Portability of Supplementary Pension Rights in The European Union

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Abstract

European Union legislation on portability of supplementary pension rights accrued by private sector migrant workers is at an early stage. The recent directive on this topic, aiming to preserve accrued pension rights at least at the level guaranteed in case of within borders mobility, emphasizes the role of country specific legislation on pension portability issues. This paper analyzes EU as well as country specific pension portability regulation for a representative sample of EU countries, in the light of recent empirical evidence on the role of occupational pensions on individual job mobility choices in these countries.

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1 Introduction

Promoting labor mobility within European Union (EU) is a fundamental aim of the Community. Application of the principle of workers' freedom of movement stated in the Rome Treaty should guarantee transferability of pension rights, either statutory or supplementary, within the EU Area. However, while coordination of mandatory public pension schemes through a number of regulations allows private sector migrant workers to fully preserve their accrued statutory pension rights, legislation on portability of supplementary pension rights is just moving its...rst steps. After a long discussion and various European Commission (EC) proposals, a directive on safeguarding the supplementary pension rights of workers moving within European Union has been adopted by the Council of Europe in June 1998\(^1\). The approach followed, aiming to preserve migrant workers' pension rights at least at the level guaranteed in the case of within border mobility, emphasizes the role of country specific pension regulation for both within and cross borders pension portability. In the light of this recent legislative outcome and of some recent evidence on the pension-mobility relationship in EU countries\(^2\), this paper proposes a comparative analysis of pension portability regulation for a representative sample of EU Member States, while at the same time providing descriptive statistics on occupational pension coverage structure and on the pensions-mobility relationship for the countries under study.

The paper is divided in six sections. Next section defines the pension portability concept while limiting the scope of the paper through definition of a common cross countries terminology for occupational pension plans. The third section presents some descriptive statistics on occupational pensions structure and job mobility, while sections four and ...ve analyze recent developments in EU and country specific pension portability regulation. Section six concludes the paper.

2 Definitions

Pension portability can be defined as the capacity of workers covered by an occupational pension plan to preserve the actuarially fair value of their accrued rights while moving to a different employer and possibly to a different pension scheme. When a mover is not entitled to full preservation of the real value of his accrued rights over time, either in the old or in the new scheme, pension portability is not guaranteed and a portability loss is expected to arise. The latter can be defined as the shortfall of actual retirement benefits from those that would have been paid if there had been no change in scheme membership as a consequence of job separations during worker's career.

Distinction between defined contribution and defined benefit pension schemes is crucial for portability analysis.

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1. Directive 98/49/EC.
2. See Andrietti (forthcoming).
In defined contribution plans the employer promises an annual contribution to the worker’s individual account, which is then invested on behalf of the worker. After a short vesting period the worker assumes ownership of his pension account; this ensures full portability of accrued pension rights. Upon retirement the worker is entitled either to an actuarially fair lump sum or to a pension annuity.

In the typical defined benefit plan the employer promises, in exchange of implicit wage reductions, a prespecified pension annuity, based on a formula which accounts for years of pensionable service, the last wage before retirement and an annual accrual rate. Under the implicit contract theory of pensions\(^3\), at any point prior to normal retirement age the present value of accrued pension rights is less than the present value of the accumulated implicit contributions\(^4\). Early leavers are credited, upon retirement, a pension annuity calculated on the basis of the leaving salary, while giving up the option of further accruals, due to real wage growth and inflation, on past credited pensionable service years. This typical backloaded structure generates turnover and retirement incentives assigning to defined benefit pensions a prominent role in a variety of labor market implicit contract models\(^5\).

For purposes of analysis it is useful to classify pension portability losses as follows:

a) Vesting losses: are those suffered by workers leaving their plan before completion of the vesting period;

b) Pension annuity losses: arise when early leaver’s accrued pension rights are calculated on the basis of the leaving salary without taking full account of wage dynamics until retirement.

The above concepts are better illustrated by the following example.

Assume a worker starts a pension covered job at age 25 and retires at 65, the plan’s normal retirement age. During his career the worker can join a different job offered by an alternative firm. Assume the worker’s career wage earnings follow the same path in the current as well as in the alternative job, summarized as: 10,000 Euro for the first 9 years of service; 15,000 from year 10 to year 19; 20,000 from year 20 to year 29 and 25,000 from year 30 to year 40.

Assume also that both firms offer the same defined benefit plan, accruing pension benefits on the basis of the following formula:

\[
P = 0.02 \pi T \pi W(L);
\]  

\(^3\)Ippolito (1985).

\(^4\)Here the worker is assumed to commit to a long term contract with the firm, with implicit pension contributions calculated on the basis of the last wage before retirement. Alternatively, under a legal theory pensions impose no quit penalty given that both implicit contributions and early leavers’ pensions are calculated on the current wage. Most of the empirical evidence (Ippolito (1985) and Kotlikoff and Wise (1985) among others) supports the implicit contract theory.

\(^5\)See Dorsey (1995) and the literature cited therein.
where:

\[ T = \text{years of service}; \]
\[ 0.02 = \text{annual accrual rate}; \]
\[ W(L) = \text{last wage}. \]

The "vesting period", defined as the period of membership to a scheme which an individual must have completed before being entitled to any pension right, is set at 5 years.

Finally, assume that worker's career can follow three different paths:

a) If the worker spends all his career with the current firm, he would accrue a retirement pension annuity amounting to:

\[ P_a = 0.02 \times 40 \times 25:000 = 20:000; \]  

(2)

b) In case the worker changes job after 3 years, thus before completing the vesting period, remaining then with the new firm until retirement, his pension annuity at retirement would be:

\[ P_b = 0.02 \times 37 \times 25:000 = 18:500; \]  

(3)

corresponding to 74% of his final wage. The vesting loss corresponds then to 6% of the last wage.

c) In case the worker moves to the alternative firm after 19 years and stays thereafter, he would receive, upon retirement, two pension annuities amounting to:

\[ P_{\text{current}} = 0.02 \times 19 \times 15:000 = 5:700; \]
\[ P_{\text{alternative}} = 0.02 \times 21 \times 25:000 = 10:500; \]
\[ P_{\text{total}} = 5:700 + 10:500 = 16:200; \]

corresponding to 64.8% of the last wage. In this case pension portability loss would amount to 15.2% of the final wage.

The above example clearly shows that a loss of pension rights can occur, in the case of moving to another employer, even for vested workers. While vesting losses usually arise to workers covered either by a defined contribution or defined benefit plan, pension annuity losses arise typically to vested workers covered by defined benefit plan. Defined contribution plans are usually fully portable in that they allow vested early leavers to withdraw the actuarially fair value of their accrued pension rights.

In general, pension portability analysis can be undertaken at two different levels.

Within-borders pension portability refers to the preservation of pension rights accrued by workers moving within national borders, being strictly tied to country specific regulations and pension plan design choices.
Cross-borders pension portability refers to the safeguard of pension rights accrued by workers moving to a different country. In this case differences in country specific pension portability regulation, including tax and plan design aspects, enter into the picture putting additional constraints to labor mobility.

The latter approach is particularly relevant in the EU context, where the last years have seen the rise of a wide institutional debate focusing on the issue of pension portability for cross borders migrant workers.

Analysis of such an important issue requires to establish a common terminology, as that used for retirement pension plans, particularly for those supplementing statutory schemes, varies widely from one country to another.

The standard "three pillars"\textsuperscript{6} classificatory framework can be helpful in clarifying analysis.

The first pillar corresponds to public, national, statutory basic retirement plans; they have mandatory nature, conditional on residence or employment in the State, providing flat rate and/or earnings related benefits. Schemes belonging to the first pillar are usually funded on a pay-as-you-go basis and publicly managed, even if there are cases where one of these latter elements is missing (being the schemes funded or privately managed).

The second pillar includes supplementary pension schemes, sponsored by employers directly or as a result of collective agreements. They can be funded or unfunded (pay as you go), and are generally privately managed\textsuperscript{7}.

The third pillar is composed by personal funded savings and retirement plans offered by insurance companies, banks and other private sector financial institutions.

Definition of private and public schemes is relevant to distinguish basic statutory schemes (first pillar), being usually implicitly assumed a biunivocal correspondence between basic and public schemes by one side and supplementary and private schemes by the other side. However, this assumption does not always seem to be true\textsuperscript{8}.

First, the State as an employer can provide supplementary pensions. Second, it is possible to find supplementary schemes that, even if privately set up and administered, are designed and/or regulated in such a way that makes them substantially very close to public schemes. Indeed, a very important element to consider in a classificatory analysis of pension schemes' public/private nature is the extent of government intervention in their establishment and regulation.

It can be useful to illustrate through examples how the distinction between

\textsuperscript{6}This definition does not imply that each pillar is independent from the others, as the term pillar could be understood. To highlight this concept recent literature on pensions usually substitutes the latter term by tier.

\textsuperscript{7}An interesting exception is represented by ABP, in Netherlands. This scheme, covering public sector employees, is organized as an industry wide fund and funded through capital funding. However, it has always been exempted from supervision of the Pension Chamber and publicly managed. His recent privatization has brought it within the pension funds regulation giving to government the status of a normal employer, and to employees the right to bargain pension arrangements directly with their employer (the state), while the scheme management is still public.

\textsuperscript{8}See apRoberts (1993).
...rst and second pillar as well as that between private and public schemes can be blurred in reality. In countries like Denmark and United Kingdom (UK) the basic statutory public pension is integrated by a supplementary statutory pension - Labour Market Supplementary Pension Scheme (ATP) and Supplementary Earnings Related Pension Scheme (SERPS) respectively - which is compulsory to all employees, giving rise to what is called in the literature a two-tiered ...rst pillar. The latter structure raises classification problems. ATP could be located somewhere in between public and private schemes, having some of the characteristics of a private pension scheme but also having been established by law. SERPS should be somewhere in between ...rst and second pillar because, even if publicly managed on a pay-as-you-go basis, it is also strictly connected to private funded schemes by allowing his members to "contract-out" towards an approved occupational or personal pension scheme.

A further example of classification problems is that of France, where supplementary pension schemes covering private sector workers have been established by social actors' initiative and are privately managed but their mandatory (by law) nature and the use of a pay-as-you-go method of financing make them very close to schemes belonging to the ...rst pillar.

Alternatively, in countries like Ireland, Netherlands and Spain distinction between pillars seems to be more clear cut. The ...rst pillar provides a flat (Netherlands, Ireland) or earnings related (Spain) pension whereas the second pillar is composed of occupational supplementary pension plans, either voluntary and company based (Ireland, Spain, Netherlands) or mandatory (by contract) and industry-wide (Netherlands).

The terms supplementary and occupational can also give rise to ambiguity. While we may consider them as synonymous, each one highlights a different essential aspect. The ...rst term emphasizes that, at least in the private sector, these schemes supplement benefits paid out by national social security schemes. The second one stresses the nature of their origin as the product of initiatives taken by employers and/or unions.

The term "occupational" thus encompasses not only private sector supplementary plans but also public sector plans which are not supplementary. While statutory social security programmes generally cover all private sector employees, coverage patterns for public sector employees differ from one country to another; when they are covered by a single occupational plan, this latter cannot be considered as a supplementary plan, while this can be the case if they are covered by social security and also by supplementary pension plans.

Even the term "occupational" in itself is not always clear. Company pension plans are not strictly speaking "occupational", not depending on the employment in a specific occupation but rather on employment in a specific company. It can be often more important to distinguish between levels at which plans are set up and operated to distinguish what is occupational from what is statutory or what is private from what is public. For this reason, the terms company, industry-wide or national can often help to clarify the nature of different types

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9 apRoberts (1993).
of retirement plans.

It seems to emerge from the above discussion that schemes belonging to the second pillar can be defined as "supplementary" and are usually established at company or industry wide level. This interpretation has been followed by the European Commission in defining the scope of application of the recent directive\textsuperscript{10} on safeguarding the supplementary pension rights of workers moving within the EU, where the following definitions are given:

"Supplementary Pension means invalidity, retirement and survivors' benefits intended to supplement or replace those provided in respect of the same contingencies by statutory social security schemes.

Supplementary pension scheme means any occupational schemes and collective arrangement serving the same aim, such as a group insurance contract, branch or sectoral pay-as-you-go scheme, funded scheme or pension promise backed by book reserves intended to provide a supplementary pension for employed or self-employed persons".

Limiting our attention to private sector workers' pension coverage, the following criteria can be used to distinguish between statutory/public/first pillar and supplementary (occupational)/private/second pillar pension schemes:

a) the nature of the initiative bringing to the scheme establishment: a pension scheme can be established by law or by collective agreements between social actors (employers' and employees' representatives);

b) the level at which the plan is set up and operate: we distinguish between company, multi-employers, industry-wide and national occupational schemes (covering for example an occupational category at national level);

c) the public or private nature of the institution in charge of the scheme management;

d) the degrees of freedom attributed to employers and employees as to plan's membership. In particular, a pension scheme can be voluntary or mandatory (by law or by contract);

e) the financing method of the scheme;

f) the aims of the schemes' pension benefits, varying between the provision of:

\begin{itemize}
  \item a minimum basic (flat rate/earnings related) pension;
  \item a pension adequate to maintain the working period standard of living, as measured by a target replacement rate;
  \item a supplementary pension that, added to the basic one/s, reaches a target replacement rate.
\end{itemize}

It is the joint consideration of these criteria together with the particular emphasis attributed to each of them, rather than their separate analysis, to contribute towards a more clear cut definition of the private or public nature of a scheme and to de...ne it as belonging to the .rst or second pillar.

Even the bounds between second and third pillar can sometimes be not very clearly de...ned. A typical example is that of UK approved personal pensions; they are somewhere in between occupational money purchase schemes, having a de...ned contribution nature, and individual retirement accounts, being provided by approved .nancial institutions and usually charging higher administrative expenses than occupational money purchase schemes.

In this paper we use criteria a), c) and f) for classi...catory purposes, limiting our attention to occupational pension plans covering private sector workers, established through employers' initiative or through collective agreements, privately managed and providing a supplementary pension. Thus we will not consider neither english SERPS nor danish ATP, that have been established by government initiative and, even providing supplementary bene...ts, are not targeting an adequate replacement rate.

3 Some Evidence on Occupational Pension Coverage and Labor Mobility

Schmall (1991, p. 253) emphasizes the essentiality of data on pension coverage for "the various type of schemes, membership, bene...t levels, as broken down by economic sectors, occupational categories, full-or part-time employment, and sex" in order to provide adequate empirical information to policy makers for adoption of particular pension policies and regulatory approaches. In this section we exploit a new source of data on supplementary pension coverage, provided by the European Community Household Panel (ECHP) Survey, as a partial attempt to ful...ll these informational requirements for a representative sample of EU countries composed by Denmark, Ireland, Netherlands, Spain and United Kingdom. Applying the de...nition introduced in the previous section, table 1 provides .gures for private sector occupational pensions coverage rate and compares ECHP data with those provided by the Green Paper on Supplementary Pensions and by other national sources.

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11 We use the terms supplementary and occupational as synonymous.
12 The ECHP is a standardized, multi-purpose, annual longitudinal survey collected since 1994 in European Union Member States under Eurostat coordination. For an extensive and critical analysis of the ECHP survey structure, see Peracchi (forthcoming).
13 The choice of this particular sample has been driven either by the relative development of their pension funds' industry or by pension coverage data availability. Descriptive statistics for each country are based on a sample of private sector employees aged between 20 and 64.
14 De...ned as the ratio of pension covered full time private sector employees to the number of private sector employees, where pension coverage refers to active membership of an occupational pension plan.
15 Commission of the European Communities (1997).
16 National data have been drawn from the following publications:
An important limitation to comparability of ECHP data within countries arises from some wording variations to the standard pension coverage questions between wave 1 and 2\textsuperscript{17} and from implementation of these changes in country specific questionnaires. It seems that such modifications have completely changed the nature of pension coverage questions in Spain, introducing measurement error, while providing at the same time, for countries such as Netherlands, UK, and Denmark, a closer \textit{t} of the ECHP pension coverage rate to the other data sources\textsuperscript{18}. Only Irish pension coverage data are fully consistent in both years with both EC and national data. In the following analysis we thus refer to ECHP 1994 pension coverage rates for Ireland and Spain and to ECHP 1995 coverage rates for Denmark, Netherlands and UK.

Figures reported in table 1 below represent the first element to be taken into account while assessing the role of second tier pension provision within national pension systems.

\begin{table}[h]
\centering
\caption{Private Sector Occupational Pension Coverage (\%)}
\begin{tabular}{|c|c|c|c|c|c|}
\hline
 & Denmark & Ireland & Netherlands & Spain & U.K. \\
\hline
ECHP 1994 & 31.5 & 35.5 & 13.3 & 8.3 & n.a. \\
ECHP 1995 & 77.1 & 37.6 & 81.5 & 96.7 & 47 \\
EC (1997) & 80 & 40 & 85 & 15 & 48 \\
Nat. Sources & 46 & 38 & 83 & 9 & 39 \\
\hline
\end{tabular}
\end{table}

In particular, they give rough indications about the pattern of occupational pension coverage followed by each country. Under this perspective, we could divide the countries analyzed in three groups, each following a different pattern of occupational pension coverage that can be explained by historical, political, economic and social reasons\textsuperscript{19}.

\begin{itemize}
\item Tamburi (1997) for Denmark and Spain;
\item Government Actuary (1994) for UK;
\item Hughes (1997) for Ireland;
\item Lijutens (1996) for Netherlands.
\end{itemize}

\textsuperscript{17}In wave 1 the respondent was asked:
- Does your employer provide a supplementary pension scheme to any employees?
- If yes: Are you personally in that scheme?

\textsuperscript{18}ECHP data show only a little underestimation of pension coverage rate compared to data reported in the Green Paper on Supplementary Pension Systems in the Single Market. They also seem to be consistent with comparable figures drawn from national data sources for Ireland, Netherlands and Spain, while presenting substantial differences for United Kingdom and, in particular for Denmark. While for United Kingdom we believe that ECHP data overestimate the pension coverage rate, possibly due to sample selection criteria, for Denmark it seems to us that the lower value may come from a different definition of occupational pension coverage applied by national data sources.

\textsuperscript{19}For a comparative analysis of the rise and development of supplementary forms of pension provision in a sample of EU countries (including UK, Netherlands and Spain) see Andrietti (2000).
The first group is represented by Denmark and Netherlands, the countries with highest pension coverage rates, figured as around 80% of private sector employees. In these countries, occupational pension plans have been established mainly at industry wide level through employers' federations and trade unions\textsuperscript{20}. The high degree of union coverage and the mandatory nature of participation to industry-wide funds have guaranteed pension coverage of large sections of the workforce\textsuperscript{21}.

Ireland and UK belong to a second group of countries that seems to have followed a different pattern of second tier development, with a coverage rate of private sector employees ranging between 40 and 50%. This lower coverage rate can be explained by the fact that, even if occupational pension plans have a long tradition in these countries playing a major role in integrating basic social security pension benefits, the choice of plan membership has been left to the individual\textsuperscript{22}.

A last, different pattern of coverage has been followed by Spain, where the generosity of statutory schemes benefits have limited the size of occupational pension provision below 10%.

While not providing any information about pension plan typology and rules, ECHP data allow to break down pension coverage figures by a number of employer and employee specific characteristics.

Table 2 distinguishes pension coverage rates by industry. The first thing to note is the high (even if below the mean) coverage rate for agricultural firms employees in Denmark and Netherlands, which can be related to the binding collective pension agreements implemented in these countries. Moreover, employees working in the construction industry have a coverage rate higher than the mean in all countries, while those working in the financial industry reach by far the highest pension coverage rate almost everywhere. Other interesting findings are the relatively high coverage rates of manufacturing industry in Ireland and United Kingdom, and the low coverage rates of service industry workers in UK, Ireland and Spain. This pension coverage distribution probably reflect

\textsuperscript{20} The growth of occupational pension plans has been particularly strong in Denmark after the 1989 wage agreements.

\textsuperscript{21} Mandatoriness of pension plan membership is the rule in Netherlands, being it established first by contract and then by law. As a consequence employers and employees are not free to opt out from an industry fund. The possibility of exemption from this general rule is however guaranteed in the following cases:

1) the industry pension fund itself can exempt an employer if the latter has set up an alternative staff pension scheme providing at least equivalent entitlements;

2) the Minister of Social Affairs and Employment has the power to grant exemptions from compulsory participation in special individual cases (for example to workers on temporary secondment in Netherlands).

\textsuperscript{22} In UK it is not compulsory for employers to provide an occupational pension scheme to their employees. Employees' participation to SERPS, as a supplement of the basic flat rate pension is however compulsory with the possibility to "contract out" for a private occupational pension scheme. The choice left to employees is therefore constrained between remaining in the public system or joining a private approved plan. Moreover, since 1988, following the introduction of personal pensions with 1986 Social Security Act, it has been left to the individual choice whether to "contract out" to an employer provided plan or to a personal pension and, eventually, to "opt out" from an occupational plan in order to join a personal plan.
the strength of unions in the different sectors. There is evidence for the US labor market\textsuperscript{23} that the more unionized sectors are also those with the higher pension coverage rate. Unfortunately this relationship cannot be analyzed with our data, given that the ECHP Survey does not ask any question pertaining to worker’s union membership.

Table 2. Occupational Pension Coverage by Industry (%)

<table>
<thead>
<tr>
<th>Industry</th>
<th>Denmark</th>
<th>Ireland</th>
<th>Netherlands</th>
<th>Spain</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>62.07</td>
<td>3.45</td>
<td>74.19</td>
<td>2.83</td>
<td>16.67</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>78.75</td>
<td>44.57</td>
<td>87.91</td>
<td>8.74</td>
<td>55.34</td>
</tr>
<tr>
<td>Construction</td>
<td>69.66</td>
<td>45.83</td>
<td>82.84</td>
<td>3.30</td>
<td>45.60</td>
</tr>
<tr>
<td>Trade, Hotels &amp; Restaurants</td>
<td>69.66</td>
<td>22.61</td>
<td>71.24</td>
<td>6.51</td>
<td>33.41</td>
</tr>
<tr>
<td>Transport</td>
<td>74.67</td>
<td>33.33</td>
<td>89.77</td>
<td>8.13</td>
<td>51.69</td>
</tr>
<tr>
<td>Financial Intermediation</td>
<td>97.25</td>
<td>67.44</td>
<td>88.24</td>
<td>34.62</td>
<td>83.72</td>
</tr>
<tr>
<td>Real Estate &amp; Business Activity</td>
<td>65.57</td>
<td>30.10</td>
<td>75.93</td>
<td>9.60</td>
<td>39.41</td>
</tr>
<tr>
<td>Services</td>
<td>78.74</td>
<td>21.48</td>
<td>81.99</td>
<td>4.81</td>
<td>37.39</td>
</tr>
</tbody>
</table>

Source: Our Elaborations on ECHP 1994-1995 data

Table 3 shows that pension coverage rate is everywhere monotonically increasing with employer size, with the higher percentages for employees working in ...rms with more than 500 workers. This indication is also consistent with US empirical evidence\textsuperscript{24} suggesting that large ...rms are more likely to offer pension plans, either due to higher turnover and monitoring costs or to economies of scale in pension provision.

Table 3. Occupational Pension Coverage by Employer Size (%)

<table>
<thead>
<tr>
<th>Number of employees</th>
<th>Denmark</th>
<th>Ireland</th>
<th>Netherlands</th>
<th>Spain</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>less than 20</td>
<td>70.21</td>
<td>15.30</td>
<td>61.69</td>
<td>2.78</td>
<td>15.19</td>
</tr>
<tr>
<td>20-99</td>
<td>78.44</td>
<td>33.52</td>
<td>81.00</td>
<td>5.24</td>
<td>35.37</td>
</tr>
<tr>
<td>100-499</td>
<td>79.92</td>
<td>56.32</td>
<td>87.91</td>
<td>11.15</td>
<td>47.13</td>
</tr>
<tr>
<td>500 or more</td>
<td>84.10</td>
<td>63.59</td>
<td>92.84</td>
<td>25.00</td>
<td>68.23</td>
</tr>
</tbody>
</table>

Source: Our Elaborations on ECHP 1994-1995 data

Analysis of coverage rate by occupation, reported in table 4, gives rather homogeneous indications towards a relatively high coverage of managers and professionals in all countries. This does not come as a surprise given that these workers have generally higher wage earnings, and thus greater tax advantages

\textsuperscript{23} See, for example, Gustman and Steinmeier (1986).
\textsuperscript{24} See Even and MacPherson (1994).
from participating to a pension plan. For the other two occupational categories considered in the table (white and blue collars), Netherlands and Denmark figures remain quite close to the mean coverage rate, which is due to contractual mandatory plan's membership, while there is a consistent drop in coverage in Ireland, Spain and UK, where occupational pension plan membership is completely left to the individual choice.

<table>
<thead>
<tr>
<th>Occupation</th>
<th>Denmark</th>
<th>Ireland</th>
<th>Netherlands</th>
<th>Spain</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managers &amp; Professionals</td>
<td>79.23</td>
<td>56.77</td>
<td>85.77</td>
<td>17.22</td>
<td>62.73</td>
</tr>
<tr>
<td>White Collars</td>
<td>78.92</td>
<td>29.02</td>
<td>78.25</td>
<td>7.83</td>
<td>40.25</td>
</tr>
<tr>
<td>Blue Collars</td>
<td>70.83</td>
<td>26.72</td>
<td>78.86</td>
<td>3.61</td>
<td>35.31</td>
</tr>
</tbody>
</table>

Source: Our Elaborations on ECHP 1994-1995 data

As expected, table 5 points towards a positive relationship between pension coverage rates and educational levels. However, while this is evident comparing higher educated workers with lower educated ones in all countries, the gap in pension coverage rate between higher educated level employees' and employees with only intermediate education is substantial only for Ireland and UK, while being almost negligible for Netherlands and Denmark.

<table>
<thead>
<tr>
<th>Education</th>
<th>Denmark</th>
<th>Ireland</th>
<th>Netherlands</th>
<th>Spain</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Third Level</td>
<td>78.78</td>
<td>49.17</td>
<td>86.41</td>
<td>15.07</td>
<td>63.24</td>
</tr>
<tr>
<td>Second Stage Second Level</td>
<td>78.49</td>
<td>35.13</td>
<td>82.72</td>
<td>12.45</td>
<td>45.10</td>
</tr>
<tr>
<td>Less than Second Stage Second Level</td>
<td>70.80</td>
<td>28.76</td>
<td>71.96</td>
<td>4.85</td>
<td>38.72</td>
</tr>
</tbody>
</table>

Source: Our Elaborations on ECHP 1994-1995 data

Table 6 highlights that part time male workers have lower coverage rates than full timers in all countries. The gap is particularly strong in Ireland and Spain, possibly indicating some form of discrimination towards part time male workers. On the other side, part time women surprisingly show higher coverage rates than full time female employees in Denmark and Netherlands. Moreover, in almost all countries part time female workers have higher coverage rates than their male colleagues. Full timers average pension coverage rate is higher for males than for females everywhere but in Denmark.
### Table 6. Occupational Pensions by Gender and Employment Status (%)

<table>
<thead>
<tr>
<th></th>
<th>Denmark</th>
<th>Ireland</th>
<th>Netherlands</th>
<th>Spain</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Male</td>
<td>Female</td>
<td>Total</td>
<td>Male</td>
<td>Female</td>
</tr>
<tr>
<td>Part Time</td>
<td>50</td>
<td>80.6</td>
<td>76.62</td>
<td>3.85</td>
<td>10.68</td>
</tr>
<tr>
<td>Full Time</td>
<td>76.22</td>
<td>79.13</td>
<td>77.15</td>
<td>42.58</td>
<td>29.56</td>
</tr>
<tr>
<td>Total</td>
<td>75.91</td>
<td>79.35</td>
<td>77.1</td>
<td>43.66</td>
<td>27.42</td>
</tr>
</tbody>
</table>

Source: Our Elaborations on ECHP 1994-1995 data

Table 7 provides mobility rates by pension coverage, including only “within borders” job moves due to the unavailability of data for cross-borders migrant workers. Pension covered workers are typically characterized by lower mobility rates, particularly in countries like Netherlands, United Kingdom and Ireland, while the incidence of layoffs on mobility rates is particularly strong in Spain, where all pension covered job movers have reported to have been laid off by their previous employer. Moreover, layoffs contribute substantially to mobility rates of non covered workers in Netherlands and Spain.

### Table 7. Occupational Pensions and Job Mobility Status (%)

<table>
<thead>
<tr>
<th></th>
<th>No Pension in 1994 Job</th>
<th>Pension in 1994 Job</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Move</td>
<td>Quit</td>
</tr>
<tr>
<td>Denmark</td>
<td>9.7</td>
<td>6.8</td>
</tr>
<tr>
<td>Ireland</td>
<td>9.48</td>
<td>7.04</td>
</tr>
<tr>
<td>Netherlands</td>
<td>8.2</td>
<td>5.16</td>
</tr>
<tr>
<td>Spain</td>
<td>8.83</td>
<td>2.92</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>6.3</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

Source: Our Elaborations on ECHP 1994-1995 data

Table 8 breaks down the job mobility by type, distinguishing “within sector job moves” from “between sector job moves”.

### Table 8. Occupational Pension Coverage by Type of Job Mobility (%)

<table>
<thead>
<tr>
<th></th>
<th>No Pension in 1994 Job</th>
<th>Pension in 1994 Job</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Move</td>
<td>Quit</td>
</tr>
<tr>
<td>Denmark</td>
<td>6.95</td>
<td>5.3</td>
</tr>
<tr>
<td>Ireland</td>
<td>6.64</td>
<td>4.47</td>
</tr>
<tr>
<td>Netherlands</td>
<td>9.73</td>
<td>5.47</td>
</tr>
<tr>
<td>Spain</td>
<td>6.08</td>
<td>1.63</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>5.7</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

Source: Our Elaborations on ECHP 1994-1995 data
In UK almost all the job moves have correspond to sectoral changes, while in Netherlands more than 50% of the moves are between sectors. These indications are particularly important for pension policy analysis for those countries like Netherlands where the industry wide nature of most pension plans guarantees full pension portability for within sector moves, while there are still portability problems for people moving between different sectors.

Evidence emerging from the cross tabulations should be taken cautiously, as unobserved individual heterogeneity is not controlled for. However, the raw evidence about the negative relationship between occupational pension and job mobility seems to find some support, for Ireland, Spain and United Kingdom, in the empirical results provided, with the same data, by our estimation of a structural econometric model of inter-firm job mobility. In the light of the above findings we analyze, in the next two sections, the legislative framework regulating pension portability both at EU and at national level.

4 Portability of Pension Rights Within The European Union Area

Promoting labor mobility within European Union is a fundamental aim of the Community. Application of the principles of workers’ and capitals’ freedom of movement should guarantee transferability of pension rights, either statutory or supplementary, within the Community Area. This happens for statutory pension rights accrued by migrant workers under mandatory public pension schemes, the latter being coordinated through a number of EC regulations in application of art. 51 of the Treaty. However, there are no common legislative provisions effectively protecting supplementary pension rights accrued by workers moving to a different country, and even within Member States pension portability is not always guaranteed.

The lack of a common regulatory framework has contributed to widen the heterogeneity of second tier occupational pension provisions, rising new issues related to the effective realization of a single market of labor and capital. In this respect it is worthwhile mentioning that the subsidiarity principle, while assigning to national governments the right to define the role of supplementary pension schemes, restricts the possibility of EU legislative intervention into this subject to those initiatives aiming to apply the fundamentals principles established in 1957.

Pension rights portability within the EU Area has been widely discussed since 1991, when a Communication of the European Commission to the Council indicated a number of pension plan rules like:

25 See Andrietti (forthcoming).
26 Regulation EEC n. 1408/71 and 574/72, modified and upgraded by EC regulation n. 118/97. For a more extensive treatment of this topic, see Whiteford (1996).
legislative and/or contractual plan provisions for the case of temporary or permanent interruption of pension plan membership;

tax regulation;

heterogeneity of supplementary pensions funding methods,
as potentially detrimental to workers mobility. At this stage it seemed to be evident that occupational pensions would have needed a different approach than the one adopted to guarantee statutory pensions portability, given the strong heterogeneity of supplementary pension design and regulation across European Member states. The first proposal for a directive, presented by the European Commission in 1995 contained measures that, while observing the subsidiarity principle, could have improved labor mobility, such as:

- a maximum 8 years vesting period (to be gradually reduced within year 2000);
- the right for members of defined benefit schemes to accrue a pension proportional to wage and age of service and to obtain post-retirement cost of living indexation of pensions in payment;
- the possibility for a migrant worker to decide between the transfer of accrued rights to a new scheme abroad and continuing active membership to the domestic scheme;
- the unapplicability of the proposed measures to the past.

The proposal was however withdrawn after the strong opposition of Germany. In November 1996 the High Level Group for the free circulation of workers expressed the need for a European legislative action, this time only limited to three points:

- preservation of pension rights of migrant workers at least to the same degree of workers moving within borders (principle of equal treatment);
- payment of pensions independently of the pensioner’s residence (principle of free circulation of capitals);
- application of measures allowing employees temporarily posted by their employers in another Member State to continue active membership in their domestic occupational pension scheme.

In June 1997 the European Commission, in a Green Book on Supplementary Pension Systems in the Single Market, expressed her willingness to present a directive proposal according to the High Level Group recommendations, highlighting a number of obstacles to the free circulation of workers between Member States, such as:

29 Commission of the European Communities (1997).
complexity of conditions for pension rights accrual, including typical long vesting periods;

difficulties related to cross border transferability of accrued pension rights;

discal problems related to the accrual of occupational pension rights in more than one Member State;

pension rights' losses suffered by individuals switching to another occupational pension plan as a consequence of a temporary job move to another Member State.

After a further dialogue with Member States social actors’, the European Commission presented in January 1998 a new proposal for a directive on safeguarding the supplementary pension rights of workers moving within EU. An amended version of the proposal was adopted by the Council of Europe in June 1998. The directive establishes the right of workers temporarily posted from their employers to another EU State to continue membership to their domestic pension plan, while recommending extension of this right also to individuals temporarily migrating to work for another employer. Moreover, the hosting State cannot oblige migrant workers to participate to his pension schemes if they choose to continue membership in their domestic scheme.

The aim of this directive is to preserve migrant workers' pension rights at least at the level guaranteed in the case of within border mobility, representing just a first step towards workers' freedom of movement in the Community Area. The Commission has thus preferred to confine his strategy to matters of principle: the principle is that each worker should be able to move to a job (or to a place of retirement) in another Member State without suffering portability losses from supplementary pension arrangements. It is still true, however that the effectiveness of the above provisions is limited by national legislations, and that the following steps towards full pension portability should be made at national level, in order to guarantee a complete within borders portability of pension rights.

30 Dir. 98/49/EC of 29 June 1998.
5 Country Specific Portability Regulation

Pension portability rules in a pension plan define the rights of early leavers. The first element to consider is vesting, defined as the period of membership to a scheme which an individual must have completed before being entitled to his accrued rights. Vesting provisions are generally applied either to defined benefits or defined contributions plans, even if they vary widely between countries. While vesting does not even exist for non-qualified plans in Spain, it ranges between 1 year in the Netherlands to 2 years in the UK up to 5 years in Ireland. In Denmark, according to the defined contribution nature of most plans, vesting refers to contributions' rather than benefits' accrual.

Conditional upon vesting, a further element to consider in portability analysis is that related to the treatment of early leavers' accrued rights. The regulatory framework can generally provide three options in case of within borders mobility:

a) preserve accrued rights in the leaving scheme;

b) transfer them to the new early leaver's pension scheme;

c) cash them out to the early leaver, eventually taxing them.

Cross borders mobility involves usually further options related to country specific regulations. Practice regarding the transfer of pension values between countries varies widely from "free transferability" typical of Ireland, UK and Netherlands, to "transferability upon tax payment" typical of Denmark to "non-transferability" typical of Spain.

Analysis of cross borders pension portability requires consideration of the following categories of employees:

- posted workers, i.e. employees posted by their employer to work for a limited period in a different state, while remaining with the same employer or group of employers and returning to work in their home country with the same employer after this period;

- employees who move to a different employer in another state;

- scheme members who have entitlements to preserved benefits and/or are in receipt of a pension under a scheme located in a State that is different from where they reside and/or are employed;

- employees coming from a different State that have been allowed to remain members of their previous occupational pension scheme.

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31 Pension schemes can have some degree of freedom in the application of the available options.


33 This is the case of transfrontalier workers.
Table 9 below reports a summary of the portability rules applied in a representative occupational plan in the countries analyzed. The remaining part of this section is devoted to a detailed analysis of both within and between countries portability rules.

<table>
<thead>
<tr>
<th>Vesting</th>
<th>Denmark</th>
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<th>Netherlands</th>
<th>Spain</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>5; Age 30</td>
<td>5</td>
<td>1</td>
<td>vary 2</td>
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</table>

<table>
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<tr>
<th>Pre-Retirement Early Leavers' Indexation</th>
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<th>Spain</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-</td>
<td>prices up to 4%</td>
<td>prices, vol.</td>
<td>no</td>
<td>prices; # opt.</td>
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</table>

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<tr>
<th>Post-Retirement Early Leavers' Indexation</th>
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<th>UK</th>
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<tbody>
<tr>
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<td>yes</td>
<td>yes</td>
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<table>
<thead>
<tr>
<th>Internal Transfers</th>
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<th>Spain</th>
<th>UK</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>yes</td>
<td>yes; cash eq.</td>
<td>yes+tr. circuit</td>
<td>yes-QualPlans</td>
<td>yes; cash eq.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>EU Transfers</th>
<th>Denmark</th>
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<th>Netherlands</th>
<th>Spain</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td># options</td>
<td>possible</td>
<td>possible</td>
<td>possible</td>
<td>possible</td>
</tr>
</tbody>
</table>


**Denmark**  
In Denmark vesting rules usually depend upon the nature of the contractual scheme's nature. Private pension funds, regulated by the Pensions and Savings Fund Act, provide immediate vesting rights for employees' contributions, while employers' contributions are vested only after 5 years. Group insurance arrangements, regulated by the Tax on Pension Schemes Act, require, as a further condition for full vesting, the additional condition that leaving employees have to be aged at least 30.

Employees are entitled to a tax free transfer value once they move job. For group insurance arrangements, employees cannot surrender their pension policy once they move jobs without permission from their former employer. Even if defined contribution plans do not impose particular constraints on within country workers' mobility, the situation can be different in case of cross border mobility.

An employee who moves to a new job in another EU country can choose between different options:

a) preserve his accrued rights in the previous scheme while becoming member of a new pension scheme in another EU country. Upon retirement he will then receive benefits from both schemes;

b) transferring the accrued capital value of his contributions to a new pension scheme, buying pension rights in the foreign scheme; in this case the new scheme has to be pre-funded;

c) remaining an active member of the Danish scheme, continuing to pay contributions, and earning full pension rights in Denmark;

d) cashing out his accrued capital and investment returns.

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34 European Commission's Network on Supplementary Pensions (1994).
Options b) and d) require employees to withdraw their funds from the Danish scheme, making these sums subject to a substantial taxation and thus to portability losses. Transfers from other EU countries are possible, but not recommended.

Ireland Vesting provisions have been recently introduced by law. The 1990 Pension Act requires schemes to preserve and maintain pension entitlements of early leavers who meet certain service qualification: employees leaving a scheme after 1st January 1993 with at least 5 years' scheme membership are entitled to a preserved benefit.

In the private sector early leavers can transfer the so called "cash equivalent" of the entitlements built up in the previous employer pension scheme. Normally the transfer value is related to salary at leaving and this will cause a pension wealth loss to job movers. The amount to be preserved is related to the benefit rules of the scheme and represents accrued rights after 1st January 1991; under a defined benefit scheme it is assumed that the rights accrue uniformly over total scheme membership. Preserved benefits under a defined benefit scheme have to be revalued annually, for workers leaving from 1st January 1996, in line with the Consumer Price Index up to a 4% maximum, from the leaving date to retirement date. Early leavers entitled to a preserved benefit cannot obtain a refund of their contributions paid since 1st January 1991, while contributions prior to that date may be refunded.

As an alternative to preserved benefits, early leavers have the right, within two years, to request a transfer payment to the scheme of their new employer or, even beyond two years, to a Life Assurance Company retirement bond. In the case of defined benefit schemes, a transfer payment must be equivalent to the actuarial value of the preserved benefit on the date at which the member applies for the transfer. The schemes must fall within the scope of the pensions Act, and the Life Assurance Company must be established within Ireland. The trustees of the receiving scheme are required to accept transfer payments and to provide benefits on an actuarial value that is equivalent to the amount of the transfer payment.

As to pension transfers towards other EU countries, there are not specific arrangements to regulate them but those for UK which are freely permitted between exempt approved schemes; other country transfers usually need individual discussion with revenue. One restriction is however that receiving schemes must be similar to Irish schemes. The same applies to transfers from EU countries to Ireland; Irish receiving plans usually give to transferees additional years of credited service.

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35 Minimum withholding tax is 60% for foreign nationals and 70% for Danish nationals.
36 Even if the Pensions Act requires schemes to provide for preservation of pension rights accrued only after 1991, many schemes provide for preservation of pre-1991 pension rights (Hughes, 1994).
Netherlands. In Netherlands, occupational pensions’ members have no statutory right on indexing their pensions in payment or their deferred rights. Early leavers’ deferred benefits are usually voluntarily indexed by sponsoring employers, while post-retirement indexation of preserved benefits becomes compulsory only when the scheme provides indexation for pensions in payment.

Workers must vest after one year participation in the plan. In 1987 the Pensions and Savings Fund Act introduced the obligation for pension schemes to entitle early leavers with a benefit amount proportional to the length of plan membership\(^{39}\), while preserving this latter until normal retirement age. Dutch occupational pension plans have generally followed two main accrual systems, both typically applied to final salary schemes\(^{40}\):

a) the years of service system: employees’ accrued rights are eventually indexed for wage growth or inflation for a period limited to years of service with the employer\(^ {41}\) and it is this latter to bear the adjustment costs. In this case the emphasis is on counteracting the losses of early leavers. In 1988 more than 2,900,000 workers belonged to plans running this system;

b) the years of life system: workers’ rights are accrued for a full pension starting from the minimum age of admission. Thus also the previous years when the employee worked elsewhere are considered, while the new employer bears the additional costs of funding implied by this method\(^ {42}\). A logical consequence of this system is that early leavers’ pension rights do not need to be increased\(^ {43}\), as its main aim is to counteract the losses of late entrants. This system covered, as to 1988 around 590,000 workers.

Both systems rely on the generally accepted rule, that after a 40 year service-time the basic benefit (AOW = General Old Age Scheme) and the occupational pension together yield 70 per cent of the final wage. This latter, reduced by a franchise amounting to \(10/7\) times the AOW, gives the so called pension nucleus\(^ {44}\). The “years of life” and “years of service” systems are not compatible with regard to portability of pension rights, in the sense that portability between two schemes applying different systems is not possible.

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\(^{39}\)Early leavers’ accrued pension rights are calculated as the divergence between the pension that the worker would have accrued remaining with the same employer until retirement and the pension which a new employee of the same age and the same pension basis can still accrue until his/her date of retirement.

\(^{40}\)Beemer (1991).

\(^{41}\)This system is also known as the 
(65-x) system, where 65 is the retirement age while x stands for the employee's age at the time of leaving, because this is the period considered for calculation of time proportional claims.

\(^{42}\)In case of an increase of pensionable wage (for salary growth or inflation) the accrued pension is increased as if the participant were employed since his 25th year of age and could therefore still reach the maximum pensionable service (40 years). The increase of pension benefits therefore amounts to \((40 \times 1.75\%) = 70\%\) of the rise of pensionable wage.

\(^{43}\)Netherlands is the only EU country where the new employer has a liability for the effect of future price increases on pensionable service with a previous employer, enabling employees to avoid portability losses (Jollié, 1991).

Occupational pensions' members changing job after July 1994 have been given the statutory right of transferring their accrued rights to another pension scheme. When the employee wants to transfer his rights, the former employer must immediately finance the past service rights, while the new employer must in case of a salary increase give past service rights also in connection with the pension rights transferred.

Portability of pension rights differ between industry wide plans and company pension plans.

Industry wide plans usually guarantee portability of pensionable service within a particular industry, enabling workers to change jobs without losing service credit when they resume work with another employer in the plan. However, workers moving to job in a different industry still have portability losses.

Company pension plans transfer deferred benefits through portability clearinghouses called transfer circuits, to which a plan can participate upon satisfying a number of requisites. In particular, prospective clearinghouse members can be either insured or uninsured plans; they have to use a defined benefit formula based on final salary, years of service and standardized actuarial assumptions. A job leaver has the option of leaving the vested rights in the former employer's plan or to use a clearing-house for transferring them to the new employer's plan. Again, these transfer circuits operate almost between company plans within a particular industry, so that people moving jobs within industries are not penalized.

The method applied by the circuits amounts to translation of transferred pension claims in extra years in the new pension scheme on the basis of the starting salary with the new employer. As to 1990 about 2,400,000 workers, representing 80% of covered workers, were covered by plans participating to these circuits. However, this figure shows that still 20% of pension covered workers do not have the guarantee of a transfer value while changing their job.

Small pension plans however provide portability in a different way; most of them are insured through purchase of individual policies under a group arrangement and may transfer the paid-up policy to job leavers.

As to employees moving to a job in another EU state, their membership in the domestic pension scheme is usually terminated and their accrued pension rights are preserved as for within borders early leaves. Thus the same rules apply for individuals moving jobs, either within Netherlands or to a different country.

The situation is different for transfer values: transfer of pension rights is only allowed if the receiving scheme is subject to Netherlands Insurance Chamber supervision, thus making foreign schemes ineligible to receive a transfer from Dutch migrant workers. However, the Pension and Savings Fund Act allows migrant workers to cash out their pension rights, making in practice possible a transfer.

45 Thus a transfer circuit provides the same results as the attained age system in case of no salary increases, while it provides more in case of salary increases.

The rules applying to employees moving from abroad to the Netherlands differ depending on their branch of industry, with application of compulsory membership for those working in an industry wide scheme. Transfer values from abroad are accepted, but the lack of special legal regulations applicable to this kind of transfer payment let them falling into the general rule that allows tax exemption only for the transfer of pension rights related to working periods in Netherlands. So, if on the basis of a transfer payment pension rights are also granted for service abroad, the requirements for eligibility to tax exemption are no longer met.

Spain
No legal vesting provision exist in Spain for non qualified plans, while qualified plans vest immediately. Still, portability of pension rights is severely restricted under current regulation. Employees leaving a company pension plan have their accrued rights preserved, but without indexation until retirement, under the scheme they are leaving; members of qualified plans have the option, while leaving their job, to transfer their position to a new scheme, conditional on its qualification.

Employees leaving Spain cannot continue their membership in the home country plan while qualified and non-qualified benefits that involve individual accrued rights can only be transferred within European Union subject to Ministry approval on a cases by case basis. Transfers-in from others EU countries are also possible, subject to Ministry case-by case approval.

United Kingdom
Occupational pension rights vest after 2 years of pensionable service. While an employee leaving a contracted out scheme before completion of the vesting period will only receive a lump sum cash payment equal to the sum of the contributions paid into the scheme, early leavers with vested benefits can choose between the following options:

1. preserving their accrued rights in the previous pension scheme;
2. taking a transfer value to a new occupational pension scheme (defined benefit or defined contribution);
3. taking a transfer value to a personal pension;
4. purchasing an annuity (called section 32 buy-out policy).

The 1993 Pension Schemes Act provides that early leavers benefits, defined as Short Service Benefits, have to accrue uniformly at a constant fraction of the leaving wage, becoming a deferred pension at normal retirement age. Between

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47 In case of a temporary secondement in Netherlands, the Minister of Social Affairs and Employment can however exempt a worker from compulsory membership. (Jollese (1991)).
48 The worker is not entitled to receive any interest on these contributions and also loses the contributions made on his/her behalf by the employer. In addition, the lump sum he is entitled to receive is subject to a 20% tax.
the leaving date and the retirement date, the short service benefits have to be revalued according to rules that depend on the leaving date\textsuperscript{50}:

a) pension rights accrued by employees leaving a scheme on or after 1 January 1991 but before 6 April 1997 are revalued according to their accrual period:

- pension rights accrued before 6 April 1978 are subject to "limited price indexation", that is to the inflation rate up to a maximum of 5%;
- for rights accrued between 6 April 1978 and 5 April 1997 and constituting the Guaranteed Minimum Pension (GMP) schemes had to provide a higher rate of revaluation, choosing between different options;

b) pension rights accrued by employees leaving a scheme before 1 January 1991; only those rights in excess of the GMP accrued on or after 1985 is subject to limited price indexation;

c) for pension rights accrued by employees leaving a scheme on or after 6 April 1997, schemes options' choices in providing GMP revaluation has been restricted for rights accrued before this date. All short service benefits accrued later are subject to limited price indexation without considering GMP accrual.

As to post-retirement benefits indexation for early leavers, the general rule is that accrued benefits corresponding to GMP must be fully indexed to retail price inflation once in payment, while rights accrued in excess of GMP are subject to limited price indexation.

Employees' right to obtain the "cash equivalent" of accrued benefits for purposes of transfer to a new scheme must be exercised up to one year before the leaving scheme's normal retirement age. The cash equivalent represents the present value of future benefits to which the employee is entitled up to the transfer's request, considering any increases, statutory or discretionary, that would apply to the benefits had they remained preserved in the scheme.

The receiving scheme is not obligated to accept the transfer.
Pension rights can be transferred to independent funds in EU Member States only upon satisfaction of the following conditions:

\begin{itemize}
  \item the country of residence of the receiving scheme, of the employer and of the early leaver are the same;
  \item the transferee leaves the UK on a permanent basis;
  \item the member has requested the transfer or given written consent;
  \item the receiving scheme is a tax approved funded arrangement;
  \item the receiving scheme accepts the transfer.
\end{itemize}

\textsuperscript{50}For a detailed analysis of these rules see Black-Orszag (1997).
Moreover, the transfer can be asked for only after the prospective transferee has worked for at least 2 years in the receiving scheme.

Even if the conditions for cross borders transfer are not satisfied, early leavers retain the right that his accrued pension rights be preserved in the leaving scheme.

Benefits accrued in an occupational pension scheme in another Member State are usually ignored for purposes of pension benefits entitlement in UK. A worker immigrated in UK can choose between:

1. remaining covered by a home country pension arrangement, if his domestic regulation allows that;
2. joining a UK scheme;
3. participating in an off-shore arrangement.

Benefits from an approved pension scheme may be paid to a pensioner resident in another Member State, in application of the principle of free movement of capitals.

6 Summary and Conclusions

The debate on the opportunity to regulate occupational pensions at EU level has developed over the last thirty years, concerning aspects such as discrimination against women and part time workers, preservation and cross-borders transferability of accrued pension rights, freedom of financial services provision and pension funds' capital investment, equal tax treatment of pensions provided by foreign institutions. Some of these topics have been the object of EU directives, which have often been issued as a result of EU Court of Justice rulings, while for others the process is still going on either due to the lack of a common agreement on a directive proposal or to the rise of new questions in those fields already regulated at EU level.

In particular, the recently issued Council Directive 98/49/EC on safeguarding the supplementary pension rights of workers moving within European Union has been the outcome of a "social dialogue" at community level. This has progressively weakened the portability requirements that early EC proposals would have imposed to country specific pension plans, while substantially leaving to

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51 European Network of Experts on Supplementary Pensions (1994).
52 For a survey of these regulatory developments, see Andrietti (2000).
Member States the task of improving pension portability legislation. In this sense, we can say that neither the coordination approach, aiming to affect national pension portability regulation through bilateral and multilateral agreements, nor the harmonization approach, aiming at introducing legal regulations either by supranational (EC) law or by national legislative decisions, has been adopted\textsuperscript{54}. This is likely to delay any cross country convergence on the pension portability issue.

Recent empirical evidence pertaining to individual labor mobility within a sample of EU countries shows that workers covered by defined benefit pensions have lower turnover rates in countries like Netherlands, United Kingdom and Ireland notwithstanding the recent substantial improvements of within borders pension portability legislation adopted in these countries. Moreover, even if evidence on between countries labor mobility is not yet available, the analysis of country specific pension portability regulation suggests that the additional constraints imposed on the transferability of pension rights can work as a further impediment to workers' freedom of movement in the EU labor market. The latter aspect should then be considered, in addition to the traditional efficiency and equity arguments, in the evaluation of future pension portability policies both at EU and at national level, even if, in our opinion, implementation of full pension portability would require further EU legislative intervention.

\textsuperscript{54}See Schmahl (1993) for a discussion of these two approaches.
References


