

LUXEMBOURG



DEMOGRAPHICS AND MACROECONOMICS

Data from 2008 or latest available year.
 1. Ratio of over 65-year-olds the labour force.
 Source: OECD, various sources.

COUNTRY PENSION DESIGN

STRUCTURE OF THE PENSION SYSTEM

Public pensions

- The public pension scheme in Luxembourg has two components, a flat-rate part contingent on years of coverage and an earnings-related part.
- There is also a minimum pension.

Private pensions: occupational (voluntary)

- *Association d'Epargne Pension (ASSEP)* and *Société d'Epargne Pension à Capital Variable (SEPCAV)*
- Pension funds
- Group insurance contracts (traditional and index-linked)
- Book reserve systems

Private pensions: personal (voluntary)

- Individual personal savings contracts

Source: OECD Global Pension Statistic.

PENSION FUNDS DATA OVERVIEW

	2001	2002	2003	2004	2005	2006	2007	2008
Assets								
Total investments (National currency millions)	ND	ND	ND	93	320	354	374	390
Total investments, as a % of GDP	ND	ND	ND	0.34	1.06	1.04	1.00	0.99
Of which Assets overseas, as a % of Total investment:								
• Issued by entities located abroad	ND	ND	ND	ND	25.71	25.62	16.01	14.71
• Issued in foreign currencies	ND	ND	ND	ND	ND	ND	ND	ND
By financing vehicle (as a % of Total investments)								
• Pension funds	ND	ND	ND	100.00	100.00	100.00	100.00	100.00
• Book reserves	ND	ND	ND	ND	ND	ND	ND	ND
• Pension insurance contracts	ND	ND	ND	ND	ND	ND	ND	ND
• Other financing vehicle	ND	ND	ND	ND	ND	ND	ND	ND
By pension plan type								
• Occupational assets	ND	ND	ND	93	320	354	374	390
• % of DB assets	ND	ND	ND	100.00	89.40	88.02	85.71	88.15
• % of DC (protected and unprotected) assets	ND	ND	ND	0.00	10.71	11.98	14.29	11.85
• Personal assets	ND	ND	ND	ND	ND	ND	ND	ND
Structure of Assets (as a % of Total investments)								
Cash and Deposits	ND	ND	ND	6.24	3.91	2.83	2.19	13.50
Fixed Income	ND	ND	ND	44.73	19.37	20.43	21.57	18.88
Of which:								
• Bills and Bonds issued by the public and private sector	ND	ND	ND	44.73	19.37	20.43	21.57	18.88
• Loans	ND	ND	ND	0.00	0.00	0.00	0.00	0.00
Shares	ND	ND	ND	19.29	3.50	0.94	0.00	0.19
Land and Buildings	ND	ND	ND	0.00	0.00	0.00	0.00	0.00
Other Investments	ND	ND	ND	29.73	73.22	75.79	76.24	67.44
Contributions and Benefits								
Total Contributions, as a % of GDP	ND	ND	ND	0.05	0.15	0.11	0.10	0.19
• Employer Contributions, as a % of Total contributions	ND	ND	ND	ND	ND	85.48	ND	99.66
• Employee Contributions, as a % of Total contributions	ND	ND	ND	ND	ND	0.46	ND	0.34
Total Benefits, as a % of GDP	ND	ND	ND	0.02	0.07	0.06	0.07	0.05
• % of benefits paid as a Lump sum	ND	ND	ND	ND	ND	ND	ND	ND
• % of benefits paid as a Pension	ND	ND	ND	ND	ND	ND	ND	ND
Membership (in thousands of persons)¹								
Total membership	ND	ND	ND	3	11	12	12	9
• % of Active membership	ND	ND	ND	ND	ND	94.29	93.83	95.97
Of which: % of Deferred membership	ND	ND	ND	ND	ND	3.17	1.60	2.54
• % of Passive membership	ND	ND	ND	ND	ND	5.71	6.17	4.03
Other beneficiaries	ND	ND	ND	ND	ND	ND	ND	ND
Number of Pension Funds/Plans								
Total number of funds	ND	ND	ND	3	16	18	17	18
Total number of plans	ND	ND	ND	3	19	20	19	21

Note: 2004 data refer only to pension funds supervised by the *Commissariat aux Assurances*, while the following years data from pension funds supervised by the CSSF are also included.

1. Membership figures reflect 'membership' rather than 'people'. Therefore a person may be a member of more than one types of plan at any one time, particularly if the person has a number of employments in the year.

ND = data not available

NA = data not applicable

Source: OECD, Global Pension Statistics

LUXEMBOURG: THE PENSION SYSTEM'S KEY CHARACTERISTICS

PUBLIC PENSION

The public pension scheme has two components: a flat-rate part depending on years of coverage and an earnings-related part. There is also a minimum pension. The scheme covers all economically active persons in the private and public sector, including the self-employed. Contributions amount to 8% of gross earnings for insured workers and 8% for employers. The self-employed pay 16% of net taxable income. Minimum monthly earnings for contribution and benefit calculation purposes are equal to the social minimum wage (€1,503.42); maximum earnings are equal to five times the social minimum wage (€7,517.12). The government also provides a subsidy of 8% of gross earnings.

An early pension is payable from age 57 with 40 years of contributions (compulsory or voluntary). The normal pension age is 65, provided the worker has made at least ten years' contributions. Retirement is necessary at 65, but after that age it is possible to combine work and pension benefits without reductions in the pension benefit.

The flat-rate part amounts to €353.36 a month if insured for at least 40 years (reduced by 1/40 for each year of insurance less than 40). There is also an end-of-year allowance, which adds €50 per month to the pension for those who have 40 years of contributions (reduced pro rata for those with less than 40 years). The earnings-related part is measured over adjusted lifetime earnings and accrues at a rate of 1.85%. The accrual rate is higher for older workers and those with longer contribution periods.

The minimum monthly pension is €1,353.29 if the insured has at least 40 years of insurance (reduced pro rata for shorter contribution periods). The maximum monthly pension is €6,265.25. Benefits are indexed to changes in the cost of living and are periodically adjusted according to changes in wages.

There is a social assistance safety-net level of €999 (2004) per month for a single person.

OCCUPATIONAL VOLUNTARY

Coverage

A single employer or a group of employers may establish a voluntary occupational pension plan for their employees. The self-employed may also set up their own occupational plans. Employees newly hired by a sponsoring employer on or after 1 January 2000 and eligible for plan membership must become members. Civil servants are covered by separate public-sector plans, which are not discussed here. Employers may restrict plan membership to employees with earnings above the social security ceiling. The minimum age limit for admission to an occupational pension plan is usually 25. In 2006 the coverage rate was 5.4% of the economically active population.

Typical Plan Design

Voluntary occupational pension plans can be defined benefit or defined contribution in nature, or a hybrid of the two. In 2006, approximately half of all privately managed pension funds financed defined benefit plans and the other half defined contribution schemes. However, defined benefit plans, which are typically linked to final salary earnings, covered approximately 87% of pension plan members.

Defined contribution plans typically require employer contribution rates of between 2% and 5% of salary.

Employee contributions to pension funds and group insurance plans are voluntary. As for group insurance, employees usually contribute between 3% and 5% of salary under both defined benefit and defined contribution plans, although book reserve systems are non-contributory for employees. Employer contributions may not exceed 20% of salary.

All pension schemes operated by SEPCAVs are of the defined contribution type and offer several investment options to their members. ASSEPs offer any type of pension arrangements, *i.e.* schemes with defined contributions or defined benefits, as well as hybrid schemes. For schemes with defined contributions, it is generally foreseen that the benefits are allocated in the form of a lump-sum payment. Similarly, in most schemes with defined benefits, the payment of the retirement capital can be made as a lump sum. In some defined benefit schemes, members may nevertheless opt for benefits in the form of a lump sum or annuity. If a member opts for an annuity, the benefit is either externalised with an insurance undertaking or the pension fund itself bears the risk of the lifelong pension.

Group insurance and book reserve schemes usually aim to provide a benefit target, which often integrates social security benefits.

The retirement age is usually 65 for both men and women, though in 2006 the average actual retirement age was 62. Provision for early retirement from age 60 is common, though actuarial reductions apply.

Taxation

Employee and employer contributions enjoy tax relief if employer contributions or allocations to book reserves do not exceed 20% of the annual payroll, and if the total benefit target for old-age pensions under defined benefit plans does not exceed 72% of final pensionable salary. Investment income from pension funds is tax-exempt.

PERSONAL VOLUNTARY

Coverage

Anyone may enter into an individual pension savings contract.

Contributions

Contribution rates are set out in the contract terms and conditions.

Benefits

Individual pension saving contracts are defined contribution in nature. Half of an insured person's benefits can be paid out as a lump sum.

Taxation

The portion of benefits paid out as a lump sum is tax-free, while the remaining annuity is taxable at a low rate.

MARKET INFORMATION

Occupational voluntary

At the end of 2006 there were 14 occupational pension funds on the market, of which four were SEPCAVs and ten were ASSEPs. Although the CSSF (see below) reported that the pension market stagnated in 2006, it expects a slow but steady development of the pension market in coming years. SEPCAVs, offering defined contribution plans only, propose plan members various investment portfolios. Most pension plans offer survivor benefits in addition to old-age pensions, while some also provide disability benefits. Those employers who offer book reserve schemes must obtain credit insurance.

In December 2006, there were 8 125 participants in ASSEPs and SEPCAVs in total. Total assets worth EUR 242.1 million (USD 331.7 million).

Personal voluntary

Policy holders have various investment options, including unit-linked products.

POTENTIAL REFORM

The Luxembourg pension regulatory environment has seen no major reforms since the 2005 Act on Occupational Pension Institutions taking the form of SEPCAV and ASSEP was passed. Regulations provide an attractive environment for the establishment of Paneuropean pension institutions, raising the expectation that a considerable number of these will locate to Luxembourg.

REFERENCE INFORMATION

KEY LEGISLATION

2005: The Law of 13 July governs occupational retirement institutions which take the form of pension savings companies with variable capital (SEPCAVs) and pension savings associations (ASSEPs).

2000: Grand Ducal Regulation of 31 August, adopted under the terms of the Insurance Law, relates to the supervision of insurance companies.

1999: The Complementary Pensions Act regulates three types of complementary occupational pension plans. It provides for their registration and supervision, regulates minimum requirements for the vesting and transferability of accrued rights, prohibits discrimination between men and women, and determines the tax treatment of contributions, investment income, and benefits. It covers pension plans, group insurance and book reserve schemes.

1991: The Insurance Sector Act provides for the authorisation and supervision of insurance companies, including those administering group insurance contracts. It regulates minimum requirements for such administration.

1967: Article 111bis of the amended Law on Revenue Taxation is concerned with individual pension savings contracts.

KEY REGULATORY AND SUPERVISORY AUTHORITIES

The Ministry of Social Security, which provides supervision of the public pension scheme;

www.mss.public.lu.

The *Commissariat aux Assurances* carries out prudential supervision of insurance organisations, including pension funds, and is responsible for licensing;

www.commassu.lu.

The *Inspection Générale de la Sécurité Sociale*, or Social Security Inspectorate, is responsible for complementary occupational pension plans.

The *Commission de Surveillance du Secteur Financier* (CSSF) is the competent authority for the supervision of pension funds governed by the Law of 13 July 2005 relating to institutions for occupational retirement provision that take the form of pension savings companies with variable capital (SEPCAVs) and pension savings associations (ASSEPs).

KEY OFFICIAL STATISTICAL REFERENCE AND SOURCES ON PRIVATE PENSIONS

Commissariat aux Assurances;

www.commassu.lu.

Commission de Surveillance du Secteur Financier (2007), Annual Report, www.cssf.lu/uploads/media/RA2007_chap03_eng.pdf.

OECD, Global Pension Statistics project, www.oecd.org/daf/pensions/gps.

OECD Est. Gross Replacement Rate Mandatory Pensions, Average Earner 2009









