after the cut the remaining amounts will still be subject to taxation on personal income.
1.3 Nationalisation and transfer of assets and/or pension funds

A few European Member States have decided to transfer or nationalise second pillar pension funds’ assets. This is the case in Ireland, Hungary and Portugal. PensionsEurope fears this measure is also currently under discussion in Poland.

In 2009/10 the Irish government nationalised the pension funds of a number of non-commercial semi-state organisations (universities for instance). In total, assets of about €2bn have been transferred into the National Pensions Reserve Fund and liabilities of about €3bn have now become part of the unfunded public sector scheme. Moreover, the National Pensions Reserve Fund, which had assets of €25bn, has been used to recapitalise the banking sector.

In Hungary, the government stopped all mandatory premium income in December 2011, causing zero premium income for the mandatory pension funds. The government also transferred the remaining mandatory pension fund members into the state system. In April 2012, only about 75,000 people remained in the private pension system. As a consequence, the funds reaching the membership level of two thousand required for maintaining activity, decreased to nine.

In Portugal, all bank employees’ pensions (1st and 2nd Pillar) were, until 2009, paid by pension funds sponsored by banks. After 2009, all new bank employees have been enrolled in the Social Security Regime and do not benefit from pension schemes provided by the banks. At the end of 2011, the government and the banks agreed to transfer to the Social Security both the liabilities with pensions and the assets that were financing those liabilities. This operation meant the transfer of a total around of €6bn from pension funds to the Social Security, and represented nearby one third of the total

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4 About €20bn of the €25bn was used for bank recapitalisation.
assets managed by pension funds at the end of September 2011. This process was completed on 30 June 2012.

In Romania, there have been numerous calls over the last few years (especially 2009 and 2010) to nationalise or alter the contribution rates, but these have not been realised.

1.4 Other measures

This section lists some measures that do not target directly contributions, benefits or income. The range of measures is very heterogeneous because of the important difference between taxation systems of pensions in Europe. For instance, in Austria where a state subsidy (Staatliche Förderung) was applied to pension funds, the government decided to halve it in 2012 to 4.25%.

In 2012 in Finland, tax reform practically removed possibilities for single persons and employees to contribute to pension savings with own pay-out. If a single person (in 3rd pillar pensions) or an employee (in 2nd pillar pensions) would like to have a tax deduction from their own payout, the pensionable age is required to be at least 68 (previously the minimum pensionable age in 2nd pillar pensions was 60 and 62 for 3rd pillar pensions). On the other hand, if an employer pays all 2nd pillar pension contributions, pensionable age could be even as low as 55 years. This law change is expected to close all 3rd pillar pensions and 2nd pillar pensions where employees or single persons have contributed for pension savings.

In Ireland, currently the maximum DC fund that can be accumulated is €2.3m. The Revenue Authorities use a factor of 20:1 to convert this to an equivalent DB pension which allows a pension of €115,000 and where any excess is taxed at an effective rate of 70%.
In the Netherlands, a special tax committee established in October 2012 by the Ministry of Finance to give advice about the future tax system once again stressed the importance and added value of EET. However, the new Dutch government foresees changes to the taxation of pensions. As from 2014, people can accrue 2.15% of pensions a year in average pay plans instead of the current fiscal maximum of 2.25%. Moreover, if the new government plans concerning fiscal policy are implemented in 2015, people can only accrue 1.75% of their pension a year. In addition, the Dutch government is no longer willing to fiscally stimulate pension saving for salaries higher than €100,000 annually.

There are no tax-rules where a part of the buffer of pension funds have (a higher) tax rate nowadays in the Netherlands. However, the pension sector is still suffering from the consequences of events that took place in the 1990s when the government threatened to tax the buffers of pension funds. As a consequence, the social partners decided to lower the buffers of the funds and use the money to improve pension agreements and other labour conditions. By doing so, the money could still be used for the benefit of those who had paid the premiums: Employers and employees. Today, the financial position of pension funds is quite difficult due to low interest rates, increased life expectancy and the economic crisis. The combination of past and present events led to a lot of discussions and reputational damage for pension funds, even though all stakeholders in the pension plans profited from the measures that were also taken to prevent taxation.

The Swedish government commissioned an official Report regarding the regulation of occupational pension and the taxation of life assurance companies. The report will be presented on 1 February 2014 and should include a survey on the current taxation and civil law rules on occupational pensions. Differences in the tax regime between insurance companies, pension foundations and balance sheet provisions will be investigated. The aim is to create level playing fields between the different pension regimes, not to increase the taxes paid by the institutions.
1.5 Countries where no change is foreseen

Whilst the pension funds in a number of Member States have undergone significant reforms as a result of the financial crisis; the taxation of workplace pension in other Member States has been unaffected. This is the case in Italy, which is currently applying an ETT-tax system where:

- **Deduction limit for contribution** is established at €5164,57;
- Operating **income** accrued each year by the fund is **taxed at 11%** tax rate and
- **Benefits taxed at 15%**, with a **tax reduction** of 0.3% every year in excess of 15 years continuous participation in a pension fund (not to exceed a total reduction of 6%).

At present there is no initiative to change taxation. However, **amendments to the tax regime of pension funds** in order to **enlarge the deduction limit for contributions** and **exempt from taxation operating income accrued by the pension funds** will be presented by the pension sector to the new Italian government.

There are also currently no further plans to change the taxation of workplace pensions in Germany. Despite earlier discussions, there will be no change in law to give employers the option of making voluntary contributions to the state pension instead of contributions to a workplace pension scheme.

It should be noted that in Germany, **tax effective contribution levels** depend on the pension vehicle used. **Pensionsfonds, Pensionskassen** and **Direct Insurance** have an effective tax contribution level of up to **4% of the social security ceiling** (€69,600 in 2013) plus €1,800 per person and per year. **Book reserves** have **no upper limit** for tax effective allocation. For Support Funds, tax effective allocations are severely limited, unless the fund is fully reinsured, in which case there are no upper limits. Employers and pensions experts have long argued that the **tax effective contribution limits** for **Pensionsfonds, Pensionskassen** and **Direct Insurance** mentioned above should be lifted.
This shows the complexity of the German workplace pensions system. The created complexity is one of the reasons that small and medium sized enterprises (SMEs) are less likely to offer a workplace pension to their staff. The pension sector is working together with union and employer representatives as well as the relevant ministries to develop solutions to make it easier for SMEs to offer good workplace pensions.

In Romania, the taxation for the 2nd pillar (mandatory non-occupational) pension funds is stable and is not going to change. However, the taxation of the 3rd pillar (voluntary and individual / occupational) pension funds has been constantly changing over the last few years (tax deductions have been increased and extended), but the tax incentive is still low. Contributions directed to 3rd pillar pension funds are currently deductible:

- Up to €400 a year for employer (occupational) contributions: All income taxes (and social contributions) are exempt and;

- Up to €400 a year for employee (individual) contributions: Only the 16% income tax is exempt, not the social contributions.

This is the way national legislation tries to incentivise people to save more for retirement. However, 3rd pillar contributions are capped by law at 15% of gross earnings (i.e. with a gross salary of €500/month, one cannot contribute more than €75/month).
2. Damaging aspect of Macro-Economic policy for IORPs

2.1 Low interest rates consequences

A large number of countries (Portugal, the Netherlands, the UK, Norway, Ireland, and France) have reported negative effects due to the low interest rate environment. The decrease of interest rates has a major impact on the calculation of DB pensions scheme’s liabilities for companies following IAS rules and, therefore, will demand additional contributions or, at least, that the gap between these liabilities and the assets financing them is included in the sponsoring companies’ accounting.

For instance in Ireland where pensioner liabilities are linked to annuity costs which in turn are largely linked to German Bund rates, lower rates have resulted in a significant rise in annuity costs and pension liabilities. In the Netherlands, the pension liabilities have exploded to such a large extent that even the high returns on investments cannot compensate that effect.

In Germany, workplace pensions can be funded internally or externally. For pensions which are internally funded (book reserves), the low interest rates mean a lower discount rate, which in turn leads to higher liabilities. In this case, only the employer is affected, the employee is protected. Since some liabilities only have to be paid in decades, it remains to be seen whether this period of low interest rates will be a problem for employers in the long run. For externally funded pensions (IORPs and insurance-based pensions), low interest rates mean lower returns for the institutions (the active, passive and pensioner members are protected). Low interest rates also make it more difficult to invest new capital or re-invest capital. An area of concern for insurers and Pensionskassen is their stock of older contracts which can carry guarantees of 4%. The severity of the problem is likely to depend on the length of the low interest period, but for now IORPs as well as insurers seem to be coping.
2.2 Quantitative easing

The Bank of England’s policy of Quantitative Easing (QE) has seen the Bank purchase £375bn of assets between February 2009 and October 2012.

Although undoubtedly of benefit to asset values, QE has had a significant and damaging impact on employers running Defined Benefits (DB) pension schemes due to the way in which it has depressed gilt yields and, therefore, increased pension scheme liabilities. This effect has been exacerbated by the UK’s ‘safe haven’ status, which has further increased bond prices and depressed yields.

The Bank of England\(^5\) has acknowledged the impact of QE on pension schemes, although it points out that much depends on the nature of each schemes’ funding situation:

- For a scheme (‘Scheme 1’) that was fully funded in 2007 but that was not fully matched (i.e. not fully invested in gilts), Bank of England calculated that the deficit would have increased from £0m in 2007 to £33.5m in 2012.

- For a scheme that was not fully funded in 2007 and that was also not fully matched (‘Scheme 2’), Bank of England calculated that the deficit would have increased from £30m in 2007 to £65.5m in 2012.

The pension sector has been urging the Pensions Regulator to help schemes through this temporary difficulty by making use of the flexibilities already available in the current regulatory framework. Pension funds are concerned that the way the Pensions Regulator behaves in practice is not consistent with this flexibility.

The UK’s National Association of Pension Funds (NAPF) has said that pension funds need more leeway if they are to survive the damaging effects of QE, continue to offer good quality pensions for their members, and free up billions of pounds for businesses

to invest. A report by the NAPF, found that even a fairly cautious adjustment to the
discount rates applied to calculate liabilities (with an accompanying adjustment to the
assets) could reduce the funding deficits of the FTSE 350 between December 2011 and
March 2012 by 40-50%. The report estimated that this would reduce the reported
deficits of the tranche of schemes with valuation dates between December 2011 and
March 2012 by £20-£37bn.

As a result of lobbying by the UK pension sector and others, the government announced
a consultation exercise aimed at assessing options, including smoothing of valuations to
assist scheme sponsoring employees. In March 2013 the government announced the
conclusion of that consultation. Rather than opt for a smoothing approach, the
government will give the Pensions Regulator a new statutory objective to take account
of economic growth in agreeing scheme recovery plans.

3. Initiatives to stimulate IORPs to invest more in the
domestic economy

PensionsEurope is in favour of long term investing by IORPs, however it must remain a
decision made by the IORP. Indeed, the first goal of IORPs is to manage assets in the best
interests of the members and beneficiaries. The investment behaviour is already
regulated through the prudent person principles in the the IORP directive and it must be
kept in mind that the freedom of capital is a fundamental right within the EU treaties.

Alongside fiscal policies carried out by governments and indirect effects due to the
economic environment or monetary policies, IORPs can be also encouraged or pressured
to invest in certain asset classes or economic sectors.

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6 DB funding – a call for action1
For instance, there were political attempts from the right wing parties to prescribe a certain amount of investment in Austria, but those were not realised. Although there is no increasing pressure to invest in specific asset classes, some pension funds invest in social or infrastructure projects on a voluntary basis.

In Ireland, with regard to the pressure on investment in government bonds, the funding standard has been changed to effectively make it advantageous for schemes that invest in certain Eurozone bonds.\(^7\)

In Spain, the regulation on pension funds will be amended over the following months in order to introduce several reforms, amongst others one regarding eligible assets. However, the goal of such reform is to improve and to make the investment regime more flexible, rather than to promote a higher investment in the Spanish economy.

In the Netherlands, there is constant pressure on pension funds to invest in SMEs, mortgages, green energy and infrastructure. Mortgages are especially the centre of attention and a topic for discussion between banks and pension funds. Pension funds are always willing to explore investment possibilities, while constantly keeping the risk-return trade-off in mind.

The Romanian national pension regulator has had a very mixed approach regarding this type of investment and asset classes (e.g. infrastructure, private equity, etc.). The Board of the CSSPP (private pensions regulatory and supervisory authority), which is still politically appointed, was reshuffled in June 2012 and this brought a revision of the former Board's policies. Some of the decisions now being reversed actually include

\(^7\) It is advantageous in determining how the liabilities of those schemes are calculated for the purposes of the funding standard.
permissions to allocate pension funds' assets in these type of asset classes (infrastructure and private equity), among others. In the bigger picture, Romanian pension funds do not currently reach the sophistication or the critical mass required to invest in these asset types.

However, in the past, pension funds have been strongly pressured to increase allocations to (Romanian) government bonds. For the moment, the average industry allocation in Romanian government bonds is already quite high (above 70% of all assets) and while proper diversification is required in order to achieve a better risk-return profile for pension funds, national legislation, investment restrictions as well as the conservative stance of the pensions regulator hinder the development of more diversified portfolios for pension schemes.

In the UK, the Pensions Infrastructure Platform (PIP) - that will make it easier for schemes to invest in infrastructure - has now secured the critical mass of Founding Investors needed to move to the next stage of development. The PIP will be a new entity designed to give UK pension funds access to direct investment in infrastructure. It will be a new fund “for pension funds by pension funds” and aims to overcome many of the obstacles to infrastructure investment identified by UK pension funds. The key features of the PIP will be:

- a target size of £2 billion;
- a target return of RPI + 2 - 5%;
- to invest in predominantly UK assets (90%+);
- long term yield focus rather than short term capital growth and a preference for a buy and hold approach; and
- an appropriate remuneration basis for its investment manager(s), taking into account the scale of the fund, the nature of the underlying investments and level of expected returns.
These core features mean that the PIP will be aligned with pension funds’ interests as long term investors with an interest in predictable inflation-linked returns and appropriate governance and remuneration structures. The PIP will be fully independent of government, although it will maintain a constructive relationship with HM Treasury and Infrastructure UK.

Ten pension funds have agreed to become PIP Founding Investors. They include: British Airways pension schemes, BAE Systems Pension Funds, BT Pension Scheme, Lloyds TSB pension schemes, London Pension Fund Authority, Pension Protection Fund, The Railways Pension Scheme, Strathclyde Pension Fund, and the West Midlands Pension Fund. These Founding Investors have agreed to seed the development of the PIP. Subject to the PIP being established satisfactorily, each Founding Investor has made an investment commitment of £100m to the fund. To date, therefore, the PIP has secured soft commitments of €1.17 billion in fundraising.

The PIP is currently seeking an investment manager to invest the assets. The other legal structures of the PIP are also being put in place. The PIP expects to formally launch later in 2013.

4. Measures taken in relation to first pillar pensions in order to improve the financial situation of the government

PensionsEurope argues for secure, sustainable and adequate second pillar pension systems in Europe. However, PensionsEurope also recognizes the crucial importance of the public pension systems in Europe and the fact that they must be adapted and reformed in order to be sustainable and provide quality pensions. PensionsEurope has always called for sustainable and adequate pensions and has warned about the potential impacts of both the demographic challenge and the non-favorable economic
environment. PensionsEurope recognises the need for first pillar pension reforms and encourages actions that improve the financial sustainability such as restrictions in early retirement opportunities and increasing statutory retirement ages. The following section lists the most significant reforms that took place recently in many European countries.

4.1 Restrictions of early retirement opportunities

Many countries such as Austria, France, Portugal, Romania and Belgium have recently restricted or reduced access to early retirement opportunities.

In Belgium, the government closed in 2012 all possibilities for early retirement (1st pillar). Access to workplace pensions is only possible at legal retirement age and early (before 65) access is fiscally penalised. Next to this, the government is also preparing positive incentives to encourage people to stay active after the statutory retirement age.

In France, the government restricted early retirement opportunities since 2010. Moreover, the harmonization of the State Pension age between civil servants and certain private employees took place.

In the Netherlands, early retirement plans have already been abolished. The last beneficiaries of such plans will retire in 2015 at the latest.

In Portugal, on 5 April 2012, the government published a decree which suspended the regime that allows for early retirement. The draft bill of the State budget for 2013 recently proposed by the government includes a measure aimed at increasing the convergence of the rules of the pension calculation between the civil servants regime (more favourable) and the Social Security regime.
In Romania, early and disability retirement opportunities have been greatly reduced. Also, the indexation formula for public pensions has been significantly scaled down (from wage growth related to inflation and a portion of wage growth relation).

4.2 Increase in statutory retirement ages

Besides the restriction in early retirement opportunities, countries such as Ireland, Germany, France, Italy, the Netherlands, the UK, Spain and Romania are increasing statutory retirement ages to reflect the ageing population.

For instance in Ireland, the State Pension Age will increase to 66 in 2014, 67 in 2021 and 68 in 2028. In Germany, from 2012 onwards, the State Pension Age for both men and women will gradually increase from 65 to 67 in 2030. In France, in 2010 the government increased State Pension age to 62 at the earliest and 67 normally.

In Italy, from 1 January 2012 the public pension scheme is fully based on a defined contribution scheme. New qualifying year rules will apply to the pension for men (both public and private) and women from the public sector: To acquire the right to a pension the age of 66 years and at least 20 years of contributions are now needed. For women working in the private sector, the new requirements will be reached by 2018.

The Norwegian government introduced a flexible pension age where the level of the pension depends on the numbers of working years and the expected number of years to live as pensioner. As life expectancy is increasing, people have to work longer if they want to sustain a certain level of pension.
The pension age in the 1st pillar will gradually increase as from 2013 in the Netherlands. The pension age will be 66 in 2018 and 67 in 2021. The pension age will be automatically adapted to changes in life expectancy after these dates. It remains to be seen how soon the first and second pillar actual retirement age will be harmonized again. As an example, in 2013 it will be common that people receive their second pillar pension benefit at their 65th birthday, and receive their state pension a month later (due to the gradual increase of retirement age in the 1st pillar).

Romania has undergone a thorough public pension system parametric reform in 2010-2011, when revised PAYG pension legislation was adopted after pressures from the IMF, World Bank and the European Commission (within the framework of the multilateral financing arrangement with Romania). State pension age was further increased to 63 for women (by 2030) and will reach 65 for men by 2014.

In Spain, parametrical aspects of the PAYG system were reformed in 2011, in particular a phased increase in working life from 65 to 67 years and a rise in the number of years to be taken into account when calculating the retirement pension.

Likewise, a “sustainability factor” was established, aimed to allow the proportionality between contributions and benefits from the system in the long term, through a periodical and automatic review of its basic parameters, to align them with the evolution of life expectancy. Although first application of the sustainability factor was planned by 2027, the government has recently announced that it is going to be anticipated and a Parliamentary Commission is debating about its content.

In Sweden, a report on pension-related age limits and obstacles to a longer working life was submitted in April 2013 as a part of an overview of the Swedish Pension reforms since 1994. The following changes regarding pension age were proposed:
- Pension age for old age pension will be raised from 61 years to 62 in 2015 and 63 years in 2019.
- Pension age for guaranteed pension will be raised from 65 to 66 years in 2019.
- Age limit for occupational and private pensions will be raised from 55 years to 62 years in 2017.

Moreover, the age limit i.e. the age until the employee has the right to continue his employment will be raised from 67 to 69 years in the Employment Protection Act.

In the UK, the State Pension Age for both men and women will increase to 66 by 2020. Women’s State Pension Age is in the process of increasing from 60 to 65 by November 2018. In the longer term, the State Pension Age is also planned to increase to 68 by 2046. It is expected that announcements on further accelerations to the increases to 67 and 68 will be made soon.

4.3 Increase in years of contributions

France, Italy and Spain recently increased years of contributions to reach full pension rights. In France, minimum contributing years to have full pension benefits increased to 41 years. In 2011, Spain increased to 37 (from 35) the minimum contribution period to reach a full pension.

In Italy, in 2012, 42 years +1 month of contributions for men and 41 years +1 month for women will be needed to acquire a full pension; this requirement will be raised to 42 years +2 months for men and 41 years +2 months for women in 2013 and to 42 years +3 months for men and 41 years +3 months for women starting from 2014. Qualifying years and annuity factors, now updated every three years, will be updated every two years starting from 2019.
Finally, for fully defined contribution employees (anyone who began working after 1 January 1996), it will be possible to start withdrawal from 63 and up to 70. This flexibility is allowed only if the following conditions apply: 1) at least 20 years of contributions and 2) annuity greater than a certain amount, yearly updated.

4.4 Other initiatives

In Germany a host of initiatives have been taken to increase the employment rate of older workers: For example, less generous unemployment benefits, higher reductions in the state pension when claiming the state pension before state pension age, have led to higher employment rates for people just before retirement. In 2001, only 37.9% of those aged between 55 and 64 were active in the labour market, ten years later that had risen to 59.9% (the OECD average for 2011 was 54.4%).

A public debate about old age poverty also took place towards the end of 2012. Despite current low rates of old age poverty – only 2.5% of those aged 65 and over claim means-tested benefits - there are concerns that this will change for future pensioners. The governing parties as well as the opposition introduced concepts around a minimum state pension, but despite pressure from the Ministry for Labour and Social Affairs, nothing has been legislated yet. With a general election being held in September 2013, it is unlikely that anything will happen before then.

In contrast, the law improving private pension saving still stands a chance of being passed before the general elections in September 2013. A law regarding the Riester Rente (incentivised third pillar pensions) is currently in the Vermittlungsausschuss (a committee where legislative texts which have the support of the Bundestag but not the Bundesrat are being discussed, potentially altered and passed). The proposals will be

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9 (Altersvorsorgeverbesserungsgesetz)
discussed at the beginning of June 2013, and it is expected that this law will get through the process before the general election in September 2013. In its current form, it requires *Riester Pensions* to have a Key Information Document which makes it easier for savers to compare different products. In addition, both employees and the self-employed will have the option to insure themselves better against occupational disability (*Berufsunfähigkeit*). It has been suggested that the maximum tax free amount for the self-employed should be increased from €20,000 to €24,000 per year, but that the maximum amounts for people using *Riester* plans remains static at €2,100 per year. However, this last point has been contested by the opposition.

In **Finland**, the Social Democrat Party wanted to abolish complementary retirement provision (2nd and 3rd pillars) with cuts in tax deductions. At the moment, a law is pending which will raise retirement ages to 68 for individual 3rd pillar pensions and 2nd pillar collective pensions where employees take part in paying premiums to a pension fund or life insurance company.

In **Portugal**, the Economic Adjustment Programme includes a joint financing package of €78 billion, and contains reforms and fiscal measures to reduce the public debt and deficit. The draft State Budget for 2013 foresees - as happened in 2012 - the freezing of the nominal value of pensions and the suspension of updating the amount of social support index which is the coefficient used for the calculation of pensions and other benefits paid by Social Security.

In **Romania**, most special "gold-plated" public pension regimes were abolished and the respective categories of public sector workers have been integrated into the revised unique contribution-based PAYG system.

In the **UK**, public sector pensions were reviewed by former Labour Minister for Work and Pensions Lord Hutton of Furness. He published his final report in March 2011 and
recommended that public sector pensions move from final salary DB schemes to career average (CARE) schemes. In the short term, public sector employees are facing increases in their contributions, to £1.8bn or 3% contribution increase (on average). The Public Services Pensions Act was passed into law in spring 2013. Most employees will see the changes implemented from April 2015 (or 2014 for the Local government Pension Scheme).

The government is planning major reform to the State Pension System by combining the current two tiers (Basic State Pension and State Second Pension) into one, more generous, pension set above the means tested benefit level. It will start in 2016 for people retiring after that date.

5. Conclusion

The list of numerous initiatives taken at national level with regards to tax and investment of pension regulation is a major concern for PensionsEurope and its members. One can see that many national governments consider pensions, members and pension institutions as source of capital that may be used to adjust fiscal imbalances and meet fiscal consolidation objectives. Through this report, PensionsEurope wishes to warn about the negative effects of these policies, especially on long-term pension adequacy. Indeed, it is well-known that pensions are a long-term matter, much longer than political time horizons.

PensionsEurope strongly warns against measures such as the nationalisation of pension assets and excessive taxation that would reduce or discourage pension savings as well as any measures that would threaten the sustainability of pensions. Policy actions such as the transfer second pillar assets into the State budget are still a real risk, and we are concerned that such measures could be implemented in Poland.
Second pillar workplace pensions are crucial for the future of Europe. It is indeed well known that demographic pressures, combined with the current economic environment, render public pension systems unsustainable if there is not a good and adequate balance between the different pension pillars. Furthermore, the amount of pension savings is too low at an aggregated European level. As a result, any policy concerning pensions should therefore be in line with the idea that workplace pension savings needs to be increased, not the contrary.

Second pillar pension savings are long-term by nature. Pension intuitions’ savings may be invested in long term assets that are essential for a growth-friendly and sustainable European economic growth. Lots of debates are currently taking place in Europe and worldwide about the impact of both solvency regulation and accounting rules on long-term investment. These debates are vital but they should not be outweighed by national initiatives that make pensions funds unable to invest on a long-term horizon anymore.

However, PensionsEurope also welcomes measures that can improve both the sustainability and adequacy of pensions of the people of Europe. First pillar structural reforms (on retirement age, early retirement, length of contribution etc.) are encouraged when deemed necessary. Concerning the second pillar reforms, PensionsEurope also strongly encourages reforms that would increase workplace pension savings such as auto-enrolment or tax incentives and improve the quality of pension outcomes through higher transparency and communication to members and beneficiaries.
Negative policy actions with regards to workplace pensions

- Nationalisation or transfer of pension’ assets from second to first pillar
- Increase of the tax rate applied to occupational pension benefits
- Increase of the tax rate applied to occupational pension contributions
- Increase in personal tax applicable to occupational pension incomes
- Temporary taxes/levies
- Decrease in amounts that can be saved tax-free
- Introduction or increase of pay-out taxation (lump-sum)
About PensionsEurope

**PensionsEurope** represents national associations of pension funds and similar institutions for workplace pensions. Some members operate purely individual pension schemes.

PensionsEurope has **23 member associations** in EU Member States and other European countries with significant – in size and relevance – workplace pension systems\(^{10}\).

PensionsEurope has established a **Central & Eastern European Countries Forum (CEEC Forum)** to discuss issues common to pension systems in that region.

PensionsEurope member organisations cover the workplace pensions of about **80 million European citizens**. Through its Member Associations PensionsEurope represents approximately **€ 3.5 trillion of assets** managed for future pension payments.

PensionsEurope Members are large institutional investors representing the **buy-side** on the financial markets.

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\(^{10}\) EU Member States: Austria, Belgium, Finland, France, Germany, Hungary, Ireland, Italy, Luxembourg, Netherlands, Portugal, Romania, Spain, Sweden, UK. Non-EU Member States: Croatia, Guernsey, Iceland, Norway, Switzerland.