IOPS COUNTRY PROFILE: LUXEMBOURG

DEMOGRAPHICS AND MACROECONOMICS

Nominal GDP (EUR mln)	55 299
GDP per capita (USD)	104 027
Population (000s)	602
Labour force (000s)	432
Employment rate	94,1
Population over 65 (%)	14,2
Dependency ratio[1]	20.4

Data from 2017 or latest available year. Source: OECD; on the Statec website (www.statec.lu)

1. Ratio of over 65-year-olds to age group 15-64. Source: OECD (2014).

LUXEMBOURG: 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 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.

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 (€1,998.59); maximum earnings are equal to five times the social minimum wage (€9,992.95) (January 2018). 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 €478.25 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 1.81%. The accrual rate is higher for older workers and those with longer contribution periods.

The minimum monthly pension is €1,780.45 if the insured has at least 40 years of insurance (reduced pro rata for shorter contribution periods). The maximum monthly pension €8,242.81. 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 €1,437 (2018) 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.

Typical Plan Design

Voluntary occupational pension plans can be defined benefit or defined contribution in nature, or a hybrid of the two. In 2017, 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 72% 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.

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 2017 there were 13 occupational pension funds on the market, of which two were SEPCAVs and eleven were ASSEPs. 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 2017, there were 16.466 participants in ASSEPs and SEPCAVs in total. Total assets worth EUR 1,551 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 (2017), Annual Report, http://www.cssf.lu/fileadmin/files/Publications/Rapports_annuels/Rapport_2017/CSSF_RA_2017.pdf

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