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**PUBLIC SECTOR PENSIONS AND THE CHALLENGE OF AN AGEING PUBLIC SERVICE**

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## SUMMARY

There are three potential drivers of pension reform within the public sector. First and most self-evidently, *fiscal concerns* lie at the heart of the reforms in a number of countries, particularly in the context of ageing populations and ageing public sector workforces. OECD countries on average spend nearly 2% of GDP on public service pensions, although there is substantial variation around the mean (due largely to the differing relative size of the public sector in each economy). Irrespective of the types of measures adopted by national governments, in the face of ageing populations, cutting pension scheme costs remains one of the primary motivations for reform.

Public sector pension schemes are also being reformed to achieve *comparability with the private sector*. Public sector employers were the first to afford their staff a certain form of security by granting them a pension intended to provide them with social protection when they were no longer able to work. That approach was justified historically on the grounds of the distinctive nature of public employment. The result is that in many countries the social welfare protection afforded to civil servants and full-time public sector employees is generally considered to be more advantageous than that enjoyed by the general population.

Third, and in principle at least, reforms could be designed to assist in the task of *attracting and retaining capacity* within the public service as large numbers of experienced public servants retire.

This report does not address the fiscal or actuarial implications of recent pension reforms. In examining the degree to which reforms have addressed the other challenges, it concludes in relation to achieving comparability that harmonisation has been only partial. It examines the argument that higher pensions can contribute to making the public service a more attractive employer, but suggests that increasing the attractiveness of public sector employment through enhancing pensions for all public servants is a distinctly expensive and untargeted approach. The argument for absolute comparability between the public and private sectors is certainly not universally accepted – but as the separate employment status of the public sector is challenged, the logic of a separate and particularly generous pension scheme falters.

The report concludes that the primary contribution of pension reform to meeting the ageing challenge is through the incentives and opportunities that it creates for skilled staff to remain, or join, the public sector as part of a flexible working career that embraces the public and private sectors. Pension reform has seemingly taken some steps towards encouraging skilled older staff to remain at work for longer, through pension supplements and some tentative moves towards raising retirement ages. However, hurdles to mobility are to be found for staff wishing to pursue a career that encompasses both the public and private sectors and, of most concern in the context of the capacity problems raised by ageing, this very probably includes highly skilled managers and technical staff. Pension reforms have also not, as yet, fully addressed the challenges faced by those workers who would join the public sector if they could work flexibly. In sum, there seems to be a distinctly long way to go before pension reforms serve as an active management tool to assist in retaining capacity within the public service.

## **PUBLIC SECTOR PENSIONS AND THE CHALLENGE OF AN AGEING PUBLIC SERVICE**

### **Background**

All OECD countries have undertaken reform of their pension arrangements over the past few years. The reforms have affected all: the public sector, the private sector; the self employed; and, those outside the paid workforce. Perceived as an ongoing process rather than a one off measure, these reforms are a major challenge for the public sector. The pressures underlying the reforms, and the reforms themselves, have significant implications for the architecture of public sector employment.

Because of the potential significance of public sector pension reform for the public sector the OECD commissioned a survey on pension schemes for public sector workers in OECD member countries. The survey was based on a questionnaire designed by the Public Governance and Territorial Development Directorate of the Organisation for Economic Co-operation and Development. The CSED Association (Cooperation Sociale Européenne Développement), in collaboration with the OECD, prepared a summary comparison of national public sector pension schemes, and undertook some analysis of the relationship between pension schemes for public sector workers and, more generally, the reforms that have been carried out in the public sector. This paper is based on the results from that survey.

It should be noted that the purpose of the survey was to identify trends and impact of public sector pension reforms, very particularly in the context of ageing public sector workforces and as a complement to other OECD work (OECD: 2006). It did not undertake any fiscal or actuarial analysis. The pension schemes that country respondents described are those that cover the "core" public service. This means that reforms to these schemes are likely to be emblematic of wider pension reforms in the broader public sector – but it also means that comparisons must be treated with care as the unit of analysis varies significantly between countries.

The reform of pension schemes, whether to reduce costs or to increase flexibility, does raise difficult transition issues, which have human resource management implications. For example, gradual reform processes have introduced inequities between different generations of public servants. Younger public servants may find themselves receiving less generous benefits than their older peers. Whether an ongoing differential is managerially sustainable is an issue. Gradual reforms will also only reduce pension costs over the long term. Rapid transitions may by contrast involve greater political and industrial resistance in the short term but yield faster savings and enable flexibility objectives to be realized more quickly.

### **Ageing pressures**

The rapidly ageing populations in OECD member countries are requiring governments to develop more flexible employment arrangements. To meet workforce challenges resulting from ageing, governments are for example:

- increasingly making greater use of lateral hiring, from the private sector and in some cases internationally;

- introducing more flexible working to encourage greater participation rates of groups such as women and as a means of encouraging older workers to remain in the workforce in at least some capacity; and,
- examining options for reducing the long term fiscal liabilities of pension schemes.

The challenges of ageing are magnified in the public sector because it generally has an older demographic profile than the private sector. The demographic profile of the public sector and the private sector are different and diverging. Public sector workforces are ageing more rapidly than the rest of society and the wider labour market (see Box 1). This reflects expansions in public services in many OECD countries up until the 1980s, and more recent efforts in most OECD countries to reduce or at least not increase the size of the public sector. Further, in many OECD countries the public sector appears to be recruiting fewer young workers than is the case in the private sector. For example, in Australia there is increasing recruitment at mid-career and a general trend towards higher ages at entry in the federal public service. More than 40% of new recruits in the Australian public service are 35 or over, compared to less than 20% two decades ago. Similarly, the average age at entry in the Irish civil service has increased from the 20s to the 30s in the last decade.

#### Box 1. Ageing in the Public Sector

**Australia:** the average age across the entire civil service has increased by three years over a period of less than 10 years. The median age of current APS employees is around 41 years, while it is around 38 years in the general labour force. Looking ahead, there will be an overall shift towards a higher age profile.

**Finland:** in 2004, the average age was 42.9 in the civil service. It is two years higher than the labour market as a whole (including private sector workers and public employees at the local levels).

**France:** the average age in the public and private sectors was very close in 1982; today it is six years higher for the public service.

**Germany:** the average age of employees in the public sector has risen over the past five years from 41.5 to 42.7, and in the private sector from 39.1 to 39.9 over the same period.

**Ireland:** the average age in the public service has risen from 34 in 1985 to 41 in 2004.

**The Netherlands:** the average age in the public sector is approximately 10 years older than in the private sector – in the low 30s for the private sector and in the low 40s for the public sector.

Source: (OECD: 2006)

In addition, the proportion of older employees decreases more rapidly in the public sector than in the general labour market, due to pension incentives and early retirement arrangements in many public services. A number of civil services tend to retire earlier, for legal reasons or because of tradition (Australia for example, or France where the legal retirement age is 60 but where the actual average retirement age is 57).

Governments also have to face a considerable increase in the costs required to meet age related expenditure, including pension liabilities for both society as a whole and for the public service in particular. Age-related spending will increase substantially, starting from 21% of GDP in 2000 to 27% of GDP by 2050 (OECD: 2003). Spending on pensions is projected to increase on average by more than three percentage points of GDP (spending on child benefits and education could provide a small offset).

A significant factor influencing projected increasing future pension liabilities is longer life expectancy. The level of life expectancy is one parameter that is essential for an understanding of the changes in retirement systems and in particular the schemes in the public sector. There is data on general life expectancy levels in OECD countries, however data relating to the life expectancy of public sector employees is rare. To date there has been very little policy focus on the demography of public sector employees in most member countries, with Sweden and The Netherlands being two notable exceptions. In Sweden one study has shown that Swedish public sector employees live longer, and are healthier, than other employees, due to their economic and social status. In The Netherlands, public sector employees belong to the category of the population with the most comfortable standard of living and the longest life expectancy.

According to EUROSTAT (the Statistical Office of the European Union), the life expectancy for men should increase by about 5 years and that for women by 4 years between now and 2050. Estimates carried out by national bodies are either below or above the European and international projections. This lack of uniform data shows how difficult it is to make forecasts. It is nonetheless commonly accepted that the rate of progression in life expectancy will slow down over the next 30 years.

## MEETING THE CHALLENGE: PENSION REFORM

### Public sector pensions

At present over half of OECD member countries have special pension schemes in place for public servants.

Those defending special schemes for public servants claim they are required in order to guarantee the security, integrity and independence of public sector employees, as well as the attractiveness of a career in the civil service. The pension scheme is seen as an important component of remuneration. In some countries, the provisions for civil service pensions are closely linked to the notion of the “civil service”. It is claimed that it is the state’s duty to ensure that its employees enjoy a certain standard of living in retirement in exchange for the obligations placed upon them in terms of service and loyalty.

In other countries, in contrast, the distinctive nature of pension schemes applicable to civil servants is far less marked, or in some cases does not even exist, even though other special provisions with regard to status and employment may apply public servants.

In those countries with distinctive public sector schemes, the schemes are generally more generous than the schemes for private sector workers. For example:

- It is more common for public sector schemes to be final salary defined benefit schemes as opposed to contributory schemes;
- Public sector schemes often have more generous provisions for early retirement; and,
- Public sector schemes often have more generous recognition of non contribution periods such as for childcare and education.

Annex 1 sets out the basic parameters of a range of OECD public sector pension schemes.

### The drivers of public sector pension scheme reform

There are three potential drivers of pension reform. First and most self-evidently, *fiscal concerns* lie at the heart of the reforms in a number of countries, particularly in the context of ageing populations and ageing public sector workforces. OECD countries on average spend nearly 2% of GDP on public service pensions, although there is substantial variation around the mean (due largely to the differing relative size of the public sector in each economy).<sup>1</sup> Irrespective of the types of measures adopted by national governments, in the face of ageing populations, cutting pension scheme costs remains one of the primary motivations for reform.

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1. Palacios and Whitehouse consider that the ratio of public service pension spending to total government revenues provides a more potent measure of the cost of current pension arrangements. They note that in the OECD, this varies between 2.5 and 7.5 per cent of general government revenues, with an average of five per cent. (Palacios and Whitehouse: 2005)



Public sector pension schemes are also being reformed to achieve *comparability with the private sector*. Public sector employers were the first to afford their staff a certain form of security by granting them a pension intended to provide them with social protection when they were no longer able to work. That obligation, which was instituted earlier in some countries than in others, has been considered compensation for service rendered to government. It has been justified essentially on the supposed special nature of public employment. The result is that in many countries the social welfare protection afforded to civil servants and full-time public sector employees is generally considered to be more advantageous than that enjoyed by the general population.. Today that special position is being called into question in many countries, particularly where the status of civil servants is being aligned with that of private sector employees. Police and the military are examples of such categories of worker in respect of which the justification of special schemes is retained on the basis of the particular requirements (such as fitness) or hazards of those careers.

The drive for comparability is attributable primarily to domestic pressures by private sector employees who contest the generosity of the pensions and other benefits made available to public sector employees (Luxembourg, Germany, Netherlands, Denmark, France, Belgium, and Japan). It is against this backdrop that alignment between schemes has been carried out in the realm of welfare benefits (or is being considered). The objective of convergence of schemes is not always clearly articulated, but it can be seen from the changes in the rules governing pensions, particularly in countries where old-age scheme reforms have been carried out across the board (*i.e.* not limited to public sector employees).

Third, and in principle at least, reforms could be designed to assist in the task of *attracting and retaining capacity* within the public service as large numbers of experienced public servants retire.

The public sector pension reform strategies adopted by countries have not generally sought to overhaul old-age pension schemes completely, except in a few countries such as Hungary and the Czech Republic. The essential aim has been the long-term survival – and thus the financial viability – of pay-as-you-go schemes. Research on European and North American reforms shows that pay-as-you-go scheme reforms are focusing on limiting the rise in compulsory levies and making schemes more contributory. Limiting the rise of compulsory levies takes precedence in reforms of public sector pension schemes. This objective is especially prominent in countries where mandatory schemes predominate (Germany, Sweden, Italy, France, United States), but it is also present in a country like the United Kingdom, in which the mandatory scheme is not highly developed. In most cases, limitations on compulsory levies have been accompanied by incentives to develop optional funded schemes, for public sector employees in particular.

Implementation of reforms in the OECD Member countries has varied from one country to another, with regard both to the measures taken and to the groups affected. In some cases, reforms have been carried out in the private sector and then extended to the public sector (as in Portugal and Norway for example). Other reforms have affected the pension system as a whole, with no distinction between sectors (Japan, Portugal, and France). More rarely, reforms have begun by tackling the public sector and subsequently been extended to the private sector (as in Finland).

### **Reform trends**

The basic approach in public sector pension reform has included the following six elements:

1. Revision of the formulae for calculating old age pensions, with contribution periods extended in most of the member countries accompanied by cuts in pension benefits.

2. Raising the retirement age, accompanied by harmonisation of the retirement ages between men and women.
3. Reductions in special entitlements for women previously regarded as essential to ensure that older women enjoy an adequate standard of living in the face of likely lower lifetime earnings.
4. Limiting early retirement, and associated restrictions on access to disability or sickness benefits.
5. Encouraging deferred retirement, with financial measures to encourage public sector employees to remain at work longer.
6. Development of funded occupational schemes and contributions by civil servants to the financing of their pension scheme.

Annexes 2 and 3 provide details of these reform elements, and on the country level developments.

### **Employment reforms have also driven pension reform**

There are two trends in public sector employment frameworks: an extension of ordinary labour law to cover the employment arrangements of public servants, and developments in public sector employment law to move the status of public sector employees towards that of private sector workers. As noted above, the origins of this convergence can be found in a quest for more flexibility in managing the public sector workforce, and in political determination that a separate status for civil servants is no longer justified.

This convergence between public and private sector labour arrangements has been facilitated by privatisation of functions formerly performed by public servants (energy, transport, telecommunications, and postal services are common examples) and by increased outsourcing to private sector providers. In both these cases, functions that were previously regarded as distinctively public sector requiring distinctive employment regimes have been moved to the private sector with relatively few difficulties. The argument that public sector tasks require a distinctive type of employee has consequently been undermined. In addition, the trend to move from career based systems towards position based systems has made the public look more like private enterprises, with increasing employment of staff as lateral hires from the private sector.

So for example in Italy, there has been reform (undertaken in the early 1990s) to make civil servants subject to employment contracts or to privatise their status by aligning it with that of private sector employees. Employment relations of civil servants in Italy are now governed by ordinary labour law. In Finland, the 1994 State Civil Service Act also sought to bring the situation of civil servants more in line with that of private sector employees while still upholding the public nature of their employment relationship. The underlying principles of the rules contained in that legislation are the ones applicable to the private sector, but officials retain their civil servant status. The aim was to have a single employment relationship across the administration, based on principles uniform with those of the private sector. In Eastern European countries, government concerns have focused primarily on a determination to make public sector employment more flexible and thus better suited to market requirements. As part of these reforms, there have been reforms undertaken in respect of basic pensions. Government employees have been affected by these reforms insofar as their pensions fall under the nation-wide system. In some countries, adjustments have been carried out via special supplemental pension schemes for government employees (as in Slovenia).

Changing public sector employment regimes has the side effect of changing public sector pension arrangements. In Australia, for example, changes to the compensation of public sector employees have

had repercussions on pensions: the introduction of flexibility, and more specifically of performance-related pay, necessarily affects retirement income. The same holds true in Japan, Finland, New Zealand and Hungary.

In Belgium, changes in the civil service in the broad sense of the term have prompted creation of new schemes (partial harmonisation of the rules applicable to *gendarmes* with creation of a new pooled scheme for police, for example) and adjustments to the rules of existing plans, with the State assuming staff pension obligations and expenses for certain public enterprises, especially in the wake of privatisation, and co-existence of two pension schemes – the old one and a new one for new entrants. Changes in the structure of the public sector have also interacted indirectly with pension reform, as in the “Copernicus reform” (renewable six-year mandates for certain functions). The people concerned are now covered by the general scheme. Parliament has created a mandatory supplemental scheme to top up basic pensions. Here, changes in the status of personnel are at the root of pension reforms and not vice-versa.

## **PARTICULAR STEPS TO ATTRACT AND RETAIN SKILLED STAFF**

### **Have pension reforms been effective in encouraging skilled staff to remain at work longer?**

The majority of reforms attach importance to employee retention. Most of the measures are adopted within the framework of policies linked to active ageing (New Zealand, Japan, France, Belgium for example). In countries such as Luxembourg, Denmark and Australia, retention of public employees is an explicit priority for the government. In Australia for example, a commission was set up in December 2003. It establishes good practice and makes this known to the various government bodies. It recommends standards of behaviour in terms of health and management strategy and suggests practical measures for retaining older staff. The Australian Government's aim in so doing is to keep people in employment in the public sector, and especially women. Other countries use financial incentives; in Luxembourg, for example, pension supplements are offered as a way of retaining staff.

It is still too soon to assess the results of reforms that have been initiated in the various member countries, some of which have yet to come into force. In France, for example, the mechanisms for increasing and decreasing pensions were not to take effect until January 2006. In addition, it is too early to pass judgement on the 2003 reform, given that its implementation is very gradual, with reductions not being applied until 2006, for example. In any event, employers have learned the lessons of the reform, *e.g.* by beginning to extend existing age limits (for members of the armed forces and police commissioners, for example). Moreover, raising the retirement age does not attract broad popular support, *inter alia* because of the measures that tend to accompany it (reductions in pension amounts, higher contributions, lowering the level of basic pension, etc.).

### **Can pension reforms encourage new blood to enter the public service?**

Mobility within the public sector is on the whole well organised in OECD member countries, although obstacles still remain in some countries. Practice varies from one country to another, the differences being attributable to the nature of the civil service system, *i.e.* whether it is position or career-based, as this determines whether staff have either to comply with the procedure for changing from one department to another (in France, for example, by taking an examination), or if they have simply to apply for another post. While practice may differ from one country to another, the objectives are the same: to facilitate the mobility of public employees. The hurdles to mobility are to be found for staff wishing to pursue a career that encompasses both the public and private sectors. Such staff are likely to be either relatively unskilled contract workers, or highly skilled managers. It is the obstacles to mobility for the latter group that remain a serious challenge to retaining or rebuilding capacity within public sectors who are facing a wave of retirement from many senior and experienced staff.<sup>2</sup>

#### ***Mobility between the private and public sectors***

A distinction needs to be made between mobility from the private to the public sector and mobility in the reverse direction.

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<sup>2</sup> See also (Joumard, Kongsrud et al.: 2004)

Mobility between the private and public sectors poses fewer problems than a decade ago, particularly in countries where the civil service is position-based. Mobility is encouraged and many private sector workers can join the public sector without any difficulty, and their experience may in fact be sought after for specialised tasks in the public sector (Belgium and Australia, for example).

The situation is different for public employees wishing to join the private sector either temporarily or permanently. In countries where there are special rules for public employees, mobility between the two sectors is facilitated by bringing the relevant legislation closer together or even harmonising it, which makes the transition from public sector to private sector employee that much easier (Netherlands, Sweden, Norway, Austria, France, Finland, for example). In Norway, the regulations governing the rights of public and private sector workers has been harmonised for that purpose. These measures are part of the decentralisation of certain public service sectors. Austria has special programmes enabling public sector employees to move to the private sector under the heading of secondments to private entities. Such secondments are, however, limited to six months.

While private sector employees can easily join the civil service, some countries do ask for concessions from this category of staff. In Japan, for example, a 1999 Act (No. 224) regulates exchanges of staff between government and the private sector. The aim of this legislation is to invigorate human resource management in the public sector and develop human resources. The Act, which came into force on 21 March 2000, contains two programmes. These consist, first, of sending permanent (regular) public employees to work for private companies while keeping their public employee status and, second, recruiting full-time employees from the private sector following their resignation from the private employer in question.

### *Mobility between governments*

A distinction needs to be made between European and international mobility which, in theory, are based on different principles. "European mobility" concerns both the mobility of public employees who are nationals of EU member countries and want to join another EU member country's civil service, and also the mobility of public employees towards the European public service, i.e. European institutions. There is not for the time being any shared definition of "European public service".

Public employees can go about taking up posts in European institutions in various ways. Mobility is in principle fostered by applying special clauses relating to secondment or delegation. Officials can be offered training plans to facilitate access, which is the case in Austria, France and Hungary where there are government decrees governing mobility. No Member countries have mentioned extra-national mobility as posing any problems.

Joining the civil service of another EU member country can involve various constraints. These usually relate to nationality, the recognition of qualifications and experience, and also the nature of the public sector job held, public administration being a national prerogative. These constraints are set out in Article 39 of the EC Treaty on the free movement of workers. However, the jurisprudence does specify under what conditions public and private sector employees should be integrated so that they can move about and work in the European Union.

The Swedish response to the survey placed the emphasis on the nature of the public service job. Occupational mobility is favoured more in an employment system than in a career system, where there are constraints inherent in the public service system. In a career system, persons who join the civil service after their studies are expected to remain there throughout their working lives and up until retirement. In a position-based system, on the other hand, the official is recruited to occupy a specific post in government.

He or she is recruited for his or her skills, together with those required to fill the post for which he or she has applied. The employer assumes no responsibility for career management.

Agreements and conventions are sometimes signed between countries with the object of improving European and international co-operation. Austria, for example, has concluded special agreements with the Finnish, Swedish, German and British authorities. These allow staff secondments or exchanges for a minimum period of 1 month.

### ***Pension reforms and mobility within the public sector***

In the case of mobility within government, pension rights are generally kept inasmuch as the official remains attached to the civil service for his or her job. In Belgium for example, the problem was solved in 1964 by legislation stipulating that services performed with a number of authorities or public bodies in succession were to count towards the retirement pension which was termed “single”. The “single” pension is calculated according to the rules operating in the pension scheme of the last employer, but taking account of all the services performed and periods worked for successive public employers. In Sweden, the methods of calculating the pension remain unchanged as regards service with another administration. Only parameters such as salary, length of service, contributions and investment in the fund can change and, therefore, have an impact on the amount of the pension. In the case of external mobility, the government assumes that an official who moves has his rights guaranteed by his initial scheme. In France civil servants may, in the course of their careers, be seconded to jobs in other ministries, another civil service or a private sector company, either in France or abroad. They remain affiliated to their original pension scheme and their employer is obliged to pay the supplementary contributions applicable to employers other than the state. The transfer of supplementary pension rights is usually subject to special regulations. In Norway for example, where there are pension funds specific to public employees, a 1972 regulation allows pension rights to be transferred in the event of mobility within the public sector. All pension funds are based on the same rules and have agreements between each other so as to ensure that the benefits paid are homogeneous. Lastly, in Japan, benefits under the pension schemes of local and central government staff were harmonised in 2004 by the pension reform, the object being to encourage mobility within the public sector.

### ***However, pension schemes continue to deter employment mobility from the public sector to the private sector***

The problem is different when an official leaves the public sector to work permanently in the private sector. This is because in countries where public employees contribute to a special scheme, the benefits paid are more generous than those paid in the private sector. Basic pension rights are often not therefore transferable because the schemes are incompatible. The rules vary from one country to another. In Norway for example, there are not at present any regulations providing for the transfer of rights between the private and public sectors. Accumulated rights are treated differently in the two sectors. In Belgium, the different pension schemes are in theory completely independent. In the case of persons who have had a mixture of careers, pensions are calculated separately by the various schemes.

Given the incentives to remain in public sector pension schemes pension rights may also in fact be a deterrent to those considering joining the public sector. The consequence is that the public sector remains a less attractive employer for those who might not want to remain in it for their working lives.

### ***Pension rights in the context of international mobility***

Staff pension rights are usually the subject of specific domestic regulations and can be the result of agreements signed between different countries. A distinction has to be made between basic pension

systems and supplementary schemes. The latter, which in principle operate on a funded basis, can regulate the acquisition and retention of accumulated rights, as well as the calculation of pension rights in the context of their operating charter and/or statutes.

In Norway for example, agreements were signed between unions and employers' organisations in 1973. They concerned the transfer and portability of rights between public sector schemes in the Nordic countries up until June 2001 – at least with regard to the services provided. Since that date, pension rights have been calculated by each pension scheme individually. Also by agreement, certain periods of absence on leave to work for an international organisation are recognized for up to 4 years (Norwegian Public Service Pension). In the case of other pension funds, the time limit is 2 years.

Other countries, such as Japan, have opted for a social security treaty or an agreement as a means of encouraging international exchanges of staff. These regulations should allow those concerned to retain their pension rights and not be harmed by a temporary secondment to an international organisation. Some countries, like Belgium, already have precise regulations (see box).

#### **Box 2. Mobility between a Belgian pension scheme and an international organisation**

In 1991, a Belgian Act established rules relating to relations between Belgian pension schemes and certain international institutions under.

The main purpose of the Act was to implement Article 11, §2 of Annex VIII of the Staff Regulations of the European Communities, which allows a person who enters the service of the European Communities to ask for the transfer to the Communities of either the actuarial equivalent or the lump-sum surrender value of the pension rights acquired by virtue of the activities pursued in Belgian legal pension schemes (employed, self-employed, overseas social security and public sector schemes).

The Act implemented Article 11 §2 in a manner which was based on neither of the two formulae proposed (transfer of the lump-sum surrender value or transfer of the actuarial equivalent), but on a subrogation mechanism, i.e. the monthly payment of a pension by the Belgian pension scheme to the Communities as of the date of effect of the Community pension. By means of this subrogation, a number of years of pensionable service deriving from the Belgian pension were credited to the pension awarded to the official by the institution.

In 2003 a new system was introduced for transfer requests made as of 1 January 2002. In the case of a transfer from a Belgian pension scheme to the pension scheme of the Communities, the 2003 Act provides not for a subrogation mechanism but for a one-time financial transfer. The transfer is completed using a lump-sum surrender value formula.

For those transferring to Belgium, pension rights can be transferred from the European Communities to the Belgian pension scheme.

There is the ability to extend the provisions to non European Community international public institutions whose pension schemes contain provisions similar to those contained in the Staff Regulations of the European Communities. Extensions are envisaged, in particular, for organizations such as Eurocontrol, the European Patent Office, the European Space Agency, the European Centre for Medium-Range Weather Forecasts, the Council of Europe, the OECD, NATO and the Western European Union.

#### **Do pension reforms make the public service attractive to those seeking flexible working?**

There is an increasing incidence of lateral hiring of people at all stages of their careers, and increasing use of part-time, casual or temporary staff. An example of the changing work patterns can be seen in Australia, for example, where part-time work has been on the increase for the past 10 years, rising to 10.2% in 2004 compared to 9.4% in 2003. The number of temporary or contractual staff is also increasing

in Belgium, where a study carried out in the local civil service shows that the percentage of contractual staff has risen from 50 to 56% over the last ten years.

The increased number of atypical<sup>3</sup> contracts also reflects a desire to make employment more flexible in the public sector (this has been an explicit objective for example in Denmark, Hungary, Luxembourg, Japan and New Zealand). The increasing flexibility objectives range from permitting workers to be flexible in terms of redistribution of work time, and leave (parental leave for example); introducing initiatives intended to enable women to reconcile work and family life; to measures such as allowing or encouraging career breaks (often for maternity reasons but also more generally).

Recourse to temporary work is also sometimes justified by the requirement to recruit skilled labour to perform certain tasks in the civil service. This is clearly the case in Japan, where skilled staff have been recruited for the purpose of improving public service efficiency.

The reforms introduced in the pension field have, however, generally not targeted atypical staff in particular, some countries explaining this by the fact that there is no difference between permanent and other workers (Finland, New Zealand, Norway, Finland, Australia, Luxembourg, for example). In Finland for example, the rules applying to permanent staff are exactly the same as those for non-permanent staff as far as pensions are concerned. In some cases, however, distinctions are made. In Australia for example, part-time workers' contributions count in the same way as those of full-time workers, but there remain some differences in the case of temporary workers. These concern the contribution base and the way contributions are counted for the purpose of calculating the old-age pension.

Belgium and France are two countries which have introduced a series of measures designed to allow atypical workers to be treated fairly by comparison with other public employees. Under a Belgian Government agreement, for example, there is to be a study on supplementary pensions for contract workers in the civil service (box)

**Box 3. Belgium: moving towards a supplementary scheme for contract workers**

Belgium is currently conducting a study on the possibility of introducing a second pension pillar for contract workers under the heading of the law on supplementary pensions which applies to individuals with work contracts. The aim of the scheme would be ensure that such employees were not treated unfairly because of their status. A number of technical problems remain because, at present, the services provided as a contract worker only count if the person is given a permanent post in the civil service.

Staff not appointed to permanent posts are subject to social security and have the same pension entitlements as dependent workers under the general scheme. Until appointed, contract workers are at the mercy of any career upset (physical incapacity, quitting, dismissal) which would deprive them permanently and irreversibly of a pension equivalent to the public pension. Death would also irreversibly deprive their dependants of a public sector survivor's pension.

Services performed on a contract or temporary basis in public service employment count towards entitlement to a public pension and the calculation thereof when the official is subsequently appointed on a permanent basis. This is true only in respect of services compensated by the exchequer, and not for periods of insecure employment when the official was compensated by means of unemployment benefit (increased in some cases by an additional amount paid by the employer).

An official ending his career as a contract worker is at present, therefore, less well treated than an official with a permanent appointment (who is entitled to a public sector pension).

When a contract worker is given a permanent appointment before the end of his career, this retroactively

<sup>3</sup> Careers are said to be "atypical" when the persons concerned occupy a permanent post on a part-time basis or are in casual employment. They also concern individuals who have experienced career upsets (or interruptions), as well as those who continue to work beyond the legal retirement age.



terminates the difference in treatment and he receives a public sector pension in respect of the whole of his career. However, such appointments do not always happen, some employers tending not to make them or to make them later for various reasons. In the absence of a permanent appointment, the scale of the difference in treatment corresponds to the difference in the amount of a dependent worker's pension and the public pension.

In France, contract workers come under the private sector system for basic pensions and receive a specific supplementary pension which is pay-as-you-go and points-based. The supplementary scheme contains no specific provisions for officials working part time or less than full time (regular or occasional sessions). However, staff with permanent appointments in one of the public services, either as a result of an individual decision or following broad-ranging appointments, can validate such part-time or less than full-time periods of work so that they count towards the civil service pension.

## EMERGING CONCLUSIONS: PENSION REFORM AND CAPACITY RETENTION

### **Have pension reforms facilitated comparability between public and private sector employment?**

The objective of convergence of public and private sector pension schemes is not always clearly articulated, but it is observable in the changes in the rules governing pensions, particularly in countries where old-age scheme reforms have been carried out across the board (*i.e.* not limited to public sector employees).

Convergence between schemes has been achieved, or initiated, in most of the member countries where special schemes have existed: *e.g.* in Luxembourg, following a 1998 reform; in Portugal, following the pension reform of 1993; in Austria since 2004; and in Australia since 1 July 2005 for new entrants to the civil service after 30 June 2005, etc. The Austrian reform harmonised the pension system of federal employees with the general scheme in 2005: henceforth there is only one pension system for all, and in the public sector the regime is the same for permanent staff and for contract staff, with no special scheme for new entrants to the civil service. Some government jobs generally remain excluded from such developments (such as magistrates in Italy and defence-related occupations in most countries).

Harmonisation has been only partial in some countries. In France for example while the rules applicable to the entire workforce have been made more convergent the alignment has been limited. In France privatisations and devolutions of state functions to sub-national authorities have also had little impact on civil service pension schemes as a result of guarantees provided. For example when France Télécom was privatised, staff with civil servant status were able to retain that status and their retirement scheme.

There is a separate argument that can be made, again in the context of the imminent capacity problems faced by many OECD governments as a result of ageing (and hence retiring) public sector workforces. It can be maintained that higher pensions contribute to making the public service a more attractive employer. There is some historical logic to this as many countries have reported problems in attracting and retaining key staff, particularly young graduates, IT specialists and other technical staff, tax specialists, auditors and economists and senior managers.

When competing for new staff, especially young graduates, and in retaining existing experienced specialists and senior staff, pay levels have proven to be a crucial factor. This is emphasised by a negative image of the public sector with, in the minds of many potential employees, slow advancement with little relationship to merit (OECD: 2001). Pensions have contributed significantly to the attractiveness of the public sector. Taking account of pensions, and also accounting for the more secure nature of public sector employment, the average value of lifetime earnings is higher in the public sector than in the private sector. The difficulty is that when this is broken down between staff groups, it appears that senior and technical staff are more or less at parity with their private sector colleagues, while unskilled staff gain a premium for public sector employment (Grimshaw: 1998; OECD: 1997, 2002; Postel-Vinay and Turon: 2005). In sum, increasing the attractiveness of public sector employment through enhancing pensions for all public servants is a distinctly expensive and untargeted approach.

A number of countries have completely done away with separate pension regimes for public sector workers. Others have sought to limit the special features of public sector schemes and make them more

like the schemes available for the general population. Either explicitly or implicitly this reform reflects the rejection of the view that public sector employment requires distinct status, culture and terms and conditions. The historical argument for a distinctive status for public servants rested on the premise that this was a distinctive task requiring distinctively educated and motivated staff – and that such staff were not available for hire on the open labour market. Generous pension schemes played their part in encouraging lifelong employment within the public sector. The argument for absolute comparability between the public and private sectors is certainly not universally accepted – but as the separate employment status of the public sector is challenged, the logic of a separate and particularly generous pension scheme falters.

### **Are pension reforms playing their part in retaining capacity within an ageing public sector workforce?**

If public sector pension reform is a rather crude device for enhancing the overall attractiveness of the public sector as an employer, because of its untargeted application, then the primary contribution of pension reform to meeting the ageing challenge is through the incentives and opportunities that it creates for skilled staff to remain, or join, the public sector as part of a flexible working career that embraces the public and private sectors.

Pension reform has seemingly taken some steps towards encouraging skilled older staff to remain at work for longer, through pension supplements and some tentative moves towards raising retirement ages. Public sector pensions now present relatively few obstacles to employees seeking to join the public service mid-career. The hurdles to mobility are to be found for staff wishing to pursue a career that encompasses both the public and private sectors and, of most concern in the context of the capacity problems raised by ageing, this very probably includes highly skilled managers and technical staff. Accumulated rights are treated differently in the two sectors. In this regard, pension rules continue to create substantial rigidities, likely acting as a disincentive to join the public sector.

Pension reforms have also not, as yet, fully addressed the challenges faced by those workers who would join the public sector if they could work flexibly. Such employees, often those with caring responsibilities, are typically seeking contract work or part time work, and may need extended periods of leave. In those countries with special schemes in place for public servants, the schemes are generally not well suited to increasing requirements for employment flexibility. The requirement for increased flexibility in employment means that it should not be assumed that once workers have been recruited, government will wish to retain them for the rest of their working life. Public sector pension systems generally penalise mobile workers through long vesting periods, and by reduced pension entitlements for those who leave the scheme early. In this regard defined contribution schemes, which are increasingly the standard in the private sector, do have the advantage of more easily accommodating the employment flexibility and mobility which is required. Pension reforms have not generally responded to the distinctive needs of employees with atypical careers and consequently, outside of a few cases where supplementary pensions for contract workers are under consideration, as yet the public sector remains a less than attractive potential employer.

In sum, there seems to be a distinctly long way to go before pension reforms serve as an active management tool to assist in retaining capacity within the public service.

## GLOSSARY

**Accrual rate:** the rate at which pension *benefits* builds up as member service is completed in a defined benefit plan. The *accrual rate* is expressed as a percentage of the *contribution base*.

**Active member:** a *pension plan* member who is making *contributions* (and/or on behalf of whom *contributions* are being made) and is accumulating assets.

**Benefit or benefits:** payment(s) made to a *pension fund* member (or dependants) after retirement.

**Contribution:** a payment made to a *pension plan* by a plan sponsor or a plan member.

**Contribution base:** the reference salary used to calculate the *contribution*.

**Contribution holiday:** a period when the *contributions* to a pension scheme are put on hold, the most common reason for this being a situation of over funding.

**Contribution rate:** the amount (typically expressed as a percentage of the *contribution base*) that is needed to be paid into the pension fund.

**Defined benefit (DB) occupational pension plans:** occupational plans other than defined contributions plans. DB plans generally can be classified into one of three main types, “traditional”, “mixed” and “hybrid” plans.

- **“Traditional” DB plan:** a DB plan where *benefits* are linked through a formula to the members' wages or salaries, length of employment, or other factors.
- **“Hybrid” DB plan:** a DB plan where *benefits* depend on a rate of return credited to *contributions*, where this rate of return is either specified in the plan rules, independently of the actual return on any supporting assets (*e.g.* fixed, indexed to a market benchmark, tied to salary or profit growth, etc.), or is calculated with reference to the actual return of any supporting assets and a minimum return guarantee specified in the plan rules.
- **“Mixed” DB plan:** a DB plan that has two separate DB and DC components but which are treated as part of the same plan.

**Defined contribution (DC) occupational pension plans:** occupational *pension plans* under which the plan sponsor pays fixed *contributions* and has no legal or constructive obligation to pay further *contributions* to an ongoing plan in the event of unfavourable plan experience.

**Deferred member or inactive member:** a *pension plan* member that no longer contributes to or accrues *benefits* from the plan but has not yet begun to receive retirement *benefits* from that plan.

**Early retirement:** a situation when an individual decides to retire and draw the pension *benefits* earlier than their *normal retirement age*.

**Earnings measure:** the measure of individual earnings used in the benefit formula. The measure might be, for example, a period of final earnings, the lifetime average or a number of best years of earnings.

**Funded pension plan:** an occupational or personal *pension plan* that accumulates dedicated assets to cover the plan's liabilities.

**Indexation:** the method with which pension *benefits* are adjusted to take into account changes in the cost of living (*e.g.* prices and/or earnings).

**Late retirement:** a situation when an individual decides to retire later than their *normal retirement age*.

**Mandatory occupational pension plans:** participation in these plans is mandatory for employers. Employers are obliged by law to participate in a *pension plan*. Employers must set up (and make *contributions* to) occupational *pension plans* which employees will normally be required to join. Where employers are obliged to offer an occupational pension plan, but the employees' membership is on a voluntary basis, these plans are also considered mandatory.

**Mandatory pension plans:** are either mandatory occupational pension plans or mandatory personal pension plans.

**Mandatory personal pension plans:** these are personal plans that individuals must join or which are eligible to receive mandatory pension *contributions*. Individuals may be required to make pension *contributions* to a pension plan of their choice normally within a certain range of choices or to a specific pension plan.

**National scheme:** Social security and similar statutory programmes administered by the general government (that is central, state, and local governments, as well as other *public sector* bodies such as social security institutions), and universal *mandatory pension plans*.

**Normal retirement age:** age from which the individual is eligible for pension *benefits*.

**Occupational pension plans:** access to such plans is linked to an employment or professional relationship between the plan member and the entity that establishes the plan (the plan sponsor). Occupational plans may be established by employers or groups thereof (*e.g.* industry associations) and labour or professional associations, jointly or separately. The plan may be administered directly by the plan sponsor or by an independent entity (a pension fund or a financial institution acting as pension provider). In the latter case, the plan sponsor may still have oversight responsibilities over the operation of the plan.

- **Mandatory occupational pension plans:** participation in these plans is mandatory for employers. Employers are obliged by law to participate in a pension plan. Employers must set up (and make *contributions* to) occupational pension plans which employees will normally be required to join. Where employers are obliged to offer an occupational pension plan, but the employees' membership is on a voluntary basis, these plans are also considered mandatory.
- **Voluntary occupational pension plans:** the establishment of these plans is voluntary for employers (including those in which there is automatic enrolment as part of an employment contract or where the law requires employees to join plans set up on a voluntary basis by their

employers). In some countries, employers can on a voluntary basis establish occupational plans that provide *benefits* that replace at least partly those of the social security system. These plans are classified as voluntary, even though employers must continue sponsoring these plans in order to be exempted (at least partly) from social security *contributions*.

**Pension fund(s):** the pool of assets forming an independent legal entity that are bought with the *contributions* to a *pension plan* for the exclusive purpose of financing *pension plan benefits*. The plan/fund members have a legal or beneficial right or some other contractual claim against the assets of the pension fund.

**Pension plan:** a pension (or retirement income) plan (arrangement or scheme) is a legally binding contract having an explicit retirement objective or – in order to satisfy tax related conditions or contract provisions – the *benefits* can not be paid at all or without a significant penalty unless the beneficiary is older than a legally defined retirement age. This contract may be part of a broader employment contract, it may be set forth in the plan rules or documents, or it may be required by law. The elements of the pension plan may be mandated by law or statute or set forth as pre-requisites for special tax treatment, as is the case for many tax qualified savings or retirement programmes designed to provide the plan’s members and beneficiaries with an income after retirement. In addition to having an explicit retirement objective, *pension plans* may offer additional *benefits*, such as disability, sickness, and survivors’ *benefits*.

**Pension plan sponsor:** an institution that designs, negotiates, and normally helps to administer an occupational pension plan for its employees or members. This may be the government as the employer or a particular ministry, agency, regional or local body.

**Personal pension plans:** access to these plans does not have to be linked to an employment relationship. The plans are established and administered directly by a pension fund or a financial institution acting as pension provider without any intervention of employers. Individuals independently purchase and select material aspects of the arrangements. The employer may nonetheless make *contributions* to personal pension plans. Some personal plans may have restricted membership.

- **Mandatory personal pension plans:** these are personal plans that individuals must join or which are eligible to receive mandatory pension *contributions*. Individuals may be required to make pension *contributions* to a pension plan of their choice – normally within a certain range of choices – or to a specific pension plan.
- **Voluntary personal pension plans:** participation in these plans is voluntary for individuals. By law individuals are not obliged to participate in a pension plan. They are not required to make pension *contributions* to a pension plan. Voluntary personal plans include those plans that individuals must join if they choose to replace part of their social security *benefits* with those from personal pension plans.

**Public sector:** the concept of the *public sector* varies among countries. For the purposes of this questionnaire, the scope of the *public sector* includes all entities funded from public funds, either directly by government or on the basis of budget allocations from central, state or local government. The *public sector* covers all levels of government and these levels can vary from country to country. Therefore, it can include some or all central, state and local government levels. The *public sector* also includes public corporations, where the state has a dominant or controlling financial interest whatever form that may take (e.g. state enterprises, and state companies).

**Public-sector worker(s):** refers to workers in *public sector* entities. The term refers to a wider group of workers than the term “civil servant” as used in many OECD countries. For example, teachers and

doctors in schools and health facilities may or may not be “civil servants”, but they are public servants if employed by central, state or local government funded entities.

**Replacement rate:** the ratio of an individual’s (or a given population’s) (average) pension in a given time period and the (average) income in a given time period.

**Unfunded pension plan:** a plan that is financed directly from *contributions* from the plan sponsor or provider and/or the plan participant. Unfunded *pension plans* are said to be paid on a current disbursement method (also known as the pay as you go method). Unfunded plans may still have associated reserves to cover immediate expenses or smooth *contributions* within given time periods.

**Valorisation:** a mechanism to take account of changes in living standards between the time pension rights accrued and the time they are claimed. For final salary schemes valorisation is not relevant.

**Vested rights:** are the deferred pensions for deferred pensioners, *benefits* accrued to active members and *benefits* of passive members. It is not uncommon for there to be a period of time called a *vesting period* only after which do pension plan members become entitled to benefits under the pension plan.

**Voluntary occupational pension plans:** the establishment of these plans is voluntary for employers (including those in which there is automatic enrolment as part of an employment contract or where the law requires employees to join plans set up on a voluntary basis by their employers). In some countries, employers can on a voluntary basis establish occupational plans that provide *benefits* that replace at least partly those of the social security system. These plans are classified as voluntary, even though employers must continue sponsoring these plans in order to be exempted (at least partly) from social security contributions.

**Voluntary pension plans:** pension plans which are either voluntary occupational pension plans or voluntary personal pension plans.

**Voluntary personal pension plans:** participation in these plans is voluntary for individuals. By law individuals are not obliged to participate in a *pension plan*. They are not required to make pension *contributions* to a *pension plan*. Voluntary personal plans include those plans that individuals must join if they choose to replace part of their social security *benefits* with those from personal pension plans.

## TECHNICAL ANNEXES

## Annex 1: Basic public sector pension parameters in OECD Member Countries

Country	Minimum age (years)	Pay-in period	Maximum replacement rate (%)	Basis for calculation Indexation method
<b>Germany</b> Basic scheme	65 except for certain civil servants (police, armed forces: 61) Average age: 60.3 Can retire early from age 63 – raised by 1 month per year from 2011 to age 67 in 2035 – with penalties.	40	75	Final salary (including bonuses and allowances)
<b>Austria</b> Basic scheme	60 65 by 2017  Maximum age: 70	40 – 45 15 minimum	80	12 best months in 2003 24 best months in 2004 36 best months in 2005 (for <i>Beamte</i> ) 186 best months rising to 480 by 2028 (for <i>Vertragsbedienstete</i> ) Indexed to salaries only
<b>Belgium</b>  Basic scheme	65, with early retirement option from age 60 except if physically disabled Maximum age: 70	5 minimum	75 maximum	Average pay (base salary + bonuses and miscellaneous benefits) over the past 5 years or, if less than 5 years' service: entire career; for military personnel, final salary Indexation: prices plus equalisation.
<b>Denmark</b> Basic scheme	60 Maximum: 70	37 maxi 10 mini	Depends on grade From 40 to 70 (average: 57)	Final salary + number of years' service Flat rate + ATP
<b>Spain</b>  Basic scheme	65 Early retirement option from 60 Maximum: 70	35	100	Reference salaries set annually by the Ministry of Finance
<b>Finland</b>  Basic scheme	65 (early retirement option)	40	60	Average salary over the 10 last years
<b>France</b> Basic scheme	60 (option from 55) Maximum: 70	37.5	75	Pay index of the final 6 months
<b>Greece</b> (1993 reform) Basic scheme	65	35	60  Before reform: 80%	Salaries of the final 5 years excluding bonuses / number of months' contributions for service after 2007 Before then, final salary



Country	Minimum age (years)	Pay-in period	Maximum replacement rate (%)	Basis for calculation Indexation method
<b>Ireland</b> Basic scheme	60 Maximum: 65	40	50	Final 12 months (including certain supplemental remuneration)
<b>Netherlands</b> Mandatory supplemental scheme	65	40 if less than 40 years -)	70  55%	Final annual salary received
<b>Portugal (Pre-reform)</b> Basic scheme	60 Maximum: 70	36	100%	Final salary prior to August 2005 reform
<b>United Kingdom</b> Supplemental scheme can be substituted for SERPS	65 (Early retirement option from age 60) Maximum: 70	40	50	Best salary over the final 3 years
<b>Sweden</b> Compulsory supplemental scheme	61 Normal age: 65	30	10% (supplemental scheme only)	Average pay over the final 5 years (capped) including all forms of remuneration other than benefits in kind
<b>Australia</b> Basic scheme	55 under PSS ( <i>Public Sector Superannuation Scheme</i> ) Can opt to work until 75		1/3 of salary	Final salary (basis for contributions)
<b>Hungary</b>	For men: being raised to 62 by 1 additional year every 2 years Maximum: 70  For women: being raised to 62 by 1 additional year every 2 years until 2009.	36/37  20 minimum	60	All activity  Calculation aggregates age and length of service. Maximum age: 70.
<b>Japan</b> Basic scheme	65 Persons born prior to 1 April 1961 may retire early between 60 and 64	25	69.2%	Salary + bonus, including non-monetary compensation
<b>Luxembourg</b>				
<b>Norway</b> Basic scheme	67 (no differentiation between men and women)	30	66 (FDP included)	20 best years; for early retirement, pension reduced by 1/30 <sup>th</sup> per year. Indexation on previous years' salaries; in the future should be based on average pay.
<b>New Zealand</b>	65			

Country	Minimum age (years)	Pay-in period	Maximum replacement rate (%)	Basis for calculation Indexation method
<b>Poland</b>	60 for women 65 for men	40	No minimum period (notional accounts system)	
<b>Czech Republic</b> Basic scheme	63 for men and between 59 and 62 for women who have not had children (average retirement age: 57 for women and 61 for men).	5 in 95 30 by 2016	44% of average gross pay; 57% of net. Rate has dropped from 61% in 1998 to 57 in 2004	Universal scheme + defined benefits (standard pension + amount based on a percentage of salary) Indexed to salaries Adjustment: rise in cost of living and 1/3 <sup>rd</sup> of increase in real salaries.
<b>Sweden</b> Basic scheme				
<b>Slovenia</b> Basic scheme	63 for men 61 for women No age difference in respect of early retirement (58 for both sexes) Possible from age 55	10  15		Depends on period of contributions.
<b>United States</b>	65			Average salary over the best 35 years, then pension computed using a rate that decreases with level of earned income, with three set brackets: 90%; 32% and 15%.

## **Annex 2: Common pension reforms**

### *Revision of the formulae for calculating old age pensions*

Contribution periods have been extended in most of the member countries except Japan, where pension calculations factor in automatic adjustments. Periods have been extended to 40 years in most of the member countries. In Luxembourg, the period was lengthened from 30 to 40 years. It was also set at 40 years in Austria. As in Luxembourg, Finland extended the period of contributions from 30 to 40 years. In Germany, the lead measures presented by the Rürup Commission on 28 August 2003 sought to lengthen the period of service (to 40 years) and cut employees' pension benefits. In France, the number of quarters needed to obtain a full pension had been 150; the August 2003 reform extended that period to 160 quarters as from 2008. In Portugal, the reform of August 2005 increased the number of years of service to 40 as well.

Reforms are generally implemented gradually, with a preference for long transition periods involving the co-existence of different systems of calculation, thus complicating the determination of retired workers' pension entitlements. In Greece, for example, the new Social Security Act adopted by Parliament on 20 June 2002 provided that pension benefits in respect of years of service beginning on 1 January 2008 shall be based on average monthly pay over the last five years of service. As a result, pensions will be made up of two different components, the first in respect of service up to 31 December 2007 (and thus based on 80% of final salary) and the second in respect of service as from 1 January 2008 (and thus based on average pay over the last five years), for all applications for pensions submitted after 1 January 2008. Others have instituted reforms based on an individual's date of birth. In Poland, for instance, the 1999 reform is applicable to persons born after 1948; for other individuals, the previous provisions remain in effect. In Portugal, the reform of 25 August 2005 applies to people who began to work after 1993. But, there are some exceptions, with measures being applied immediately to current pensioners (Austria, France, Italy, Portugal, the United Kingdom and Luxembourg).

Extensions of contribution periods have been accompanied by cuts in pension benefits, the calculation formulae for which have been changed to align them with rules applicable in the private sector. As a result, final salary is increasingly being replaced by an average salary, or even by average lifetime earnings so as to encourage people to remain in formal employment. In Austria for example, pension formulae for public sector employees have been being changed gradually since 2000. Accordingly, the average salary of the 12 best months of a person's career was the reference in 2003, and the 24 best months in 2004. This reference period will be extended to the 18 best years by 2020. The minimum length of service for entitlement to a pension was increased to 15 years for persons joining the civil service as from 1 May 1995.

Reductions in the reference salary are generally accompanied by cuts in annuity rates. As a result, the replacement rate is decreased. For example, the replacement rate of the German civil service scheme will drop from 75% to 71.75% by 2030, with the rate in Luxembourg being reduced from 83.33% to 72%. In Austria, the government also wants to lower the replacement rate, which is currently capped at 80%.

### *Raising the retirement age*

Changes to how pensions are calculated have in many cases been accompanied by changes to the rules for eligibility, except in Japan, Hungary, Slovenia, Australia, Sweden, France and Poland. Consequently, the age at which pensions may be drawn has been raised in most of the member countries, except in Denmark, where the normal retirement age was lowered, from 67 to 65. For example, in the Netherlands, the age has been raised from 62 to 65; in Austria, it was raised by five years, from 60 to 65; in Finland, it was raised from 63 to 65; and, in Portugal, the normal retirement age was raised from 60 to 65.

Most countries have harmonised retirement ages between men and women.

Normal retirement age is also increasingly being replaced by a minimum age. For example, in Sweden it will be possible to draw a pension at age 61 if the individual has made the requisite number of contributions for entitlement to a full pension. In Austria, the proposed reforms impose a minimum age of 55 for women and 60 for men, provided that they have contributed for respectively 40 or 45 years. In Italy, for example, the minimum retirement age, provided the necessary number of years' contributions has been paid, was to be increased from 57 to 65 by 2004. In Luxembourg, it is possible to draw a pension at age 57 if the employee has completed 40 years of service.

*Reduced compensatory entitlements*

Women are in many cases entitled to particular benefits to compensate for their low labour-market participation, as well as for their generally more modest earnings when they do work. The purpose of such compensatory benefits is to ensure that older women enjoy an adequate standard of living. Yet a number of countries have been cutting these benefits in a variety of ways (Austria, Germany, Netherlands, United Kingdom and Sweden). Governments justify the reductions by pointing to women's increased participation in the labour market. For example, Germany has reduced its survivors' pensions from 60 to 55% of the deceased spouse's pension while at the same time increasing pension appropriations for children's education. In Greece it is considered that pensions obtained through derived entitlements should not enable women to receive income exceeding that of male pensioners. In Sweden, survivors' pensions were gradually abolished. The same holds true in Austria, where a woman's individualised entitlements are cut to 0% if her other income is sufficient; previously, a woman was entitled to 60% of her late spouse's pension. In the Netherlands, survivors' benefits have been cut in half.

In other countries, entitlements for women are analysed in the broader context of the family. In Japan, for example, a 2004 reform stipulates that a pension be shared in the event of divorce and death of the former spouse. In Luxembourg, the rules governing widow(er)s' pensions in the event of divorce are under review. Belgium has indicated simply that survivors' benefits have been overhauled, with no further explanations. By contrast in France, restrictive conditions imposed on widowers and un-remarried divorced spouses of female civil servants have been abolished: the survivor's pension is immediate and is no longer reduced. In Luxembourg, the situation is even more advantageous insofar as the surviving spouse is treated the same as the deceased civil servant.

These measures involving derived rights have generally been undertaken in conjunction with an upgrading of the formulae for calculating women's pensions, in particular via credits for working mothers.

At the same time, a group of countries have instituted measures to benefit parents. Luxembourg for example has introduced "baby years" (a minimum of two years per child) for one of the two parents, up to a maximum of six years. In Germany, pension credits are to be granted in respect of one of the two parents. The 2001 reform introduced the principle of credit for children's education at the same time as a choice between survivors' pensions and the sharing of pension rights between spouses (*Rentensplitting*). In the Czech Republic, both parents have been receiving credit for education time since 1996. The sharing system is supposed to encourage women's access to pensions based on their own entitlements. Special measures have been provided for women working part-time. The same holds true in Sweden, where the credit will be paid to the parent having the lesser income.

All such provisions are intended to encourage women to enter the labour market.

### *Limiting early retirement*

Disability or sickness benefits in pension schemes are frequently used as devices to meet staff reduction goals or address performance issues. Because of the swelling ranks of beneficiaries due to the use of such devices, most OECD countries have taken steps to limit access to such benefits and restrict eligibility (the Netherlands, United Kingdom, Finland, the Czech Republic and Denmark for example).

The issue of retirement prior to the normal pensionable age is a significant one. It is widely held that the number of contributors over the age of 50 is declining rapidly. The institutional structure of pension systems and other benefit schemes has often encouraged individuals to withdraw from the labour market prematurely. National reports show that in countries where replacement rates are below 50%, the incentive to leave before the normal retirement age is slight. In countries where the replacement rate is high, *i.e.* over 50%, the incentive to leave early is greater.

While in some countries early retirement is allowed, in others it is prohibited, as in Japan. The same holds true in the United Kingdom, where illness alone can enable public sector employees to leave at age 50. All other officials who decide to retire early must accept cuts in their benefits. If officials are dismissed or made redundant, however, they may retire early with little or no application of reduction coefficients.

Elsewhere, early retirement is possible but regulated strictly, if not sanctioned. Such measures are intended to discourage workers by reducing their pensions by a percentage proportional to the missing years of service. Such pension reductions are imposed in France, Germany, Italy, the Netherlands, Finland, Portugal, Greece, Luxembourg and Hungary (non-exhaustive list). The French reform, for example, provides for application of a reduction coefficient set to reach 5% per missing year by 2015. But the measure will not take effect until 2008. Henceforth, the date of birth will replace the minimum age for enrolment in the system, thus enabling the gradual dismantling of this early retirement system [the “end-of-career leave”, *congé de fin d’activité* (CAF), created in 1996].

Reductions can reach substantial levels. In Italy, for example, the reduction can be as great as 13% for seven missing years. Through this measure, the Italian government’s policy is clearly to align the public and private sectors (regarding pension levels). Moreover, a 1995 reform provided for making new entrants subject to the general scheme. Unlike private sector employees who were entitled to retire early after 35 years of service (seniority pension), public sector employees<sup>4</sup> could claim such benefits after only 20 years on the job if they were national government employees and after 25 years if they were employed by local government. These periods were reduced by five years for working mothers. For civil servants hired after 31 December 1995, flexible early retirement is an option.

Early retirement provisions are not always specific to public sector employees, although in some cases, public sector workers enjoy advantages over private sector workers. In Switzerland, for example, pension reductions for early retirement are less than they are in the private sector. Similarly, the Portuguese government likes to reward people who have worked in the public sector and had long contributory careers by allowing them to leave one year early for three years of contributions. It is believed that 7,000 civil servants could be eligible for the measure.

### *Encouraging deferred retirement*

In response to the challenges posed by population ageing, many OECD countries have recently altered their policies on early retirement and are now striving to boost the activity rate of older workers. Statistics on public sector employees working beyond age 55 are not always available. Figures conveyed by reports

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4. If they were employed prior to 31 December 1995.

generally comprise activity in both the public and private sectors. In Belgium, for instance, the proportion of workers who in 1998 remained on the job until the age limit of 65 was 15.5%.

Governments are introducing financial measures to encourage public sector employees to remain on the job longer. These generally take the form of bonuses. The generosity of the bonuses varies from country to country, but they do not always enable staff to secure a maximum replacement rate. In Austria, the government has instituted financial incentives for deferring retirement beyond the normal age. Government employees can collect 2% more for each additional year they work, although pensions are capped at 90% of final salary. Full pensions are set at 80% of final salary for 40 years of contributions. In Luxembourg, a public sector employee can get an additional 2.3% for each year, up to 110% of final salary. In Finland, pension supplements are paid to people who retire beyond the normal age. In France, pension increases were instituted by the reform of 21 August 2003. Lastly, the bonus in Hungary is 0.5% per 30 days worked beyond the normal retirement age.

At the same time, pension annuity rates can vary according to the contributor's age. Rates have been set in a number of countries in such a way as to keep government employees on the job. Early retirement can bring about a reduction in these rates. In Finland, increases in the annuity rate are intended to encourage public sector employees to work longer, even if *per se* they do not constitute an element of attractiveness of the civil service. Annuity rates were adjusted in the private sector before they were changed in the public sector. The rate is estimated at 2.5% per year for persons aged 55 and over since 1995. This value has been changed for persons aged 53-62: since 2005 the rate has been 1.9% per year. For the 63-68 age bracket, the rate is 4.5% per year. Hungary and Belgium have taken similar steps.

In order to boost the activity rate of people over 60, some countries have instituted age-based pension supplements (Belgium, Luxembourg for example). These pension top-ups can provide a worthwhile surplus, which in Belgium's case can reach 9% (see box). Nevertheless, such measures have not spread to all countries because of the cost entailed.

#### **Box 4. Belgium's experience with age-based supplements**

Belgium has instituted rules governing employment and pensions.

##### With regard to employment:

Beginning at age 55, a public sector employee may request half-time early retirement. In this case, apart from a salary for half-time work, the official receives an employer-paid allowance. This has been set up not as a pension, and thus not as early retirement payments, but as compensation for "pre-retirement leave or availability". During these periods of absence officials at the end of their careers retain a statutory link to their employers, who may opt to call them back to work. At the same time, officials retain their employment status and continue to accumulate pension entitlements.

Prior to 1 January 2002, such periods of pre-retirement leave had been fully counted for pension purposes and even for calculating the volume of authorised sabbaticals and unpaid leave counted as active service.

##### With regard to pensions:

Without altering the current basic principles for pension entitlements and calculations (including the limitations imposed by the relative maximum and the absolute maximum), provisions for granting an age-based pension supplement were intended to encourage officials to keep working beyond the minimum retirement age (60).

In respect of services rendered as from 1 January 2001, the nominal rate of pension resulting from the method of calculation stipulated in the introduction has been increased by a pension supplement for each month of effective service beyond the age of 60.

This supplement is equal to:

- 0.125% of the annual rate of pension for each month of effective service between the official's 60<sup>th</sup> and 62<sup>nd</sup> birthdays (with a minimum of €15.00);
- 0.167% of the annual rate of pension for each month of effective service after the official's 62<sup>nd</sup> birthday (with a minimum of €20.00).

In all, the age-related supplement can be as much as 9% of the basic pension, as shown by the following table:

Age 60-61:	at least 1.5%;
Age 61-62:	between 1.5% and 3%;
Age 62-63:	between 2% and 5%;
Age 63-64:	between 2% and 7%;
Age 64-65:	between 2% and 9%.

Supplements are granted only in respect of service effectively rendered, inclusive of periods of paid leave.

It should be noted that to strengthen the incentive there are plans to amend the law so that the age-related pension supplement can cause the total pension to exceed the relative maximum (¾ of reference salary), although it could not exceed the absolute maximum value.

#### *Development of funded occupational schemes and contributions by civil servants to the financing of their pension scheme*

In many OECD Member countries, the State seems to be making a partial withdrawal from its participation in mandatory schemes through the development of occupational schemes or supplemental pension plans, which is seen as a way to limit government funding of pensions and benefit-related expenses, but also to remedy the declining level of worker pensions, in the public sector in particular. The British government, for example, has announced its desire that supplemental schemes provide 60% of pensioners' incomes, as opposed to 40% today.

There are no uniform pension schemes in the OECD member countries. Some were instituted for private sector employees and then extended to public sector employees and some for public sector employees and then extended to private sector employees, while others were developed for all workers.

Certain political or legal obstacles (such as a non-existent legal framework) have long thwarted the existence of supplemental pension schemes in the civil service. Some member country governments have not deemed it necessary to propose occupational schemes to public sector employees. In some countries, the high replacement rates such employees derive from their basic pensions do not justify the institution of supplemental schemes. At present, the replacement rate varies between 60 and 100% of final salary in Finland, Luxembourg, Greece, Belgium and France. Thus basic pensions account for the bulk of retirees' incomes.

Adding to legal impediments are political obstacles, as for example in France, Poland and Belgium. In France, the statutes governing civil service pay explicitly preclude any payment of contributions to a supplemental scheme. In Belgium, the Constitution bars the granting of extra-legal pension benefits to government officials appointed on a permanent basis. In Poland, it is formally prohibited to offer supplemental plans to certain categories of staff affiliated to the national scheme for their basic pensions, because of their duties (judges, members of the armed forces, police officers, fire-fighters, corrections officers, and so on). Nevertheless, public sector employees may supplement their basic pensions by contributing to an optional scheme, and thus one in which the State does not participate.

The situation has evolved in recent years. Planned cuts to the level of pensions, political will and economic, financial and demographic problems have prompted some member countries to introduce

supplemental pension schemes (Germany, France, Switzerland, United Kingdom, New Zealand, Slovenia, etc.), or to contemplate their introduction for civil servants and, more generally, public sector employees (Italy, Greece, Spain, etc.) (Onnée-Abbruciati: 2003). In Italy, supplemental pension schemes were neither recognised nor regulated until 1993. They were introduced by the Amato and Dini reforms of 1993 and 1995. Currently in force in the private sector, the government would like to extend them to public sector employees.

Two types of schemes can thus be distinguished in the countries that have instituted them: single schemes, *i.e.* common to all workers (private and public sectors combined) or for all public sector employees; and multiple schemes, comprising a variety of different supplemental schemes for public sector employees. Such schemes can be found both in countries providing a special basic pension scheme for civil servants and in countries in which civil servants are covered by the national pension scheme.

### Single schemes

Some countries have undertaken to set up fairly uniform mechanisms with scarcely any provisions relating specifically to civil servants or other public sector employees. Examples include Denmark, many Eastern European countries and Switzerland.<sup>5</sup> Their introduction has been facilitated by measures and tax incentives for workers and employers. As a result, the government as employer is participating in occupational schemes in the same capacity as private sector employers. Collective bargaining agreements signed between employers and worker representatives are the basis for these schemes, the names and forms of which differ from one country to another (“pension funds” in the United States and most other Member countries, “savings” or “supplemental/occupational pension plans” in France, “open or closed pension funds” in Spain and Italy, etc.).

In these schemes, the primary conditions for affiliation are status as a worker and a stipulated salary threshold.

In countries where civil servants are affiliated with the general scheme for their pensions, supplemental schemes were developed at a very early stage. In the Netherlands for example, the second pillar is one of the most highly developed in Europe. It is based on collective bargaining agreements. Employers have no across-the-board obligation to offer a supplemental pension scheme, except in certain specified sectors. The plans are known as “sectoral” pension funds, and over 90% of all employees belong to one. A supplemental pension plan has been reserved for public sector employees since 1996, and today the fund (ABP, *Pensionenreglement strichting pensioenfondsen*) has been privatised. This scheme is compulsory for civil servants, local government employees and members of the armed forces. Senior civil servants and railway employees also belong, whereas they had previously contributed to other schemes. Employees under contract are not covered by these measures.

In Slovenia, supplemental pension schemes date back to 2000 and can be either individual or group. The government, in its capacity as employer, has instituted one special supplemental pension plan – a closed mutual pension fund – for all public sector employees, who are enrolled in the scheme automatically. Second-pillar cover is provided to 100% of public sector employees, as opposed to 30% in the private sector. The plans for public sector employees enjoy certain advantages over existing arrangements for the private sector: the level of the commission is low, and entry fees and management costs (relative to premiums) are not very high; taxation is low and return on investment high. As a result, persons who defer their pension entitlement and leave the public sector to work in the private sector do not transfer their rights to another fund. Because of this, the number of transfers of entitlements is limited.

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5. A mandatory supplemental occupational benefit plan was introduced on 1 January 1985 for all salaried persons, irrespective of employment status.



## Multiple schemes

Supplemental schemes may cover public sector employees separately. One plan may be set up for national government employees and another for local government staff (as in Finland, Sweden and Ireland, for example). A supplemental scheme may also cover different segments of the public service or certain types of employees, such as teachers, fire-fighters and health-care professionals (as in England and Wales). In addition, a variety of supplemental schemes may top up income from basic pensions, which may be low because the intended purpose is to provide only a minimum pension (United Kingdom, United States, Sweden, etc.). Lastly, some supplemental systems are set up by geographic areas, such as the ones for the autonomous communities of Spain.

In the United Kingdom for example, occupational pension schemes have been in existence for a long time. Their purpose is to supplement the basic State pension. In 2000, the Second State Pension (SSP) replaced an earlier scheme. There is an opt-out mechanism whereby workers may choose to contribute to a company-sponsored occupational scheme instead of SSP. In such cases workers must take out individual pensions and/or invest in a stakeholder pension (retirement savings plans reserved for low-income employees with no access to an occupational scheme). If workers choose not to opt out, their pensions will be calculated according to a specified set of parameters (age, salary level, length of service, etc.). People opting out and having no supplemental pension must constitute an individual pension, the level of which will depend not on these parameters but rather on the return on investment of any contributions that are paid in. For public sector employees, the Principal Civil Service Pension Scheme (PCSPS) is the largest compulsory supplemental regime, since it encompasses central government officials covered by the Superannuation Act of 1972. Local government employees, health-care workers employed by the National Health Service (NHS) and teachers have their own supplemental plans. Local government employees, for example, are covered by the Local Government Pension Scheme (LGPS), which is the only funded, defined-benefit plan. All of these plans provide benefits comparable to those of the PCSPS. In the public service, 78% of workers belong to such a scheme. In 1995, 200 funds were in existence with 4.1 million members.

## *Special cases*

Special cases include schemes introduced for persons under contract to the civil service and schemes that add to basic pensions but are not considered supplemental schemes by the member countries (Japan, Finland and Spain, for example).

## Persons under contract to the civil service

In some countries, supplemental schemes have been set up for persons under contract to the civil service (France, Germany, Austria for example). The institution of such schemes has been motivated by a desire to narrow the gap between the (lower) pensions of these workers and the pensions paid to civil servants. In addition, these schemes also seek to compensate for the entitlements available to civil servants, such as job security. In France, IRCANTEC (*Institution de Retraite Complémentaire des Agents Non Titulaires de l'État et des Collectivités publiques*) was initially created to provide people working under contract for the State or a sub-national entity with a pension similar to the plan available to civil servants. This scheme is compulsory and works on a point system. IRCANTEC was set up prior to the supplemental regime introduced for civil servants in 2005. In Germany, the supplemental scheme for contract workers was instituted to give non-civil servants a pension equal to that of civil servants. Based on collective bargaining agreements, it is compulsory and provides benefits virtually identical to those paid out by the pension funds for federal and state government employees, such as the *Versorgungsanstalt des Bundes und*

*der Länder*, VBL<sup>6</sup>, etc. In Austria, supplemental pensions are provided for contract workers only (*Vertragsbedienstete*). These schemes are comparable to the ones in the private pension system in which employers and employees make joint contributions.

#### Schemes similar to supplemental pensions

The distinction between the first and second levels of pensions is not always clear. Additional or supplemental schemes can be incorporated into the first level despite the “supplemental” nature of their benefits. In Spain for example, the first pillar of the pension system is made up of a general scheme linked to salaries and financed by contributions, along with special schemes for civil servants working for the central government, the courts and the armed services. The social protection system reserved for civil servants is itself made up of two distinct programmes: a law covering pensioners of the State (the *clases pasivas* regime) and a system of mutual insurance limited to civil servants (*mutualismo administrativo*). The former is the Spanish pension system similar to social welfare and the second is like a contributory occupational scheme. In Finland, there are schemes that top up the basic pension without being characterised as supplemental pensions. Among them are VEL for central government employees and KVTEL for employees of local governments (local administrations). The situation is similar in Japan, where the National Public Personnel Mutual Aid scheme (NNPMA) for central government employees and the Local Public Services Mutual Aid Association Pension scheme (LPSMAAP) supplement basic pensions for public sector employees while at the same time being classified as part of the first pillar of pensions.

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6. This was closed in 2000.

### Annex 3: Summary of country level public sector pension reforms

**Australia** The Australian Government introduced the PSSap as a fully funded accumulation scheme for most new Australian Government employees since 1 July 2005. The Public Sector Superannuation Scheme (PSS), which was an unfunded defined benefit scheme established in 1990, was closed to new members from 30 June 2005. Since 1 July 2005, most new Australian Government employees have been able to choose to have employer contributions paid to PSSap or another complying superannuation fund or retirement savings account.

**Denmark** The current scheme came into effect in 1919. The reforms undertaken have not changed the formula for computing pensions. However, eligibility rules were amended. For example, the normal retirement age was lowered from 67 to 65 years. Buy-back of certain periods of absence is allowed in defined-benefit schemes. Legislation in the pipeline also provides for retirement prior to the statutory age. To encourage people to stay on the job, arrangements have been introduced for gradual retirement. An amendment is being prepared that would make it easier to retain certain categories of employees beyond the normal retirement age. These reforms seek to ensure the financial viability of the schemes and to introduce more flexibility, along with equality between workers. Certain segments of the public sector have in fact been privatised. Since 1 January 2001, appointments of public sector employees have been limited to a series of occupational categories specified in a circular of 11 December 2001. Staff not listed in the circular are considered to be in the private sector.

**Finland** Alignment between the private and public sectors has been ongoing since 1967. For instance, in 1989, partial pensions were introduced in both sectors. Beginning in 1993, a fundamental reform of public and private sector schemes was carried out with a view to correcting financial imbalances stemming from population ageing and early retirement. Because of the reform, the benefits for workers in the two sectors have become more evenly balanced. The reform, which had been intended to apply only to new entrants to the public sector, was eventually extended in 1995 to all persons under 55. The 1995 measures led to an increase in the normal retirement age (from 63 to 65) and in the contribution period (from 30 to 40 years). The annuity rate was cut to 1.5% per year instead of 2.2%.

In order to keep workers on the job after 55, the annuity rate was increased to 2.5% per year. As from 2005, the rate was set at 1.9% for people aged 53 to 62 and at 4.5% for those aged 63 to 68. Employees can also receive pension increases. The rules for the basic scheme were changed in 2005 but the benefits are the same for all. Periods of illness and parental leave now confer pension entitlement. The reference period for computing pensions was lengthened: the last four years in 1987, the last 10 in 1996, and the average salary over a person's entire working life in 2005.

This pension reform was accompanied by changes in government employment, which was reflected in the privatisation of state-owned enterprises. This shift led to a reduction in the categories of staff covered by the pension system. The number of state employees decreased by nearly 70,000 people between 1988 and 2003 – 90% because of privatisation and 10% because of staff cutbacks. Teachers and other public sector employees will get slightly less favourable pensions as a result of the changes in 1995.

Survivors' pensions are based strictly on the pension of the deceased worker.

**France** The civilian and military pension scheme has existed in its current form since 1924. It was reformed in 1947, in 1964 and more recently on 21 August 2003. For its part, the scheme applicable to civil servants working for sub-national authorities and public hospitals has been in existence since 1947. The 2003 reform applies to that scheme as well. This latest reform changed the pension calculation rules by gradually extending the mandatory contribution period for a full pension until 2020. It instituted a system of increases and decreases of the reference period to encourage civil servants to work longer.

Nevertheless, a public sector employee may not continue to work more than 10 quarters beyond the normal retirement age without incurring a penalty. The rules for drawing a pension and earning income at the same time were relaxed. Non-permanent employees who become civil servants are able to validate the time they served as non-permanent employees. In addition, public sector employees may opt to purchase years spent in higher education, although this entitlement is limited.

French legislation had to become compliant with European law in respect of pension benefits by virtue of the principle of equality between men and women. Provisions were adopted in favour of part-time workers, who are now eligible for the same benefits as those working full time, as long as they pay in the additional contributions. Progress was also made with respect to surviving spouse pensions, with the abolition of restrictions on the widowers or non-remarried divorced husbands of female civil servants.

**Netherlands** The current pension system dates back to 1922. In 1995, the legislation was amended. In 1996, the Netherlands' largest supplemental pension scheme (ABP) was privatised. The current rules took effect on 1 January 2004.

The formula for calculating old-age pensions was changed. The contribution period was increased, as was the normal retirement age (from 62 to 65). Since 2004, pensions are based on average earnings. Early retirement is still an option, although flexible pensions have been abolished. The "*levensloopregeling*" was introduced, replacing early retirement while keeping some elements of free choice over when to retire. In 2006, the minimum retirement age for public sector employees was raised from 55 to 60.

The scheme applicable to atypical workers was amended so that the entitlements conferred are similar to those of typical workers. Survivors' pension entitlements were cut in half.

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