

Study supporting the monitoring of care credits in occupational pension schemes

Second focus group with EU-level stakeholders

Thursday, 15 June 2023, 10.00-13.00 CET



Agenda

| Timing CET | Activity |
|---------------|--|
| 10:00-10:15 | Welcome and introductions |
| 10:15-10:30 | Study team presentation recapping on the overall project objectives, definitions and methodological approach |
| 10:30 – 11:00 | Presentation of preliminary findings (1) |
| 11:00 – 11.30 | Q&A with attendees |
| 11:30 - 12:00 | Presentation of preliminary findings (2) |
| 12:00-12:20 | Q&A with attendees |
| 12:20-12:30 | Workshop wrap-up |
| 12:30 – 13:00 | AOB, next steps and closing remarks |

Focus group participants

| No. | Name | Affiliation |
|--|-------------------------------------|--|
| Confirmed participants | | |
| 1 | Marina Monaco (tentative) | ETUC |
| 2 | Anna Kwiatkiewicz | Business Europe |
| 3 | Julien Bourgeois (Valentina Guerra) | SMEUnited |
| 4 | Claire Champeix | EuroCarers |
| 5 | (Matti Leppälä) | PensionsEurope |
| 6 | Nicolas Jeanmart, Fabrizio Franco | Insurance Europe |
| 7 | Nine de Graaf | PGGM, the Netherlands |
| 8 | Monique Schuilenburg | Actuarial Association of Europe (AAE) |
| 9 | Johanna Schima | Make Mothers Matter (MMM) |
| 10 | Josef Woess | Arbeiterkammer (Chamber of Labour) |
| Awaiting reply from | | |
| 11 | | European Network of Equality Bodies |
| Cannot attend this focus group but is kept informed | | |
| 12 | Brigitte Pisa | European Association of Paritarian Institutions – AEIP |
| 13 | Philippe Seidel | AGE Platform |

Recap of project objectives, definitions and methodological approach

Study objectives and research questions

Study objective: Evaluation of the protection of savers' pension rights during career breaks linked to care in occupational pension schemes

Research questions:

- Existence of occupational pensions and pension credits linked to care-related career breaks
- Coverage and characteristics of pension credits
- Determinants of and current practice of provision
- Best practice examples and options for further action

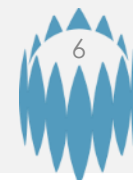
Study definitions

Occupational pension schemes

pension plans where access is linked to an employment or professional relationship between the plan member and the entity that sets up the plan (the plan sponsor).

These schemes may be established by employers or groups of employers (e.g. industry associations) or labour or professional associations, jointly or separately, or by self-employed persons.

They may be administered directly by the sponsor or by an independent entity (a pension fund or a financial institution acting as a pension provider). In the latter case, the sponsor may still have responsibility for overseeing the operation of the scheme.



Care credits provided by occupational pension schemes

- Contribution credits that can be used to increase or even enable entitlement to pensions (given to the insured and recorded on her/his contribution record)
- Care credits take the form of an amount of time in months/years that is 'credited' to the carer's working record as if the carer were employed in the labour market
- Pension benefits are calculated on the base of the combination of paid and credited contributions

Methodological approach

- Data collection and review:
 - Desk research: review of existing data and Mercer data
 - Targeted consultation (interviews)
- Data analysis and synthesis:
 - Case studies
 - National and sectoral analysis
 - Conceptual framework design and best practice examples
 - Focus group with EU-level stakeholders, workshops with experts and EC staff, seminar
 - Reporting and meetings

Data sources (1)

Secondary data sources:

- Mutual Information System on Social Protection (MISSOC) database
- Pension Adequacy Reports 2021 and 2018 editions
- OECD reports: Pensions at a Glance, Pension markets in focus, SOCX dataset

Primary data source from Mercer:

- Data aligned with a data collection template designed for this project.
- Data predominantly covered occupational pension schemes.
- Information on statutory pension schemes also provided in several instances due to the interplay of the statutory and occupational schemes.

Data sources (2)

| Source | Advantages | Limitations | Solutions |
|--------------------|--|---|---|
| MISSOC data | <ul style="list-style-type: none"> • Very good coverage of EU-27 social protection systems and their organisation | <ul style="list-style-type: none"> • Mainly covered statutory schemes. • Limited data on OP schemes. | <p>Will continue to be used to validate findings from other sources of evidence.</p> |
| PAR Reports | <ul style="list-style-type: none"> • Includes background information and a history of pension provision. • Details of solidarity mechanisms were useful in seeing what provisions were in place. | <ul style="list-style-type: none"> • Limited information provided on occupational pensions. | |
| OECD data | <ul style="list-style-type: none"> • A good overview of the pension landscape and the main provision mechanisms. • Cover all pension schemes, with a particular focus on state pensions | <ul style="list-style-type: none"> • All information on childcare breaks was in relation to the statutory system. • No information regarding OP care credits could be found. | |
| Mercer data | <ul style="list-style-type: none"> • Provided tailored information on occupational pensions and care credits, including information on the eligibility requirements, financing and care breaks covered. | <ul style="list-style-type: none"> • In some instances, data were not clear to which pension system was being referred to due to the interplay between the state and occupational pension schemes and the limited availability of occupational pensions in some countries. • Local taxonomy / language not harmonized across MS. • Data sometimes contradicted results found from desk-based research and other sources. | <p>Further interviews with experts will be undertaken to confirm our assumptions and provide clarification.</p> |



Overall analytical framework to report data

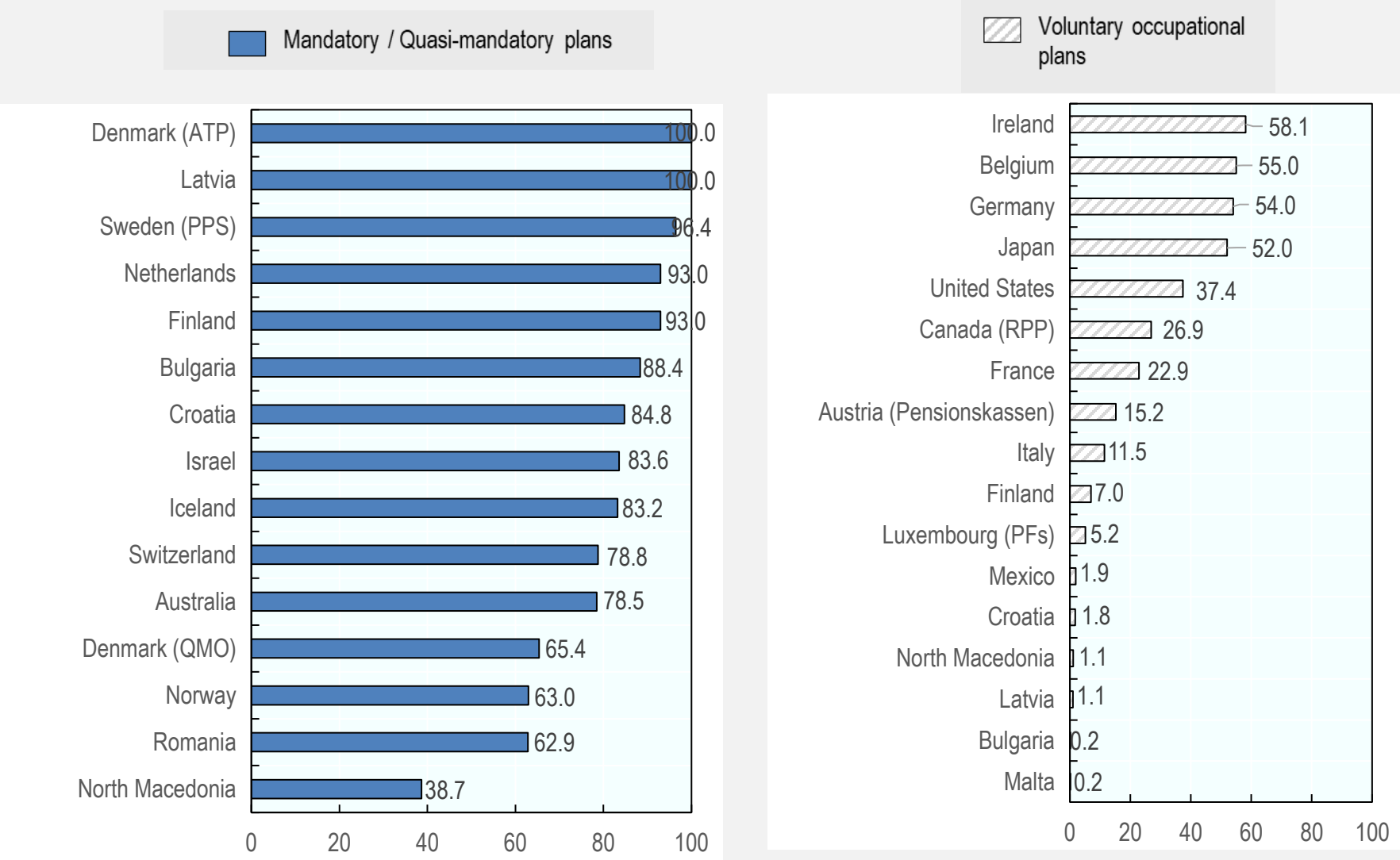
Using core social policy dimensions

- **Access** to occupational pension schemes and care credits (who can access: work status, care activities)
- **Benefit structure** (what can be accessed)
- **Financing arrangements** (who pays, how much?)
- **Management** (who manages?)



Preliminary findings

Diffusion of occupational pensions



Participation rates in asset-backed pension plans according to the type of plan, selected OECD countries, 2021 or latest year available

Data as a percentage of the working-age population

Source: OECD Pension market in focus 2022

Total spending in old age and survivors occupational schemes as a percentage of total public spending

| Country | 1990 | 2019 |
|----------------|------|------|
| Netherlands | 25.6 | 43 |
| United Kingdom | 41.4 | 44 |
| Ireland | 14.4 | 22.8 |
| Sweden | 11.7 | 23.8 |
| Portugal | 4.4 | 2.8 |
| France | 1.4 | 1.8 |
| Belgium | 8 | 7 |
| Spain | | 2.2 |
| Austria | 3.4 | 5.2 |
| Slovakia | | 3.3 |
| Denmark | 16 | 3 |
| Finland | | 1.1 |
| Germany | 6 | 6 |
| Poland | | 0.8 |
| Italy | 0.5 | 2.4 |
| Greece | 3.2 | 0.8 |

Source: OECD Global pension statistics 2022



Key observations on occupational pensions diffusion

A. Key observations on occupational pension coverage

Uneven diffusion of occupational pensions (a small number of MS with high coverage)

In many countries the tendency is of an increase in coverage and assets

Path-dependency matters

B. But also data limitations

Availability and comparability of data is limited

C. Implications for our study

Focus more on those countries where occupational pensions are more relevant (need for in-depth analysis, **in what follows we 'zoom' on DK, NL, and SE**)

Provision of pension credits in statutory pension schemes

- Many variations across countries according to MISSOC 2022 data (unpublished)



- All MS provide credits (or equivalent) for leave period related to looking after a child

- DK, NL and SI indicated as not providing care credits. DK and NL due to residence-based pensions



- Most MS also provide credits for looking after people across other age groups (people with disabilities, older people, non-relatives) (BE, BG, HR, CZ, FI, DE, IE, IT, LT, LU, SK, ES)



Key features of child care credits in statutory pension schemes

Differences between maternity, paternity and parental leave, leave to look after a sick child, and other child-related leaves

- Duration
- Financing arrangements to cover the break period (who pays)
- Payment arrangements (how much is paid)
- Qualifying periods
- Aspects related to the flexibility and transferability of care periods and credits

Credited breaks for reasons of childcare in public pensions schemes - duration

| Reason for break | Formula | Countries |
|------------------|-------------------------------|--|
| Childcare | Credited if allowance granted | BE, EE, IE, EL, FR, IT, LV, LT, LU, ² HU, MT, PT, RO, SE, FI |
| | Credited | DK, ³ NL ⁴ |
| | Credited up to maximum age | (6 mo) HR; (1 yr) SI; (1.5 yrs) LV; (3 yrs) BG, DE, ES, CY; (4 yrs) CZ, AT; (6yrs) SK ⁵ |
| | Credited up to maximum time | PL (12 months) |

Sources: MISSOC; SPC ISG; SPC WGPA

¹ In Latvia, the state pays pension contributions when unemployment benefits are received (irrespective of benefit entitlement for unemployed persons with disability). In Spain, for persons over 52 years of age, non-contributing periods are included in the contribution period.

² Maximum 2 years while child is aged 6 years or under.

³ Residence-based pensions; career breaks treated the same as other residence period

⁴ Residence-based pensions.

⁵ Extended to 18 years in the case of child disability.

- All MS provide care credits during childcare breaks but variations between leave types, duration, financing and payment arrangements, qualifying periods and transferability and flexibility

Zooming in: Sweden, the Netherlands and Denmark

Preliminary observations on care credits in occupational pension schemes

- uneven availability and quality of data in existing sources
- differences in definitions and understanding of concepts
- interplay between statutory and occupational pensions relevant in most MS
- receiving compensation during leave period often a pre-requisite for care breaks to be credited (WLB Directive 2022)

Decision: proceed with a small number of MS with the most developed OP and care credits (Sweden, the Netherlands and Denmark), get nuanced understanding of key relevant aspects and tailor questions for MS where OP / care credits less developed.

Zoom in: Sweden



- Statutory schemes only provide pension benefits up to a certain threshold. Occupational pensions have a role in 'topping up' these schemes.
- Approximately 96.4% (OECD) coverage of occupational pension schemes.
- There are four major occupational pension schemes in Sweden:
 1. ITP 1 and 2 (for white collar workers, Part 1 is for those born after 1979)
 2. SAF-LO (for blue collar workers)
 3. PA03/PA16 (for state workers)
 4. KAP-KL/AKAP-KL (for municipal workers)
- The self-employed can be members of OP schemes, c 30% are members, those with low incomes less likely to participate to avoid fees. The unemployed are not covered by occupational schemes.

Zoom in: Sweden – Pension Systems

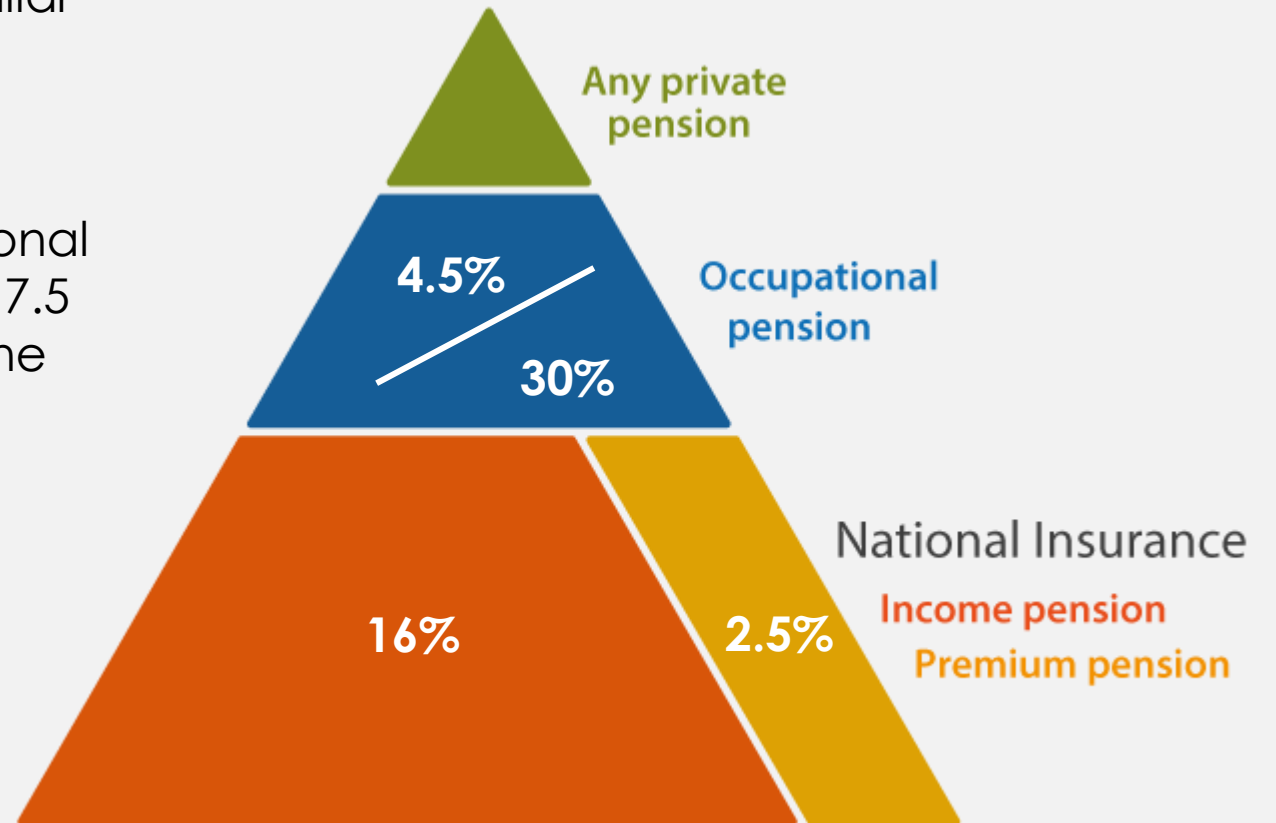


The data presented is for the two main schemes: ITP 1 and SAF-LO. The other schemes have very similar processes.

Employers make all contributions to occupational pensions. 4.5% of salary up to the threshold of 7.5 income-base amount. Above this threshold, the contribution is 30%.

18.5% of salary up to the threshold of 7.5 income-base amount (€49,000) goes into the national retirement pension.

Workers pay 7% and employers contribute 10.21% of eligible earnings. This totals 18.5% after accounting for tax effects.



Adapted from:
<https://www.informationsverige.se/images/18.518491c118529d7e6f766fb/1671614469596/205-pension-624x418px-EN.png>



Care credits – Statutory

- Employees receive no salary during parental leave. Social security benefits are paid instead.
- There are care credits available for two periods of childcare:
 - Children under 4: This is a pension credit which goes to the lowest earnings parent, unless stated otherwise. The government makes the total contributions.
 - Parental Benefit: Parental benefits paid from the state is pensionable income. The recipient pays 7% on this and the 10.21% 'employer contribution' is paid by the government.

This is payable for 480 days. 390 is paid at 80% of income up to 10 times the price base amount. The remaining 90 days are paid at a flat rate of SEK 180 daily. The days are split equally between the parents and 180 days can be transferred.
- Care credits are also available for short term care of a sick child.
 - Worker can be credited for up to 120 days. These days can be shared.



Care credits – Occupational

- No salary is paid during parental leave. Compensation by the employer (on top of statutory compensation already in place) is paid according to each collective bargaining agreement (CBA).
- **Premium waiver (exemption) insurance (ITP1/SAF-LO):**
 - The employer pays for this insurance – **0.14% of salary** (lower threshold up to SEK 46,438/month) or **1.236% of salary** (higher threshold SEK 46,438 to 185.750/month)
 - This is paid out when the employee is on parental leave or caring short term for a sick child (for ITP1). This takes over the employer's contributions.
- Under ITP 2, contributions continue when the worker is on parental leave. Pensions contributions are not affected by leave for taking short-term care of a sick child.
- Contributions are made for:
 - Parental leave: ITP: 390 days (ITP1 and SAF-LO), 11 months (ITP 2)
 - Care of sick children (ITP 1): 120 days (In order for the waiver to be activated, there must be reimbursement from the state of at least 25%)

Zoom in: the Netherlands

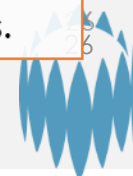
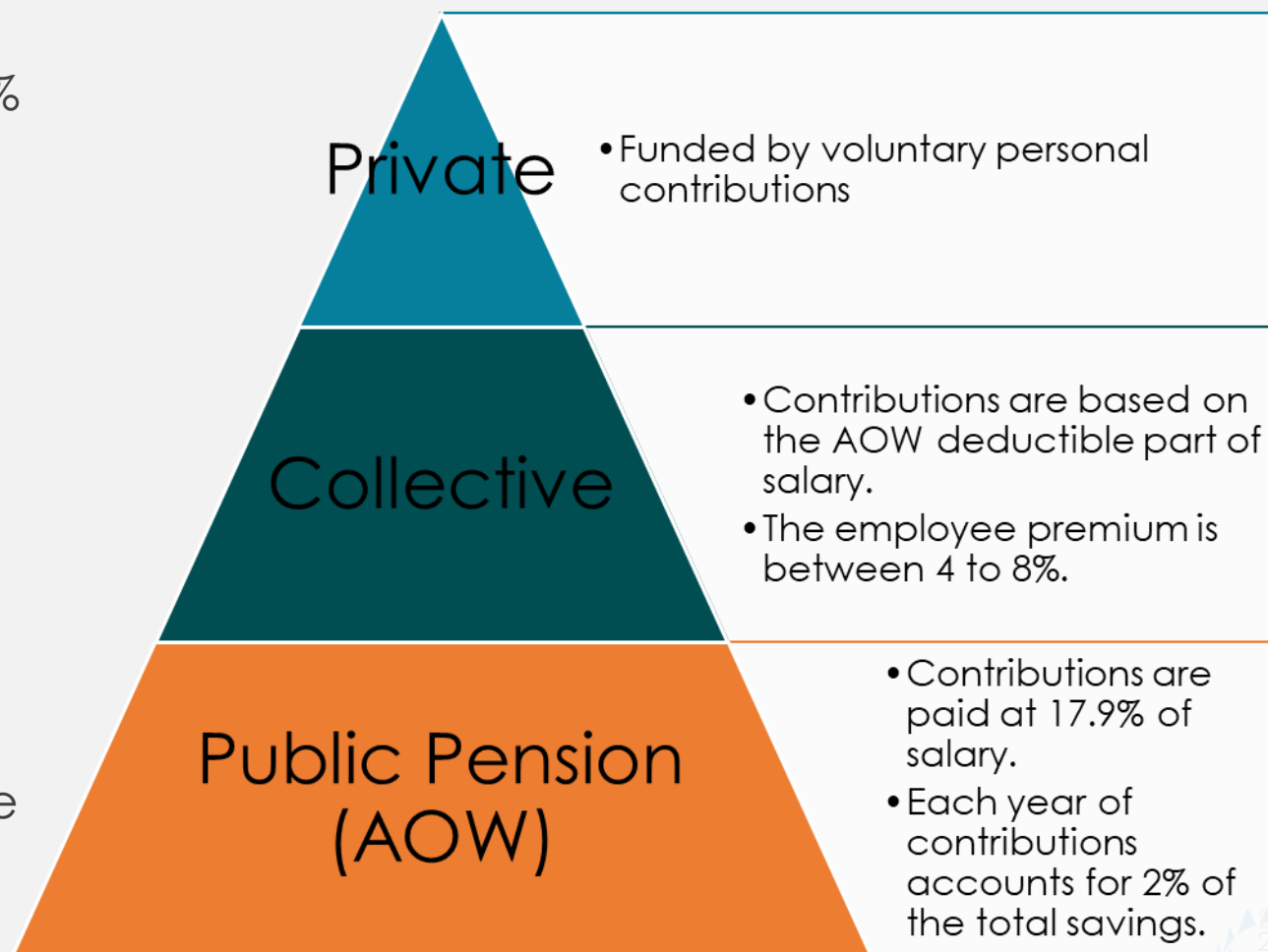


- Approximately **93% of the working age population (OECD data) is covered** by an occupational pension scheme. Potential overestimation of coverage as currently around 25% of workers do not accrue sufficient pension benefit.
- Occupational pension schemes are organised as:
 - **‘Quasi-mandatory supplementary pension’** schemes.
 - These schemes are based on collective agreements between social partners. The schemes are organised at the company, sectoral, or professional level.
 - There is **legislation that extends collective agreements to entire sectors**. The wide coverage of the collective agreements ensures high participation.
 - Sectors and groups with **lower occupational pension participation** include:
 - **Hospitality workers** (in the hotel, restaurant and catering sector).
 - The **solo self-employed** ‘zzp’ers’ and;
 - The same legal provisions for part-time and full-time workers. The pension accrual is lower for part-time workers due to average remuneration for part-time workers being lower.

Zoom in: The Netherlands – Pension Systems



- The AOW public pension is a flat rate scheme and the eligibility requirements are residence-based. The benefit accrues at 2% of the full value lived/worked in the Netherlands. To receive a full pension you must have contributed for 50 years.
- The AOW is seen as a basic provision which is supplemented with income from other schemes.
- The maximum monthly payment at retirement is around €1000, which creates the need for supplementary pensions.
- Contributions for occupational schemes are based on collective bargaining and can range. However, the employer typically represents 75% of total contributions.



Statutory care credits



- The Netherlands' public statutory pension is **residency based**
- Credits for childcare absences are 'implicit' in the pension system (OECD terminology) , (not explicit) as being a resident allows for coverage of *de facto* periods out of the labour market.

Occupational care credits



- Pension contributions are linked to salary payment and therefore continued if salary payment is continued.
- Pro-rata logic to the contribution level
- If the employer does not continue salary payments, such as during a sabbatical, pension accrual can take place but only when employees pay the premium themselves.
- Salary continues during pregnancy, maternity and parental leave, so accrual continues for these activities.
- The funding of care credits is variable. When the salary is paid, the same entity pays the premium as during employment. So, it is typically a combination of employer / employee. However, for pregnancy leave, the employer is compensated by the government.

Zoom in: Denmark



- Statutory retirement benefits provide a baseline based on residence in Denmark. The benefit is means-tested. Basic amount of the state pension is DKK 80,328 annually. Possible additional supplements depending on own and spouse's income, up to a maximum of DKK 92,940 per year (single) or DKK 47,556 (married)
- Statutory funded pension system ATP is a mandatory, fully-funded DC scheme linked to employment with lump-sum contributions based on hours worked. Coverage for all working 1+ days per week and unemployed are also covered. Voluntary for self-employed. Maximum benefit amounts to DKK 27,300 annually.
- Supplemental occupational pension schemes are often mandated under collective agreements between trade unions and employers' organizations (covering around 65% of the workforce, 94% of fulltime employees) or through a voluntary agreement between the employer and an insurance company. These are primarily defined contribution schemes. Self-employed can opt in.

Zoom in: Denmark



Personal schemes:

wide range of voluntary personal life insurance and pension saving plans with uneven coverage and differing scope

Supplementary Occupational:

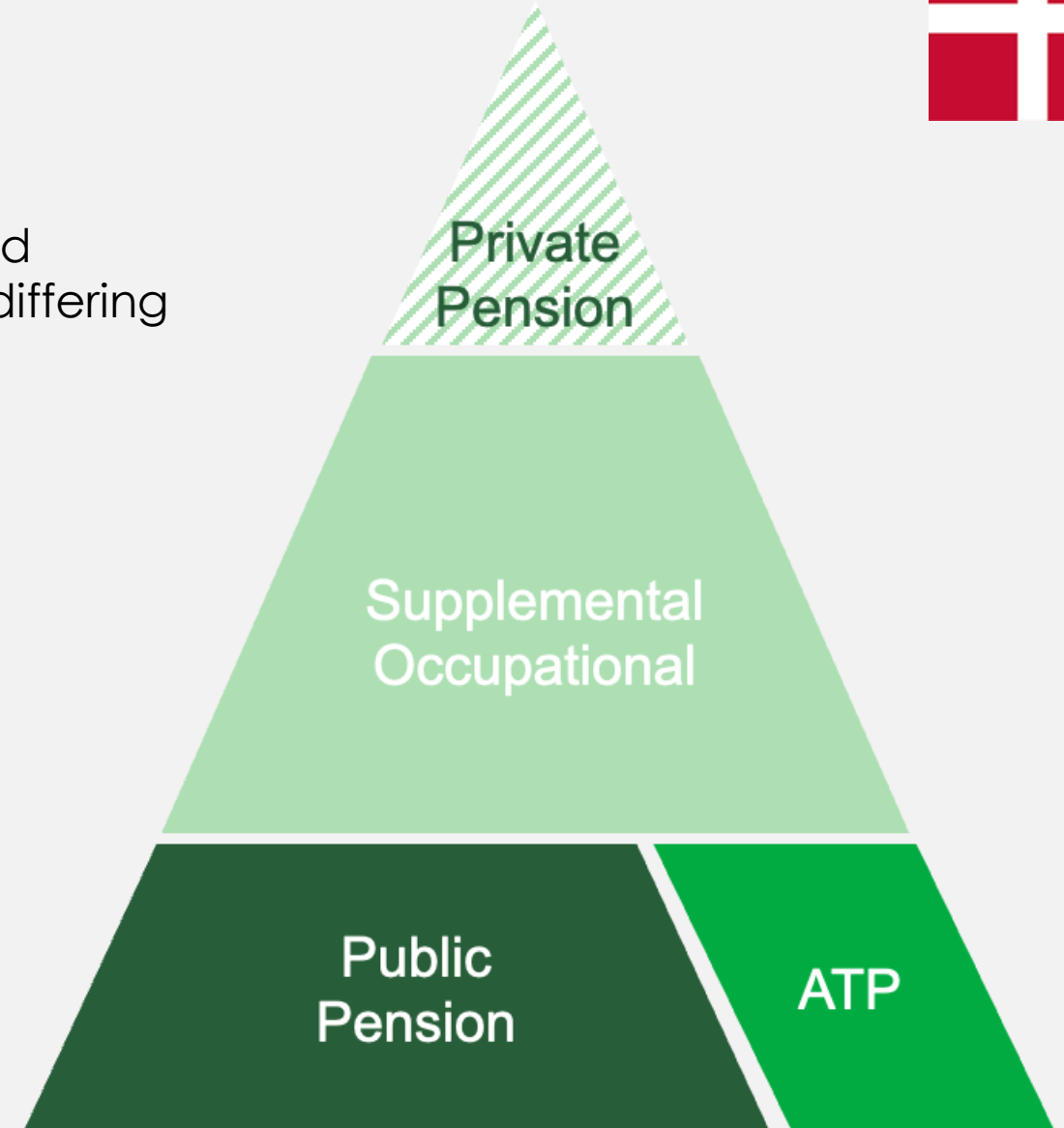
average contributions range from 10%-18% shared between employer and employee

ATP:

lump-sum contributions based on hours worked

Public:

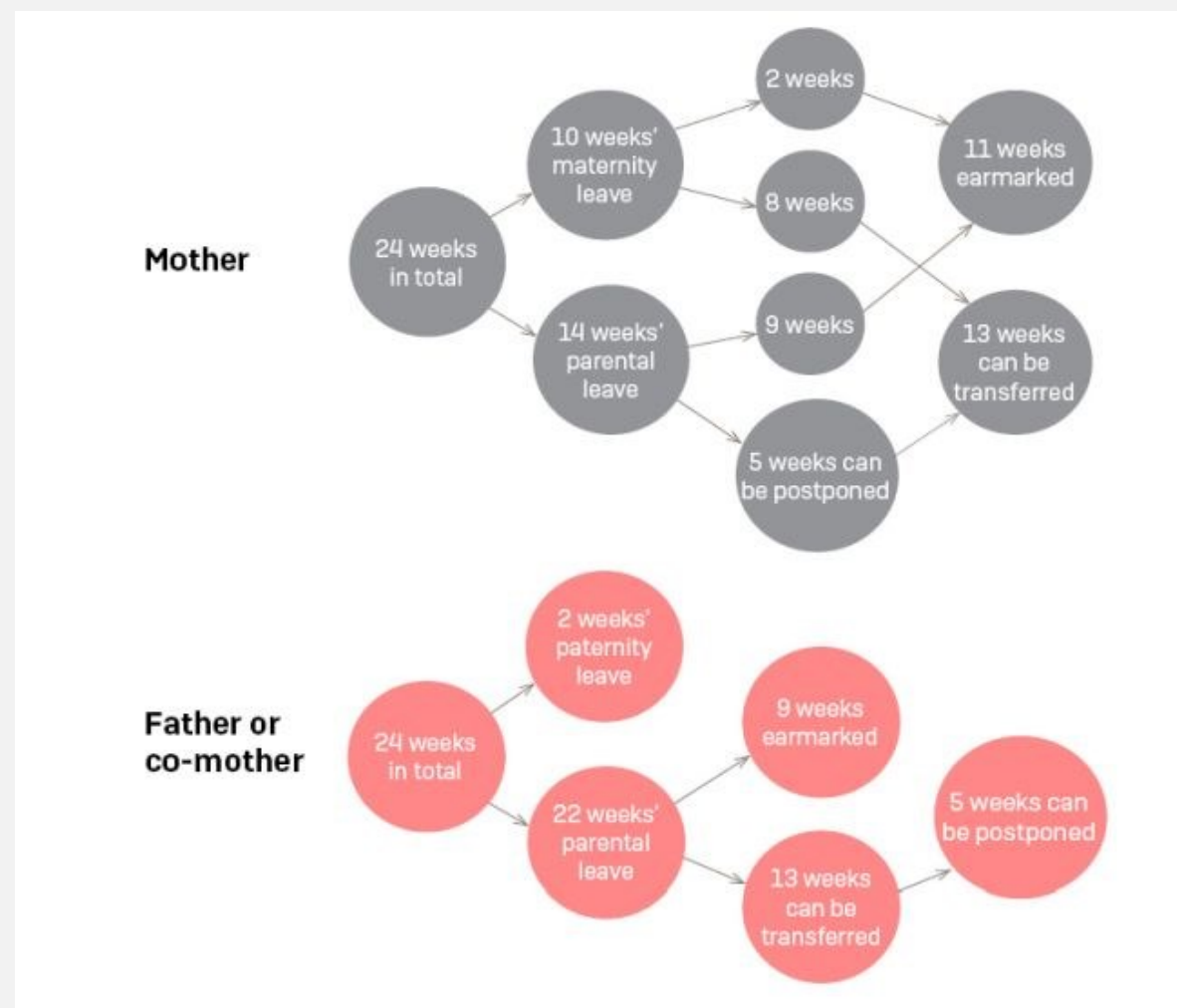
no salary deduction for contributions, tax-financed



Zoom in: Denmark – Care Credits



- Supplemental occupational pension contributions are linked to salary payment and therefore continued if salary payment is continued
- Maternity, paternity, parental:
 - Duration depends on collective agreement or individual company agreement
 - Better covered: public employees, incl. workers in public health care system, and industry workers (metals,...)
- Short-term care: 14 days care leave for 'close sick relatives' with full salary: this is paid by the employer.
- Longer-term care option available through statutory system but no care credits rights provided



Adapted from: <https://iuslaboris.com/insights/parental-leave-in-denmark-whats-changing/>

Next steps

Next steps

- Data collection: interviews
- Analysis: country and sectoral analysis
- Workshop with experts and EC
- Seminar - autumn 2023 (TBC), online/hybrid (in Brussels)
- Reporting:
 - Interim report – end of July 2023
 - Draft final and final report – December 2023 / January 2024

Thank you!

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