

EAPSPI Meeting
Paris, October 22, 2010



ONSSAPL

Structure of presentation

- ONSSAPL
- The financing of tenured employees of PLAs
- Reminder about current situation
- The need for reform
- What was planned
- What was still undecided
- Conclusions

Presentation of the organisation



ONSSAPL

ONSSAPL ...

- **ONSSAPL**: The National Office of Social Security for Provincial and Local Administrations.
- The **social security body** responsible for provincial and local administrations (**PLAs**): primarily provinces, municipalities, public welfare centres (CPAS) and intermunicipal bodies, including hospitals.
- For **solidarity-based pension schemes**, it sets the **rates** of personal and employers' contributions, and in principle is responsible for **collecting** them.

ONSSAPL...

- The **solidarity-based pension schemes** are financed **distributively**. The participants' pension **costs** are **pooled** and **split** between them. The contribution rate (identical for all) is the ratio between the presumed pension expense for the year and the presumed contributions for the same year.
- ONSSAPL makes financial resources available to the bodies which allocate pensions in solidarity-based schemes (mainly the SdPSP).

Two solidarity-based schemes. Membership optional but irrevocable. Managed separately (different rates changing at different intervals).

- **The local authorities' common pension scheme ('pool 1')**. Formerly closed group for small municipalities. Historical reserves.
- **The scheme for new members of ONSSAPL ('pool 2')**. Created in 1993 mainly for large cities. No reserves.

Solidarity or individual scheme

PLAs which do not belong to solidarity-based pension schemes have an '**individual pension scheme**', i.e. cover their **own pension costs individually**.

Involvement of a benefit institution (fund management agreement + sometimes the administration of pensions). '**Pool 3**' (not really a pool since cost is **isolated**).

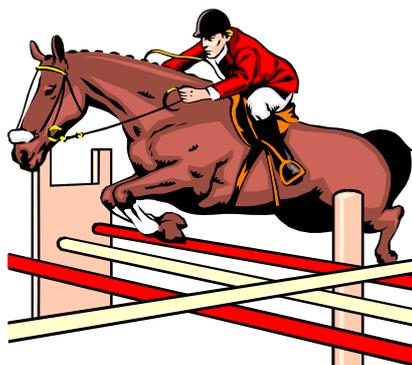
Without the involvement of a benefit institution.
'**Pool 4**' (not really a pool since cost is isolated).
The PLA administers and manages the pensions itself.

Pension schemes

Scheme	1/2010		
	Number of PLAs	Wage bill	Number of tenured employees
Pool 1	1,214	1,513,409,775	48,305
Pool 2	76	1,367,612,327	41,603
Pool 3	73	528,564,576	14,341
Pool 4	18	89,647,768	2,385

Reforming the financing of the statutory pensions (1st pillar) of tenured PLA employees

Difficulties to be overcome



Current difficulties

- **Increase in cost** of pensions (ageing).
- **Specific problems: fall in the number of tenured employees (and hence in the wage bill subject to contributions)**, restructuring, hospitals, police reform, conditions for assumption of responsibility for current pensions by pool 2 when a new member joins, allocation of part of family allowance dividend to pool 3....
- **These two pools are in deficit.** Pool 2 since 1995 and pool 1 since 2007.

Change in contribution rate

Year	Increase needed	Increase implemented	Rate paid	
2009			Pool 1: 27.5%	
			Pool 2: 34.5%	
2010	Pool 1: + 5%	Pool 1: + 2.5%	Pool 1: 30%	
	Pool 2: + 11.5%	Pool 2: + 2.5%	Pool 2: 37%	
2011	Pool 1: + 8.5%	Pool 1: + 2%?	Pool 1: 32%?	
	Pool 2: + 11.5%	Pool 2: + 3%?	Pool 2: 40%?	
....				
2050			Pool 1: 82.5%	Pool 3: 82.8%
			Pool 2: 84.5%	Pool 4: 77.4%

For 2012...



Possible approaches

For 2012...

- 1 January 2012 (or 2013 after municipal elections?): **New method of financing.**
- New system: **Balance** between **solidarity** (widespread membership – uniform basic contribution percentage) and **attribution of responsibility to individual administrations.**

Envisaged principles

- **Still solidarity-based:** basic rate common to all members - financial participation does not merely reflect their own pension costs.
- Solidarity is '**brought back into balance**' by '**partial (not total) attribution of responsibility**' by means of a 'correction' (surcharge) for those local administrations **that have a very high specific pension rate** and benefit more from solidarity than the others. However, they will still pay less than the specific rate that they would pay.

The principles ...

$$\text{TPC} = \text{BR\%} * \text{WB} + \text{RACR\%} * (\text{PC} - \text{BC})$$

where

TPC = total pension contribution

BR% = basic contribution rate

WB = wage bill of administration's tenured employees

RACR% = responsibility attribution contribution rate

PC = administration's pension cost

BC = basic contribution = BR% x WB

Example

- **Purely by way of example** in order to explain the concept (merger of pools 1 and 2, basic rate of 30%, correction factor of 58%)
- Wage bill 1,000,000
- Pension cost: 700,000 (individual rate = $700,000/1,000,000 = 70\%$)
- Basic contribution: $1,000,000 \times 30\% = 300,000$
- Correction: $(700,000 - 300,000) \times 58\% = 232,000$ of supplementary contributions
- Total pension contribution payable: $300,000 + 232,000 = 532,000$

Undecided points

- **Relative proportions of the solidarity-based and responsibility-based elements.**

Fundamental , since it determines how solidarity-based the system is. A **substantial solidarity-based element** makes it possible to maintain **affordability** for those that have a very high specific pension rate.

- **Compulsory affiliation with ONSSAPL for PLAs....**
'pool 3' (73 employers out of a total of 1381)
and 'pool 4' (18 employers)?
- **Merger of pools 1 and 2?**

Undecided points

- **Use up all reserves before responsibility attribution is introduced, or introduce it immediately and use reserves to accompany the reforms?**

Conclusions

- **The system strikes a balance between solidarity and responsibility.**
- **Each PLA has a free choice:**
 - pay responsibility attribution charge (option 1);
 - or give employees tenure (option 2) so as to reduce or eliminate 'responsibility attribution' pension charge (reduce specific pension rate by increasing collected pension contributions by increasing the number of tenured employees paying contributions).

Example

- Wage bill 1,000,000
- Pension cost: 700,000 (individual rate = $700,000/1,000,000 = 70\%$)
- Basic contribution: $1,000,000 \times 30\% = 300,000$
- Correction: $(700,000 - 300,000) \times 58\% = 232,000$ of supplementary contributions
- Amount payable: $300,000 + 232,000 = 532,000$

Choice

- The 'responsibility attribution' charge of €232,000 can be paid.
- It can also be offset by **additional pension contributions**.
- Not necessary to recruit more personnel.
- Possible by **shifting the wage bill of contractual employees to that of tenured employees** by €773,333 ($€773,333 \times 30\% = €232,000$).
- This is equivalent to converting 26 contractual employees into 26 tenured employees, based on an average annual starting salary of €29,309.61.