

Follow-up survey on Public Sector Pensions

Human Resources Working Group
2006

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FOLLOW-UP SURVEY ON PUBLIC SECTOR PENSIONS - New initiatives after 2004

Introduction

In the years to come, ageing populations and increasing retirement rates will pose growing pressures on the pension systems. These pressures have already made EU member states to take steps towards reforming pension systems with a view to increasing their financial sustainability. The sustainability of pension systems is not, however, only dependent on such parameters as benefits levels or retirement age but very importantly on the economic growth and employment level in the EU. This in turn makes the issue very relevant also from the point of view of the European Strategy on Growth and Employment.

The reforms of public sector pension systems were last looked into during the Irish and Dutch Presidencies. In their meeting in Maastricht in November 22-23, 2004, the Directors General responsible for Public Administration expressed their opinion that it is desirable within the EUPAN framework to continue to monitor the quantitative progress of pension reforms in the future. It is for this reason that the Finnish Presidency has undertaken to make a follow-up survey on public sector pensions with an emphasis on any new initiatives taken since the Dutch survey. The Finnish presidency asked the Member States to report about changes that have been carried out since the Dutch survey regarding the key points of the study.

The results for this survey were obtained by sending out a questionnaire to member states. The questionnaire contained the same structure as the member state specific appendix from the survey conducted in 2004¹. The aim was to update the information concerning member states in this appendix. The results are presented in the way that the original appendix forms the background text and the changes that have been reported by member states in this update survey have been added. To avoid mistakes replies sent in by member states have been included as such, with only typing mistakes having been corrected.

The survey conducted in 2004 was based on replies from 19 states. As Cyprus, Estonia, Hungary, Latvia, Lithuania and Malta did not reply to that survey, their replies have now been included in this update with additional information regarding their respective pension systems. In addition answers have been received from Bulgaria and Romania. From the member states, 24 replies were received.

For the results it may be stated that five member states announced no changes in their public sector pension systems since 2004 and one member state did not answer. Three countries had very slight changes. In addition e.g. Malta, Denmark and Finland had seen changes only in pension percentages. In Austria the implementation of previously initiated reforms continues.

The most usual changes made in member states concern the preretirement pensions. Out of the 13 member states that reported other than contribution-related changes, eight reported different changes concerning preretirement pension systems. Among these was also Romania. Estonia and Hungary had made changes concerning the retirement age for the old-age pension. It seems that member states seriously seek to prolong careers and prevent preretirements. Changes that concern wider aspect of pension systems than preretirement pensions have seemingly been done only in Spain and Portugal.

¹ Sustainability of Pension Schemes for Public Sector Employees in EU Member States, Ministry of Interior and Kingdom Relations, Mercer Human Resource Consulting, the Netherlands.

The following table summarizes the changes made in each country between 2004 and 2006. An x marks if changes have occurred.

Country	Pension system	Retirem. age	How it works	Contri-butions	Index.	Funding	Termination
Austria		x	x	x	x		
Belgium	No reply received						
Cyprus	New description of the pension system						
Czech Republic	x						
Denmark			x				
Estonia	New description of the pension system						
Finland				x			
France		x		x			
Germany							x
Greece							
Hungary		x		x	New description		
Ireland	x						
Italy	x	x					
Latvia		x	x	x	x	New description	
Lithuania							
Luxembourg							
Malta				x			
The Netherlands	x	x	x	x	x	x	
Poland							
Portugal		x	x	x		x	x
Slovakia							
Slovenia	x		x				
Spain	x						
Sweden							
United Kingdom				x			
Bulgaria	New description of the pension system						
Romania	New description of the pension system						

Member states actively seek to prevent early retirement from taking place, which in addition to natural ageing will strongly affect the age structure of personnel.

This has its implications on leadership, as a need for age management is developed, keeping simultaneously in mind the younger personnel. For reforms of the pension systems to be effective, there is a need to develop leadership and management. This means investment in people management and the development of working communities. It is crucial that ageing employees are considered as a resource capable of learning new and to develop. They may also act as coaches or mentors to their younger colleagues so as to make the transfer of knowledge and experience, including the so called tacit knowledge, to take place. In a broader context of diversity management, bringing employees with diverse experience and skills together, ageing employees can constitute an under-utilized potential for innovation.

1. Austria

Due to general pension reform (harmonisation of all pension systems) by the 1st of January 2005 the description of the Austrian pension system is outdated.

1.1. Pension system

The first tier of Beamte is funded entirely from the state budget. Since Vertragsbedienstete are part of another pension system as private sector employees. Their first tier is funded by the common social security institutions. The second tier for the Vertragsbedienstete is financed by capital funding.

1.2. Retirement age

The normal retirement age in Austria is 65 years. Early retirement is possible from the age of 61.5 years. In general, age limits are 5 years lower for female Vertragsbedienstete. The early retirement age will increase from 2004 on until it reaches 65 in 2017. Early retirement is possible from 2004 at the age of 60 years (from 2007 on at the age of 61.5) after the participant has completed 40 years of service (Hacklerregelung - this will only apply until 2010) or if the participant is occupationally disabled. In addition, teachers are entitled to retire early (this will apply until 2013). Early retirement results in a proportional reduction of the pension and later retirement in a proportional increase.

Changes 2006

The normal retirement age for Beamte and Vertragsbedienstete in Austria currently is 62 years and 2 months. Early retirement is possible for participants born before 1 January 1955 at the age of 60 years (earliest; depending on the date of birth) after the participant has completed 40 years of service covered by contributions (Hacklerregelung). Furthermore, early retirement is possible due to disability of service or at the age of 62 after 37.5 years of service (Pensioncorridor; since 1 January 2005). The calculation system for pensions of Beamte has been changed to a so called pension account system. Thus, working longer will result in a higher pension (the longer the participant works and pays contributions, the higher the account balance is in the date of retirement).

1.3. How the system works

1.3.1. First tier

In the first tier pension benefits accrue on the basis of moderate final pay. Pensions for Beamte are based on the average of the 24 months (in 2004) in which the participant has earned his/her highest salary. The maximum pension is 80% of this average. Due to harmonisation efforts, this period of time will continuously increase to 480 months (40 years) until 2028. For each year the participant is paying contributions, he/she is entitled to 2.2222% of the maximum pension (which is 80% of the average). Thus, after 45 years of service Beamte are entitled to the maximum pension.

Pensions for Vertragsbedienstete (in 2003) are based on the average of the 182 months in which the participant has earned his / her highest salary. This period of time will increase to 480 months until 2028 as well. For each year the participant is paying contributions, he is entitled to 1.78% of the average. After 45 years of contributions Vertragsbedienstete are entitled to the maximum pension (which is 100% of the average) as well. Both, Beamte and Vertragsbedienstete need to have at least 15 years of active service/contribution to be entitled to receive a pension. The pension benefits for both Beamte and vertragsbedienstete will be indexed during the accrual period.

Changes 2006

Pensions for Beamte are based on the average of the 48 months (in 2006) in which the participant has earned his/her highest salary. Pensions for Vertragsbedienstete (in 2006) are based on the average of the 216 months in which the participant has earned his / her highest salary.

1.3.2. Second tier

In the second tier pension benefits accrue for a Vertragsbedienstete based on a defined contribution. These pension benefits are funded in the Federal Pension Fund; the sole shareholder of the Federal Pension Fund is the state. It is comparable with a private pension system, where employees as well as the employer are paying the premiums. The aim is to achieve an additional pension of approximately 10% of the last salary after 40 years of contribution. The employees' contributions to the Federal Pension Fund are on a completely voluntary basis. The Federal Pension Fund includes old-age pension, disability pension and survivor's pension.

There is no second tier for Beamten.

Changes 2006

Through the constant extension of the period of calculation and the establishment of the pension account system the system is changed towards a defined contribution system.

1.4. Contributions

1.4.1. First tier

The premiums that are paid in the first tier amount to an average of 11.75% of the salary. These are paid by the participants. These premiums are for old-age pension, disability pension and survivor's pension.

Changes 2006

In the first tier, the contributions of Beamte born before 1 January 1955 are 12.55% of the salary. For those born after 31 December 1954, contributions are depending on the date of birth and vary between 10.25% and 12.55%. The contributions that are paid by Vertragsbedienstete are 10.25%. For Vertragsbedienstete, the employer also pays contributions which amount to 12.55% (total for Vertragsbedienstete: 22.8% of the salary).

1.4.2. Second tier

In the second tier the employer pays 0.75% of the monthly salary (including extra pay). The employee voluntarily pays 25%-100% of the amount which the employer pays. Furthermore, the employee's is free to pay an additional premium which enjoys tax privileges but must not exceed EUR 1,000 per year.

There is no fixed amount in the second tier and it is not possible to specify a figure.

1.5. Indexation

Indexation occurs on the basis of wage increases in Austria. Net pay is considered in this respect.

Changes 2006

From 2009, indexation will occur on the basis of the consumer price index. Until then, pensions up to 1875 € are indexed on the basis of the consumer price index as well. Higher pensions are indexed with a fixed sum (indexation of a monthly pension of 1875 €).

1.6. Funding

The first tier of Beamte is funded entirely from the state budget. Since Vertragsbedienstete are part of the same pension system as private sector employees are, their first tier is funded by the common social security institutions. The second tier for the Vertragsbedienstete is financed by capital funding.

1.7. Pension benefits upon termination of employment

The minimum period of time necessary for entitlement to a pension is 15 years for Beamte as well as for Vertragsbedienstete. In case of termination of the employment of a public servant

(Beamte) his / her pension claim is transferred to the common pension system. There is detailed regulation on how this has to happen. Pensions as well as accrued pension benefits which were transferred into the common pension system will from 2005 on be indexed on the basis of the past year's inflation rate.

No reply was received from Belgium. The data is the the same as in 2004.

2. Belgium

2.1. Pension system

The Belgian pension regime consists of various systems. These various systems are all based on a pay-as-you-go system and the state budget.

2.2. Retirement age

2.2.1. Retirement

The normal retirement age is 60 years. In this respect some professions are entitled to retire at an earlier age. Early retirement is only possible if the participant is occupationally disabled. Later retirement is possible until the age of 65. Judges are even entitled to retire at a later age.

Later retirement between the ages of 60 and 62 will yield additional benefits at the rate of 0.125% per month. Retirement after the age of 62 results in the accrual of benefits at the rate of 0.167% per month.

2.2.2. Leave

In Belgium it is possible to leave service between the ages of 55 and 60. This period of leave is taken into account when calculating the pension. This leads to complex formulas for calculating the period of service.

2.3. How the system works

2.3.1. First tier

The pension benefits that accrue in Belgium are determined on the basis of the accrual rate and the number of years of service. The accrual rate depends on an employee's position (1 / 60, 1 / 55, 1 / 50, 1 / 30). The salary, in respect of which the pension benefits accrue, is equal to the average pay in the preceding five years. In this case the maximum salary to accrue pension benefits is equal to EUR 61,861.78 (1 June 2003).

In addition, there is a guaranteed minimum pension in Belgium. This minimum pension is linked to the household income.

It is possible for the participant to increase his / her first tier pension by making a personal contribution of 7.5% of the gross salary.

2.3.2. Second tier

The second tier in Belgium is not a defined benefit or contribution system but a different system. No additional information is available about this system.

2.4. Contributions

All pensions are funded from the state budget. No information is available about contributions.

2.5. Indexation of benefits

Within the Belgian system benefits are indexed to inflation and the increase in the average pay of the relevant profession.

2.6. Funding

The pension system is funded from the state budget and additional contributions made by employees. Funding is largely based on a pay-as-you-go system.

2.7. Pension benefits upon termination of employment

Upon the termination of employment a minimum period of service of five years applies, if the member in question wishes to retain his or her accrued pension benefits. It is not possible to transfer his/her pension benefits to another organisation. It is possible to transfer other pension benefits to the government pension office (l'Office National des Pensions á l'Administration).

3. Cyprus

Cyprus was not included in the appendix 2004. Cyprus gave the following description of their public service pension scheme:

3.1. General comments

The term "public officer" or "officer" means the holder of a permanent office in the public service.

The term "public service" means any service under the Republic including:

- Civil Service (Ministries\Departments \Independent Services \ Offices)
- Service in the Armed or Security Forces
- Educational Service
- Judicial Service
- Law Service
- Service in the office of the Attorney General, the Auditor-General, the Accountant-General and their Deputies.

All public officers participate in the public service pension scheme and in the general social insurance (old age) pension scheme.

The public service pension scheme is a non-contributory one.

Pensionable service is the service which qualifies for pension benefits and begins from the date from which the officer begins to draw salary and ends on the date prior to which he retires. This includes the period of vacation leave, sick leave with full or half pay, approved study leave with or without pay, leave without pay on grounds of public interest, as well as service on a casual or hourly basis which precedes or intervenes in his pensionable service, including service in the National Guard of the Republic.

3.2. Main provisions of the public service pension scheme (Law No. 97(I) 1997 and subsequent amendments)

3.2.1. When are public officers entitled to pension?

Public officers who hold permanent posts and have at least 5 years of service are entitled to an annual pension and a lump sum when they retire under the following circumstances: On attaining the age of compulsory retirement or later if their services have been extended. The compulsory age of retirement of all public officers is 60, with the exception of:

- Police constables and police sergeants whose compulsory age of retirement is 55.
- Army officers from the rank of second Lieutenant to the rank of Colonel whose compulsory age of retirement ranges from 52 to 58.
- Medical doctors whose compulsory age of retirement is 63.

As from 1.7.2005 some amendments have been introduced in order to extend the age of retirement and, also, to encourage late retirement. As per the amendments the compulsory age of retirement will be gradually increased to 61, 62, and finally, as from 1.7.2008, will reach the age of 63. When an officer is requested or is allowed at his own request to retire within the five years

period preceding his compulsory age of retirement. Upon the abolition of his post or upon the reorganization of the department to which he belongs to. On medical grounds or on grounds of inefficiency or unsuitability. When his services are terminated in the public interest or when he retires so as to assume an office, which is incompatible to the post he holds. When the disciplinary punishment of compulsory retirement is imposed on him.

3.2.2. Pension fraction, lump sum and maximum pension

The annual pension is calculated on the basis of a fraction of 1/800 of the officer's annual pensionable emoluments on the date of his retirement for each completed month of pensionable service. The lump sum is computed on the basis of the annual pension, as calculated above, multiplied by 14 and divided by 3.

$$\begin{array}{l} \text{Annual pensionable emoluments X months of service} \\ \text{Annual pension: } \dots\dots\dots \\ \qquad\qquad\qquad 800 \\ \\ \text{Annual pension X 14} \\ \text{Lump sum: } \dots\dots\dots \\ \qquad\qquad\qquad 3 \end{array}$$

The annual pension cannot exceed one half of the officer's annual pensionable emoluments. To be entitled to this pension the officer must therefore have served for at least 400 months, i.e. for 33 years and 4 months. In the case of police constables and sergeants (whose compulsory age of retirement is 55), if they have served for more than 25 years, their pensionable service for every month exceeding 25 years counts twice, up to a maximum of 60 months increase, on condition that such increase will not exceed the pensionable service of 400 months in total.

According to the amendments in action since 1.7.2005 and in order to encourage public officers to stay in service after the completion of the age of 60, the government has introduced the following changes concerning the calculation of the lump sum:

For public officers who will decide to stay in service at least until the age of 61 and have at least 412 months of service, the lump sum will be calculated as follows:

$$\begin{array}{l} \text{Annual pension X 14,5} \\ \text{Lump sum: } \dots\dots\dots \\ \qquad\qquad\qquad 3 \end{array}$$

For public officers who will decide to stay in service at least until the age of 62 and have at least 424 months of service, the lump sum will be calculated as follows:

$$\begin{array}{l} \text{Annual pension X 15} \\ \text{Lump sum: } \dots\dots\dots \\ \qquad\qquad\qquad 3 \end{array}$$

For public officers who will decide to stay in service until the age of 63 and have at least 436 months of service, the lump sum will be calculated as follows:

$$\begin{array}{l} \text{Annual pension X 15,5} \\ \text{Lump sum: } \dots\dots\dots \\ \qquad\qquad\qquad 3 \end{array}$$

3.2.3. Increase of pensionable service in case of retirement on medical grounds

In case of retirement on medical grounds, the pensionable service is considered increased as follows:

- 5-10 years of service: the service is considered as double
- 10-15 years of service: the service is considered as 20 years

- 15-23 years of service: 5 years of service are added in each case subject to a total maximum of 25 years

- 23-30 years of service: 2 years of service are added in each case subject to a total maximum of 30 years.

The above increase is subject to the condition that the total pensionable service will not be greater than the service the officer would have completed if he had stayed in service until his compulsory age of retirement.

3.2.4. Benefits in cases of resignation or early retirement

If an officer resigns before the age of 45 (or the age of 48 in the case of medical doctors and officers being hired after 30.6.2005), and has at least 3 years service, he is entitled to a gratuity only which is calculated on the basis of 1/12 of his last monthly pensionable emoluments for each completed month of pensionable service. If he retires after the age of 45 and he has at least 5 years service, his pension and lump sum are computed on the basis of his pensionable emoluments at the time. The lump sum is granted at the time of early retirement whilst his pension is withheld and is granted upon attaining the age of 55 (or the age of 58 in case of medical doctors and officers being hired after 30.6.2005). The final sum of pension to be granted is computed taking into consideration the general and cost of living increases granted to pensioners between the time of early retirement and the time of payment of the pension benefits.

Officers who retire at any time after their 55th year of age (or after the age of 58 in the case of medical doctors and officers being hired after 30.6.2005) are granted their retirement benefits immediately.

3.2.5. Retirement on the ground of appointment to a semi-government organization or a local authority.

If an officer is appointed to a semi-government organization or a local authority, the Government of the Republic compensates the organization or the authority with a lump sum equal to 1/12 of the officer's monthly pensionable emoluments at the date of his leaving, for each completed month of pensionable service, as well as a sum equal to the double of the contributions amount paid by the officer for the transfer of his pension to his widow and children, along with interest. In such a case, his new employer, for the purpose of granting retirement benefits, takes into account the officer's previous period of service in the public service. This applies where the new employer has the same or similar pension scheme as the Government. The same provisions apply also vice versa if an officer with service in a semi-government organization or a local authority is appointed in the Public Service.

3.2.6. Benefits to the dependants of an officer (male or female) who dies while in service

When an officer dies while in service, the following benefits are granted:

- Pension to his widow and children, if eligible.
- A lump sum to his legal personal representative which is equal to his annual pensionable emoluments at the time of his death, or the lump sum to which he would be entitled to, had he retired on medical grounds at the time of his death, whichever of these sums is the greatest:

If an officer with five or more years in service dies, the years of pensionable service are increased as in the case of retirement on medical grounds.

If an officer dies while in service as a result of injuries sustained in the discharge of his duty, without his own fault and under circumstances specifically to the nature of his duty, his widow and children are granted increased pensions in addition to the lump sum granted to his legal personal representative as calculated above.

In the case of a police officer who dies while on duty under the above circumstances, the pension to his widow and children is calculated as if the deceased had served until his compulsory age of retirement and had reached the top of the salary scale of the next higher rank.

3.2.7. Retirement benefits in the case of abolition of a post or reorganization of the service

If an officer retires in consequence of abolition of his post or reorganization of his department, he may be granted pension, irrespective of the length of his service, as well as an additional pension as provided by the law.

3.2.8. Pension in case of retirement on account of injuries

In case an officer becomes permanently injured in the discharge of his duties, without his own fault and under circumstances specifically attributable to the nature of his duty, the Council of Ministers may grant him pension irrespective of the length of his service as well as additional pension as provided by the law.

3.2.9. Contributions for the transfer of pension benefits to the deceased's family

Each officer pays a contribution of 0.75% of his pensionable emoluments up to the sum of such emoluments that equals his insurable earnings (under the Social Insurance Law) and of 1.75% of his pensionable emoluments exceeding his insurable earnings, subject to a maximum of 400 monthly contributions.

These contributions are refunded to the contributor or to his legal personal representative in the following cases:

- If he dies or ceases to be a public officer without having married during his service, or without being entitled to pension.
- If the spouse of the officer dies before him, or if his marriage is dissolved by divorce and he dies in service or after retirement without having married again.

3.2.10. Pensions to the widow (male or female) and children of an officer who dies while in service or after retirement

Pension to the widow in respect of service with contributions:

In this case the pension is 75% of the deceased's pension –

- to which the officer would have been eligible at the date of his death, enhanced in the same way as in the case of retirement on medical grounds, or
- which he was receiving at the date of his death if he dies after retirement.

Pension to the widow in respect of service without contributions:

In this case, the pension is 37.5% of the officer's or pensioner's pension as calculated above.

Pension to children:

When the deceased leaves a widow, the children's pension is 16.67% of the widow's pension in respect of each child, with a maximum pension for 2 children. If the deceased does not leave a widow, the children's pension will be 44.44% with a maximum pension for 3 children.

3.2.11. Pension benefits are not assignable

Pension benefits are not assignable or transferable except for the purposes of satisfying –

- a debt due to the Government, or
- an order of a court for payment towards the maintenance of the officer's dependent wife/children.

3.2.12. Lump sum payments are non-taxable

Any gratuity or lump sum which is payable under the Pensions Law are not taxable under the Income Tax Law.

3.2.13. Cost of living increase of pensions

Pensions are increased every six months on the basis of the percentage increase of the average of the consumer price index of the last 6-month period in comparison with the average of the consumer price index of the previous 6-months period.

3.3. Social insurance (old age) pension scheme for public officers

Every employed person in Cyprus including public officers is compulsorily insured under the Social Insurance (old age) Pension Scheme. Public officers are entitled to pension from the Social Insurance Fund. This pension is paid on completion of 63 years of age. Government pays on behalf of the employee the contributions to the supplementary scheme of the Social Insurance Fund. The amount paid is calculated as a percentage (9,4%) on the earnings of the public officer. Government, however, deducts from the pension granted to the employee under the public officers pension scheme, the amount of supplementary social insurance pension, gained from contributions paid on behalf of the employee. The public officer pays only towards the basic scheme of The Social Insurance Fund (3.2% of his earnings).

No changes have been implemented since 2004 in the social insurance (old age) pension scheme.

Changes 2006

Retirement age: As from 1.7.2005 some amendments have been introduced in order to extend the age of retirement and, also, to encourage late retirement. As per the amendments the compulsory age of retirement will be gradually increased from 60 to 61, 62, and finally, as from 1.7.2008, will reach the age of 63.

There is a change in the early retirement age. Thus, for public officers being appointed to the public service after 30.6.05, the early retirement age will be the age of 48 (for those being in service on 30.6.05 the early retirement age is the age of 45).

How the system works

According to the amendments in action since 1.7.2005 and in order to encourage public officers to stay in service after the completion of the age of 60, the government has introduced the following changes concerning the calculation of the lump sum (which is normally calculated as follows: $\text{Lump sum} = [(\text{Annual pension} \times 14)/3]$) :

(a) For public officers who will decide to stay in service at least until the age of 61 and have at least 412 months of service, the lump sum will be calculated as follows:

$$\text{Lump sum} = \frac{\text{Annual pension} \times 14,5}{3} \dots\dots\dots$$

(b) For public officers who will decide to stay in service at least until the age of 62 and have at least 424 months of service, the lump sum will be calculated as follows:

$$\text{Lump sum} = \frac{\text{Annual pension} \times 15}{3} \dots\dots\dots$$

(c) For public officers who will decide to stay in service until the age of 63 and have at least 436 months of service, the lump sum will be calculated as follows:

$$\text{Lump sum} = \frac{\text{Annual pension} \times 15,5}{3} \dots\dots\dots$$

Pension is calculated on the basis of 1/800 of the officer's annual pensionable emoluments on the date of his retirement for each completed month of pensionable service. The annual pension cannot exceed one half of the officer's pensionable emoluments.

Indexation of benefits

Pension adjustments conform with salary increases.

Please note: Since 1.1.2004 public officers' pensions have been increased as follows:

	Salary Increase		Cost of leaving allowance		Pension increase
1.1.04	0,00%	-	0,58%	-	0,58%
1.7.04	0,00%	-	0,29%	-	0,29%
1.1.05	0,00%	-	2,51%	-	2,51%
1.7.05	0,00%	-	0,17%	-	0,17%
1.1.06	2,00%	-	2,38%	-	2,00% and then the total amount multiplied by 2,38%

Funding: Public officers pension scheme is financed by the state budget.

Pension benefits upon termination of employment: The qualifying period is 5 years of service.

4. Czech Republic

4.1. Pension system

The Czech Republic has a pension system consisting of two tiers. The first tier comprises a defined benefit plan and one based on a fixed sum. The second tier consists of a defined contribution plan, which is funded by participants' contributions, which are matched also by state premiums and can be as well increased by contributions paid by employer.

Changes 2006

The Czech Republic wanted to point out that the legal regulation is common for all those insured and there is no special scheme for sector schemes (like Public administration). Therefore the scheme is quite different from those schemes used in most EU member countries.

4.2. Retirement age

4.2.1. Normal retirement age

The normal retirement age will be 63 for men and between 59 and 63 for women since 2013, now there is a transition period for increase of retirement age (since 1996). The normal retirement age for women depends on the number of children. In this case they will need to have completed 25 years of service. If a participant has only completed 15 years of service, the participant can only retire at the age of 65.

4.2.2. Early/Later retirement

It is possible to retire three years earlier, if the participant has completed 25 years of service and his/her contract with his/her employer has been terminated. Early and later retirement has an impact to the participant pension (see pension formula).

4.3. How the system works

4.3.1. First tier

The first tier covers an initial fixed sum equal to EUR 41.59 (CZK 1,310) per month. In addition, there is also a salary-related pension component. The monthly pensionable salary consists of the average pay over the past 30 years. Pension benefits equivalent to 100% of the monthly pensionable salary accrue up to EUR 238.11 (CZK 7,500). Pension benefits equivalent to 30% accrue in respect of that part of the monthly pensionable salary between EUR 238.11 (CZK 7,500) and EUR 609.56 (CZK 19,200). Pension benefits equivalent to 10% accrue in respect of that part of

the monthly pensionable salary in excess of EUR 609.56 (CZK 19,200). The accrual rate amounts to 1.5%. These figures pertain to 2004.

Monthly pension =

$$\begin{aligned}
 & (\text{Service_years_up_to_RA} \cdot 1.5\% + \\
 & \max(0, \text{fullpart}((\text{day_of_retirement} - \text{RA})/90)) \cdot 1.5\% - \\
 & \max(0, \text{fullpart}((\text{RA} - \text{day_of_retirement} + 89)/90)) \cdot \\
 & 0.9\%) \cdot \left. \begin{array}{l} \left[\text{salary} \cdot 100\% - \max(0, \text{salary} - 238.14) \cdot (100\% - 30\%) - \max(0, \text{salary} - 609.63) \right] \\ \cdot (30\% - 10\%) \end{array} \right\}
 \end{aligned}$$

RA – official retirement age.

4.3.2. Second tier

In the second tier the “supplementary pension system comprises of defined contribution plans. The defined contribution scheme is a supplementary private pension scheme. Second-tier pensions are paid out of “pension funds”, which are set up with the license of the Ministry of Finance and fall under strict state control. It's financed from contributions made by the participant and a contribution made by the state. The minimum yearly state contribution from 19.05 EUR (600 CZK) will be paid by the state, if the participant pays a contribution of EUR 38.10 (1,200 CZK). The maximum yearly state contribution is EUR 57.15 (1,800 CZK) and will be paid by the state if the participant pays a contribution of more then EUR 190.51 (6,000 CZK) per year. Contributions from more then EUR 190.51 (6,000 CZK) and less then EUR 381.02 (12,000 CZK) are tax deductible.

The second tier has attracted so far almost 2.7 million participants, which is approximately half of the Czech labour force. However, the system still has not succeeded in attracting young people and 48% of participants in 2003 were above 50, almost 72% were aged over 40.

4.4. Contributions

4.4.1. First tier

Premiums equivalent to 28% are paid in the first tier. Of this, employers pay 21.5% and employees 6.5%. This contribution is set for the whole pension insurance – it covers old-age, disability and survivors' pensions. In 2003 expenditures on old-age pensions amounted for 72% of total expenditures on pensions in the Czech Republic so we can assume (given the fact of pay-as-you-go financing) that contributions for old-age comprise approximately of 20% of gross wage.

4.4.2. Second tier

The supplementary pension system must insure for the risk of old-age. Besides this, the individual pension plan may also specify conditions for drawing survivors' or disability pension. Contributions are not differentiated for different risks. The average contribution paid by participants in 2003 was EUR 145.91 (4596 CZK).

Employers may decide to contribute on behalf of their employees and this decision is tax-favourable for both sides. The average employer's contribution in 2003 was EUR 150.49 (4,740 CZK). State supports participation in the second tier by contributing on behalf of participants. The state contribution is differentiated as follows:

Table 1 Yearly contributions

Participant's contribution		State contribution (in CZK)
In EUR	in CZK	
38.10 to 76.19	1,200 to 2,399	600 + 40% from contribution above 1,200 CZK
76.19 to 114.29	2,400 to 3,599	1,080 + 30% from contribution above 2,400 CZK
114.29 to 152.39	3,600 to 4,799	1,440 + 20% from contribution above 3,600 CZK
152.39 to 190.49	4,800 to 5,999	1,680 + 10% from contribution above 4,800 CZK
190.08 and above	6,000 and above	1,800 CZK

The average state contribution in 2004 was EUR 36.60 (1,152 CZK).

4.5. Indexation

4.5.1. First tier

Pension benefits are indexed after retirement. The index used is the so-called Swiss index: a combined index of consumer price growth and real wage growth. Pensions are increased each January if the growth should be more than 2%. Apart of this, pensions might be increased if consumer prices growth was more than 10%. The indexation mechanism is automatic guaranteed by law and administered by the Czech Social Security Administration, an administrator of the first tier.

The increase is set up so that for the average pension it corresponds to at least 100% of inflation (consumer price growth) and at least one third of real wage growth.

4.5.2. Second tier

Indexation depends on pension plans of individual pension funds. However, usual practice is such that pensions are not indexed, but the pension fund pays an extra monthly pension in case of positive economic results of the fund.

4.6. Funding

4.6.1. First tier

The first tier is funded by means of a pay-as-you-go system. Contributions are considered revenue of the state budget; state guarantees payment of pensions, which are consequently expenditures of the state budget. The state budget subsidizes deficits if they occur.

4.6.2. Second tier

The second tier is financed from private pension funds. The state supports individual decisions on participation in the second tier by adding a state contribution to each individual contribution made.

4.7. Pension benefits upon termination of employment

The conditions for the entitlement for full old-age pension is

- 1) minimum 25 insurance years and reaching legal retirement age or
- 2) minimum 15 insurance years and reaching 65 years of age.

"Insurance years" is service period – years worked – increased by all non-contributory periods considered as insurance periods by law, e.g. studies, military service, maternity and parental care, etc.

People who do not permanently reside in the Czech Republic have right for pro-rata calculated pension for the insurance period in the Czech Republic (work and non-contributory period as well).

5. Denmark

5.1. Pension system

5.1.1. First tier

The public old-age pension is a basic pension which is payable to any resident who has attained the age of 65 (67 in the case of residents born prior to 1 July 1939). The participant must have lived in the country for 40 years to be eligible for a full public old-age pension. The participant is eligible for a public retirement pension following a minimum stay in the country of three years.

The public old-age pension consists of a basic sum and a supplementary amount. The basic and supplementary amounts does not depend on prior earnings and involvement in the labour market but are linked to the current income (the basic amount only to income from personal work). Apart from these basic and supplementary amounts, pensioners can obtain additional benefits, such as a medical, heating and a personal supplement. The pension system in Denmark has been structured in such a way that it also gathers for other forms of social security. This is because the entire pension system has been structured to ensure a certain minimum standard of living for people older than 65.

5.1.2. Second tier

Denmark's second tier includes both a defined benefit and defined contribution system. Annual accruals amount to 1.5% within the defined benefit system (final pay). This is subject to a maximum period of accrual amounting to 37 years. In addition, the amount of the pension may not exceed 57% of final pay.

Within the defined contribution system pension premiums are equivalent up to 18% of the salary in respect of which pension benefits accrue.

5.2. Retirement age

The standard retirement age is 65 for residents born after 1 July 1939 and 67 for those born before this date. The reduction of the official retirement age provided the possibility to give financial incentives to participants who remained in the labour market after the standard retirement age. This has caused a rise in the average retirement age. Early retirement is not possible within the public retirement pension system (first tier). As of 1 July 2004 an amendment has been introduced in order to encourage later retirement in the first tier. Old age pension in the first tier is income-tested for income from personal work. There is thus a certain disincentive in the present system to continue working after the official retirement age. This disincentive has been reduced by the possibility as of 1 July 2004 of postponing the take up of old age pension. A person older than 65, who would like to continue in or re-enter the labour market, can now postpone the take up of public old age pension to the time when he/she retire from the labour market and thus does not have a personal income from work.

The pensioner will then receive a supplement to the old age pension; calculated as a percentage of the old age pension the pensioner is otherwise entitled to. The percentage is calculated as the length of the time the old age pension has been postponed divided by the expected average life expectancy at the time of the take up.

Early retirement in the second tier albeit subject to reductions. The reductions are actuarially within the defined benefit system and proportional in the defined benefit system.

Table 2 Reductions within the defined benefit system

Retirement age	Reduction pension
60	10%
61	7%
62	4%
63	3%
64	2%

Later retirement is also possible until the age of 70. In this connection it is possible to reduce work after the participant turns 60, while still accruing a full pension.

Changes 2006. In June 2006 the Danish government and a number of political parties entered into an agreement about initiatives for securing the prosperity, welfare and investments of the future. The aim of the agreement is to meet the challenges of the demographic development. The agreement among other things means that the voluntary early retirement age and the standard retirement age from respectively 2019 and 2024 will be gradually increased to 62 and 67 years. As a consequence of the increase, the retirement age in the defined benefit system will be amended accordingly. The reductions following from early retirement within the defined benefit system will among other things be changed as a result of the agreement. The proposed amendments are expected to pass in the course of 2006.

5.3. How the system works

5.3.1. First tier

The basic pension amounts to EUR 7,064.38 (DKK 52,524). This basic pension is reduced, if the final personal pay exceeds EUR 30,019.97 (DKK 223,200). This reduction is equal to 30% of the annual income in excess of EUR 30,019.97 (DKK 223,200) (2002 figure).

The supplementary pension amounts to EUR 7,112.03 (DKK 52,872) for a single person and EUR 3,319.51 (DKK 24,672) for any member with a permanent partner. This pension is reduced in a situation in which a single person has an income in excess of EUR 6,619.64 (DKK 49,200) per annum. In the case of a couple with a joint income in excess of EUR 13,291.94 (DKK 98,800) per annum this supplementary pension is also reduced. In both situations this reduction is equal to 30% of any annual income in excess of the stipulated amount.

A person will only obtain the full amount (the basic and supplementary pension) of the first tier, if the participant has lived in Denmark for no fewer than 40 years. A reduction of 2.5% will apply in respect of every year that the person concerned falls short of this.

Changes 2006

The basic pension amounts to DKK 58.032. This basic pension is reduced, if the final personal pay exceeds DKK 246.500. This reduction is equal to 30 % of the annual income in excess of DKK 246.500.

The supplementary pension amounts to DKK 58.416 for a single person and DKK 24.672 for any member with a permanent partner. This pension is reduced in a situation in which a single person has an income in excess of DKK 54.400 per annum. In the case of a couple with a joint income in excess of DKK 109.200 per annum this supplementary pension is also reduced. In both situations this reduction is equal to 30 % of any annual income in excess of the stipulated amount.

5.3.2. Second tier

The second tier gives a choice between two plans which are work dependable:

- a final pay system with an accrual rate of 1.5%, a maximum pension equivalent to 57% and a maximum year of service of 37 years. The defined benefit system is reduced for the benefits from the first tier (EUR 131.67 (DKR 982) per year of service);
- a defined contribution system requiring payment of 18% of the salary in respect of which pension benefits accrue.

The most common pension system in the second tier is the defined contribution system. The defined benefit system will be reduced by 75% in the coming 30-40 years.

Changes 2006

The defined benefit system is no longer (since 1994) being reduced for the benefits from the first tier.

5.4. Contributions

In the second tier defined contribution system the premium amount for the old age pension, disability pension and the survivors pension is between 12% and 18% of the participant's salary. This amount is paid by the employer.

5.5. Indexation

5.5.1. First tier

The pension in the first tier is indexed to private sector pay increases on an annual basis. Every year the wage index for the preceding two years is calculated. If this index exceeds 2% but is less than 2.3%, a reserve is created which is equal to the difference between the index and 2%. If the index exceeds 2.3%, a reserve is created on the basis of 0.3%.

5.5.2. Second tier

The indexation is based on a mix of private and public salary.

5.6. Funding

Denmark's first tier is financed from the state budget, while the second is partly funded with the aid of a capital funding system and partly through a pay-as-you-go system.

5.7. Pension benefits upon termination of employment

Upon the termination of employment a minimum period of service of three years applies for the retention of the accrued pension benefits. It is possible to transfer the second tier pension benefits to another organisation. Deferred pensions are indexed on the basis of wage increases every year.

6. Estonia

6.1. Pension system

The Estonian pension system is divided into three pillars (see also the Estonian pension system portal: <http://www.pensionikeskus.ee/?lang=en> - for more information in English).

I pillar: State pension

II pillar: Funded pension

III pillar: Supplementary funded pension

The general State Pension Insurance Act entered into force in 2002 (see also <http://www.legaltext.ee/text/en/X60008K4.htm>, for full text in English).

Public service officials are entitled to old-age pension benefits, based on provisions stated in the Estonian Civil Service Act (1995, § 57. Old-age pension of public service officials).

Such increasements of state old-age pensions are considered as social benefits paid for public employees. The following increasements of state old-age pensions are likewise considered as social benefits paid for those employees on the basis of relevant acts:

- pension of officials employed in the State Audit Office: [State Audit Office Act](#)
- pensions of officials employed in the National Court : [Courts Act \(Oct 2002\)](#)
- pensions of officials employed in the National Prosecutor's Office: [Prosecutor's Office Act](#)
- pension of officials employed in the Office of Legal Chancellor: [Legal Chancellor Act](#)
- pension of officials employed in the Police Service: [Police Service Act](#)

- pension of officials employed in the Defence Forces: [Defence Forces Service Act](#)

However, the pension reform plans are to abolish the above benefits in the future, so that the public servants would be paid similar pensions to the rest of the employees according to the general pension system.

6.2. Retirement age

The normal retirement age in Estonia is currently 63 for men and 59,5 for women. In the course of eight years the distinctions will disappear. The right for the old-age pension has a person, who has at least 15 years of pensionable service or accumulated period, having been acquired in Estonia. (See the Estonian Social Insurance Board website for further information: http://www.ensib.ee/frame_pensionid_eng.html).

A person can retire with the early-retirement pension up to three years before the legally stipulated retirement age, but in such case the amount of pension is reduced by 0.4% for each month falling short of the legally stipulated retirement age. In case of the postponed retirement pension, the pension is increased by 0.9% for each month by which a person postpones his or her application for the pension.

6.3. How the system works

The state pension (I pillar, see also above) should guarantee the minimum income necessary for subsistence. It is based on the principle of redistribution, i.e. the social tax paid by today's employees covers the pensions of today's pensioners. Employers pay 33% of the salary of each employee for social tax, 13% whereof is for health insurance and 20% is for the pensions of today's pensioners.

There are two kinds of state pension: the pensions that depend on the work contribution (the old-age pension, the pension for incapacity for work and the survivor's pension) and the national pension. (for more details, see: <http://www.pensionikeskus.ee/?id=1781>)

A person is entitled to the state old-age pension, if his or her length of employment in Estonia is at least 15 years. The national pension procures minimum pension to those persons who are not entitled to the pension depending on the work contribution, if they have lived in Estonia for at least five years before applying for the pension.

The mandatory funded pension (II pillar) is the main support to the state pension, providing supplementary income in retirement age. The funded pension is based on preliminary financing – a working person saves for the pension, paying 2% of the gross salary to the pension fund. In addition to the 2% that is paid by the person himself or herself, the state adds 4% out of the current social tax that is paid by the employee, and retains 29%. Subscription to the funded pension is mandatory for the persons entering the labour market, i.e. persons born in 1983 or later. The funded pension is voluntary for those born before the year 1983. (for more details, see: <http://www.pensionikeskus.ee/?id=1782>).

The supplementary funded pension (III pillar) is based on each person's voluntary decision to start saving either by contributions to a voluntary pension fund or by entering into a respective insurance contract on the supplementary funded pension with a life insurance company with the respective activity license. The third pillar was started in 1998 (for more details, go to: <http://www.pensionikeskus.ee/?id=1786>).

6.4. Contributions

In case of the state pension the employers pay 33% of the salary of each employee for social tax, 13% whereof is for health insurance and 20% is for the pensions of today's pensioners.

The mandatory funded pension is based on preliminary financing – a working person saves for his pension, paying 2% of the gross salary to the pension fund. In addition to that the state adds 4% out of the current social tax that is paid by the employee, and retains 29%. Therefore, 6% of the person's income is transferred to the pension account of the person, while the person himself or herself has paid 2%.

6.5. Indexation

Indexation of pensions since April 1, 2002 makes to the increase of state pensions to correspond to the cost of living and receipt of social tax (growth of the salary fund). In other words, once a year pensions are multiplied by an index that depends equally on the changes in the consumer price index (cost of living) as well as on the yearly increase in received social tax.

6.6. Funding

The first pillar state pensions are funded by means of a pay-as-you-go system by means of social security contributions (see also above). There are also mandatory funded individual accounts, which are privately managed arrangements called pension funds.

6.7. Pension benefits upon termination of employment

According to the Estonian Civil Service Act (1995), § 57. Old-age pension of public service officials:

The officials will be guaranteed state old-age pension with the exceptions specified in the Act.

State old-age pensions are increased as follows:

10-15 years of tenure in the public service – by 10%;

16-20 years of tenure in the public service – by 20%;

21-25 years of tenure in the public service – by 25%;

26-30 years of tenure in the public service – by 40%;

over 30 years of tenure in the public service – by 50%.

Expenditures stemming from the increasement of state old-age pensions specified in the above article 2., will be covered by the state budget.

7. Finland

7.1. Pension system

Finland has a single pension plan for all its residents. This may be compared to a first and second tier. Membership of this plan is mandatory. Various funds are available as part of this pension plan for different occupational categories. In this respect a distinction is drawn between local and state government employees.

A Finnish citizen is entitled to a pension accruing in Finland, if he has lived in the country for three years after the age of 15. Non-citizens must have lived in Finland for five years after the age of 15. This does not include those countries with which Finland has entered into a social security treaty. In this case the normal period of three years applies.

7.2. Retirement age

The normal retirement age in Finland is 65. Early retirement is possible once the participant turns 60. In 2005 the early retirement age will increase to 62. The normal retirement age will be turned flexible in 2005, varying between 63 and 68.

At present early retirement is accompanied by reductions of 0.4% per month. In the future reductions before the age of 63 will be increased to 0.6%. Any unemployed person older than 60, who has received an unemployment benefit for 500 days in the preceding 60 weeks and is not expected to find employment again, may obtain an unemployment pension. The unemployment pension continues till the age of 62 and then the person receives old age pension. From the beginning of 2005 the unemployment pension is abolished.

7.3. How the system works

The Finnish pension system actually consists of two tiers. The first tier is a pension consisting of a fixed sum. The fixed sum from the first tier will not be paid out if the second-tier pensionable salary exceeds EUR 1,017. The fixed sum is paid out in full if the second-tier pensionable salary is less than EUR 549.

The second tier consists of a moderate final pay system. In this case the pension is determined on the basis of the last 10 years. The annual accrual rate amounts to 1.5% if the participant is younger than 55 and 2% if the participant is older. There is a pension ceiling from 60% final pay.

In 2005 this system will be changed to an average pay system. The accrual rate will be 1.5% for participants aged 18 to 52, 1.9% for those aged 53 to 62 and 4.5% for those older than 63-68. As of 2005 the pension ceiling of 60% of the income will cease to apply.

7.4. Contributions

7.4.1. State pension system

Pension premiums are equivalent to 23.7% of the salary. The employee pays 4.6% and employers pays 19.1%. The contribution is for the whole pension benefit including among others old-age pension and invalidity pension and family pension.

7.4.2. Municipal pension system

Pension premiums are equivalent to 27.12% of the salary. The employee pays 4.6% and employers pays 22.52%. The contribution is for the whole pension benefit including among others old-age pension and invalidity pension and family pension.

Changes 2006

The employees pension premium is 4,3 % in 2006 in both the state and the municipal pensions systems.

7.5. Indexation

At present the indexation occurs on the basis of 50% of inflation and 50% of wage increases. This indexation will be changed in 2005. Wages are indexed yearly by a coefficient in which wage increases will account for 80% of indexation and inflation will account for 20% indexation, while the reverse will apply for pensions.

7.6. Funding

Civil servant pensions are funded by means of a pay-as-you-go system. In addition, a reserve / fund is established, although it is not in any way tied to the relevant commitments in accordance with actuarial principles.

7.7. Pension benefits upon termination of employment

Upon the termination of employment no minimum period of service applies for the retention of the accrued pension benefits. It is not possible to transfer the pension benefits to another organisation. Pensions continue to be indexed with 20% wage increase 80% of inflation.

8 France

8.1. Pension system

In France the government pension system consists of tiers, namely, a basic pension, a mandatory additional pension and a supplementary group pension.

The second tier mandatory complementary pension will be implemented from January 1, 2005. It is created because the calculation of the basic pension does not take into account bonuses, overtime and indemnities. This new mandatory pension will provide a pension especially on these remunerations. Because of the generous first and second tiers, the third tier is not mandatory.

8.2. Retirement age

In general, the normal retirement age is 60 with a minimum service of 15 years. Late retirement is possible until 65. The pension amount is proportionally increased by 3% per additional year of service above the insurance period required. Retirement with a full pension at age 50 or 55 is possible when the civil servant has worked for 15 years in "service actif" (i.e. dangerous and / or laborious works). Retirement is also possible at any age for mothers having 3 children and 15 years of seniority in civil service. If the civil servant retires before getting a full rate pension (early retirement), the pension is proportionally decreased (see below for the rate). For "service actif" civil servants, maximum retirement age is 55 or 60. Civil servants who leave service without having 15 years seniority will not receive a pension from the State. Their entitlement will be transferred to the Social Security scheme for salaried workers.

Changes 2006

April 2005, introduction of the new retirement system for the civil servants, who began their career before the age of 16 or 17 years. For those people, who have contributed significantly more, the retirement age decreases from 60 to 56 years. In preparation, the retirement age for the disabled civil servants (about 80% of inability rate) will decrease from 60 to 55 years.

January 1st 2006 - Introduction of the financial penalty against retirement before the legal age. This penalty is due to progressively increase from 0,5% per year (number of years of contribution missing to the total contribution) until the maximum of 5% per year is reached in 2015.

8.3. How the system works

8.3.1. First tier (mandatory, basic pension)

Pension = SAL (2% · A).

SAL: Average salary over the last six months prior to retirement on a yearly basis. The salary taken into account is the "traitement indiciaire" (base salary according to the classification of the civil servant, which does not include bonuses, overtime and indemnities).

A: the number of years in which the participant has paid contributions.

Overall benefits may not exceed 75% SAL.

The accrual rate of 2% will gradually decline to 1.829% in 2012.

Table 3

Year	Accrual rate
2004	1,974
2005	1,948
2006	1,923
2007	1,899
2008	1,875
2009	1,863
2010	1,852
2011	1,840
2012	1,829

This will run parallel to the increase in the number of years of insurance required to receive a full rate pension, from 37.5 to 40 in 2008. It is deemed to increase to 41 years in 2012.

In addition, a penalty will be introduced in 2006, when a civil servant retires with an insurance period below the legal requirement. This will occur gradually until the maximum of 5% per year is reached in 2015.

Table 4

Year	Penalty
2004	0.0%
2005	0.0%
2006	0.5%
2007	1.0%
2008	1.5%
2009	2.0%
2010	2.5%
2011	3.0%
2012	3.5%
2013	4.0%
2014	4.5%
2015	5.0%

In addition, the pension bonus with respect to children will be amended. A female employee received a bonus in the form of one additional year of contributions for each child she has had during her activities in the public sector before 2004. As of 2004, the bonus is limited to 6 months. Alternatively, for those who go on a parental leave or part time work, there is a validation of years up to 3 years per child. This will apply to both men and women.

8.3.2. Second tier (mandatory)

Pensionable salary only includes bonuses, overtime and indemnities. Bonuses, overtime and indemnities are fully taken into account, but limited to 20% of the "traitement indiciaire". A decree (not yet published) will give more information on this mandatory regime.

8.3.3. Third tier (facultative)

In this tier, the largest which is operated scheme is Préfon-Retraite. This is a capitalisation plan calculated by points, which works like a DC plan. The amount of the pension is equal to the number of points acquired multiplied by the value of the point (the value of the point in 2004 is EUR 0.0863). The value of the point is determined each year by Préfon. The civil servant chooses between 11 levels of contributions, according to his/her income (from EUR 210.06 to EUR 3781.08 per year in 2004). As a consequence, there is no pensionable salary definition. The contributions can be stopped at any time. Until 2004, contributions were fully tax-deductible. In the future, the deduction will be capped at 10% of the taxable salary with a transition period. The pension is increased or decreased according to age of retirement (between age 55 and age 70).

8.4. Contributions

8.4.1. Basic pension

Employee contributes 7.85% and employers between 15.34% and 25.10% for specific civil servant regimes (SNCF, RATP). For classical civil servants, employee contributes 7.85% and the employer contributes to balance the fund. There is not really a rate of contribution for the employer. In 2004, a virtual rate was estimated: the virtual employer contribution was 60.0% of the "traitement indiciaire" for all civil servants. As from 2006, the real employer contribution will be identified to clarify the balance of the regime. The contribution given here is only for old-age pension.

Changes 2006

In 2005, -Within the local civil service, the employer contribution rate increase from 26,9 to 27,3% , the employee contribution is at the same level (7,85%).

8.4.2. Additional mandatory pension

As mentioned above, the decree concerning this additional mandatory pension is not published yet. As a consequence, contributions are not known. Employer and employee contribution rates will be equal.

8.4.3. Supplementary group pension

A supplementary group pension is not mandatory for civil servants because of the generous nature of the basic pension. The basic pension together with the supplementary group pension represents a pension equivalent to approximately 70% of the last salary.

Changes 2006

January 1st 2006 - Introduction of another pension scheme (based on perceived bonuses) on behalf of both employees and employers. This new regime costs up to 10% of the perceived bonuses.

8.5. Indexation

Indexation was based on wage increases in the public sector. This changed to general inflation in 2004. This is the indexation of the pension after retirement. The level of indexation is determined by a decree at the beginning of the year according to the expected general inflation of the year. There is no proper indexation during the accrual phase as the pension is calculated on the last 6 months "traitement indiciaire" (base salary).

8.6. Funding

Both the first and second tiers are funded by means of a pay-as-you-go system. The third tier is funded by means of capitalisation.

8.7. Pension benefits upon termination of employment

Upon the termination of employment a minimum period of service of 15 years applies for the retention of the accrued pension benefits. It is not possible to transfer the pension benefits to another organisation. Pensions are indexed to the rate of inflation.

9. Germany

9.1. Pension system

In Germany a distinction is drawn between two categories of civil servants: Beamte and Arbeitnehmer. A different pension system applies in each case. A pension for a Beamte only covers a single tier. It is a final pay system. This single tier combines the state pension (first tier) and the company pension (second tier). A pension for an Arbeitnehmer consists of a state pension (DB) and a supplementary pension (Zusatzversorgungskasse) paid by the participant's employer. In addition, both categories of civil servants are entitled to build up voluntary individual pensions as part of a third tier.

9.2. Retirement age

9.2.1. Beamte

In order to be eligible for a full pension the participant must have paid premiums for at least five years by the time the participant turns 65 years of age. Early retirement is possible from the age of 63. A reduction of 0.3% per month applies in this case. Anyone who is occupationally disabled is allowed to retire early, namely, when he turns 60. In this case a reduction applies of 0.3% for each month before attaining the age of 63. In the case of occupational disability before the participant turns 60 allowances are made for two thirds of any years of accrual missing prior to this age. Later retirement is possible.

9.2.2. Arbeitnehmer

In order to be eligible for a full pension the participant must have paid premiums for at least five years by the time the participant turns 65 years of age. Early retirement is possible from the age of 63. In the case of women, the disabled, the unemployed and anyone who is partly retired, early retirement is possible without a reduction from the time the participant turns 60.

As of 2012 anyone who is occupationally disabled, will only be able to retire without a reduction after he turns 63 and with a reduction as of the date on which he turns 60. Anyone else will be entitled to retire early at the age of 62. In this case the participants will need to have completed no less than 35 years of service. In all cases the pension will be reduced by 0.3% per month subject to a maximum of 10.8%. Later retirement is possible. In this case the state pension is raised by 0.5% per month for every year that the participant is older than 65.

9.3. How the system works

9.3.1. First tier

Beamte pension

The pension for a Beamte is funded on the basis of the last monthly salary earned plus a November bonus. In 2002 the relevant figure was equal to 12 times the monthly salary and bonus, the bonus amounts to 86.31% of the monthly salary. The accrual rate amounts to 1.875% subject to a maximum total figure of 75%. As of 2003 the accrual rate will drop from 1.875% to 1.79375% per annum in 2009. In this case the maximum number of years of service that the participant can accumulate may not exceed 40 (a maximum of 35 years of service applied until 1991). This means that the maximum pension the participant can accrue will drop from 75% to 71.75% in 2009.

State pension for Arbeitnehmer

The state pension is calculated using a complex formula containing variables such as individual pay, average earnings, revaluation and the term of the relevant insurance. In addition, any years devoted to education, military service and absence due to children also have an impact on the amount of the pension. The maximum salary in respect of which the participant can build up a pension is EUR 61,800 (2004) in the case of a resident of West Germany and EUR 52,200 (2004) for an East German resident. The standard formula for calculating a monthly pension:

$$\text{Pension} = \text{Pension value factor} \cdot \sum_{i=j}^d \frac{\text{Pensionable salary}_i}{\text{Average pensionable salary}_i}$$

j: Year of starting of building up pension

d: Last year of building up pension

In the case of a West German resident the current pension value factor is equal to EUR 26.13, while the corresponding figure for a resident of East Germany is EUR 22.97.

9.3.2. Second tier

Company pension for Arbeitnehmer

In addition, an Arbeitnehmer also builds up a company pension. This is funded by means of notional premiums amounting to 4% of the gross salary subject to an upper limit equal to a pensionable salary of EUR 167,375. The pension is calculated in a point system.

Table 5 Point system

Age	Points	Age	Points	Age	Points	Age	Points
17	3.1	29	2.1	41	1.5	53	1.0
18	3.0	30	2.0	42	1.4	54	1.0
19	2.9	31	2.0	43	1.4	55	1.0
20	2.8	32	1.9	44	1.3	56	1.0
21	2.7	33	1.9	45	1.3	57	0.9
22	2.6	34	1.8	46	1.3	58	0.9
23	2.5	35	1.7	47	1.2	59	0.9
24	2.4	36	1.7	48	1.2	60	0.9
25	2.4	37	1.6	49	1.2	61	0.9
26	2.3	38	1.6	50	1.1	62 +	0.8
27	2.2	39	1.6	51	1.1		
28	2.2	40	1.5	52	1.1		

Accrued points:

$$\text{Accrued points} = \sum_{i=j}^d (1,015)^{d-i} \cdot \frac{\text{Yearly pensionable salary}_i}{12000} \cdot \text{Points}(\text{leeftijd} = i)$$

j: Age of starting of building up pension

d: Age in last year of building up pension

Pension:

$$\text{Monthly pension} = 4 \cdot \text{Accrued points}$$

9.4. Contributions

9.4.1 First tier

Beamte

The state budget is used to fund these pensions. No premiums whatsoever are paid for them.

Arbeitnehmer

Overall, the state pension premiums are equal to 19.5% of the salary. Of this, employees pay 50% and the employer pay 50%.

9.4.2. Second tier

Company pension for Arbeitnehmer

Contributions amount to between 4% and 9.86% of the salary. Employees pay up to 1.41% of their salary.

9.5. Indexation

9.5.1. First tier

Beamte

Indexation is based on any increase in the pay of those who are active.

Arbeitnehmer

Indexation occurs in line with the average pay rise less a Riesterfaktor and a Nachhaltigkeitsfaktor, both of which depend on the relationship between a member and his employer.

For the upcoming years until 2010 the indexation is estimated to be equal to salary increase minus 0.65%. After 2010 the indexation is estimated to be equal to salary increase minus 0.3%. In the long run indexation is estimated to be equal to salary increase minus 0.5%.

9.5.2. Second tier

Arbeitnehmer

Indexation isn't fixed to a given parameter. Every three years there is an analyses on which the indexation is based. Currently the company pension is indexed with a rate of 1% per annum when pensioned.

9.6. Funding

9.6.1. First tier

Beamte

The state budget is used to fund these pensions. Smaller towns and municipalities delegate their responsibilities for pensions to Versorgungskassen. The latter organisations calculate and disburse the pensions. All of this is done on the basis of pay-as-you-go.

The larger cities, states and the federal government pay out the pensions themselves. Many create a reserve for this purpose.

Arbeitnehmer

A pay-as-you-go system is used to fund Arbeitnehmer state pensions.

9.6.2. Second tier

The pension systems for Arbeitnehmer are often financed on a pay-as-you-go basis. Some pension funds finance the pensions on a funded basis.

9.7. Pension benefits upon termination of employment

9.7.1. First tier

Beamte

Upon the termination of employment a minimum period of service of five years applies for the retention of any accrued pension benefits. The indexation of these pension benefits is linked to any pay increases. If a participant leaves the Beamte pension category, these benefits are transferred to a state pension. In this respect the number of years of service is retained.

Arbeitnehmer

Upon the termination of employment a minimum period of service of five years applies for the retention of any accrued pension benefits. In this case indexation is linked to the average pay rise less the Riesterfaktor and the Nachhaltigkeitsfaktor, both of which depend on the change in the relationship between the relevant member and his employer. It is not possible to transfer the pension benefits to another organisation. This is because the general benefits are included in the general state pension.

9.7.2. Second tier

Arbeitnehmer

Upon the termination of employment a minimum period of service of five years and a minimum age of 30 applies for the retention of any accrued pension benefits. Indexation will continue in a situation in which contributions have been made for at least 10 years. At present it is not possible to transfer pension benefits to another organisation.

Changes 2006

Old-age part-time work is possible only for people aged 60 or older. Exceptions include severely disabled civil servants and those working in areas targeted for layoffs, who may work in old-age part-time schemes from the age of 55. Moreover, the en bloc option has been curtailed. Staff members may opt for the en bloc model of old-age part-time work only in designated manpower reduction areas if their post is to be cut after their retirement. The reason for this is that too many persons have opted for this en bloc model and retired early. In view of demographic developments, this causes difficulties for personnel management.

10. Greece

10.1. Pension system

Greece has a three-tier system at present. In this case, the first tier acts as a basic and supplementary pension. The second tier comprises a pension on occupation level and the third is made up of individual pension accruals through insurance.

10.2. Retirement age

The normal retirement age is 65. Early retirement is possible subject to reductions on a proportional basis. Later retirement is permitted, but there is no bonus procedure.

10.3. How the system works

The first tier is a final pay system with an accrual rate of 4%. The maximum number of years for the purposes of determining the pension is 35. In addition, restrictions apply in respect of the amount of the participant's pay and pension. The salary, in respect of which pension benefits ac-

crue, is subject to a maximum of EUR 1,550 per month, while the pension may not exceed EUR 2,182 per month. On 1 January 2008 this final pay system will be changed into a moderate final pay with calculation basis will be the last five years.

Greece's second tier is voluntary subject to the requirement that a pension fund has at least 100 participants. The second tier pension system may be both a defined benefit and a defined contribution one.

10.4. Contributions

First-tier premiums are sourced from employers and employees. The employee pays 6.67% and the employer pays 13.33%.

10.5. Indexation

10.5.1. First tier

Indexation within the government pension systems is identical to that in other pension funds.

10.5.2. Second tier

No data available.

10.6. Funding

The first tier is funded from the state budget and the second tier is financed by capital funding.

10.7. Pension benefits upon termination of employment

Upon the termination of employment a minimum period of service of 10 years applies for the retention of the accrued pension benefits. It is possible to transfer the pension benefits to another organisation subject to certain conditions. Indexation of pensions is identical to that of others.

11. Hungary

Hungary was not included in the appendix 2004. Following changes have been made since 2004:

Retirement age: After 2009, unisex 62 years.

Contributions: Social insurance contribution equals pension insurance contribution (1) + health insurance contribution (2) which is regarding to:

- employee's: 12,5% (2004, 2005, 2006)

and

- employer's: 29% (2004, 2005, 2006)

1. The pension insurance contributions (2004, 2005, 2006)

- employee's: 8,5 % = 8% to the Pension Insurance Fund (PIF), 0,5% to the private pension fund (if the person is the subject of the mixed system), if not 8,5% to the PIF

- employer's: 18% this will be 22% (after 1 Jan 2007)

2. Health insurance contributions

- employee's: 4% (2004, 2005), this has changed to 6% (after Sep 1 2006 -of which 4% is in kind health insurance contribution (természetbeni egbizt járulék), 2% in cash health insurance contribution), further changes are coming, a raise to 7% (after 1 Jan 2007 - of which 4% in kind, 3% in cash)

- employer's 11%(2004, 2005,), 11% (in 2006 - of which 7% in kind, 4% in cash) this will be raised to 8% (after 1 Jan 2007- of which 5% in kind, 3% in cash).

12. Ireland

12.1. Pension system

In Ireland there is a pension system with 3 tiers. The first tier provides an old age pension, an invalidity pension and spouse's pension. Most of the public servants recruited prior to 1995 do not participate in the first tier arrangement except in the respect of the spouse's pension. All public servants (with few exceptions such as part time staff working less than a certain threshold) are covered by a second tier pension system. Within the third tier public servants may have the option to make additional contributions in return for better pension benefits at full cost to the employee.

Changes 2006

Public service pension provision in Ireland is in a reform phase whose origins lie in the 2000 Report of the Commission on Public Service Pensions. The Commission's recommendations have won general acceptance by Government, and most of the key changes in recent years represent implementation of Commission proposals. The 2004 Dutch survey recorded the relevant reforms up to that point, notably the raising of occupational pension age for new public servants from 60 to 65 years. Since then, further reform has been ongoing, with three of the most significant developments, all in 2005, being as follows:

- § Introduction of cost neutral early retirement: A facility has been introduced to allow public servants to retire up to ten years earlier than their standard occupational pension age with immediate payment of actuarially reduced benefits (lump sum and pension).
- § Revised integration formula: The method of integrating (or co-ordinating) social insurance and occupational pensions for public servants who qualify for both has been adjusted. The new method boosts the aggregate pension income of lower-paid workers on retirement.
- § Integration "pro rata" introduced for part-time workers: "Pro rata" integration (of social insurance and occupational pensions) has been introduced for part-time public servants, so that benefits reflect notional full-time pay, and actual service as a proportion of full-time attendance. Under the previous "full" integration method, benefits were based on actual pay and on treating each year of part-time service as a full year.

12.2. Retirement age

12.2.1. Normal retirement age

For public servants recruited prior to April 2004: in the case of employees with standard terms the latest age at which a person is entitled to remain in employment is age 65. Groups with different maximum retirement ages are Police (57), Army (varies by final rank), Fire Brigade Staff (55) and Prison Officer (60). In the case of employees with standard terms the earliest age at which a pension is paid with no reduction is 60. Police may retire with immediate pension at age 57 and from age 50 subject to having 30 years' service. Teachers may retire from age 55 subject to having 35 years service. Civil servants in the 'non-established' category (a minority of all civil servants, mainly comprising lower-paid employees) have a minimum retirement age of 65. Early retirement is available generally in cases of ill health or, in certain limited circumstances, for management reasons. Special limited early retirement provisions were recently introduced on a pilot basis for teachers and nurses.

For public servants recruited after April 2004: most new public servants will no longer have any compulsory retirement age; maximum retirement ages still apply to certain groups including Police (60), Army (varies by final rank), Fire Brigade Staff (55) and Prison Officer (60). In the case of employees with standard terms the earliest age at which a pension is paid with no reduction is 65. Police may retire with immediate pension at age 55. Early retirement remains available generally in cases of ill health or, in certain limited circumstances, for management reasons. Special limited early retirement provisions remain in place on a pilot basis in respect of teachers and nurses.

12.2.2. Early/Later retirement

Public servants with standard pension terms who were recruited prior to April 2004: they have the option to retire (with no reduction in benefits) once they have reached age 60 and have at least five years' service and the latest age at which they are entitled to remain in employment is age 65; if they leave before age 60 their benefits are preserved and become payable at age 60.

Post April 2004 entrants with standard terms may not retire before age 65; they may remain in service after age 65 and continue to accrue service up to a maximum of 40 years; if they leave before age 65 their benefits are preserved and become payable at age 65. Ill health early retirement on strict medical grounds is available to all public servants immediate benefits are payable based on actual pensionable service plus up to 10 added years.

12.3. How the system works

12.3.1. First tier

In the first tier there is a pension system, which is not linked to pay. It is a flat rate pension.

12.3.2. Second tier

Within the second tier the participant receives a pension which is equal to 1.25% of their final pensionable pay for each year of reckonable service. Reckonable service is limited to 40 years.

$$\text{Pension} = \frac{\text{Pensionable pay} \cdot \text{years of service}}{80}$$

In addition, a tax-free lump sum is paid on the retirement date. The accrual rate for this lump sum is 3.75%.

12.4. Contributions

12.4.1. First tier

Contributions are paid to the Social Insurance fund in respect of all Social Insurance benefits and the contributions paid are not broken down between pensions and other benefits (e.g. contributions paid towards unemployment benefit). Public servant who participates fully in the first tier: total contribution is 14.05% (both contributions covers pension and other benefits). Total contribution for all other public servants who are only covered for spouses pensions: 2.91%.

Public servant who participates fully in the first tier: contribution by employer is 10.05% and 4% by employee (covers pensions and other benefits). Total contribution for all other public servants who are only covered for spouses pensions: contribution by employer is 2.01% and 0.9% by employee.

12.4.2. Second tier

Established civil servants appointed before 6 April 1995 do not make an explicit contribution under the main pension scheme. However, for pay determination purposes, it has been accepted in a number of arbitration findings in the past that an implicit contribution is made through salary being set at a lower level to take account of the benefits payable under the pension scheme. An explicit periodic contribution of 1½% of pay is made in respect of membership of the spouses' and children's contributory pension scheme.

The arrangements for established civil servants appointed since April 1995 are:

an explicit main scheme contribution applies. This contribution comprises 3½% of net pay (where net pay is pay less twice the rate of old age pension) in respect of pension and 1½% of pay in respect of lump sum. A separate contribution rate of 1½% of pay applies in respect of the spouses' and children's contributory pension scheme; the salary scales are uplifted to 20/19ths of the salary scale applicable to those who joined prior to April 1995.

Most public servants recruited since April pay a contribution of 3½% of net pay (where net pay is pay less twice the rate of old age pension) in respect of pension and 1½% of pay in respect of

lump sum. A contribution of 1½% of pay is made in respect of membership of the spouses' and children's contributory pension scheme.

12.5. Indexation

Indexation is in line with increases to pay of grade at retirement.

12.6. Funding

12.6.1. First tier

Pay-as-you-go system in that there is no general pre funding of benefits; in broad terms contributions received in one period are used to meet expenditure in that period and there is no intention to build up a significant fund of assets. In recent years contribution income has exceeded benefit expenditure and as a result the Social Insurance Fund has accumulated assets with a value of EUR 1.5 billion at end of 2003.

Part pre-funding: To assist in meeting the increased costs of pension provision, the Irish government has committed itself to contributing at least 1% of GNP annually to the recently-established National Pensions Reserve Fund, the purpose of which is to build up assets to part-finance the increased costs of future social welfare and public service occupational pensions arising from the ageing of the population.

This method of pre-funding will afford time to accumulate significant resources before the ageing problem becomes severe and will help smooth the Exchequer burden arising from increased pension costs. However, while the extent to which the Fund will contribute to meeting the cost of pensions depends on the scale of contributions to it and returns achieved on its investments, it is certain that the Fund will only partially cover the increased pension costs arising from the ageing of the population.

12.6.2. Second tier

Pay-as-you-go system with partial pre-funding from National Pensions Reserve Fund (see 10.6.1.).

12.7. Pension benefits upon termination of employment

Upon the termination of employment a period of 2 years of service applies for the retention of the accrued pension benefits. Pension indexation will continue after the termination of employment.

When a civil servant leaves for the private sector their benefits are preserved in the civil service pension scheme; the quality of public service benefits are such (preserved pensions and pensions in payment both increasing in line with pay and with the state underpinning the benefits) that there would appear to be no net benefit in allowing transfer of benefits to a private sector scheme.

13. Italy

13.1. Pension system

Act 335 of 8 August 1995 led to the introduction of a new pension system in Italy. A new defined contribution system was introduced on 1 January 1996. The system in use until then was a defined benefit system.

These changes produced a pension system consisting of three components, namely:

- defined contributions for new participants as of 31 December 1995;
- pension plan commitments comprising a final pay system covering the contribution years prior to 1992 and a moderate final pay system for subsequent years. This plan applies to participants who completed 18 years of contributions prior to 1996;
- a hybrid of both systems applicable in the case of participants who completed less than 18 contribution years prior to 1996.

Changes 2006

The new reform law n. 243 of 23 August 2004 is based on two pivotal principles: the increase of the minimum age for the retirement pension and the support and the development of the additional funds (so-called "second tier").

13.2. Retirement age

13.2.1. Former system

The normal retirement age is 60 years for women and 65 for men. A female member needs to have completed 19 years of service in order to retire at the normal retirement age. As of 2008 the minimum period of service, which women will need to have completed will be raised by one year to 20. Early retirement is possible as of 54 years of age. In this case, the member concerned needs to have contributed for at least 35 years. The early retirement age of 54 will be raised to 57 in 2008. A member who has contributed for 40 years is entitled to retire without any form of age restriction. Earlier retirement will not lead to reductions in the pension benefits.

13.2.2. New system

A retirement age of between 57 and 65 is required in order to achieve a reasonable pension in Italy. However, for this purpose a participant will need to have completed five contribution years and to have accumulated pension benefits of no less than 1.2 times the minimum pension on his retirement date. A reduction/enhancement in accordance with actuarial principles will be applied when a member wishes to retire early / later within the defined contribution system.

Changes 2006

The law n. 243/2004 has foreseen, from 2008 on, the raising of the minimum retirement age. Currently, for retirement, it is required 57 years of age and at least 35 years of contributions (or, alternatively: 39 years of contributions until 2007, independently of the age); as of 2008, for employees, the minimum age for retirement will be raised to 60 years of age plus 35 years of contributions (or, alternatively, 40 years of contributions, independently of the age). As of 2010, the early retirement age will be raised from 60 to 61 years of age (or, alternatively, 40 years of contribution). For employees, whose pension is paid exclusively with the contribution system, the minimum age to have right to the retirement is raised from 57 to 60 years of age for women and to 65 years of age for men.

The law foresees an incentive to postpone the pension for workers who has reached the requirements to retire, but for civil servants, this possibility has not been included into concrete dispositions.

13.3. How the system works

13.3.1. Former system

The system is a defined benefit system.

Pension = 2%. (C1.W1 + C2.W2)

W1 and W2 refer to salaries.

C1 and C2 refer to the number of contribution years.

In the case of contribution years prior to 1992 (C1) W1 is equal to the salary last earned before retirement. With regard to the contribution years subsequent to 1992 (C2) W2 is equal to the average salary earned in the last four years. In this respect it should be noted that as of 2008 W2 will change from the average salary earned in the last four years to that earned in the last 10 years. In both cases the salaries used for the purposes of W2 must be indexed to the rate of inflation plus 1%. Where income exceeds EUR 36,960 (2003) the rate of accumulation of any amount in excess of this figure has been reduced from 2% to 1% in the case of W1, and from 2% to 0.9% in respect of W2.

13.3.2. New system

The system is defined as a defined contribution.

$$\text{Pension} = c_t \cdot M$$

Where:

c_t is a conversion coefficient; and

M is the total contributions accumulated throughout the period of participant ship adjusted in line with the GDP index.

The conversion coefficient can extend from 4.72% at the age of 57 to 6.14% at the age of 65. Beyond the age of 65 the conversion coefficient will be identical to that applicable at this age. These conversion coefficients will be adjusted every 10 years.

13.4. Contributions

13.4.1. Former system

In the former system a distinction was drawn between civil servants as far as premiums were concerned. National civil servants paid premiums amounting to 32.35% of their salary, while local government staff contributed premiums equivalent to 32.95% of their salary. In this case the employer paid approximately two thirds of the premium and the employees about one third of the premium.

13.4.2. New system

Within the new system premiums amount to 33% of the annual salary. The maximum amount in respect of which pension benefits will be accrued is equal to EUR 80,392 (2003). It is not known what the contributions are between employer and employees in this respect.

13.5. Indexation of benefits

Indexation only occurs within the defined benefit system and the defined benefit component of the hybrid system.

Indexation occurs on the basis of inflation. In this respect the applicable indexation is equal to 100% of inflation in respect of that part of the pension which is smaller than three times the minimum pension. In the case of that part of the pension between three and five times the minimum pension indexation occurs at the rate of 90% of inflation. The corresponding indexation level for the pension in excess of five times the minimum pension is 75%. In 2002 the minimum pension amounted to EUR 5,104.97.

13.6. Funding

Both the new and former systems are funded on a pay-as-you-go basis.

13.7. Pension benefits upon termination of employment

Where employment terminates, no minimum period of service applies for the retention of the accrued pension benefits.

14. Latvia

Latvia was not included in the appendix 2004. The following changes since 2004 were reported:

14.1. Retirement age

Latvia is moving forward to equal retirement age of 62 for women and men. The transition to the retirement age of 62 is carried out on step-by-step basis, i.e. by six month each year. Men have already reached this retirement age in January 2003, but women will reach it in 2008 (currently the retirement age for women is 61 years by 1 July 2006).

Opportunity to opt for early retirement was foreseen in legislation until 1 July 2005. In order to socially protect the persons, who were in pre-retirement age and were not able to integrate into the labour market (due to objective or subjective reasons), the right to claim for early retirement pension was provided by law already during the first years of pension reform. However, taking into consideration the fact that currently integration into the labour market for the inhabitants in pre-retirement age is not fully ensured (the opportunity to use early retirement has been used by 40% of pensioners on average per year), the Parliament has decided to prolong the possibility for early retirement for 3 more years. By 1 July 2008 the persons with their insurance record being at least 30 years will be entitled to request early old pension two years before the retirement age.

14.2. How the system works

For those persons, whose insurance record is no less than 30 years and pension does not exceed LVL 105 (approx. 150 EUR), are paid additional payment for every insurance year till 31 December 1995. The average pension amount increased from LVL 69,73 (approx. 100 EUR) in 2004 to LVL 90,49 (approx. 130 EUR) in 2006, i.e., by 29,8%.

14.3. Contributions

Since 2006 employment injuries and occupational diseases insurance rate is included to the total social insurance contributions rate (33,09% where the employer pays 24,09% and the employee - 9%). Till 2006 employment injuries and occupational diseases insurance contributions were paid only by employer. Since 2004 and after the total social insurance contributions rate is 33,09% where employer's part is 24,09% and employee's part 9%.

14.4. Indexation of benefits

On the first of April indexation, the state pensions, the amount of which does not exceed three state social security benefits shall be indexed with the actual consumer price index and on the first of October indexed also with 50 percent of insurance premium real wages growth per cent. State pensions the amount of which exceeds the amount of three state social security benefits but does not exceed the amount of five state social security benefits shall be indexed once a year in first of October with the actual consumer price index.

15. Lithuania

Lithuania was not included in the appendix 2004. No changes since 2004 were reported.

16. Luxembourg

16.1. Pension system

In Luxembourg pensions are paid within a single tier. In 1.1.1999 a new system has been introduced. In the pension system after 1.1.1999 pension accrued in two different parts. A first part which is a basic amount and a second part which is a salary dependable part. The pension system from before 1.1.1999 is one salary dependable pension system.

16.2. Retirement age

16.2.1. Normal retirement

The normal retirement age is 65. However, the participant must have completed at least 10 years of service if the participant wishes to retire at 65. Anyone who became a member before January 1999 needs to complete at least 15 years of service in order to be eligible for a pension at the age of 65. It is also possible to retire with a normal pension at the age of 57. In this case the participant must have completed at least 40 years of service. In the situation that the participant doesn't have completed the minimum service years, he / she will then be entitled to receiving all his contribution. For those who entered before 1999 the contributions formerly paid into the public pension scheme are transferred into the general pension scheme.

16.2.2. Early retirement

Early retirement is possible at the age of 57. However, in this case the pension is reduced proportionally, if the participant has not completed 40 years of service. If the participant retires when he/she is older than 60 and he/she has completed more than 40 years of service, the participant will be eligible for an annual bonus of 2.31% of the pension benefit at the age of 60 if he belongs to those entered before 1999.

16.2.3. Later retirement

It is possible to postpone retirement until the age of 68 in the pension scheme before 1999. In this situation his/her pension is increased on the basis of actuarial principles if he/she has been employed for at least 120 months when he/she reaches the age of 65. It is possible to postpone retirement until the age of 68.

16.3. How the system works

16.3.1. Former system

In the Former system from before 1.1.1999 pension benefits depend on the amount in years of working career, the amount varies between 20 / 60 and 50 / 60 of the last salary.

Insurance periods acquired in the general pension scheme are considered (with all consequences) for these calculations if the years spent in public services are greater than the insurance periods. If this occurs, the contributions formerly paid into the general pension scheme are transferred into the public pension scheme. There are in fact 3 formulas depending on the situation (age and service) of the retirement. These 3 formulas have been duplicated and decreased in terms of value for those who entered before 1.1.1999 and retire past this date. Depending on their acquired rights (basically upon their services) at the date of 1.1.1999, the values produced by these formulas at the date of the retirement will decrease during the next 40 years and finally a line (for a full career) with the amounts produced within the new pension scheme.

16.3.2. New system

From 1.1.1999 a new salary dependable pension scheme was introduced. The accrued pension benefits exists in two parts a basic amount and a salary dependable part. The basic amount depends on the years of service. The basic amount for 40 years of service is EUR 3,957. Accrued pension benefits in the salary dependable part are equivalent 1.85% of the overall salary the participant has earned. If however the public agent has at least 38 years of service at the age of 55 the rate of 1.85% is risen by 0.01% per year of the difference from the sum of years of service and age at definite retirement and the ratio 93, without possibly being risen above 2.05%. This overall salary is indexed every year. On average and for a full career the new scheme produces a pension equivalent to 70% to 80% of the final pay. There is no maximum salary, in respect of which pension benefits accrue. A minimum pension is equal to EUR 14,784.96 and there is no maximum (All information on 2003 basis).

16.4. Contributions

Premiums are equivalent to 8% of the salary. This premium is for all kind of pension.

16.5. Indexation

In Luxembourg indexation keeps pace with wage increases.

16.6. Funding

The Luxembourg pension system is funded by means of premiums paid by the employees (8%) and a major additional sum sourced from the state budget.

16.7. Pension benefits upon termination of employment

Upon the termination of employment before the age of retirement a minimum period of service of 15 years applies for the retention of accrued pension benefits in the case of those people who became participants before 1 January 1999. Anyone who became a member after this date must

have completed a period of service of 10 years in order to retain his pension benefits upon the termination of his employment. It is possible to transfer the pension benefits to another organisation.

17. Malta

Malta was not included in the appendix 2004. Now Malta points out that there were changes since 2004. The proportion in contribution was increased to 10% of salary both by the employer and employee.

18. The Netherlands

18.1. Pension system

The Netherlands has a three-tier system. The first tier is a general retirement pension for which the state is responsible. The second provides for a temporary and lifelong company pension. This pension plan consists of agreements made by an employer with its staff and is administered by a pension fund. The third tier comprises the accrual of individual pension benefits on a voluntary basis.

Changes 2006

Early retirement provisions have been removed, official retirement age is now 65 and the system must be completely funded in 2015. Moreover the life-cycle savings scheme has been introduced (all changes from January 2006).

18.2. Retirement age

18.2.1. First tier

As part of the first tier a state pension is payable to every resident from the moment that he or she attains the age of 65. This pension may not commence before or after attaining the age of 65.

18.2.2. Second tier

The normal retirement age is 65. Within a pension fund an additional pension accrues, which is paid out between the ages of 62 and 65. The amount of this pension is supposed to be more or less the same as that which the participant would receive at the age of 65. This temporary pension is broken down into a basic and an accrued pension. The basic pension is linked to the state pension. The accrued pension accumulates in a manner analogous to the accumulation of the corporate pension which commences when the participant turns 65. If the participant retires early before 62, his./her basic pension is reduced proportionately and the accrued pension is reduced on an actuarial basis. In the case of participants who were born prior to 1947 the applicable age is 61 instead of 62.

Changes 2006

The official retirement age is now 65, although it is still possible to retire earlier but not earlier than past the age of 60 years (with actuarial adjustment of the pension income).

The system has to be completely funded if not in reality than virtually as if the system were funded. By this the effective retirement age will be delayed.

18.3. How the system works

18.3.1. First tier

The first-tier pension is a fixed amount which applies to all residents of the Netherlands. The amount of this pension is reduced by 2% for every year that a member does not live in the Netherlands between the ages of 15 and 65. No reduction applies in respect of any years prior to 1957. However, in this case the relevant person must have lived in the Netherlands for six years after he turned 59.

18.3.2. Second tier

In 2004 the second tier pension system changed from a moderate final pay to an indexed average pay system. In the case of the moderate final pay system the aim was to acquire a pension after 40 years of work totalling 70% of the final salary. In this case the total pension is equal to the sum of the first and second tier pensions.

Total pension =

$$d_j \cdot 1.75\% \cdot (\text{final pay} - \text{AOW [General Retirement Pension Act] offset } j) + \text{state pension}$$

d_j : Number of years of service.

In the new indexed average pay system the accrual rate is equal to 1.90%. For the purposes of the transitional period the calculation of the average salary is based on the assumption that the salary in the years prior to 2004 is equal to that payable in January 2004.

Total pension =

$$\sum_{j=1}^d 1,90\% \cdot \text{Indexatie}_j \cdot (\text{Salary}_j - \text{AOW[General Retirement Pension Act] offset}_j) + \text{State pension}$$

The AOW offset (which is related to the state pension) is not the same throughout the entire period of accrual. An AOW offset of EUR 13,000 applies until the age of 40. The corresponding figure for the ages of 40 to 50 is EUR 14,250, and EUR 15,250 if the participant is older than 50.

Changes 2006

The tool of individual life-cycle savings scheme has been introduced. This tool allows workers to set aside savings out their gross income and taxation is deferred until the time when the saving is drawn down. The money in the savings account can be used for various forms of unpaid leave such as caring for children or ill parents, schooling, or sabbatical or early retirement.

18.4. Contributions

18.4.1. First tier

Within the first tier premiums amount to 17.9% of the salary, where the latter is subject to a maximum of EUR 28,850. On average this amounts to 11.2% of the overall salary.

18.4.2. Second tier

In the case of the second tier premiums amount to 13.2% of the salary less the AOW offset. This amounts to 7.1% of the overall salary on average. In the future this figure will increase to 18.8% of the overall salary in 2006 before falling to 10.2% in 2010. Of these premiums employees fund 75% and employers 25%.

Changes 2006

After a period in which the contributions were due to rise contributions are now on a stabilizing level.

18.5. Indexation

18.5.1. First tier

The benefits in the first tier are indexed every year. The indexation amount is determined by the state / government.

18.5.2. Second tier

Indexation occurs, albeit subject to conditions. In a situation involving a limited amount of capital a pension fund is allowed to forego indexation or to do so partially. In this case it is also possible to include any indexation that has been foregone in the past, if there is a capital surplus. The method of indexation is determined by the pension fund concerned.

Changes 2006

Indexation of the benefits have been reduced up to a total of 1,1% thanks to the situation on the stock market.

18.6. Funding

In the Netherlands funding varies between the different tiers. A pay-as-you-go system is used to fund the first tier, which serves as a basic pension. However, capital funding is used to finance for the entire second tier. Recently the pension benefits have been discounted on the basis of market interest rates instead of the fixed rate of 4% which had long been used.

Changes 2006

The whole second pillar system has to be fully funded as from 2015. Already from 2006 the system has to act as if it were funded in order to make actuarially neutral benefits possible when one decides to retire earlier than 65.

18.7. Pension benefits upon termination of employment

18.7.1. First tier

Transfer of pension benefits is not possible.

18.7.2. Second tier

Upon the termination of employment no minimum period of service applies for the retention of the accrued pension benefits. It is possible to transfer pension benefits to another organisation. The pension will continue to be indexed.

19. Poland

19.1. Pension system

Until 1998 a pay-as-you-go system functioning as the only one system. In 1999 there has been the reform of the social security system. From 1999 there are two systems: The former, temporary system (pay-as-you-go (PAYG) system) – for the people who had over 50 years in 1999. The former system still exists, functioning for these people who were born before the 1st January 1949. The former system is managed by the public institution called Social Insurance Institution (ZUS). There is only one component (tier).

The new contributory pension scheme (III components (tiers) system) – for the people who had under 50 years in 1999. The first, mandatory, PAYG, public component (tier) is managed by the public institution called Social Insurance Institution (ZUS). The second mandatory, funded component (tier) there are open pension funds (OFE), managed by private institutions called General Pension Institutions (Societies). The third voluntary component (tier) there is: occupational pensions and private saving products.

As a result of the pension reform, the participants of the system were divided into 3 groups:

- born till the end of 1948 – those persons will stay in the previous pay-as-you-go system;
- born between 1st January 1949 and 31st December 1968 – by virtue of the law, those persons became participants of the new pension system, but in 1999 they had the right to choose, whether the whole pension contribution was to remain with the PAYG component, whether a part of it should be transferred to the funded component;

- born after 31st December 1968 – by virtue of the law, those persons became obligatory participants of the new pension system; contributions of those persons are transferred to the Social Insurance Institution (ZUS), where they are divided into two parts. 12.22% remains with the pension fund in FUS (Social Insurance Fund – FUS is an assigned state fund), and 7.3% is transferred to the OFE chosen by the insured.

19.1.1. The former system

Those participants who were born before the 1st January 1949 take only part in the former system.

19.1.2. New system

Those participants who were born after 31 December 1948 take part in the new system. In this case those participants who were younger than 30 in 1999 are subject to both the first and second components (tiers).

Those participants, who were aged between 30 and 50 in 1999, have a choice of being active in both components, (tiers) of the new plan or only the first tier in this plan.

As it was said, the new contributory pension scheme (III components (tiers) system) – for the people who were under the age of 50 in 1999. The first, mandatory, PAYG, public component (tier) is managed by the public institution called Social Insurance Institution (ZUS). The second mandatory, funded component (tier) there are open pension funds (OFE), managed by private institutions called General Pension Institutions (Societies). Open Pension Funds have financial guarantees of the government. The third voluntary component (tier) is an occupational pensions and private saving products.

19.1.3. Transitional scheme

For those who will reach the age of 60 within years 2009 – 2013, that is those born in the years 1949, 1950, 1951, 1952, 1953 and who would not enter the second tier, a smooth transition the new system would be provided. It includes a mixed – type pension calculated partly on the old and partly on the new basis. For example a person retiring in 2009 may receive a benefit based in 80 per cent on the old and in 20 per cent on new basis.

19.2. Retirement age

19.2.1. The former system

The retirement age for men is 65. The male participant is required to have completed at least 25 years of service. The retirement age for women is 60 and they must have completed at least 20 years of service. After completing 30 years of service women of 55 years of age are entitled to retire. (Early retirement is possible only in the former system).

19.2.2. New system

In Poland's new pension system the minimum retirement age for men is 65 and for women 60. No form of early retirement is permitted in this case. Later retirement is possible and is accompanied by an increase in the pension by means of additional contributions and on the basis of actuarial principles.

19.3. How the system works

19.3.1. The former system

As it was said, there is only one component (tier) in the former system.

In the former system the retirement benefit is calculated as follows:

24% of the ZUS base amount, currently PLZ 1,829.24 (EUR 398) per month; plus
1.3% of the employee's monthly average remuneration (with a ceiling of 250% of average national remuneration) for each year of contributory service ; plus
0.7% of the average monthly salary (with the same ceiling as above) for each year of qualifying non-contributory service.

Average national remuneration for the purposes of retirement benefits calculation in Poland in Q3 of 2003 amounted to EUR 495 (PLZ 2,276.84).

The minimum pension equals EUR 122.30 (PLZ 562.58 - assuming the rate of exchange 1 EUR = 4.6 PLZ).

19.3.2. New system

First component (tier) (mandatory)

A clearly defined pension formula is used in the first tier:

Monthly Pension =

Sum of all contributions received, adjusted contributions and initial capital
Average life expectancy following retirement expressed in months

Initial capital is a new element of the Polish pension system. It is in fact the calculation of the hypothetical pension to which the persons who did not reach 50 years of age till the 1st January 1999 – would be entitled on the 31st December 1998. This hypothetical amount is multiplied by the estimated average number of monthly pensions for a person at the age of 62. The outcome is equal to the initial capital, which is registered, along with contributions being currently paid and adjusted, on the account of the insured person as of 1st January 1999. Every year this hypothetical pension is indexed at least with inflation.

Second component (tier) (mandatory)

In the second component is only for retirement benefits (old age pension after reaching 60 years of age in the case of women and 65 in the case of men). Contributions made to second component are invested by commercial pension societies on the investment market and the amounts accrued (contributions and profits earned) will be paid out to future pensioners (at present within the frames of reformed pension system no pay-outs of benefits have been made so far²). As opposed to the first component, amounts accrued within the second component can be inherited. At the end of 2003 there were 16 open pension fund operating in Poland. The number of members of all pension funds reached PLZ 11.5 million. In 2003, the Social Security Institution (ZUS) transferred PLZ 10.3 billion of contributions to the open pension funds. The total value of net assets of pension funds exceeded PLZ 44.8 billion (in 2003 the financial result of OFE rose by 26%, attaining PLZ 4 billion).

The value of the accounting unit increased on average by 10.9%. (13 of the 16 pension societies (PTE) generated profits). All of the open pension funds within the second component are of DC contribution. The contribution to the second component amounts to 7.3% of salary capped annually (after the cap is reached no more contributions for old age and disability pensions are paid). The amount being the limit for the basis of contributions calculation changes every year – as it equals 30 forecasted average monthly salaries in a calendar year (the amount of the limit is published in the form of Announcement of the Minister of Economy, Labour and Social Affairs in December every year and is in force in the subsequent calendar year). In 2004 the cap amounts at PLZ 68,700 (EUR 14,935).

19.4. Contributions

19.4.1. The former system

Total contribution in the former pension system is equal to 19.52% of the salary. All contribution goes to Social Insurance Fund – FUS, (FUS is an assigned state fund). In practice 50% from this contribution is paid by the employee and 50% is paid by the employer.

² Currently, the form of retirement benefit paid from pillar II is not known. According to announcements of the government pillar II retirement pension will be paid as:

- individual retirement pension – paid for the rest of the pensioner's life;
- individual retirement pension with a so called guaranteed period of payment (at least 10 years) – if the pensioner dies before the end of the period, the beneficiary pointed at by the pensioner will receive the benefit;
- matrimonial retirement pension – paid for the rest of the widow/er's life;
- matrimonial retirement pension with a so called guaranteed period of payment (at least 10 years) - if the pensioners die before the end of the period, the beneficiary pointed at by the pensioners will receive the benefit.

19.4.2. New system

Table 6 Financing of new Polish social security system is as follows:

Type of benefit	Company contribution	Employee contribution	Total	Annual limit on contribution base
Old age pension	9.76%	2.46%* + 7.3%**	19.52%	PLZ 68,700 ****
Disability pension	6.50%	6.50%	13.00%	PLZ 68,700 ****
Sickness related	0.00%	2.45%	2.45%	None
Accident related	from 0.97% to 3.86%***	0.00%	from 0.97% to 3.86%***	None
Total	from 17.23% to 20.12%	18.71%	from 35.94% to 38.83%	

* Part of contribution remaining in the first component.

** Part of contribution transferred to open pension fund within the second component.

*** Various levels of contributions – depending on industry.

**** Limit set up for 2004.

19.5. Indexation

From the 1st January 2005 indexation won't be carried out every year. Indexation will be carried out on the 1st March in the following year after the year in which the inflation rate will amount at least 5%. Nevertheless the indexation should be carried out at least once three years.

19.6. Funding

19.6.1. The former system

The former social security system was funded from employers' contributions in the amount of 45% of employee salary. The system is of Pay As You Go character (which means that current benefits are financed from current contributions).

19.6.2. New system

The first component (tier) of the new system is still funded by means of a pay-as-you-go system. Therefore there are no amounts accrued on individual accounts (the figures describe only the amount of the state liabilities towards the individual). Similarly, the "profit" that appears on the accounts is not a market parameter, but reflects only the indexation factor applied. The indexation factor amounts at least to inflation.

The second component (tier) is paid by capital funding.

19.7. Pension benefits upon termination of employment

19.7.1. The former system

The former system is a national pension scheme. Without meeting eligibility conditions for retirement pension termination of employment does not result in any social security benefits – unless termination is due to work inability and the employee is granted a disability pension.

19.7.2. New system

The first component (tier) is a national pension scheme. Without meeting eligibility conditions for retirement pension termination of employment does not result in any social security benefits – unless termination is due to work inability and the employee is granted a disability pension.

The pension benefits in second component are based on the individual principle independently of the employer. This ensures no kind of problems with changing from employer. Transfer between the OFE (open pension funds) is possible.

20. Portugal

20.1. Pension system

In Portugal a pension system has been established for civil servants, which is based on the first tier. This is a final pay system which also differs from the general pension regime in Portugal. The civil servant pension fund is administered by "Caixa Geral de Aposentações", which is independent in administrative and financial terms. The contributions to this fund come from civil servants, other autonomous organisations and the state budget. The Ministry of Finance is responsible for the "Caixa Geral de Aposentações", which in turn is answerable to the Minister of Finance.

20.2. Retirement age

The minimum retirement age within this system is 60 years. In this case the participant must have completed at least 36 years of length of service. If the participant retires before the age of 60, his/her pension is reduced by 4.5% per annum. In the case of early retirement, and the participant shall have completed more than 36 years of length of service, one year of reduction is credited for every additional three years of length of service. The maximum retirement age is 70.

Changes 2006

The early retirement, created in 2004, was changed and will be dependent on the completion of a maximum length of service for the calculation of the pension required during the transition period until attained the 40 years required.

If the participant retires before the minimum age set in the transition period until 65 years his/her pension is reduced by 4.5% per annum. In a situation in which the participant has completed more than the number of length of service required in the transition period, in the case of early retirement, half a year of reductions is credited for every additional year of service.

20.3. How the system works

A 1/36 part of the pension is built up every year within this pension system. After 36 years this yields pension benefits equivalent to a member's final pay. It is not possible to accrue more pension benefits in excess of his/her final pay, that is to say, the maximum pension that corresponds to the salary received by the civil servant on the date of his/her retirement after deducting the contribution for the "Caixa Geral de Aposentações" (CGA). For civil servants registered with the CGA after 1st September 1993 a pension is calculated according to the formula applicable to the general pension regime, but the CGA is also responsible for the management of those pensions. In this case, the final pay of the pension derives from a monthly rate of 0.02 to 0.023 of the average of remunerations of several years until a maximum of 40 years.

Changes 2006

As from 1/1/2006, with the publication of the Law n.º 60/2005, of 29th December, the compulsory framework in the general social security scheme of civil servants and contractual staff admitted after that date, was laid down. The CGA no longer may affiliate new subscribers and the special regime of civil servants will constitute a closed regime.

As it was referred to in previous points, in 2004 the possibility of early retirement was created and changed the base of calculation of the pension, and in 2006 another profound change of the calculation formula was introduced with a view to a convergence with the calculation formula used in the general regime of social security.

As from 1/1/2006, the calculation formula of the pension of subscribers of CGA affiliated until 31/8/1993 will be determined according to the following terms:

- 1st Share – corresponding to the length of service performed until 31.12.2005 – calculated according to the formula in force until then;
- 2nd Share – corresponding to the length of service performed after 1.1.2006 – calculated according to the rules applicable to the general social security scheme in force.

The pension amount is equal to the sum of the two shares; from the calculation of the length of service calculated in the two shares must not result a number of years higher than the number, that in each calendar year, constitutes the maximum limit until 40 years of service be attained.

20.4. Contributions

Premiums amount to approximately 7.5% of the salary for old-age and disability pension and 2.5% for survivor's pension. The pensions are paid from amounts corresponding to the contributions of workers and organizations as employers and from State budget appropriations. Contributions are based on 14 months' salary per year. This is due to the fact that pension benefits also accrue with respect to holiday and Christmas bonuses.

Changes 2006

As from 1/1/2006, the contribution that services and organizations of Public Administration pay to CGA as employers was altered from 10% to 13%.

In the cases in which the service or organization contributes as employer, as from 1/1/2006, the percentage of the employer in relation to the worker rose by 3% - as it was equal until then.

20.5. Indexation

In principle, there is no indexation but accrued pension benefits are often raised more or less in line with the pay increases received by active participants.

20.6. Funding

The pension system is funded on the basis of a pay-as-you-go system.

Changes 2006

As there is only the 1st tier in the pensions system of civil servants, the changes referred to with regard to the calculation of the pension, the conditions of access to early retirement and to the rate of the contribution of services/employers, must result in a reduction of charges. The same purpose justified the annulment or revision as from 1/1/2006 of special schemes existent until then.

20.7. Pension benefits upon termination of employment

Upon termination of employment a minimum period of length of service of 5 years is required for the retention of the accrued pension benefits. It is possible to combine the pension benefits with other pension benefits from other pension schemes or systems. The transfer of the right to the pension is only possible in the case of civil servants covered by the Staff Regulations of EU officials. However, the performance of any function in any service of the Portuguese Public Administration makes contributions to the same "Caixa Geral de Aposentações" compulsory and is covered by the same legal regime (pension system). Indexation of pension benefits runs along with wage increases.

Changes 2006

The change of the normal retirement age referred earlier is made in a progressive way during 10 years, increasing ½ year of age in each calendar year, so that in 2015 will be necessary to complete 65 years instead of the present 60 years. In that date will be no longer required the completion of 36 years of service, to be entitled to a pension, being only required the compliance with the minimum period of affiliation - this period with change from the present 5 years to the number of years that will be in force for the general social security scheme.

21. Slovakia

21.1. Pension system

Slovakia has a system of three tiers. The first tier is a defined benefit system, which is mandatory for all residents. From January 2005 most of the Slovak citizens will have a choice: either stay in this state (public) pay-as-you go system and have only 1-tier pension or join the new 2-tier system, which combines public and private schemes. New entrants into the labour market won't have any choice and will join the 2nd tier automatically. The second tier is also a mandatory pension but it is built up individually through a defined contribution system. Pension benefits accrue to the pensioner or to the survivors in case of death. The second tier is scheduled to come into effect on 1 January 2005. The third tier consists of a voluntary pension, which is built up through a plan involving employers and employees.

21.2. Retirement age

There is a transition period now, which is aimed especially at gradual increase of legal retirement age of women. The transition period will last until 2009 – 2014 according to the number of children raised. Retirement age of men is being increased to 62 since 2006.

In the case of early retirement the participant must have been a member of the plan for at least 10 years and have built up a pension of at least 1.2 multiple of the subsistence minimum – currently EUR 126.48 (SKK 5,053) (Figures based on 2003). Early retirement results in the reduction of the pension based on actuarial principles. It is possible to delay the retirement until the age of 65. In this case a bonus plan based on actuarial principles applies. Pension is increased by 0.5% for each 30 days of deferral or decreased by the same amount for early retirement.

21.3. How the system works

21.3.1. First tier

The first tier is a defined benefit system with a benefit calculated according to the formula:

$$\text{Pension} = \text{Average personal wage point} \cdot \text{insurance periods} \cdot \text{actual pension value}$$

Where:

- average personal wage point (APWP) = personal gross wage / average gross wage. There is a redistribution built in this part of the pension formula. If the (APWP) is smaller than 1.25, total gross wage of the insured is taken into account. The salary in respect of which pension benefits accrue may amount to no more than three times the average wage;
- insurance period is total of periods, for which contributions were paid and the so-called non-contributory periods of insurance defined by law (military service, maternity and parental care up till 6 years of age of the child, sickness);
- actual pension value is annually indexed pension value of EUR 4.60 (SK 183.58) by an index equal to average wage in the third quarter of year before the year for which the indexation is valid over an average wage in the same period two years before.

21.3.2. Second tier

The second tier will be a defined contribution system. The second tier pensions will be administered by private pension funds, which will be under strict state control. Further, the state will guarantee the insurees' assets in the funds. The second tier will provide old-age and survivors' benefits. It doesn't cover disability. There are two possibilities of pension benefits, either annuity or combined annuity and lump sum. In the latter case the annuity must be at least 0.6 subsistence minimum so that certain living standard is maintained.

Participants can draw pension when they reach legal retirement age and have contributed to the fund for at least 10 years. Early pension is possible in case the participants draws early pension from the first tier or in case the participant has accrued assets that enable annuity of more than 0.6 subsistence minimum.

Pension benefits in case of combined lump sum and annuity can be changed either in terms of the level or duration of payment according to an actual value of pension assets in the fund.

21.4. Contributions

Payment of contributions for old-age and survivors' pensions is divided between employers and employees in the following way:

Table 7

Contribution level as % of gross wage	2004 (one-tier system)	From 2005 two-tier system				
		1st tier		2nd tier		
	employee	employer	employee	employer	employee	employer
Public old-age system (PAYG)	4%	16%	4%	5%	-	-
Private old-age system (funded)	-	-	-	-	-	9%
Reserve fund (for transition costs)	-	2.75%	-	4.75%	-	-
Total for old-age pensions	4%	18.75%	4%	9.75%	-	9%

Old-age and survivors' pensions are not separated, nor are the contributions. Part of the employers' contributions is directed into a reserve fund, which is built to cover for transition costs and for the costs of ageing of population.

21.5. Indexation

Pensions are indexed to inflation (50%) and wage increases (50%). These inflation rates are determined by the Slovak Statistics Office. Indexation is done annually on July 1st.

21.6. Funding

The first tier is funded through a pay-as-you-go system, while the second, which is scheduled to come into effect on 1 January 2005, will be financed by means of capital funding.

21.7. Pension benefits upon termination of employment

Minimum requirement for old-age pension eligibility is ten years of insurance and reaching retirement age. Indexation of the benefits will be maintained.

22. Slovenia

22.1. Pension system

The government pension system in Slovenia currently consists of three tiers. The first tier is a moderate final pay system. The second tier, which was introduced on 1 August 2003, is a defined contribution system.

Changes 2006

Slovenia would like to stress out that the normal retirement age in Slovenia for men is 65 and women 63 with minimum of 15 years of insurance period. Exceptionally a person can acquire a right to pension at the age of 58 if he fulfilled the condition of 40 years of insurance period (for men) or 38 years of insurance period (for women). In the original appendix this is not clear enough.

22.2. Retirement age

Table 8 Minimum Retirement Age and Normal Retirement Age for Men

Minimum Retirement Age and Normal Retirement Age for Men			
Year	Period of Service (years – month)	Minimum Retirement Age (year – month)	Retire- Full Pension upon Retirement (year – month)
2000	40-0	58-0	58-6
2001	40-0	58-0	59-0
2002	40-0	58-0	59-6
2003	40-0	58-0	60-0
2004	40-0	58-0	60-6
2005	40-0	58-0	61-0
2006	40-0	58-0	61-6
2007	40-0	58-0	62-0
2008	40-0	58-0	62-6
2009	40-0	58-0	63-0
2010	40-0	58-0	63-0

Source: Worldwide Benefit & Employment Guidelines – Eastern Europe

Table 9 Minimum Retirement Age and Normal Retirement Age for Women

Minimum Retirement Age and Normal Retirement Age for Women			
Year	Period of Service (years – month)	Minimum Retirement Age (year – month)	Retire- Full Pension upon Retirement (year – month)
2000	35-0	53-4	53-4
2001	35-0	53-8	53-8
2002	35-3	54-0	54-0
2003	35-6	54-4	54-4
2004	35-9	54-8	54-8
2005	36-0	55-0	55-0
2006	36-3	55-4	55-4
2007	36-6	55-8	55-8
2008	36-9	56-0	56-0
2009	37-0	56-4	56-4
2010	37-3	56-8	56-8
2011	37-6	57-0	57-0
2012	37-9	57-4	57-4
2013	38-0	57-8	57-8
2014	38-0	58-0	58-0
2015	38-0	58-0	58-4
2016	38-0	58-0	58-6
2017	38-0	58-0	59-0
2018	38-0	58-0	59-4
2019	38-0	58-0	59-8
2020	38-0	58-0	60-0
2021	38-0	58-0	60-4
2022	38-0	58-0	60-8
2023	38-0	58-0	61-0
2024	38-0	58-0	61-0

Source: Worldwide Benefit & Employment Guidelines – Eastern Europe.

If the participant continues to work after the normal retirement age, this will result in an increase in pension of 3% in the first year, 2.6% in the second, 2.2% in the third, 1.8% in the fourth and 1.5% in the fifth year (2002). Early retirement is subject to a reduction

A participant who has failed to complete 40 years (males) or 38 years of years of service (females), and acquires the right to old-age pension prior to completion of the full pensionable age, will have the pension, which is assessed with respect to the completed pension qualifying period and

the pension base, reduced for each missing month of age by the completed full age, in the following manner:

Table 10

Age in years	Percentage of reduction per month
58	0.30%
59	0.25%
60	0.20%
61	0.15%
62	0.10%
63	0.00%

A participant who has fulfilled the conditions for entitlement to old-age pension and continues his membership in the insurance scheme after attaining 63 years of age (males) or 61 years of age (females) shall have the pension, which is assessed with respect to the completed pension qualifying period and the pension base, increased for each month of insurance after attaining the said age, in the following manner:

Table 11

Age on retirement		Percentage of increase per month
Males	Females	
From 63rd to 64th year	from 61st to 62nd year	0.3%
From 64th to 65th year	from 62nd to 63rd year	0.2%
From 65th to 66th year	from 63rd to 64th year	0.1%
66 years and above	64 years and above	0.0%

In order to qualify for the minimum pension a woman of 61 must have completed at least 20 years of service. By the age of 63 men must have also completed 20 years of service in order to qualify for the minimum pension. The years of compulsory military service are not counted as years of service. The period during which a woman looks after her children at home is also not treated as years of service, nor is any period of study. However, it is possible to buy back these years to qualify as a period of service.

22.3. How the system works

22.3.1. First tier

In Slovenia government staff accrues pension benefits through a moderate final pay system. In this regard, pension levels were determined in 2000 on the basis of the 10 years during which the participant earned his/her highest pay in respect of which pension benefits accrued. The number of years will be raised to 18 years in 2009. The government pension accrual rate in Slovenia is 2% per annum up to 1992. As of 2000 the accrual rate for more than 15 years of service will be equal to 1.5%. The participant who is entitled to old-age pension pursuant to the provisions hereof, shall be guaranteed the minimum pension in the amount of 35% of the minimum pension-rating base. The minimum pension rating base shall be assessed in the amount of the lowest pension rating base applicable in the last month prior to enactment of the present Act. The amount of the minimum pension rating base shall be published by the Institute. The maximum pension rating base shall be the amount four times higher than the minimum pension rating base.

22.3.2. Second tier

The second tier is a defined contribution system. The defined contribution system is a compulsory supplementary pension insurance that includes persons, who perform hard work and work harmful to health. The insurance provides rights to occupational pension. It is a compulsory supplementary pension fund, managed by Capital Pension and Invalidity Company. It is guaranteed by the State. In the second tier there is also a type of voluntary supplementary insurance that is provided in the form of collective insurance.

Changes 2006

There have been changes in the defined contribution system. More precisely in the field of investment policy statement, information to be given to the members and beneficiaries and cross-border activities of institutions (all in accordance with Directive 2003/41/EC).

22.4. Contributions

First-tier pension premiums are equivalent to 24.35% of the salary. Of this, employers pay 8.85% and employees 15.5%. These contributions are for the old-age pension and the disability pension and the survivor's pension.

22.5. Indexation of benefits

Pensions are indexed with the monthly movement of average salaries per an employee. The growth of a pension in a particular calendar year may not be higher than the growth of average salaries and it may not be lower than the growth of the price of the necessities of life. This indexation only takes place in the retirement period

22.6. Funding

The first tier of the Slovenian system is funded in three parts. Funds are sourced from the state budget, a pay-as-you-go system and a capital company.

22.7. Pension benefits upon termination of employment

22.7.1. First tier

No data available.

22.7.2. Second tier

Upon the termination of employment no minimum period of service applies for the retention of the accrued pension benefits. It is possible to transfer the pension benefits to another organisation. Pension indexation will not take place after the termination of employment.

23. Spain

23.1. Pension system

Spain has two pension systems for public sector employees in the first tier: a passive classes scheme and a general social security system. The second tier is a common system: a state administration scheme.

Changes 2006

In the november 2004 report, in the 18.3.2. paragraph Second Tier (State administration scheme), it is included an explanation over the recent approval and implementation of a Special Pension Plan aimed to the Public employees of the State Administration. That Plan is totally functioning with a patrimony which is over 200 millions of euros. More than 520.000 state public employees are members of the Plan. Several Autonomous Communities are putting into force similar Plans.

23.2. Retirement age

23.2.1. Normal retirement age

Civil servants

The official retirement age is generally 65 with the exception of university lecturers, judges, police court magistrates and property registrars, whose retirement age is higher. Since 1 January 1997 civil servants have been entitled to stay on in active service until reaching the maximum age of 70. In a situation in which a public sector employee has only served 12 years but not yet 15 by the time he is 65, he will need to continue working until he has served 15 years.

Labour employees of the General state Labour administration

The retirement date for general state administration employees is compulsory at 65.

23.2.2. Early retirement

Passive classes scheme

Within the passive classes scheme and without reduction of benefits the participant can retire at the age of 60, if the participant has completed 30 years of service.

General social security system

The labour employees subject to the single agreement (Convenio Unico) may ask for retirement at the age of 64 without reduction of benefits but a substitution contract will need to be signed with an unemployed person in this connection.

A substitution contract will need to be signed with an unemployed person in this connection.

Any member who commenced employment prior to 1 January 1967 is entitled to early retirement at the age of 60. In this case reductions will apply in respect of any years missing up to the age of 65. This reduction amounts to 8% per year.

23.2.3. Later retirement

As stated before, civil servants may retire until 70 but labour employees have to retire at 65. Within civil servants, those under the passive classes scheme do not have any enhancement in case of later retirement. For civil servants under the general social security system in the event of retire once the age of 65 is passed and with more than 35 years of contributions, the pension is increased accordingly with an additional 2% per year of postponement starting when the civil servant reached the age of 65.

23.3. How the system works

23.3.1. First tier

Passive classes scheme

Within this pension system, the participant's pension is calculated by applying a percentage to the theoretical regulatory income. When the participant takes part in different theoretical income groups, the theoretical income will be equal to the average theoretical income over the years.

Table 12

Group	Theoretical income (Euro/Year)
A	32,795.39
B	25,810.79
C	19,823.14
D	15,683.39
E	13,371.32

The participant obtains a pension after being a member for 15 years.

For each regulating salary it will apply the percentage in agreement with the following scale:

Table 13

Years Service	Regulating percentage	Years Service	Regulating percentage	Years Service	Regulating percentage
1	1.24	13	22.10	25	63.46
2	2.55	14	24.45	26	67.11
3	3.88	15	26.92	27	70.77
4	5.31	16	30.57	28	74.42
5	6.83	17	34.23	29	78.08
6	8.43	18	37.88	30	81.73
7	10.11	19	41.54	31	85.38

Years Service	Regulating percentage	Years Service	Regulating percentage	Years Service	Regulating percentage
8	11.88	20	45.19	32	89.04
9	13.73	21	48.84	33	92.69
10	15.67	22	52.52	34	96.35
11	17.71	23	56.15	35 or more	100
12	19.86	24	59.81		

As regards the increase in the percentages applicable for the setting of the pension from the time at which 15 years of service are accredited (minimum) to 35 years of service (maximum) it is rewarded the continuance in active service of the individual contributing towards the pension. This is why the regulating percentages table is not linear. The regulating percentage that corresponds for each year of service has been progressively increasing from an additional 1.31% -when it went from 1.24% for one year to 2.55% for 2 years- up to an additional 3.65% after 15 years of services. This is the time after which the additional percentage difference is maintained. That is to say, from 15 years of service up to 35 years there is an increase of an additional 3.65% for each year.

General social security system

In order to obtain a pension a member must have contributed for no less than 15 years. Two of them must have occurred within the 15 years prior to reaching his pensionable age. The pension is determined on the basis of the average salary of the last 15 years during which one has made contributions. The first 13 of these annual salaries are indexed in accordance with the Consumer Price Index.

The amount of the retirement pension is obtained by applying a percentage to the calculation basis, the percentage corresponding to the number of contribution years the worker can prove according to a scale ranging from 50% for 15 years of contributions, plus 3% supplement per additional year of contributions between the 16th and 25th year, and 2% supplement per year starting from the 26th year, to 100% for 35 years of contributions.

Workers over 65 years of age with more than 35 years of contributions who continue working are entitled to a 2% increase over the 100% rate for each additional year of contributions.

The minimum benefits are as follows:

Monthly amounts (14 payments per year)

Minimum pension (Pensión mínima):

> 65 years: € 411.76 or € 484.89 with dependant spouse.

< 65 years: € 383.66 or € 453.16 per month with dependant spouse.

In both systems the maximum pension is equal to €29,205.40 per annum (2.004).

23.3.2. Second tier

State administration scheme

At present, a project of a supplementary pension scheme for public employees of the State Administration is being developed. It is a defined contribution system.

The contributions of the promoters imputed to each contributor will have two components: one calculated based on the wage and calculated other based on the number of accrued trienniums.

The global quantity of contributions of the promoters available for these personnel, calculated in agreement with the arranged thing in the Law of General Budgets of the State, will be divided in two parts, corresponding to the wage and other corresponding to the trienniums, in the proportion of 75% and 25% respectively.

The individual contribution component corresponding to the wage will be determined annually applying a percentage on the annual wage of the civil employee, calculated in agreement with its situation to 1 of May of the corresponding year.

The percentage will be determined annually in proportion of total volume of contributions corresponding to the wage, according to the referred thing in previous point, respect to the total mass of wage of civil employees who accrued contributions to date 1 May of every year.

23.4. Contributions

23.4.1. First tier

Passive classes scheme

These pensions are largely funded from the state budget but, in addition to this contribution, the participants also pay premiums equivalent to 3.86% of their theoretical income. This contribution is for the old-age pension, disability pension and the survivor's pension.

Throughout their active life, public officials under this scheme are bound to pay a pensioners' benefit contribution consisting of 3.86% of the regulatory income that corresponds for each annual period to his or her membership Corp. This pensioners benefit contribution has nothing to do with the final cause of a retirement pension, disability pension or, in the case of death, one that is paid to families. This means that it is paid in any event, there is no specific contribution for every type of contingency.

Taking into account that it is a percentage on the theoretical regulatory income (haber regulador), the relationship is always the same, although it is worth pointing out that this theoretical regulatory income it doesn't coincide with the average salary of the government official which, in addition to the base salary, is composed of the length of service and several allowances. The pensioners benefit contribution always involves the same percentage, 3.86%.

General social security system

No data is available about the premiums paid within the general social security system.

23.4.2. Second tier

You are referred to Section 18.3.2.

23.5. Indexation

Indexation takes place every year only in pensions. Since 1997, for all public pensions indexation is calculated according to the according to the Consumer price index established for said year.

If the accumulated consumer price index corresponding to the period running from November of the previous financial year and November of the financial year that the re-assessment refers to is greater than the established index, depending on which the said re-assessment was calculated, there will then be a corresponding updating in accordance with the terms of the respective State General Budgets Act. For these purposes, those pensioners whose pension have been caused due or been re-assessed in the previous financial year are paid the difference in one single payment, prior to the first of April of the subsequent financial year.

The pensions are revalued at the beginning of every year in agreement with the increase coefficients that, for each economic exercise, establish the corresponding Law of State Budgets. Also, annually they will guarantee minimum amounts from pension, which grant when the pension or sum of pensions to perceive, once revalued, is lower to certain established amounts. In these events, is recognized to the benefit holder a pension complement to reach the referred minimum quantity. However, this complement may not be held concurrently with the perception by the pensioner of certain fixed maximum annual income fixed by the Law of State Budgets of each economic exercise.

The referred minimum quantities could change according to the type of benefit and the familiar situation of the pensioner.

23.6. Funding

23.6.1. First tier

Passive classes scheme

The Government Employees Scheme is basically financed from state contributions through the General State Budgets, although the personnel also make a pension contribution calculated in terms of a percentage (currently 3.86%) of the theoretical regulatory income ("haber regulador") corresponding to each public servant classification group (A, B, C, D, E).

General social Security system

This system is funded by the participants, employers and the state budget.

23.6.2. Second tier

In what relates to the State Administration, contributions are financed by the Administration through the Annual Budget Law Still, it is also possible for participants to build up additional pension benefits. In 2004 the contribution made from the state budget amounted to 0.5% of all salaries earned in the country.

23.7. Pension benefits upon termination of employment

23.7.1. Passive classes scheme

There is no actuarial obligation to postpone the benefits prior to retirement.

The Spain public social protection systems are not capitalisation or actuarial systems, in which the workers' contributions, and those of businesses as appropriate, are capitalised and are reserved until the time at which the pension becomes payable, as happens with Pension Plans, Private Insurance or in other social protection systems in the European Union.

The Spanish social protection system is related to other financing mechanisms. Thus:

The Passive Classes Scheme is an eminently budgetary system. In turn, the procedures that makes up the Social Security system relate to the distribution model, or that of "solidarity between generations", in which each generation pays its contributions in order to thus pay the pensions of the preceding generations, in the confidence that they will be treated in the same way by future generations.

It is not possible to transfer the pension benefits to another organisation. Pensions are not indexed in the case of dormant participants.

24. Sweden

24.1. Pension system

Within the Swedish government's pension system there are three tiers: state, corporate and individual pensions. State pensions are prescribed by law and serve as a sound basis. A corporate pension may be viewed as a supplement to the state pension. This system was established through agreements made at the national level. There are three different plans for civil servants, namely: PA 03, PFA 98 and PFA 01. PA 03 is for the national government, and PFA 98 and PFA 01 are for local authorities. In this paragraph we will only describe the pension system for the municipality sector. This sector consists of 850.000 employees. The system for the county council and the governmental sector combined consists of 460.000 employees. At the end of this paragraph there will be given a short insight in the second tier pension scheme for the governmental sector.

24.2. Retirement age

There is no fixed retirement age within the Swedish government pension system, although as of 1 January 2003 the law stipulates that an employee is entitled to continue to work until the employee is 67 years of age. The individual component of the PFA pension for local government staff may already be paid out at the age of 55. In the case of the state and the supplementary pension plans the participant may retire no earlier than when the participant attains the age of 61. In the

event that the employee retires before 65, the participant's additional PFA pension benefits are reduced by 0.4% in respect of every month. Should the participant retire after the participant reaches 65, 0.4% is added to his/her supplementary PFA pension.

24.3. How the system works

24.3.1. Former system

First tier

The former system (ATP) applies to residents born prior to 1938. This system is a defined benefit plan. A pension is calculated as follows:

Single person's pension =

$$((60\% \cdot \text{average yearly points} \cdot \text{price base amount}) + (96\% \cdot \text{price base amount})) \cdot \frac{\text{working life up to 30 years}}{30}$$

Married person's pension =

$$((60\% \cdot \text{average yearly points} \cdot \text{price base amount}) + (78,5\% \cdot \text{price base amount})) \cdot \frac{\text{working life up to 30 years}}{30}$$

Yearly point =

$$\frac{\text{Pensionable salary to a maximum of 7.5 times the income base amount}}{\text{increased price base amount}} - 1$$

The average yearly points are based on the average of the best individual 15 years.

Price base amount:	EUR 4,251.08 (SEK 39,300) in 2004.
Increased price base amount:	EUR 4,337.28 (SEK 40,100) in 2004.
Income base amount:	EUR 4,629.32 (SEK 42,300) in 2004.

The price base amount and increased price base amount vary in line with inflation.

The income base amount keeps pace with variations in pay.

Second tier

No data is available about the second tier of the former pension system. However, what is known is that pension benefits accrued using a defined benefit system.

24.3.2 New system

First tier

In the case of residents born after 1953 the first tier is a defined contribution system. A government pension consists of the following two components: an income-based and a premium-based pension. Within the Swedish system a pensionable salary is subject to a ceiling in the first tier. This ceiling is equal to 7.5 times the increased price base amount. In this case the income base amount is linked to the income index. Of this salary premiums amounting to 18.5% are paid in respect of the entire first tier. Of this, the income-based pension accounts for 16% and the premium-based pension for 2.5%.

Income-based pension

The income-based pension is payable on attaining the age of 61. Upon retirement the annual income-based pension is determined by dividing the total accumulated funds (The return on the accumulated funds are equal to the growth of the average wage rate) by a life expectancy denominator. This is done once only upon retirement and, as such, results in stable pension benefits.

$$\text{life expectancy denominator } (x) = \int_x^{\infty} e^{-\delta \cdot t} {}_t p_x d(t)$$

(Palmer E. and Klevmarken, N.A.)

${}_t p_x$ is the survival formula

A ${}_t P_x$ taken from a unisex mortality table is used to determine the life expectancy denominator along with an δ equal to 1.60%.

This system ensured that later retirement will result in a higher annual pension based on actuarial accrual. Every year the income-based pension is adjusted in line with variations in the income-based amount.

Premium-based pension

The premium-based pension is based on a unit-linked insurance system. This means that pension capital is saved in security funds. In this case a member decides for himself in which funds this capital is to be invested. If a member fails to make a choice as to where he should direct his investments, they will be placed in the national pension fund. As in the case of the income-based pension, premium-based pensions may be paid out from the moment at which the participant attains the age of 61. The amount of the pension will depend on the capital that has been saved and the interest received.

Transitional plans from the former to the new system

The following table provides an overview of the transitional plans from the former to the new system. They apply to participants born between 1938 and 1953. Here the figures listed in table 14 represent the percentage in each plan.

Table 14

Year of Birth	New Plan (Income and Premium)	Former Plan (ATP)
1938	4 / 20	16 / 20
1939	5 / 20	15 / 20
1940	6 / 20	14 / 20
...
1951	17 / 20	3 / 20
1952	18 / 20	2 / 20
1953	19 / 20	1 / 20

Source: Mercer International

Second tier

Supplementary PFA income-based pension

There are various plans in the second tier. In the case of a supplementary PFA income-based pension the participant can accumulate additional premium-based pension benefits in respect of that part in excess of 7.5 increased price base amounts. This may be done on the basis of moderated final pay using the following formulas:

$$\text{Pension points} = (\text{pension level}) \cdot (\text{average yearly points}) \cdot \frac{\text{Working life up to 30 years}}{30}$$

$$\text{Yearly points}_i = \frac{\text{Pensionable income}_i}{\text{increased price base amount}_i}$$

$$\text{Pension}_j = \text{Pension points} \cdot \text{increased price base amount}_j \text{ with } j = \text{time of pension}$$

The average yearly points for state employees are calculated by taking the average of the last five yearly points prior to their retirement date. The average yearly points for local and provincial

government staff may be calculated by taking the average of their best five yearly points within the seven years up to two years prior to their retirement date.

Pension level:

Table 15

Average Points	Yearly Pension Level (Counties / Municipalities)	Pension Level (State)
0 – 7.5	0%	0%
7.5 – 20	62.5%	60%
20 – 30	31.25%	30%
30 +	0%	0%

Source: Mercer International

Supplementary individual premium-based pension

Based on a collective agreement entered into by government corporations and their participants, supplementary individual premium-based pension benefits accrue through a defined contribution system. For the purposes of the defined contribution component of the pension, premiums amounting to 3.5% and 4.5% of the salary are paid up until 7.5 income base amounts of the salary, while the corresponding figures for the amount in excess of this are 1% and 2.1%.

At the end of every year the participant is required to decide with which insurance company the participant wishes to save and to what extent. In this respect the participant has a choice between a traditional pension-based insurance policy and a unit-linked insurance. In addition, the participant can also arrange additional cover for certain risks. When the participant retires, the individually accumulated pension capital is divided by a life expectancy denominator, so as to determine his / her pensionable income.

24.3.3. General

Guaranteed pension

A guaranteed pension is paid out, if a member has not accrued any pension benefits or only a relatively small amount. In the case of a single person this guaranteed pension is equal to 2.13 price base amounts. If the participant is married, it is equal to 1.90 price base amounts.

24.4. Contributions

24.4.1. Former system

Overall, premiums amount to 18.5% of participant's salary.

24.4.2. New system

In the first tier the total premiums amount to 18.5% of the salary. Of this, the income-based pension accounts for 16% and the premium-based pension for 2.5%. No contribution is paid for a supplementary PFA income-based pension in the second tier. In the case of a supplementary individual premium-based pension contributions are paid which are equivalent to 3.5% to 4.5% of up to 7.5 income base amounts of the salary, while the corresponding figures in excess of this amount are 1% to 2%.

24.5. Indexation of benefits

ATP, income-based and guaranteed pensions

Indexation keeps pace with any increase in the income base amount.

Supplementary PFA income-based pension

Indexation keeps pace with any increase in the price base amount.

Individual PFA premium-based pensions

The indexation of individual premium-based pensions depends on the relevant insurance company.

24.6. Funding

The first tier is mainly funded on the basis of a pay-as-you-go system. Only the premium-based pensions are paid for on the basis of capital funding. The opposite situation applies in the second tier. The bulk, comprising supplementary personal pensions, is funded by means of a capital funding system. In the second tier the supplementary PFA income-based pension is funded with the aid of a pay-as-you-go system.

24.7. Pension benefits upon termination of employment

Upon the termination of employment no minimum period of service applies for the retention of the accrued pension benefits. It is not possible to transfer pension benefits to another organisation. Pension benefits continue to be indexed.

24.8. Second tier pension scheme in the governmental sector

In the second tier the employer pays a contribution corresponding to 4.3% of the employee's salary up to 30 income base amounts = 141,000 EUR (1 income base amount = 4,700 EUR).

The employee has right to have a supplementary pension for salary between 7.5 and 30 income base amounts (35,250 EUR – 141,000 EUR). The pension level is 60% of the salary between 7.5 and 20 income base amount and 30% of the salary between 20 and 30 income base amounts. The service time must be 30 years to have a full pension.

The pension age is 65 years and the employer pays the contributions from day the employee is 23 years old until the employee is 65 years old.

25. United Kingdom

25.1. Pension system

The United Kingdom has a three-tier system. The country has a basic State Pension (BSP) in the first tier. This BSP is a benefit consisting of a fixed sum. In addition to the BSP a person can build up extra pension through the additional State Pension (ASP), or a pension scheme run by his employer, or a personal pension scheme.

25.2. Retirement age

25.2.1. General

The State Pension is payable currently from age 60 in the case of women and 65 for men. The age from which women can get their State Pension is set to rise to 65 in the period from 2010 to 2020. Where a person does not claim their State Pension immediately they can get an increase in the amount of State Pension once they do claim it (or, from April 2006, a lump sum – this is still subject to Parliamentary approval.)

The normal retirement age in the Civil Service and other public service pension schemes is currently 60 for both men and women, although it is proposed to increase this to 65. Members can apply to take their pension at any time after age 50. Early retirement results in the reduction of the pension in accordance with actuarial principles. In certain circumstances members aged at least 55 with a minimum of 25 years' qualifying service may be offered 'approved early retirement'. In this case they receive their pension early but without the reduction.

25.2.2. Second tier

In the Second tier Civil Service pension early retirement is possible from age 50-59 at employers' discretion. Early retirement pensions in payment are indexed from age 55.

25.3. How the system works

25.3.1. First tier

The first tier in the United Kingdom consists of the BSP. A person can only obtain this if he paid flat rate National Insurance contributions (NICs) for at least 50 weeks prior to 6 April 1975 or if he has paid or been treated as having paid³ sufficient NICs in any single tax year after that date. In addition, the person must have paid, been treated as having paid or been credited with NICs⁴ for at least 90% of the time from the age of 16 until they reach State Pension age in order to obtain a full pension. The full amount which the person can obtain is EUR 112.84 (GBP 79.60) per week. A married woman can get a BSP of 60% of her husband's, if her entitlement based on her own contributions is less than this (this will be extended to married men whose wives reach State Pension age on or after 6 April 2010).

Those who are older than 80 and who fail to satisfy the requirements are entitled to a pension amounting to EUR 67.54 (GBP 47.65) per week, subject to certain residence conditions being met.

Over and above the pension the person obtains in this manner, an additional pension benefit of EUR 14.18 (GBP 10.00) is paid at Christmas. Any household which includes a person aged 60 or over receives a Winter Fuel Payment of EUR 283.50 (GBP 200.00). From 2003/04 any household which includes a person aged 80 or over receives an additional Winter Fuel Payment of EUR 141.75 (GBP 100.00).

Where a member does not qualify for a full BSP he can get a reduced one but only if he is entitled to a reduced BSP of at least 25% of the full rate. Table 16 lists the percentage which can be used to calculate the BSP based on the number of years in which they have paid, or been credited with, the necessary number of NICs. It should be noted that the number of years needed to get a full BSP can be reduced if a person is unable to work because he is caring for children under the age of 16 and / or a sick or disabled person.

Table 16 Determining the Percentage of the Basic Pension one will receive

Number of Qualifying Years	Number of Years in working life					
	44	45	46	47	48	49
7	0	0	0	0	0	0
8	0	0	0	0	0	0
9	0	0	0	0	0	0
10	26	25	25	0	0	0
11	29	28	27	27	26	25
12	31	30	30	29	28	28
13	34	33	32	31	31	30
14	36	35	35	34	33	32
15	39	38	37	36	35	35
16	42	40	40	39	38	37
17	44	43	42	41	40	39
18	47	45	44	43	42	41
19	49	48	47	46	45	44
20	52	50	49	48	47	46
21	54	53	52	50	49	48
22	57	55	54	53	52	50
23	59	58	57	55	54	53
24	62	60	59	58	56	55
25	65	63	61	60	59	57
26	67	65	64	62	61	60
27	70	68	66	65	63	62
28	72	70	69	67	66	64

³ NICs are treated as having been paid if an employee earns between EUR 111.99 (GBP 79) and EUR 129 (GBP 91) a week

⁴ Credits can be awarded to people who are registered as unemployed and seeking work, or who are unable to work because of illness or caring responsibilities, for example.

Number of Qualifying Years	Number of Years in working life					
	44	45	46	47	48	49
29	75	73	71	70	68	66
30	77	75	74	72	70	69
31	80	78	76	74	73	71
32	83	80	79	77	75	73
33	85	83	81	79	77	75
34	88	85	83	81	80	78
35	90	88	86	84	82	80
36	93	90	88	86	84	82
37	95	93	91	89	87	85
38	98	95	93	91	89	87
39	100	98	96	93	91	89
40	100	100	98	96	94	91
41	100	100	100	98	96	94
42	100	100	100	100	98	96
43	100	100	100	100	100	98
44 or more	100	100	100	100	100	100

Source: A Guide to State Pensions

25.3.2. Second tier

General

It is possible to relinquish the accrual of ASP by “contracting out”. This is a system of opting-out of ASP provision if alternative private provision which meets specified requirements is made. The main types of private provision are occupational and personal pension schemes. If an individual contracts out the employer and individual (or just the individual in the case of personal pensions) make payments to the private pension. As a result the individual either pays reduced NICs (known as a rebate) if he is in an occupational scheme or the Government pays the rebate into his personal pension scheme. The amount of rebate is set at a level so that the private pensions received are broadly equivalent to those the individual would have got had they remained in the ASP.

Civil Service Occupational Pension Schemes

Pension benefits accrue in various ways in public sector pension schemes. In the case of membership of the Civil Service pension scheme prior to 1 October 2002 a pension is built up in the ‘classic’ scheme. Within this system the participant receives a pension which is equal to 1.25% of their final pensionable pay for each year of reckonable service.

Reckonable service is limited to 40 years at age 60, but members can earn extra years after normal retirement age up to a maximum of 45 years in total at 5 years after pensionable age.

$$\text{Pension} = \frac{\text{Pensionable pay} \cdot \text{years of service}}{80}$$

In addition, a tax-free lump sum is paid on the retirement date, the accrual rate for this lump sum is 3.75%.

In the case of members joining the Civil Service pension scheme after 1 October 2002, pensions are built up in the ‘premium’ scheme. Within this system the participant receives a pension equal to 1.67% of their final pensionable pay for each year of reckonable service, subject to a maximum of 40 years of accrual.

$$\text{Pension} = \frac{\text{Pensionable pay} \cdot \text{years of service}}{60}$$

The participant can also choose to exchange some pension for a lump sum. For every reduction of the pension by EUR 1.42 (GBP 1.00), the participant receives a lump sum of EUR 17.01 (GBP 12.00).

In the case of those who were already participants of a pension plan before 1 October 2002, it is possible to transfer to the 'premium' scheme or to add benefits from both systems. This involves a number of minor adjustments of the pension component of the 'classic' pension. In addition, it is possible for the participant to purchase additional years of service within the Civil Service pension schemes. What these additional years of service cost depend on the person's age.

From April 2002 civil servants may also be entitled to a second tier pension from the State as well as their Civil Service Occupational Pension. For 2004/05 they will get some State Second Pension if their annual earnings are between EUR 5823.19 (GBP 4108) and EUR 37706.16 (GBP 26600). The amount reduces as earnings approach the higher limit.

Additional State Pension

From April 1978 the ASP was known as the State Earnings Related Pension Scheme (SERPS). This was based on earnings on which NICs were paid. It was available only to those working for an employer – the self-employed were not covered.

SERPS was reformed in April 2002. The reformed scheme is known as the State Second Pension (S2P). It gives more help to those on low and moderate earnings. It also extends access to the ASP to certain carers and people who are long-term sick or disabled.

The bands are:

Band 1 –	Earnings on which NICs have been paid ranging between EUR 5,823.19 (GBP 4,108) and EUR 16,443.29 (GBP 11,600) per annum (2004 - 2005).
Band 2 –	Earnings on which NICs have been paid ranging between EUR 16,444.71 (GBP 11,601) and EUR 37,706.16 (GBP 26,600) per annum (2004 - 2005).
Band 3 –	Earnings on which NICs have been paid ranging between 37,707.58 (GBP 26,601) and EUR 44,963.89 (GBP 31,720) per annum (2004 - 2005).

No accrual occurs in the case of earnings amounting to less than EUR 5,823.19 (GBP 4,108) or exceeding EUR 44,963.89 (GBP 31,720) per annum.

Someone with yearly earnings ranging between EUR 5,823.19 (GBP 4,108) and EUR 16,443.29 (GBP 11,600) is treated for the purposes of S2P as having earnings of EUR 16,443.29 (GBP 11,600). Also, certain carers and long-term sick or disabled people who either do not work at all or have yearly earnings not in excess of EUR 5,823.19 (GBP 4,108), are assumed to have an income of EUR 16,444.71 (GBP 11,601).

The accrual rates that apply to these earnings bands depend on the tax year in which State Pension age is reached. They are listed in the table below.

Table 17 Percentages of the Various Bands

Year	Band 1	Band 2	Band 3
2003-2004	46.00	11.50	23.00
2004-2005	45.00	11.25	22.50
2005-2006	44.00	11.00	22.00
2006-2007	43.00	10.75	21.50
2007-2008	42.00	10.5	21.00
2008-2009	41.00	10.25	20.50

Year	Band 1	Band 2	Band 3
2009-2010 later	and 40.00	10.00	20.00

25.4. Contributions

Employees who have not contracted out of the ASP, or have contracted out into a personal pension scheme, pay NICs of 11% of yearly earnings between EUR 6,726.16 (GBP 4,745) and EUR 44,963.89 (GBP 31,720), and of 1% on yearly earnings above EUR 44,963.89 (GBP 31,720). Employers pay NICs of 12.8% on all yearly earnings of the employee above EUR 6,726.16 (GBP 4,745). (2004/05 figures).

Where an employee has contracted-out of the ASP into an occupational pension scheme they pay NICs of 9.4% of yearly earnings between EUR 6,726.16 (GBP 4,745) and EUR 44,963.89 (GBP 31,720), and of 1% on yearly earnings above EUR 44,963.89 (GBP 31,720). Employers pay NICs of 11.8% on all yearly earnings of the employee between GBP 4,745 and GBP 31,720 and 12.8% on earnings above EUR 44,963.89 (GBP 31,720) (2004/05 figures).

Where a person contracts-out into a personal pension scheme or a 'money-purchase' occupational pension scheme then the Government pays an additional amount into the scheme each year based on the age of the employee.

The self-employed pay a flat-rate NIC of EUR 2.91 (GBP 2.05) a week (unless they are exempted from paying on grounds of low earnings), plus NICs of 8% of yearly profits between EUR 6,726.16 (GBP 4,745) and EUR 44,963.89 (GBP 31,720), and 1% on yearly earnings above EUR 44,963.89 (GBP 31,720).

NICs fund all contributory benefits – State Pension, Incapacity Benefit, bereavement benefits and contributory Jobseekers' Allowance. They also help fund the National Health Service. There is no distinct contribution for the State Pension. However, latest figures show that around 80% of all expenditure on contributory benefits from the National Insurance Fund is on the State Pension.

Changes 2006

Employer contributions to Civil Service pension scheme increased from April 2005 from 13.3% of pay on average to 18.5% (further increased to 19.4% on average from April 2006).

25.5. Indexation

The legal requirement is to up rate State Pension each year in line with the increase in the Retail price Index, as a minimum.

25.6. Funding

The State Pension is funded out of the National Insurance Fund (NIF). Essentially, the NIF is self-financing, with the NICs paid by those in work funding the benefits paid to those who have retired, who are in ill health and so on. It is a so-called "pay as you go" fund.

25.7. Pension benefits upon termination of employment

25.7.1. First tier

Entitlement to the State Pension cannot start until a person has reached State Pension age and made a claim. At that point that person's NICs record over their working life will determine how much State Pension will be paid.

25.7.2. Second tier

Upon termination of employment a minimum period of service of two years applies for the retention of the accrued pension benefits. If an employee leaves and he / she requests that the accrued benefits in the Second tier Civil Service pension are transferred to a private sector employer's pension scheme, the future benefits will be subject to the rules of the new scheme. However, all private sector pensions schemes have some form of indexation. The leaving employee

may also choose to freeze (defer) his / her Second tier Civil Service accrued benefits – thus not transfer - and claim their pension (currently from age 60). Deferred Civil Service pension benefits are indexed annually up to pension age.

26. BULGARIA

26.1. Pension system

In the Bulgarian state administration there are two groups of employees. The first one includes the civil servants hired upon the rules of the Civil Servant Act and the second group – those working upon the rules of the Labour Code. There is no specific pension system for the civil servants in Bulgaria. They receive their pensions as a part of the common pension scheme. The only exception is that during their employment in the administration the civil servants' the social insurance contributions are entirely paid from the state budget.

Until 1999 the Bulgarian pension system was entirely based on the principle pay-as-you-go. This system was centrally financed by the state budget and the amount of the pension fund depended on the working at the moment population. The need of reform in the pension system appeared yet in the yearly 90s. The main goal was to expand and transfer it from a single pillar pay-as-you-go system to a three pillar (tiers) pension system.

The whole process of the pension reform passed as follows:

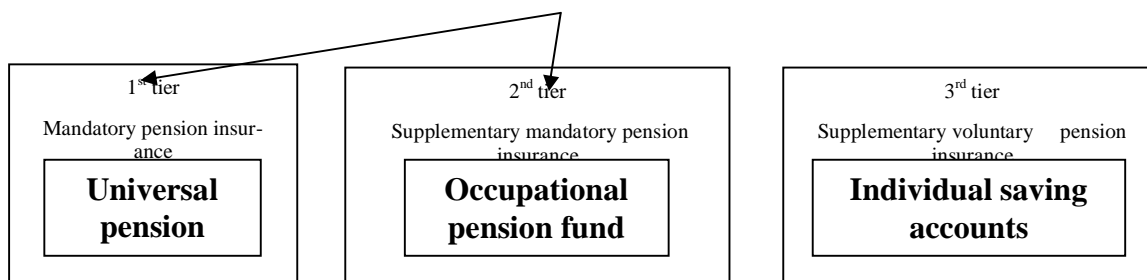
1999 – the primary legislation framework was carried on, the second and the third tier were established;

2000 – the first state regulating and supervising authority was stated, companies for managing pension funds were licensed;

2001 – 2002 – the mandatory pension security started;

2003 – the pension legislation was systematized in one normative act the Social Insurance Code, Financial Supervision Commission was established to supervise the financial out of bank sector (without banks) in Bulgaria.

The legislative base of the three tiers pension system was finalized and started functioning in 2003.



The reformed pension system increased gradually the retirement age and set the point system. In the old system the retirement age was 60 for men and 55 for women. With the new system the retirement age for men is 63 and they need 100 points, for women it will reach 60 in 2009 and 94 points. See below table showing the gradual increase of retirement age.

RIGHT FOR OLD AGE AND LENGTH OF SERVICE PENSION						
YEAR	WOMEN			MEN		
	Age	Points (age + length of service)	Length of service (at min. age)	Age	Points (age + length of service)	Length of service (at min. age)
2000	55 y. 6 m.	88	32 y. 6 m.	60 y. 6 m.	98	37 y. 6 m.
2001	56 y.	89	33 y.	61 y.	99	38 y.
2002	56 y. 6 m.	90	33 y. 6 m.	61 y. 6 m.	100	38 y. 6 m.
2003	57 y.	90	33 y.	62 y.	100	38 y.
2004	57 y. 6 m.	90	32 y. 6 m.	62 y. 6 m.	100	37 y. 6 m.
2005	58 y.	91	33 y.	63 y.	100	37 y.
2006	58 y. 6 m.	92	33 y. 6 m.	63 y.	100	37 y.
2007	59 y.	93	34 y.	63 y.	100	37 y.
2008	59 y. 6 m.	94	34 y. 6 m.	63 y.	100	37 y.
2009	60 y.	94	34 y.	63 y.	100	37 y.
from 2010	60 y.	94	34 y.	63 y.	100	37 y.

y. = years

m. = months

Early retirement is possible for members of the armed forces, officers and sergeants of the Ministry of the Interior, the National Security Service and others. This separation is required due to the specificity of these categories of persons who are not employed under labour relations but for special "services".

26.2. How the system works

1st tier – mandatory pension insurance

Based on the principle of financing pay-as-you-go and ruled by the National Social Security Institute (NSSI). This part of the system covers the whole active population and the right for pension is equal for all. The contributions are paid and the pensions are received from Pensions Fund of the State Public Insurance.

Social insurance contribution: the proportion between the employer and the employee slightly changes from year to year with the aim to reach 50:50 in 2009, in 2006 it is 65:35. For the civil servants the whole contribution is paid from the state budget.

Social insurance payment: there is a minimum and maximum (ceiling) insured income on which individuals make contributions. For 2006 they are 220 BGN and 1 400 BGN (for 2005 – 220BGN and 1300 BGN). The ceiling on the insured income amounts to ten times the minimum wage established for the country. When the income exceeds this ceiling the contribution is paid on the income up to this ceiling.

Types of pensions: old age and length of service pension, disability pension, survivor pension.

2nd tier – supplementary mandatory pension insurance

The main objective is to provide income through additional pension and to make possible the early retirement of people working in difficult circumstances (labour categories I and II).

The NSSI plays a key role here as it collects the insurance payments and transfers them to the pension funds of the 2nd tier.

This part of the pension system functions regarding two principles: defining pension contribution accrued in personal account and affording a pension to every participant according to the accrued amount of his/her pension payments and returned investments from these funds.

There are two kinds of funds in the supplementary mandatory pension insurance:

Universal pension fund: it is obligatory for all working people who were born after 1 January 1960. The participation in these funds started from 1 January 2002. The pension share paid by the employer and the employee has the same proportion as in the 1st tier (for the civil servants paid entirely from the state budget) and the amount is determined in the Social Insurance Code (for 2006 it is 4% from the insured income). The participation in universal pension fund gives an additional pension for old age received separately and independently from the pension from the State Public Insurance.

Occupational pension fund: it is obligatory for all workers under the conditions of labour categories I and II.

3rd tier – supplementary voluntary pension insurance

The main objective is to create conditions for receiving additional pension through voluntary participation of employers and employees in saving-investment schemes for additional pension insurance. Every person at the age of 18 can participate in voluntary pension fund.

This kind of social insurance is personal and based on defined insurance contribution accrued together with the returned investments in pension account. The amount of every pension depends on the accrued pension capital in the pension account.

Here you can get a life pension, pension for determined period of time, disability pension and survivor pension.

In the present there are only eight pension companies functioning in Bulgaria and three of them hold 75% of the market.

26.3. Contributions

The contributions for the civil servants are paid entirely from the state budget.

26.4. Indexation of benefits

According to article 100 from the Social Insurance Code the pensions granted till 31st of December of the previous year will be annually updated from 1st of June by resolution of the Supervisory Board of the National Social Security Institute. The indexation will be done depending on the growth of the insured income for the country and the consumer price index during the previous calendar year.

According to article 102 from the Social Insurance Code the persons who have been granted an old age and length of service pension, general sickness disability pension or work injury or occupational sickness disability pension, may request recalculation of the pension for length of service and insured income acquired after retirement if this is more profitable for them. The pension recalculation by virtue of art. 102 can be done only once during the calendar year by pensioner's request.

The average pension was 92 BGN in 2001 and 133 BGN in 2005 (1 EURO = 1.95583 BGN).

26.5. Funding

The 1st tier is elaborated by bringing benefits in consistency with the contribution of the insured persons. Pillar I is a basic pension fund for all participants with equal contribution rate. The pensions are funded from the resources for all other insurance risks.

In the 2nd tier – for all individuals born after 1960, since 1 January 2004, percentage points of their total insurance contribution are redirected to a universal pension fund established on a fully funded principle with individual accounts for each person.

The 3rd tier is also fully funded on defined insurance contribution accrued together with the returned investments in pension account.

26.6. Pension benefits upon termination of employment

The civil servants cannot retire earlier unless those from the armed forces, officers and sergeants of the Ministry of the Interior, the National Security Service and others, and unless termination is due to inability and the employee is granted a disability pension. Once the employees have reached the required age and points they can get a compensation for their service.

27. Romania

27.1. Pension system

The evolution from the recent years of Romanian public pensions system revealed the need of its systemic reform which will result in the establishment of a complex pensions system based on several components:

- a mandatory, re-distributive, publicly managed component (1st pillar) – the legal framework of which is Law no.19/2000 on public system of pensions and other social insurance rights, with its subsequent adjustments and completions, in force since April 1st 2001;
- a mandatory, funded, privately managed component (2nd pillar) the general framework of organization and functioning of which will be regulated by the Law on privately managed pension funds (the draft of law is currently subjected to analyses by the involved institutions);
- a voluntary, funded, privately managed component (3rd pillar) – the juridical framework of which will be regulated by Law no.204 on voluntary pensions funds (the draft of law was adopted on April 26th c.y. and published in the Official Journal of Romania no.470 on May 31st 2006).

27.2. Retirement age

In accordance with art.41 of Law no.19/2000 on the public system of pensions and other social insurance rights, with its subsequent adjustments and completions, in force since April 1st 2001, the old-age pension is granted to those insured who meet cumulatively, on retirement date, the legal conditions regarding both the standard retirement age (60 years for women, 65 years for men) and the minimum contributory period to the public pension system (15 years for both women and men).

The full contributory period is of 30 years for women and 35 years for men. The minimum/full contributory period shall be reached within 13 years from the enforcement of the above mentioned law. The standard retirement age will be reached within 13 years of the above mentioned piece of legislation coming in force, by rising the retirement ages, starting from 57 years for women and 62 years for men. For the current year, the standard retirement ages vary between 57 years and 9 months and 57 years and 11 months. The minimum contributory period lies between 10 years and 9 months and 10 years and 11 months. The full contributory period rises from 25 years and 9 months and 25 years and 11 months.

According to art.49 and 50 of Law no.19/2000, the insured who exceeded the full contributory period, may claim for early retirement pension, respectively partial early retirement pension, with maximum 5 years before the standard retirement ages, the category of pension being established in accordance with the length of contributory period accomplished beyond the full contributory period.

The standard retirement ages may also be reduced for the insured who accomplished the full contributory period and who carried out their career, either fully or partially, in difficult work conditions, as well as for those who accomplished contributory periods both in difficult and peculiar work conditions, who benefit, cumulatively, of reduced standard retirement ages, according to each situation, but this decrease cannot exceed 12 years. The insured who accomplished contributory periods in normal work conditions, as well as in the conditions stipulated by special laws or, according to circumstances, in conditions of imprisonment, deportation and/or imprisonment abroad after the date of August 23rd 1944, benefit of a decrease of standard retirement age up to 50 years for women, respectively up to 55 years for men.

Moreover, the women who accomplished the full contributory period and gave birth to at least 3 kids and raised them up to the age of 10 years benefit of a decrease of standard retirement, reduction which cannot be cumulated with another decrease stipulated by Law no.19/2000. The legally decreased retirement age cannot be lower than 55 years.

As a part of Romanian public pension system reform, the following measures will be adopted: the gradual increase of standard retirement ages related with the increase of required contributory periods and the reduction of number of work places qualified as work places with difficult and/or peculiar work conditions, thus creating premises for diminishing the issues regarding the dependency ratio, as well as the review of eligibility criteria for early retirement pensions, as well as the tightening of eligibility terms for disability pensions, for the aim of discouraging the early and disability retirements in favour of old-age retirements.

As concerns the old-age pension beneficiaries who intend to continue their professional activity, the current legislation on social insurances stipulates that they are entitled to cumulate the pension revenues with the professional earnings, regardless the amount of these earnings. According to the same piece of legislation, the old-age pension beneficiaries may claim for pension's re-calculation after each contributory period of minimum 12 months, thus stimulating the maintenance of elderly on the employment market. In the same respect, the law offers to insured who contribute for a certain period to the public pension system after meeting the old-age retirement eligibility terms, the opportunity to benefit of a number of pension points accomplished in the concerned period greater with 0,3% for each month, respectively with 3,6% for each additional year.

27.3. How the system works

The amount of pension is calculated by multiplying the average annual number of pension points accomplished by the insured person with the value of a pension point.

The average annual number of pension points accomplished in the insurance period by the insured persons is calculated by dividing the number of pension points resulted from the totalization of annual number of pension points accomplished by the insured during the contributory period to the number of years accounting for the full contributory period/or the number of years stipulated by law for some cases.

The annual number of pension points scored by an insured person is calculated by dividing to 12 the number of pension points resulted for the concerned year by summing up the number of pension points scored per each month. The number of pension points scored per each month is calculated as ratio between the individual monthly gross wage, including additional payments and increments or, according to circumstances, the monthly insurable income accounting as calculation base of individual social insurance contribution, and the average monthly gross wage earned in the concerned month.

The pension's rise was basically accomplished by:

1. the rise by 10%, since September 2005, of farmers' pensions, which is equivalent with a monthly budgetary effort of 12,3 millions RON, covered from the state budget;
2. on the basis of Law no.352 on July 15th 2004 completing Law no.19/2000 on the public system of pensions and other social insurance rights, since January 1st 2005 the pensions established on the basis of the professional activities carried out in agriculture have been externalized;

This measure aims to ensure the sustainability of public pensions system and the use of related budget for paying the pension benefits.

In the same respect, since January 1st 2006 have been externalized from the state social insurances budget, the benefits non-related directly with pensions. Thus, by the enforcement of Emergency Government Ordinance no.148/2005 upon supporting families for child rising, the amounts allocated for paying the child raise indemnities were stipulated by the Law of state budget for year 2006.

By the enforcement of Emergency Government Ordinance no.158/2005 upon the health social insurances leaves and indemnities, the amounts allocated for medical leaves' payment, shall be covered from the National Unique Fund of health social insurances.

3. the re-calculation of all pensions established in accordance with the legislation previous to Law no.19/2000.

The purpose of this action is to ensure the equal treatment, the maintenance of acquired rights and the uniqueness of legislation applicable, for the pensions paid within the public pension, regardless of the legislation in force on the date of first establishment of pension benefits by applying the same pension calculation formula, as well as the elimination of inequities from the public pensions system. The pensions' recalculation process was carried out in 2005 and was completed on December 31st 2005.

Within this process a number of 3,557,474 pensions were re-calculated, the re-calculated benefits being paid in four phases (March, July, September and December 2005). The costs related to pensions' re-calculation during year 2005 amounted at 336,20 millions RON and the effects of this process upon the expenses made for pensions' payment are estimated to amount at 1253,51 millions RON.

As a consequence of pensions' re-calculation process, a number of 1,614,405 pensioners (45,38%) obtained a greater number of pension points than the one in payment and consequently benefited of supplementary amounts in year 2005. The average pension of these category of beneficiaries amounted at 330 RON and the recorded increase was of 21,3% compared with that recorded before recalculation, .i.e. 272 RON.

The protection of purchasing power of pensions is accomplished by the indexation of value of pension point by the index of increase of consumption prices so as to cover in 100% the inflation rate.

27.4. Contributions

The individual social insurance contribution is owed by the insured stipulated under art.5 points. I and II (persons who carry out activities based on individual labor agreement and civil servants, as well as the persons working in elective positions or appointed within the executive, legislative or judicial authority, on the duration of their mandate, as well as the members of handicraft cooperatives whose rights and obligations are assimilated with those of persons stipulated under point I) of Law no.19/2000 and is established by the law on state social insurance budget. The social insurance individual contribution rate amounts at 9,5%, regardless of the work conditions and has not been modified since 2004 up to present date.

The social insurance contributions owed by employers represent the difference between the amounts of social insurance contributions established in a differentiated manner, in accordance with the work conditions, by the annual law of state social insurance budget, and the amount of individual social insurance contribution.

The insured stipulated under art.5 par.I point IV (persons whose gross incomes per calendar year are equivalent with at least 3 average gross wages and find themselves in one of the following situations: unique partner, associates, sleeping partners or shareholders, administrators or managers who concluded administration or management agreements, members of family partnerships, persons authorized to carry out activities as self-employed, employees of international entities if they are not covered by these, other persons earning professional incomes) and V (the persons who cumulate gross incomes per calendar year equivalent with at least 3 average gross wages and who find themselves in two or several of the situations formerly mentioned) and par.2 (persons who can insure themselves in the public system on the basis of a social insurance agreement) owe the full social insurance contribution quota according to the work conditions wherein they carry out their professional activities.

The contribution quota of insured covered by social insurance agreements or insurance declarations, as stipulated by Law no.19/2000 amounts at 29,25%.

The state social insurance contributions for year 2005 amount at:

for normal work conditions : 31,5%

for difficult work conditions: 36,5%

for peculiar work conditions: 41,5%

As formerly mentioned, the quota owed by employers is established as follows:

for normal work conditions: $31,5\% - 9,5\% = 22\%$

for difficult work conditions: $36,5\% - 9,5\% = 27\%$

for peculiar work conditions: $41,5\% - 9,5\% = 32\%$

The social insurance contribution quotas established for year 2006 are:

for normal work conditions: 30%

for difficult work conditions: 35%

for peculiar work conditions: 40%

The contribution owed by employer amounts at:

for normal work conditions: $30\% - 9,5\% - 0,75\% = 19,75\%$

for difficult work conditions: $35\% - 9,5\% - 0,75\% = 24,75\%$

for peculiar conditions: $40\% - 9,5\% - 0,75\% = 29,75\%$

The social insurance contribution quotas established by the law on state social insurance budget for year 2006 are cut by 0,75 p.p., the resulting amounts being transferred towards the Budget of the Unique National Health Insurance Fund.

27.5. Indexation of benefits

The regulations in force until 2005 stipulated the gradual coverage of foreseen increase of consumption prices' index by the application, in the last month of each quarter, of an indexation equal with the product of all consumption prices indices foreseen for each month of the concerned quarter.

Taken into account the substantial increase of inflation rate from recent years, since 2005, the foreseen consumption prices index is accomplished once per year, at the beginning of each year. According to provisions of art.80 of Law no.19/2000 on the public system of pensions and other social insurance rights, with its subsequent amendments and completions, the value of a pension point is established on an annual basis by the law on state social insurance budget.

For year 2005, the value of a pension point was established at 2,955,592 RON since January 1st 2005, while for year 2006 the value of a pension point amounted at 323.1 RON, applicable since January 1st 2006. Since one of the basic goals of the Government Programme is the improvement of purchasing power of pension incomes, so as up to 2008 the pension benefits to increase in real terms by 30% as a result of the increase of pension point's value by 3% in 2005 and 9,3% in 2006, and taken into account that the "difference" until the "target" established by the Government Programme must be covered by a rigorous phasing so that the pensioners to benefit in real terms of the advantages of economic development, a new increase of pension point's value was needed in 2006. Thus, an increase of a pension point's value since September 2006 is assessed as necessary and sustainable, measure which requires the rectification of state social insurance budget. Consequently, according to Emergency Government Ordinance upon amending art.80 par.(1) and (2) of Law no.19/2000 on the public system of pensions and other social insurance rights, in relation to the evolution of macro-economic indicators and the financial resources, the value of a pension point can be rised by the laws upon rectifying the state social insurance budget.

27.6. Funding

The public pensions system is fully supported from the state social insurance budget and is based on the "pay-as-you-go" principle. The state social insurance budget incomes are made up of social insurance contributions, interests, penalties for delayed payment of contributions, as well as other incomes, according to law provisions.

The expenses of state social insurance budget cover the value of social insurance benefits paid from the public system, the expenses for the organization and functioning of public system, for financing its own investments, other expenses stipulated by law.

For the aim of ensuring the financial sustainability of public pension system, the following benefits have been externalized from the state social insurance budget:

- on the basis of Law no.352 on July 15th 2004 for completing Law no.19/2000 on the public system of pensions and other social insurance rights, since January 1st 2005, have been externalized the benefits established on the basis of periods of service carried out in farming sector, these benefits being paid from the state budget;
- at the same time, since January 1st 2006, have been externalized from the social insurance budget the benefits non-related directly with pensions. Thus, by coming in force of Emergency

Government Ordinance no.148/2005 on supporting families in child raise, the amounts allocated for the payment of related indemnities were stipulated by the Law on state budget for year 2006. By the coming in force of Emergency Government Ordinance no.158/2005 on the health social insurance indemnities and leaves, the amounts allocated for medical leaves' payment will be covered from the Budget of Unique National Health Social Insurance Fund.

A basic goal of Government is the improvement of living standards of elderly, the increase of quality of living for future pensioners by the diversification of their incomes, as well as the insurance of public pension system sustainability. In this respect, the implementation within the pension system of some new components, voluntary and mandatory, privately managed is a measure aimed at the accomplishment of Government's basic objective. Thus, on April 26th 2006, the Draft Law on voluntary pensions (Law no.204) was adopted, being published in the Official Journal of Romania no.470 on May 31st 2006).

27.7. Pension benefits upon termination of employment

The civil servants represent one of the categories of insured covered by the public pension system, no separate system for them being regulated. The public pensions system does not cover: the public officers with special regime: military and police staff; lawyers. These categories benefit of their own systems of social insurances.