# The Role of Social Partners in the Organization and Management of Occupational Pension Schemes

## Experiences from some countries

Contents of the presentation

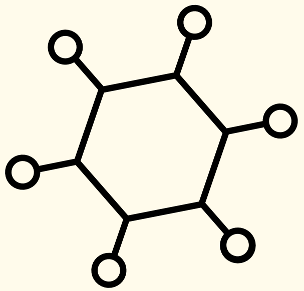
# What do I intend to talk about?
## Examples and more general thoughts

1. Introductory remarks
2. The involvement of social partners in social protection
3. Some examples of countries where social partners are involved in 2nd pillar pensions
   - Looking back: a short historical retrospect
4. Why would social partners take up a role in occupational pensions?
5. What form can the involvement of social partners take?
6. Prerequisites for a successful role of social partners in occupational pensions

# Talking about different counties and systems is dangerous

- I have only 45 minutes
- I cannot go into details, or be complete
- I am a human, and not a computer, I have only one mind, I cannot know everything. What I tell and think is not Artificial Intelligence !
- There will probably be a person in the audience who knows on a specific topic of my presentation, more and better than me

# Pension systems are deeply embedded into a countries culture
# There is nothing as an ideal pension system



- Culture: individualistic versus collective, “masculine” versus “feminine”, risk taking or risk averse, autocratic or democratic, influence of religion
- Stage of development of the economy and society: agricultural, industrial, service
- History: steady development and shocks in society
- Leading ideologies
- External influences

# I will talk as an academic

- Academic freedom
- Please have patience and don't shoot me if I mention things you don't agree with
- My objective is
  - To give you information on what other counties do, what worked well and what less
  - To give you material that inspires you to think broad and "out of your traditional box"
  - To avoid telling you what you should do. You know your situation better than I do

# The objectives of a good pension system

Deliver income means when retired

Secure and stable in the long run

Trusted

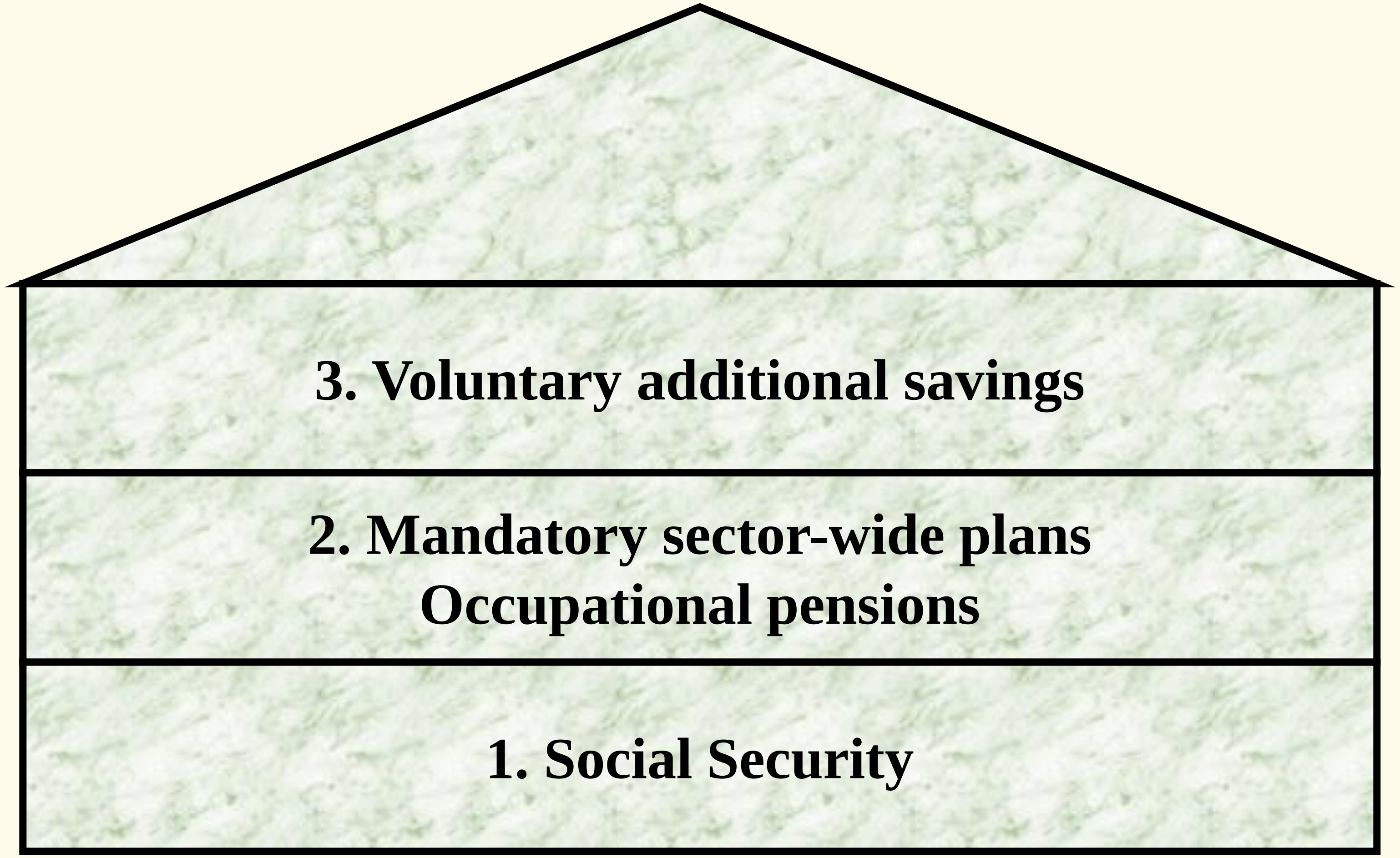
Understood

Some people add other objectives: long-term financial stability of the country, development of the financial market, limit the individual's dependency of the state, ...

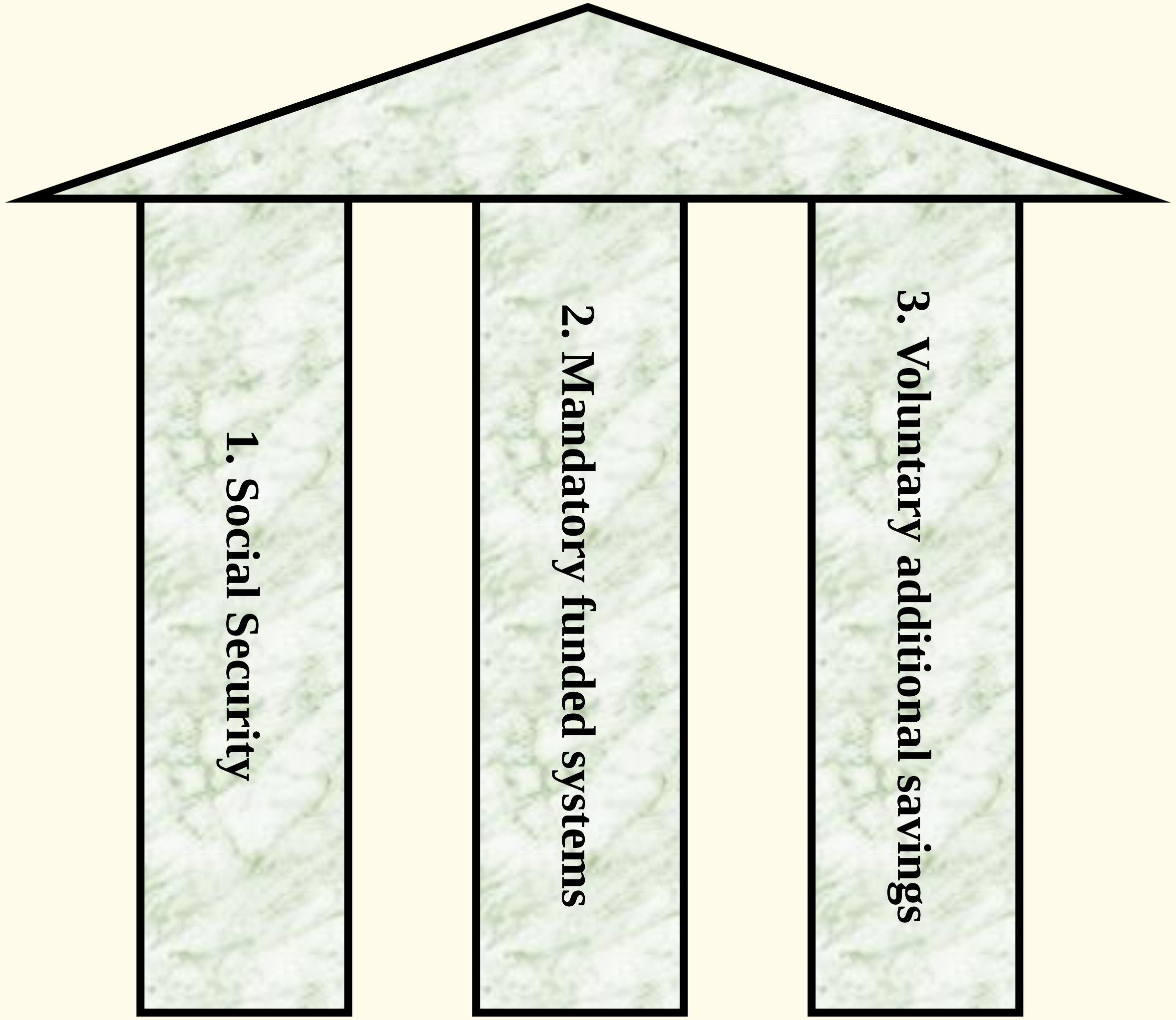
# I thought once that over time, we would no longer need to talk about the following slides, that turned out to be wrong

- There are different models for social protection
- One cannot talk about the role of social partners in social protection, without referring to these differences, and the ideological basis behind systems
- This is not about judging what system is the most performant, but rather about explaining differences
- At the turning of the millennium, social-democratic models prevailed in “old” Europe: often PAYG and funded systems simultaneously
- They often had historical reasons going back to the economical crisis of the thirties, and the rebuilding of economies after world war II
  - Social partners played and still play in a lot of countries a crucial role
- After the collapse of the communist world, international institutions started advocating for those countries a market driven approach, with focus on individualism and funding
  - Consequence: a lesser role for employers and social partners in pensions
  - After more than 25 years: was the radical shift a success?

# The 3-pillar model: the vision of "Old-Europe"



# The 3-pillar model: the Anglo-saxon vision



# The 3-pillarmodel of the World Bank that was the basis for a lot of reforms that started in the nineties

| | | | |
|---|---|---|---|
| objective | Redistibutive with co-assurance | Savings with co-assurance | Savings with co-assurance |
| form | Income related minimum guarantee or fixed amount | Individual savings or occupational plan | Individual savings or occupational plan |
| financing | Taxes | Regulated funded | Regulated funded |
| | Mandatory publicly managed 1th pillar | Mandatory privately managed 2nd pillar | Voluntary Privately managed 3th pillar |

# Countries where Social Partners are involved in 2nd Pillar (non-State/Social Security) Social Protection

| | Pen-sions | Paid holi-days | Health care | Health & Safety | Educa-tion & Training | Employ ment | Long Term Care |
|---|---|---|---|---|---|---|---|
| Austria | | X | | | | X | |
| Belgium | X | | | X | X | | |
| Bulgaria | | | | X | | | |
| Denmark | X | | | X | X | | |
| Finland | X | | | | | X | |
| France | X | X | X | X | X | X | X |
| Germany | X | X | | X | | | |
| Greece | | | | X | X | | |
| Iceland | X | | | | | | |
| Ireland | X | | | | | | |

| | Pen-sions | Paid holi-days | Health care | Health & Safety | Educa-tion & Training | Employ ment | Long Term Care |
|---|---|---|---|---|---|---|---|
| Italy | X | X | | X | X | X | |
| Liechtenstein | X | | | | | | |
| Luxemburg | X | | | X | | | |
| Netherlands | X | | | X | X | | |
| Norway | | | | | | | |
| Romania | | X | | X | X | | |
| Spain | | | | X | | | |
| Sweden | X | | X | X | | | |
| Switzerland | X | | | | | | |
| United Kingdom | X | X | | | | | |





Source: AEIP – Association of European Paritarian Institutions

# Let's look deeper at a few country examples

- The Netherlands
- Germany
- Finland
- France

# 150 years history

- State pension started early 20th century
- First occupational pensions end of 19th century
- 1947: general old age law – flat rate pension in PAYG
- Since 1946: further development of mandatory funded collective sector wide pension schemes
    - No competition on social protection
    - 1938: 8% of working population, today about 90%
    - Important role for social partners
- Occupational pensions on company level

# The structure of Dutch occupational pensions

- Plan features are defined in collective labor agreements, made mandatory
- Mostly on industry sector level
- Managed by pension funds organized by social partners and insurers
- Traditionally defined benefit
- Long negotiations between social partners and government led to a law on the future of pensions
  - Shift from DB to DC
  - Collective agreements regulate the transition

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# A specific history

- Germany was in ruins after World War II
- The eastern part (Deutsche Demokratische Republik) adopted a Soviet like model, the Western part (Bundesrepublik) restored its "Bismarck-type" social security
- Occupational pensions in the BRD were mainly directly paid by companies and financed through book reserves
  - Need to use capital rather for reconstruction
  - Often part of collective bargaining
- Today 5 different forms of occupational pension. The most frequently used variants are direct promises and direct insurance

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# Reforms are directed to more pension funding

- 68% of industrial manufacturing companies and 64 % of employees have an occupational pension, in the east 45% and 16%
- 3rd pillar “Riester and Rürup Rente” didn’t reach the intended success
  - Collective labor agreements could be concluded at company level whereby a contribution was taken up by the company
  - New
- 2018: Occupational Pensions Strengthening Act:
  - Enabled the establishment of "pure" defined contribution (DC) arrangements, subject to certain conditions
  - Possibility for employers to contribute to a pension arrangement for their employees, where the employee converts (sacrifices) salary to make pension contributions
  - Allowed "auto-enrolment" into an employer's salary sacrifice arrangement, with the employee having a right to opt out
- 2023: The German government plans to broaden the social partner pension model
  - A way to broaden participation to the $2^{nd}$ pillar
  - Talks in the metal, chemical and electricity industries
  - Discussion points: no guarantees, role of the social partners in financial issues

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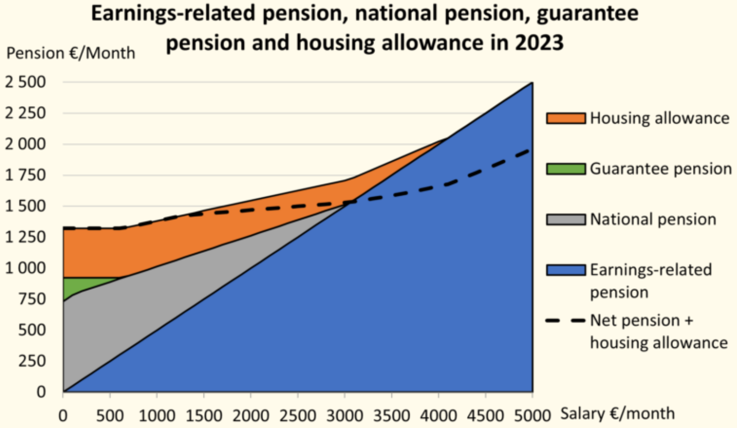
# Reforms are directed to more pension funding

- "Social partner models based on collective agreements are intended to make occupational pension schemes in Germany more attractive again and to contribute to a greater spread. The good experiences that have already been made in other countries with comparable systems for decades are now also possible in Germany" (Source: Uniper)
- The first plan under the new provision:
  - Collectively agreed employer contribution
    - A basic contribution of 2% of gross annual remuneration,
    - A matching contribution of 1/3 of the basic contribution in the case of employee contributions, and a cost and security contribution totaling 7% of the contributions paid.
    - A security buffer financed by the employer's security contribution can be used to compensate for market fluctuations in the retirement phase
    - If employees additionally convert their own remuneration, the employer pays an employer's contribution of 15% of the converted remuneration, insofar as social security contributions are saved through the remuneration conversion.

# The present system gained shape mainly about 70 years ago

- In old rural Finland the farmer surrendered his estate) to another person – often his son – in exchange for free board and keep on the farm for himself and his spouse for the rest of their lives
- With industrialization, pension funds appeared
- First general funded pension system in 1939, eroded by post-war inflation
- 1960: earnings related pension, funded, established through paritarian dialogue
- Today earnings-related pensions, national pension and guarantee pension + small part of supplemental pension


Source: Finnish Centre for Pensions

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# An atypical system created, managed and influenced strongly by social partners

- The Finnish practice of offering the total pension from a single scheme is exceptional from an international perspective.
  - A pensioner’s income typically consists of several sources
  - The basic pension is often supplemented by labor-market-based supplementary pensions paid by a particular sector or employer
  - These are often based on agreements between unions and employers
- Occupational pensions financed by employer and privately funded supplementary pensions complement income in retirement
  - They have a minor role.
  - Statutory pensions cover about 94 per cent of total pension provision.

# A long history

- Already in the 19th century employer's initiatives (retaining workforce), mutual insurers (territorial and interprofessional) and special regimes for certain professions
- 1894: law facilitating tripartite management of pension schemes
- Vichy-régime during WWII goes for funded schemes
- Post WW II: law on social security: universal base pension, tripartite
- "Régime complémentaire" (AGIRC - ARCCO)
  - mandatory 2nd pillar
  - defined benefit
  - managed by social partners
  - PAYG
- "Régime supplémentaire"
  - 2nd pillar sometimes with social partner involvement on top
  - funded

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# Social partners play an important role in occupational pensions
# There is a slow transition under way to more funding

- Social partners continue to put most emphasis on “plans complémentaires” – PAYG
  - The 1st complemented by the mandatory 2nd pillar remain the main income sources at retirement
- Before 2020 already funded additional plans (limited popularity)
  - Company plans for all the employees or a category
    - « art 83 » or « art 39 », or PERE (plan d'épargne retraite entreprise)
    - Often part of collective bargaining
- Since 2020 a whole family of PER products:
  - Individual savings plan
  - On the border between collective and individual: PERCO (Plan d'épargne retraite collectif)
  - Salary sacrifice plans
  - PERCO-I (plan d'épargne retraite collectif - Interentreprises)
    - Installed collectively but individual choice to participate
    - Possible for a group of companies
- More recently
  - New adherence to older type of plans stopped

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# Social partners play an important role in occupational pensions
# The market of funded occupational pensions today

- The most common plans in place are defined contribution plans (DC and PER-OB) and long-term savings plans (PERCO and PERECOL):
- DC type plans:
  - Income tax and social security charges exemptions on funding of the plan, provided certain requirements are met
  - The plan must be collective and mandatory for an objective category of beneficiaries
  - The plan must provide for an employer's contribution at a similar rate for all the beneficiaries.
  - The benefits provided can only be paid at retirement and served as a pension annuity
    - Lump sums and early withdrawals are not available except in limited cases
- Long term savings plans
  - All employee plan
  - The employee is free to contribute or not to the plan
  - Employee contributions to PEEs and PERCOs are limited to 25 per cent of the gross annual salary
  - The employer must pay for administration fees. In addition, he can provide for a matching contribution of mximum 300 per cent of the employee's contribution
  - Benefits paid at retirement age, possibly through a lump sum. Early withdrawals are allowed in case of death, disability, unemployment, insolvency or acquisition of the employee's main home

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# Social partners play an important role in occupational pensions
# The market of funded occupational pensions today

- Since 2019 new PER plans for all new affiliates
  - 3 contributions compartments
    - Employees' voluntary contributions
    - Employer's contributions coming from company profit sharing plans
    - Employer's and employees' mandatory contributions;
- Contributions are invested in pre-defined allocation monitored by the asset manager, or decided by the employee;
- Payment at retirement as annuity or lump sum
  - Early withdrawals in case of death, disability, unemployment, insolvency and acquisition of the main residence by the beneficiary;
- Full transferability when changing employment

# What do we learn out of these country examples

- The social partner model remains  to be considered as a meals for broad membership and for societal acceptance
- Tendency towards pure defined contribution, although a demand for solidarity tools and collective redistribution is present
- Are European systems that were constructed along very different lines, through incremental reforms over the very long term slowly growing towards each other ?

# Western European social partners became more involved after the war

- In a lot of western European countries, a tripartite pact between government, employers and workers created the conditions for a fast reconstruction of the economy after World War II
- Government:
  - Development of a social policy to avoid crises like in the thirties
  - More control on the financial system
- Employers:
  - Invest and rebuild
  - Emphasis on employment
  - Accept social dialogue and co-management in social security institutions
- Unions:
  - Social peace mechanisms
  - Role in management of social security institutions

# The idea of social partnership is not shared everywhere

- Late 19th and early 20th century ideological currents in Europe about dealing with social conflict between capital and labor
  - Influence of the catholic church: intellectual roots for its social theory, in Papal encyclics, e.g., Rerum Novarum (1891) and Quadregesimo Anno (1931)
  - Reform liberalism, and reformist wings of the trade unions and socialist parties advocate social partnership rather than socialist and Marxist dogmata of class conflict and revolutionary change
  - The right of workers to form unions to represent their interests becomes recognized (still not everywhere)
  - The conflict between capital and labor is not regarded as a zero-sum game, in which one party gains only at the expense of the other, but as a positive-sum game in which both parties will gain from co-operative behavior, or both might lose because of non-cooperative behavior.

# Striving for a win-win situation

- Pensions are an important topic in social dialogue
  - Link with collective wage negotiations
- Social peace is crucial
- Managing things together forces unions to leave a pure conflict model
- More acceptance when deals are negotiated
- More trust

# Social partners can be involved at different levels

- Collective bargaining
- Collective labor agreements
  - On company level
  - On industry-wide sectoral level
  - On national level
- Participation in the management
  - Oversee
  - Co-manage
- Law preparation

# Prerequisites for a successful role of social partners in occupational pensions

- Strong and trusted social partners
  - At different levels: state, industry sector, enterprise
  - Representative bodies for employers and employees
  - A government that allows social partners to play a role
- An institutional framework allowing for negotiations and binding collective agreements
- A culture of respectful agreements and disagreements

# Channels of influence weaken

- Channels of influence weaken
  - Institutions of corporatism are less influential than in the past due to the globalization of production and the declining influence of trade union
  - Increased interventions of governments
  - Market based accounting rules increase short term thinking

Thank you for your attention