
Governance of the German Pension System

Part II

Second Pillar: Occupational Pensions

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Research and Development

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Twining Project AZ/13/ENP/SO/24

Support to the State Social Protection Fund on the introduction of funded elements within the insurance-pension system, establishment of non-state pension funds and development of the legal framework for regulating their activities

Activity 4.1

In-depth presentation of the state pension system of the EU MS to relevant SSPF staff and other stakeholders

21–22 July, 2014

- State Social Protection Fund
- 80 H. Zardabi Ave. ● Baku, Republic of Azerbaijan

Institutional Design

Occupational Pension Provision

Business Model – Principles

- Deferred compensation
 - Defined Benefit, [Defined Contribution, Hybrid]
 - [Workers' contribution] Risk pooling, Economies of scale
 - Patronage rewards
- Five different methods of implementation
- Funding mix (cf. next slide)
 - From turn-over (ex ante, ex post)
- Safety margins
 - Regulation and Supervision (BaFin)
 - Pension Benefit Guarantee Association (Pensionssicherungsverein)

The German Version of Second and Third Pillar Provision (1)

- Common features
 - Voluntary engagement
 - EET tax treatment (except: home ownership loans)
 - Tax allowances for families and low income earners
 - Annuities
 - Limitations to lump-sum payments

The German Version of Second and Third Pillar Provision (2)

- Occupational Pension
 - Right to occupational pension provision
 - Employer sponsoring is declining
 - Employee sponsoring and deferred compensation
- Private Commercial Pension Provision
 - Tax allowances beyond EET for low income earners and families
 - Current number accounts: around 16 million

Coverage

The Spread of Occupational Pensions in the Private Sector



Source: TNS Infratest (2008)

Principles of Management

Delivery and Provision (I)

- Choice: Occupational pension plan or commercial provider
- Occupational Plans
 - Book reserves
 - Pension Fund
 - Pensionskasse (Small insurance company)
 - Contract with insurance company (direct insurance)
- Commercial Providers
 - ... Pillar three

Principles of Regulation and Supervision

Legislation (I)

- Law on Company Pensions (Betriebsrentengesetz)
 - Options for implementation
 - Deferred compensation
 - Vesting period
 - Waiting period
 - Portability (change of employer)
 - Compensation rules
 - Insolvency protection
 - Retirement age
 - Information and disclosure rules

Legislation (II)

- Tax code
- Investment regulations: Regulations for financial institutions (cf presentation on third pillar pensions)

Principles and *Methods* of Funding

Occupational Pension Provision

Funding Mix (I)

- Quasi-Pay-as-you-go funding
 - Pension promises and (uncovered) provident funds (Unterstützungskassen ohne Rückdeckung)
 - Funding of current benefits from turnover
 - Balance sheet provisions for liabilities
 - But! Also partial funding: Contractual trust arrangements (CTA), etc., favoured by IFRS accounting.

Occupational Pension Provision

Funding Mix (II)

- Full funding (Pensionskassen (mutual insurance associations)), pension funds, insurance companies, CTAs
 - Investment plans based on prudent person principles
 - Risk weighted portfolio selection
 - Quantitative regulations: actuarial reserve fund, investment limits
 - Regulation and supervision: Federal Financial Supervisory Agency (Bundesagentur für Finanzdienstleistungsaufsicht – BaFin)

Occupational Pension Provision

Funding Mix (III)

- Bonds and interest rates
 - Valuation of liabilities
 - Corporate bonds: Higher risk premia compensate for lower nominal interest rates for safe (government) bonds.
 - Interest rates for valuation diverge from rates for funding.

Principles of Operations

Key Features

Coverage

- Voluntary collective agreement at company or industry level

Benefit

- Defined benefit, lump-sum or annuity benefit

Investment

- Employer responsibility
- Regulatory requirements

Insolvency Protection

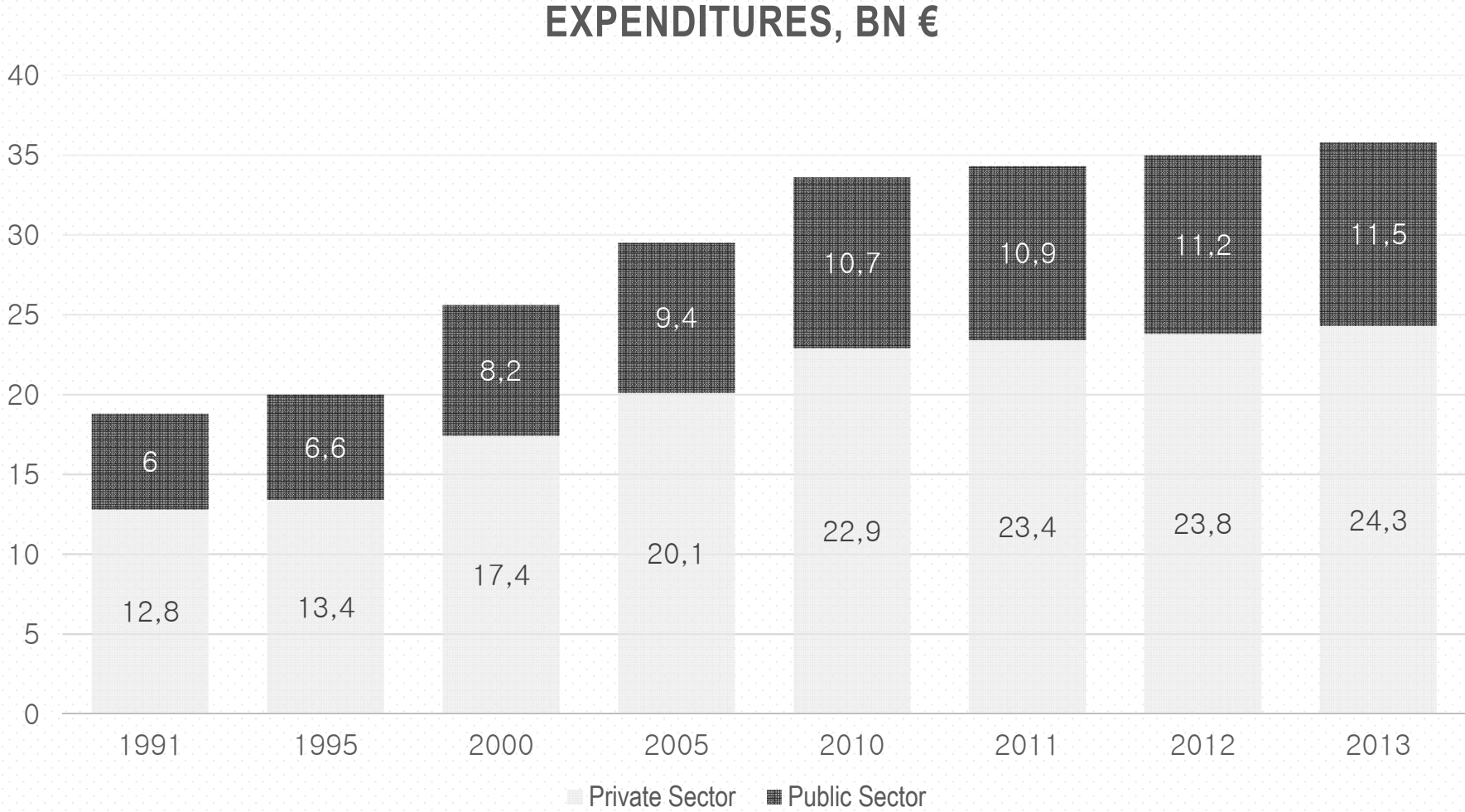
- Insurance based
- Employer liability

Supervision

- Financial Market Supervision

Performance and Results

Occupational Pensions: Benefits



Challenges

Concerns and Debates

- Increase in enrolment rates
- Automatic enrolment with opting out options
- Rate of return
- Capital requirements
- New European Regulations

Vielen Dank!
Thank you very much!

Kontakt / Contact

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