LUXEMBOURG

DEMOGRAPHICS AND MACROECONOMICS

Nominal GDP (EUR bn)	**39 348**
GDP per capita (USD)	**117 967**
Population (000s)	**484**
Labour force (000s)	**360**
Employment rate	**96.9**
Population over 65 (%)	**14**
Dependency ratio[1]	**18.8**

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 pensio scheme in Luxembourg has two components, a flat-rate prat contenget on years of coverage adn an earnings-related part.
- There is also a minimum pension.

Private pensions: occupational (voluntary)

- *Association d'Epargne Pension* (ASSEP) and *Societe d'Epargne Pension a 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 vehicule	*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 €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).

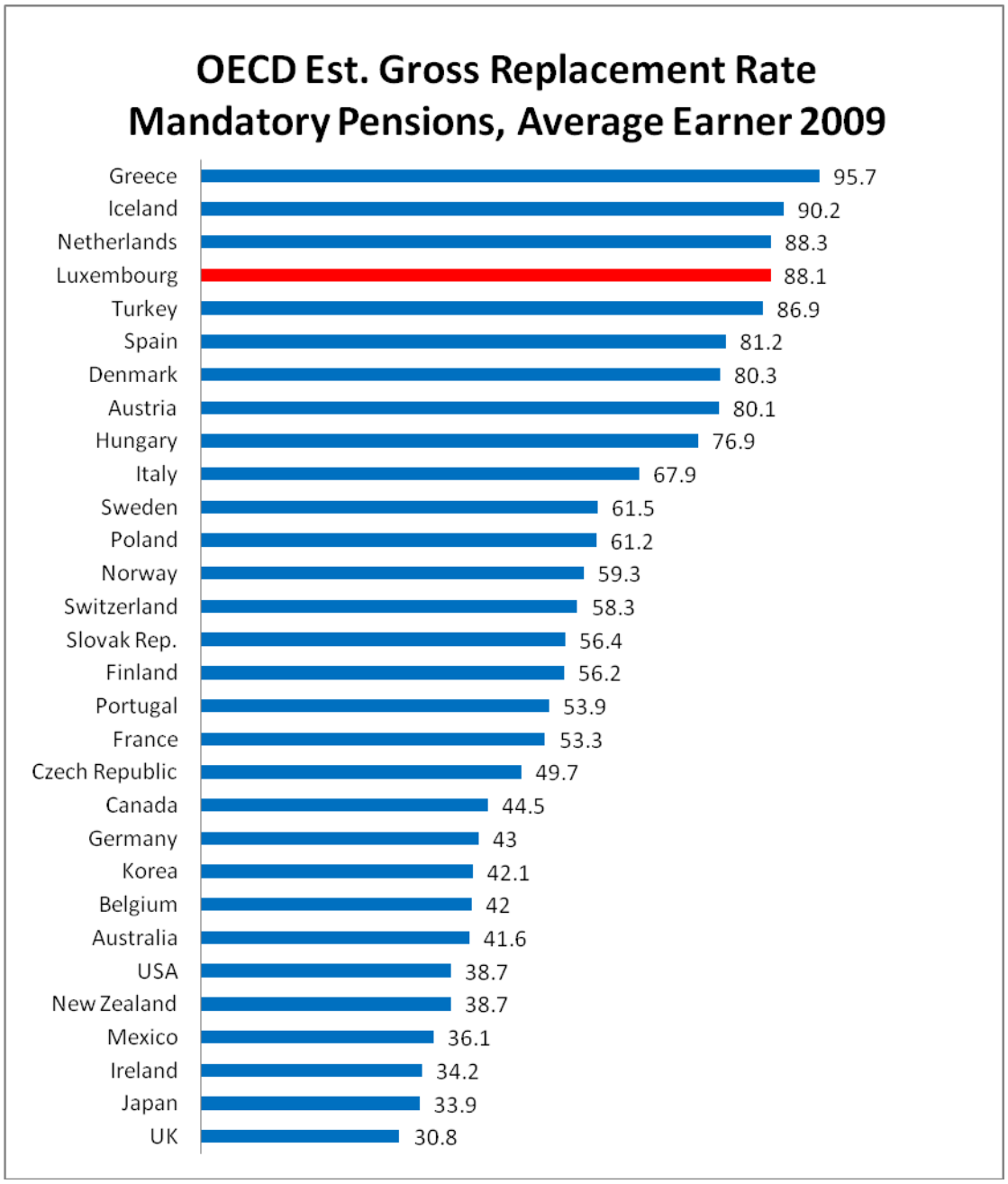
KEY OFFICIAL STATISTICAL REFERENCE AND SOURCES ON PRIVATE PENSIONS

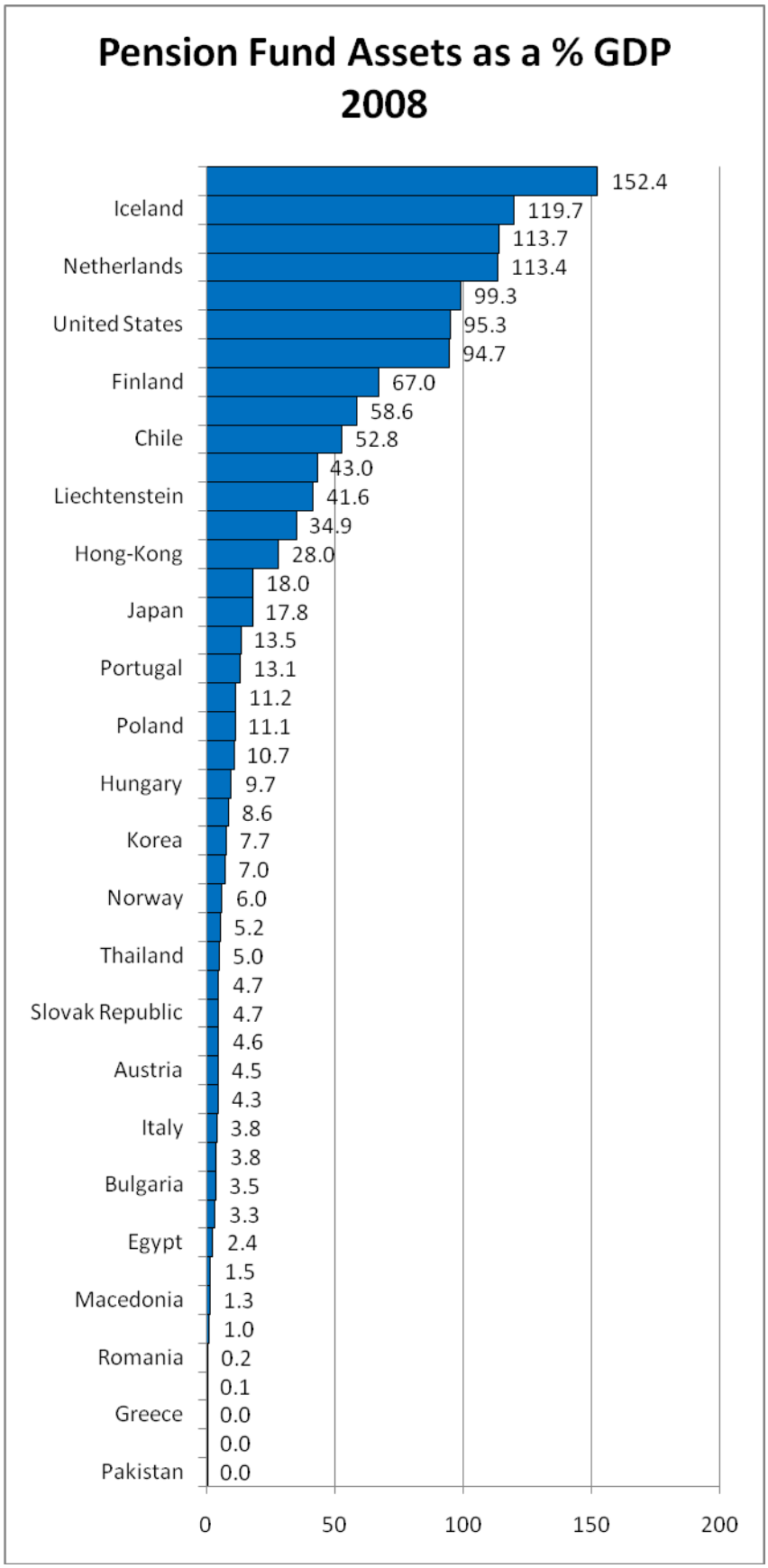
Commissariat aux Assurances;

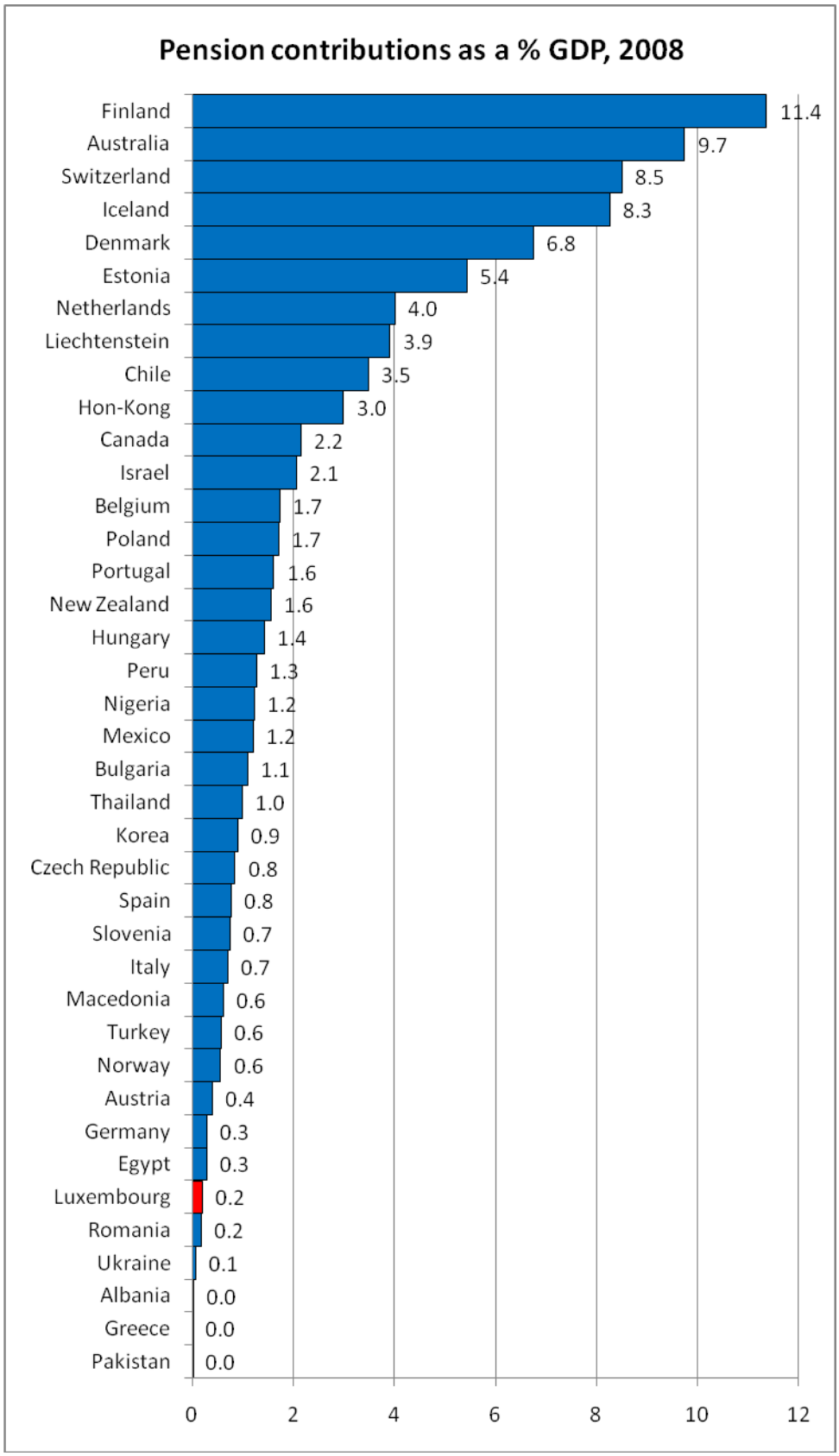
www.commassu.lu.

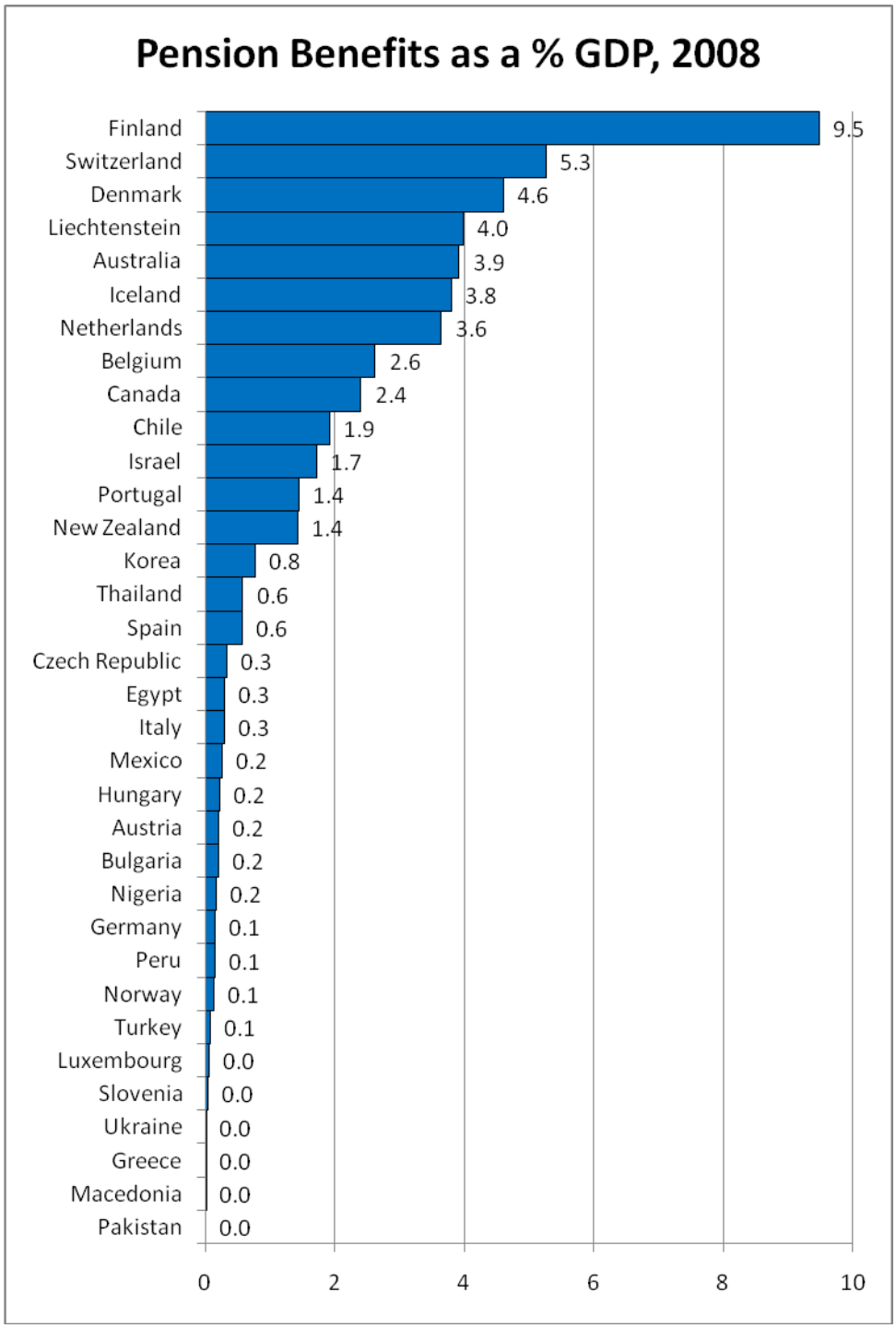
Commission de Surveillance du Secteur Financier (2007), Annual Report, www.cssf.lu/uploads/media/RA2007_chap03_eng.pdf.

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


OECD Est. Gross Replacement Rate
Mandatory Pensions, Average Earner 2009
Greece 95.7
Iceland 90.2
Netherlands 88.3
Luxembourg 88.1
Turkey 86.9
Spain 81.2
Denmark 80.3
Austria 80.1
Hungary 76.9
Italy 67.9
Sweden 61.5
Poland 61.2
Norway 59.3
Switzerland 58.3
Slovak Rep. 56.4
Finland 56.2
Portugal 53.9
France 53.3
Czech Republic 49.7
Canada 44.5
Germany 43
Korea 42.1
Belgium 42
Australia 41.6
USA 38.7
New Zealand 38.7
Mexico 36.1
Ireland 34.2
Japan 33.9
UK 30.8


Pension Fund Assets as a % GDP
2008
Iceland 152.4
Netherlands 119.7
United States 113.7
Finland 113.4
Chile 99.3
Liechtenstein 95.3
Hong-Kong 94.7
Japan 67.0
Portugal 58.6
Poland 52.8
Hungary 43.0
Korea 41.6
Norway 34.9
Thailand 28.0
Slovak Republic 18.0
Austria 17.8
Italy 13.5
Bulgaria 13.1
Egypt 11.2
Macedonia 11.1
Romania 10.7
Greece 9.7
Pakistan 8.6
7.7
7.0
6.0
5.2
5.0
4.7
4.7
4.6
4.5
4.3
3.8
3.8
3.5
3.3
2.4
1.5
1.3
1.0
0.2
0.1
0.0
0.0
0.0
0
50
100
150
200


Pension contributions as a % GDP, 2008
Finland 11.4
Australia 9.7
Switzerland 8.5
Iceland 8.3
Denmark 6.8
Estonia 5.4
Netherlands 4.0
Liechtenstein 3.9
Chile 3.5
Hon-Kong 3.0
Canada 2.2
Israel 2.1
Belgium 1.7
Poland 1.7
Portugal 1.6
New Zealand 1.6
Hungary 1.4
Peru 1.3
Nigeria 1.2
Mexico 1.2
Bulgaria 1.1
Thailand 1.0
Korea 0.9
Czech Republic 0.8
Spain 0.8
Slovenia 0.7
Italy 0.7
Macedonia 0.6
Turkey 0.6
Norway 0.6
Austria 0.4
Germany 0.3
Egypt 0.3
Luxembourg 0.2
Romania 0.2
Ukraine 0.1
Albania 0.0
Greece 0.0
Pakistan 0.0
0
2
4
6
8
10
12


Pension Benefits as a % GDP, 2008
Finland 9.5
Switzerland 5.3
Denmark 4.6
Liechtenstein 4.0
Australia 3.9
Iceland 3.8
Netherlands 3.6
Belgium 2.6
Canada 2.4
Chile 1.9
Israel 1.7
Portugal 1.4
New Zealand 1.4
Korea 0.8
Thailand 0.6
Spain 0.6
Czech Republic 0.3
Egypt 0.3
Italy 0.3
Mexico 0.2
Hungary 0.2
Austria 0.2
Bulgaria 0.2
Nigeria 0.2
Germany 0.1
Peru 0.1
Norway 0.1
Turkey 0.1
Luxembourg 0.0
Slovenia 0.0
Ukraine 0.0
Greece 0.0
Macedonia 0.0
Pakistan 0.0
0
2
4
6
8
10