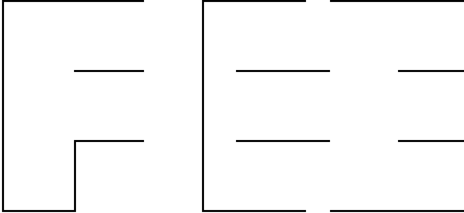

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HOW EUROPEAN COMPANIES ARE APPLYING IAS 19 (revised) ON PENSION ACCOUNTING IN THE FIRST YEAR OF APPLICATION

October 2001

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1. Introduction

In the 1994 FEE "Survey of pensions and other retirement benefits in EU and Non-EU countries", it was concluded that pensions were an increasingly important issue, both economically and socially, in most European countries. In 2001 this statement is still valid. This is due to the fact that pensions are taking a more prominent position in the national legislation as well as in the national and international accounting standards.

In 1998 the IASC approved a new standard for employee benefits. Pensions are a large element of employee benefits and are therefore included in the new standard: IAS 19 (revised 1998), Employee Benefits. This new standard replaces IAS 19, Retirement Benefit Costs, a reformatted version of which was approved in 1993. IAS 19 (revised 1998) became effective for periods beginning on or after 1 January 1999. The new standard provides more specific rules on assumptions, methods, recognition, measurement and disclosure on pension accounting in comparison to its predecessor. IAS 19 was amended in 2000 to change the definition of plan assets and to introduce recognition, measurement and disclosure requirements for reimbursements. A glossary of terms is included in Appendix I.

Due to the possible conflict between IAS 19's mechanism to spread certain gains and losses (known as the corridor approach) and the interpretations of the European Accounting Directives, it was questioned whether and in which way European companies applied the corridor approach. More information regarding the analyses on the corridor approach can be found in the FEE study "To what extent can options in International Accounting Standards be used for consolidated accounts under the EC Accounting Directives". A summary of the findings from that study concerning the corridor approach can be found in Appendix III.

The main objective of the present FEE survey "How European companies are applying IAS 19 on pension accounting in the first year of application" is to provide an insight into how a selection of European companies applied IAS 19 (revised 1998) in their 1999 financial statements and to give a first experience with the application of IAS 19 (revised 1998) which could be useful for the numerous companies that will have to apply IAS in the near future. In the proposal for a Regulation, listed companies are required to apply IAS for the consolidated financial statements from the financial year 2005 onwards.

IAS 19 (revised 1998)

The standard deals with accounting for all employee benefits, including short-term employee benefits, post-employment benefits, other long-term employee benefits, termination benefits and equity compensation benefits. The scope of this survey is limited to post-employment benefits.

Arrangements whereby a company provides post-employment benefits can be described as post-employment benefit plans. IAS 19 classifies post-employment benefit plans as either defined contribution plans or defined benefit plans. Defined contribution plans are post-employment benefit plans under which a company pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Defined benefit plans are post-employment benefit plans other than defined contributions plans.

Contributions payable to a defined contribution plan should be recognised as expenses. The standard does not require other disclosure than the amount expensed for defined contribution plans. For defined benefit plans IAS 19 comprises more complex requirements because actuarial

assumptions are required to measure the obligation and the expense. The possibility exists that actuarial gains or losses arise. The standard prescribes how these actuarial gains or losses should be accounted for. The obligations are measured on a discounted basis. They have to be discounted because they may be settled many years after the employees render the related service. The standard also prescribes which discount rate should be used.

The key requirements of IAS 19 (revised 1998) are:

for defined contribution plans:

- Contributions of a period should be recognised as expenses.

for defined benefit plans:

- Current service cost should be recognised as an expense.
- All companies should use the Projected Unit Credit Method to measure their pension expense and pension obligation.
- The rate used to discount post-employment benefit obligation should be determined by reference to market yields at balance sheet date on high quality corporate bonds of maturity comparable to plan obligations.
- Post-employment benefit obligations should be measured on a basis that reflects:
  (a) estimated future salary increases;
  (b) the benefits set out in the terms of the plan at the balance sheet date; and
  (c) estimated future pension increases.
- If the net cumulative unrecognised actuarial gains and losses exceed the greater of 10% of the present value of the plan obligation 10% of the fair value of plan assets, that excess must be amortised over a period not longer than the estimated average remaining working lives of employees participating in the plan. Faster amortisation is permitted.
- Past service cost should be recognised on a straight-line basis over the average period until the amended benefits become vested.
- Plan assets should be measured at fair value.
- The effect of a curtailment or settlement should be recognised when the event occurs.

2. Scope

The study on the application of IAS 19 (revised 1998) on pension accounting in practice has been conducted on the 1999 consolidated financial statements of 47 European companies, most of them being listed. In addition to the survey on the consolidated financial statements of these 47 European companies also a limited survey on the national legislation and national standards of a country regarding pension accounting, has been carried out (- but only for those countries with companies being included in the survey).

The purpose of the survey is to provide an insight in the application of IAS 19 (revised 1998) by the selected European companies in their consolidated financial statements of 1999. The limited survey on the countries' legislation and national standards has been conducted in order to provide an insight into any potential application problems of IAS 19 (revised 1998). It is not intended to provide a complete picture of each country's current situation concerning pension accounting, nor to describe in detail the specific national legal requirements and regulations.

In this way the survey has addressed the experience with the first year application of IAS 19 (revised 1998) All information included on pension accounting in the financial statements has been used. It should however be noticed that IAS 19, like any other IAS, includes accounting and disclosure requirements. Accounting requirements have to be followed, but are not separately presented in the financial statements although some companies make voluntary presentations. These voluntary presentations have been taken into account since they provide useful information on the first time application of IAS 19 (revised 1998) Disclosure requirements, when applicable and when material need to be followed and disclosures are to be made in the financial statements. Given the wider purpose of the survey, both accounting and disclosure requirements of IAS 19 (revised 1998) are covered in the survey.

To be included in the survey a company must have stated that the financial statements are in full conformity with IAS. Companies have not been included in the study if only certain IAS but not all, for instance, only in the absence of national GAAP or only as long as they are in conformity with national GAAP, were used. An exception was made for a Norwegian company whose financial statements were prepared in accordance with the Norwegian Accounting Act and generally accepted accounting principles in Norway. The company has made a reconciliation with IAS, which indicates no differences between the accounting treatment according to IAS 19 and the Norwegian Standard regarding pension accounting. This company has been included in the survey.

For countries where IAS are applied widely (Austria, Denmark, Germany and Switzerland) between eight and twelve internationally known companies per country have been selected in order to limit the survey exercise. For other countries, in which IAS up to now are only rarely applied (Belgium, Czech Republic, France, Netherlands and Norway) all listed companies, we were aware of at the time applying IAS in their 1999 consolidated financial statements, have been included in the survey. For 1999 we were not aware that listed companies in Italy, Luxembourg, Sweden, Spain, Portugal, Greece, Ireland and United Kingdom applied IAS in their consolidated financial statements. Consequently, the study does not include companies from these countries neither have their national legislation and standards on pension accounting been surveyed. An overview from the situation in Europe regarding pension schemes for countries included in this study, is quoted from the 1994 FEE study "Survey of pensions and other Retirement Benefits in EU and Non-EU Countries" and can be found in Appendix IV.

The following countries have been included in the survey:

	Number of companies
• Austria	8
• Belgium	1
• Czech Republic	2
• Denmark	8
• France	2
• Germany	12
• Netherlands	3
• Norway	1
• Switzerland	10
	47

A list of all companies surveyed is included in Appendix II.

The survey is based on two questionnaires completed by the members of the FEE Accounting Working Party. One questionnaire covers the national legislation and national standards of a country while the other questionnaire surveyed how a company applied IAS 19 (revised 1998) in its financial statements. The responses to the questionnaire on national legislation and national standards relate to the situation existing in each country surveyed as at December 2000.

An analysis of the application of IAS 19 (revised 1998) in the surveyed financial statements and the responses to the questionnaire on the national legislation are presented in Sections 4 and 5. Main observations on the analysis can be found in Section 3.

3. Main Observations

This study provides a first insight into the first-time application of IAS 19 (revised 1998), including the corridor approach. It should be taken into account that this study deals with first time experience with the application of IAS 19 (revised 1998) in consolidated financial statements of 47 selected mostly listed European companies applying IAS and therefore it is not a comprehensive study of all companies applying IAS in Europe. However this experience could be useful to the numerous companies and their auditors that will have to apply IAS in the near future.

For 1999, only very few companies, and in some countries no company at all, prepared financial statements based on IAS outside Austria, Denmark, Germany and Switzerland. Therefore the experience with the application of IAS 19 (revised 1998) is limited. However with the recent publication by the Commission of a proposal for a Regulation on the application of international accounting standards which introduces a requirement for listed companies to apply IAS in their consolidated financial statements from the financial year 2005 onwards, listed companies are expected to move quickly towards IAS.

The 1994 FEE study on pensions revealed that there are countries where occupational (employer) schemes are more or less ancillary to state pension schemes, as for example in Austria, Belgium, Denmark and France. For these countries the obligation for retirement benefits are of minor importance. In other countries like Germany, the Netherlands, Norway and Switzerland. occupational schemes are more important. In some countries, the occupational schemes that are operated by pension funds or trusts often discharge the granting enterprise from the primary obligation. These would be accounted as defined contribution plans. It is evident that the need for disclosures are less extensive than for companies in some countries than in others. This fundamental difference between European countries in the operation of defined benefit plans has to be noticed when analysing the figures presented in this survey. As the figures of all companies are added up with the same prominence one should be careful in drawing conclusions from the analysis of the survey.

Disclosure

The first-time application of IAS 19 shows differences in the way disclosures are provided and their level of detail. Two main observations can be made:

- A number of companies do not give all the disclosures listed in IAS 19.120. In analysing whether companies did give all the disclosures required under IAS 19 (revised 1998) one should have in mind that disclosures are only required where the individual circumstances are applicable for the company and the information to be disclosed is material. This can also be connected with the differences in pensions systems and schemes between countries. Even if one takes this into account, nevertheless the table in section 2.8 in chapter 4 shows that there is room for improvement.

- Some companies gave more information than explicitly required under IAS 19 (revised 1998) to explain the applied accounting policy in more detail. Given the complexity of a subject like accounting for pension obligations, FEE believes it helps the reader to have such additional disclosures, even if they state what would be obvious to those with a full knowledge of the standard.

Another apparent difference in disclosure is the level of detail given about the discount rate applied to discount post-employment benefit obligations. The disclosed information shows that

the discount rate applied differs widely between the surveyed companies, even within the same country. This can be explained by the differences in exchange rates and estimated terms of the post-employment benefit obligations, the companies have to take into consideration in determining the discount rate. A parent company can have subsidiaries in various countries in the world with different interest rates. Disclosure of an average discount rate may then not be useful from an information perspective. More segmented information in this respect would be needed to appreciate the discount rate disclosed. This also applies to other disclosures of actuarial assumptions such as salary increase.

Corridor approach

IAS 19 allows different treatments for actuarial gains and losses, including the so-called corridor approach (see further 4.2.3 in chapter 4).

Forty-three of the forty-seven companies surveyed have defined benefit plans. Here one could expect information about how they deal with the actuarial gains and losses. Twenty-four of the companies disclose how they account for them.

Accounting treatment of actuarial gains and losses	Number of companies
Spread over the expected remaining work lives	
• only outside the corridor	11
• outside and inside the corridor	4
• outside the corridor and tentatively inside the corridor	4
Spread over 5 years	1
Immediate recognition	2
Accelerated recognition	1
No recognition inside the corridor	2
Total	25

4. Survey of Financial Statements

4.1. Defined Contribution Plans

Thirty-one of the forty-seven companies surveyed (66 %) disclose that they have defined contribution plans.

4.2. Defined Benefit Plans

4.2.1. General

Forty-three (91,5 %) of the companies surveyed state in their financial statements that they apply defined benefit plans.

4.2.2. Actuarial method used

IAS 19.64 requires the application of the Projected Unit Credit Method (PUCM). As this is the only method accepted the financial statements do not need to disclose the method applied. For clarification 29 (62 %) of the companies voluntarily disclosed that they applied the Projected Unit Credit Method. One of the companies indicated that they only used the Projected Unit Credit Method for calculating the pension provisions of their subsidiaries in a certain country.

Twelve companies (28 %) out of forty-three companies applying defined benefit plans voluntarily presented further information about the application of the PUCM Method.

4.2.3. Actuarial gains or losses (corridor approach)

Estimates of post employment benefit obligations are best viewed as a range (or 'corridor') around the best estimate. IAS 19 requires an enterprise to recognise, as a minimum, a specific portion of actuarial gains and loses that fall outside this corridor. Causes of actuarial gains and losses are due to changes in actuarial assumptions. Under IAS 19 the corridor is defined as following:

IAS 19.92:
In measuring its defined benefit liability under paragraph 54, an enterprise should recognise a portion (as specified in paragraph 93) of its actuarial gains and losses as income or expense if the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting period exceeded the greater of:

- ***(a) 10% of the present value of the defined benefit obligation at that date (before deducting plan assets); and***
- ***(b) 10% of the fair value of any plan assets at that date.***

These limits should be calculated and applied separately for each defined benefit plan.

IAS 19.93:
The portion of actuarial gains and losses to be recognised for each defined benefit plan is the excess determined under paragraph 92, divided by the expected average remaining working lives of the employees participating in that plan. However, an enterprise may adopt any systematic method that results in faster recognition of actuarial gains and losses, provided that the same basis is applied to both gains and losses and the basis is applied consistently

form period to period. An enterprise may apply such systematic methods to actuarial gains and losses even if they fall within the limits specified in paragraph 92.

Twenty-four companies provided disclosures about the accounting treatment of actuarial gains and losses. These companies disclosed the following accounting treatment for actuarial gains and losses:

Accounting treatment of actuarial gains and losses	Number of companies
Spread over the expected remaining work lives	
• only outside the corridor*	11
• outside and inside the corridor	4
• outside the corridor and tentatively inside the corridor	4
Spread over 5 years	1
Immediate recognition*	2
Accelerated recognition	1
No recognition inside the corridor	2
Total	25

* The total is 25 because one company disclosed that it spreads over the expected remaining work lives outside the corridor and applies immediate recognition inside the corridor.

4.2.4. Actuarial assumptions

Actuarial assumptions comprise demographic assumptions for matters such as mortality, rates of employee turnover, disability, early retirement, the portion of plan members with dependants who will be eligible for benefits and claim rates under medical plans as well as financial assumptions dealing with items such as the discount rate, future salary and benefit levels and the expected rate of return on plan assets. The following tables summarise the assumptions disclosed the for discount rates and future salary increases.

4.2.4.1 Discount rates

IAS 19.120 (h) (i) requires, where applicable, the disclosure of the discount rates

The applied discount rates for the remaining companies are set out in table 1.

Table 1 Discount rate used **Country**	**Company**	**Discount Rate**	**Reference to market yields?**
Austria	Austria Tabakwerke AG	6.50%	
	BEKO AG	5.00%	
	Böhler-Uddeholm Group: Austria	5.10%	
	Germany	6.00%	
	Sweden	4.50%	
	USA	7.00%	
	EVN	5.00%	Yes
	Top Call	6.00%	
	VA Technologie	6.00%	Yes
	Verbund	5.75%	Yes
	Wienerberger	7.00%	Yes
Belgium	Agfa	-	Yes

Table 1 Discount rate used **Country**	**Company**	**Discount Rate**	**Reference to market yields?**
Denmark	Aalborg Portland Holding	4.00%	
	Danisco	-	
	FLS Industries	10.00%	
	GN Great Nordic	8.00%	
	H. Lundbeck: UK	9.00%	
	Germany	5.50%	
	SAS	6.80%	
France	DMC	-	
	Technip	-	
Germany	Adidas -Salomon	6.00%	Yes
	Allianz	6.00-8.00%	Yes
	Bayer: Germany	6.50%	
	Other countries	3.00-7.30%	
	Deutsche Bank	4.50-7.80%	Yes
	Dyckerhoff: Germany	5.00%	
	USA health costs	7.50%	
	Heidelberger Zement	5.94%	
	Lufthansa	6.50%	
	Messer Griesheim GmbH:		
	Germany	6.50%	
	Other countries	5.50-7.00%	
	Preussag	5.50%	
	Puma	6.00%	
	RWE	5.50%	
	Schering	6.50%	
The Netherlands	Gucci	-	
	Teleplan	-	
Norway	Bergesen	6.00%	
Switzerland	Alusuisse-Lonza	5.10%	
	Julius Baer	4.00%	
	Bossard Holding	3.50%	
	EMS	3.75%	
	Geberit International	4.00-6.00%	
	Mövenpick	-	
	Schweiter AG	4.01%	
	Siegfried Ltd	4.58%	
	Sika Finanz AG	-	
	Von Roll	4.00-7.00%	

Eight companies voluntarily disclosed a discount rate determined by reference to market yields. Market yields of high quality corporate bonds with maturity dates approximating the terms of the company's obligations were referred to. In some instances the discount rate used per country was disclosed.

4.2.4.2 *Future salary increases*

IAS 19.120 (h) (iii) (revised 1998) requires, where applicable, the disclosure of the expected rates of salary increases.

Table 2 Actuarial assumptions **Country**	**Company**	**Actuarial assumption**	**Increase percentage**
Austria	Austria Tabak Group	Wage/salary trend Inflation rate	3.50% 2.50%
	Böhler-Uddeholm	Salary increase: Austria Germany Sweden USA Pension increase: Austria Germany Sweden USA	 2.00% 1.50/2.50% 2.50% 4.00% 1.00% 1.50/2.50% 1.50% 4.00%
	EVN	Remuneration increases Pension increase	2.50% 2.00%
	TopCall	Future base salary increase Future other salary increase	4.00% 1.00%
	VA Technologie	Remuneration increases	2.50%
	Verbund	Inflation (include salary And pension increase)	 2.00%
	Wienerberger	Salary increase Pension increase	3.50% 2.50%
Belgium	Agfa	Future salary increase Future pension increase	3.00% at 01-01-1999 3.90% at 31-12-1999 1.90% at 01-01-1999 2.10% at 31-12-1999
Denmark	APH	Salary increase Pension increase	4.00% 10.00%
	Danisco	Salary increase Pension increase	1.50% 1.50%
	FLS	Salary increase Pension increase	5.00% 10.00%
	H. Lundbeck	Salary increase: UK Germany Pension increase: UK Germany	 6.50% 3.50% 4.25% 6.20% (every third year)
	SAS	Salary increase Inflation Pension increase	3.00% 3.00% 3.00%
France	DMC	Future salary increase	Not shown
	Technip	Future salary increase	Not shown
Germany	Adidas-Salomon	Salary increase Pension increase	1.70 – 3.00% 1.70 – 2.00%
	Allianz	Salary increase Pension increase	Not shown Not shown
	Bayer	Salary increase: Germany	 3.00%

Table 2 Actuarial assumptions **Country**	**Company**	**Actuarial assumption**	**Increase percentage**
		Other countries Pension increase: Germany Other countries	1.00 – 5.40% 2.00% 1.00 – 5.40%
	Deutsche Bank	Salary increase Pension increase	2.50 – 5.00% 0 – 2.80%
	Dykerhoff	Salary increase: Germany USA retirees' health costs Pension increase: Germany	 2.50% 4.50% 1.50%
	Heidelberger Zement	Salary increase	3.94%
	Lufthansa	Salary increase Pension increase	3.00% 2.00 – 3.00%
	Messer Griesheim	Salary increase: Germany Other countries Wage increase: Germany Pension increase Increase in the limit for Social security contributions	 2.00% 3.50 – 4.50% 3.00% 0 – 4.50% 3.00%
	Preussag	Salary increase: Germany Other countries Pension increase: Germany	 2.00 – 3.00% 4.00 – 5.00% 1.00 – 1.50%
	Puma	Pension increase	2.50%
	RWE	Salary increase: Germany Pension increase: Germany	 3.50% 2.50%
	Schering	Salary increase Pension increase	3.00% 1.50%
Norway	Bergesen	Future salary increase Inflation Future pension increase	3.50% 2.50% 2.50%
Switzerland	Julius Baer	Salary increase Pension increase	2.00% 1.50%
	Bossard	Salary increase Pension increase	2.00% 1.00%
	EMS	Salary increase Pension increase	2.75% 1.50%
	Geberit	Salary increase Pension increase	2.00% - 3.00% 0.00% - 3.00%
	Schweiter Technologies	Salary increase Pension increase	3.00% 1.50%
	Siegfried	Salary increase Pension increase	3.97% 1.94%
	Von Roll	Salary increase	1.50% - 3.50%

Thirty-eight companies disclosed the assumption for future salary increase. Twenty-five companies disclosed the pension increase separately.

4.2.4.3 Return on plan assets

IAS 19.120 (h) (ii) requires, where applicable, the disclosure of the expected rates of return on plan assets. Nineteen out of the forty-three companies with defined benefit plans disclosed the rate for the return on plan assets.

Five companies indicated how they calculated the expected return on plan assets. Three companies referred to the expected long-term rate of return of fund assets. One company referred to the expected returns of the funds for fund based pension plans.

4.2.5. Measurement of plan assets

Plan assets are defined in IAS 19.7 (revised 1998) as follows:

"Plan assets are assets (other than non-transferable financial instruments issued by the reporting enterprise) held by an entity (a fund) that satisfies all of the following conditions:

(a) the entity is legally separate from the reporting enterprise;

(b) the assets of the fund are to be used only to settle the employee benefit obligations, are not available to the enterprise's own creditors and cannot be returned to the enterprise (or can be returned to the enterprise only if the remaining assets of the fund are sufficient to meet the plan's obligations); and

(c) to the extent that sufficient assets are in the fund, the enterprise will have no legal or constructive obligation to pay the related employee benefits directly."

In IAS 19 (revised 2000) the definition of plan assets was changed.

Plan assets should be measured at fair value and a company should determine the fair value of any plan assets with sufficient regularity that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the balance sheet date (IAS 19.54 (d) and IAS 19.56).

Thirteen of the forty-three companies voluntarily disclosed that plan assets were measured at fair value. This disclosure is only applicable to those companies having plan assets.

4.2.6. Past service cost

Past service cost arises when a company introduces a defined benefit plan or changes the benefits payable under an existing defined benefit plan. As such changes are in return for employees services over the period until the benefits concerned are vested, past service cost is recognised over that period (IAS 19.97). Thirteen companies indicated that they recognised past service cost in line with IAS 19.96.

4.2.7. Curtailments and settlements

A curtailment occurs when an enterprise either is demonstrably committed to make a material reduction in the number of employees covered by a plan or amends the terms of a defined benefit plan. A settlement occurs when an enterprise enters into a transaction that eliminates all further legal or constructive obligation (IAS 19.111 and 112).

Five companies gave an indication that they treated curtailments and settlements in line with IAS 19.109.

One company disclosed the settlement because of a divestiture. Another company disclosed that the clear decrease in current service cost in the financial year was attributable to the disposal of part of the business. The related gains or losses were shown in the profit and loss account.

4.2.8. Disclosure

43 out of 47 companies have indicated that they have defined benefit plans. According to IAS 19.120 an enterprise should disclose the information about defined benefit plans as listed below. IAS 1.32 states "Materiality provides that the specific disclosure requirements of International Accounting Standards need not to be met if the resulting information is not material." Disclosures need not to be provided if they are not material or not applicable. Whether a disclosure is material or applicable may only be assessed depending upon the facts of the case and not on a general conceptual level.

Type of disclosure	Number of companies
(a) *the company's accounting policy for recognising actuarial gains and losses*	***26 companies***
(b) *a general description of the type of plan*	***26 companies***
(c) *a reconciliation of the assets and liabilities recognised in the balance sheet, showing:*	
• *the present value at the balance sheet date of defined benefit obligations that are wholly unfunded*	***9 companies***
• *the present value (before deducting the fair value of plan assets) at the balance sheet date of defined benefit obligations that are wholly or partly funded*	***31 companies***
• *the fair value of any plan assets at the balance sheet date*	***22 companies***
• *the net actuarial gains or losses not recognised in the balance sheet*	***25 companies***
• *the past service cost not yet recognised in the balance sheet*	***6 companies***
• *any amount not recognised as an asset*	***6 companies***
• *the amounts recognised in the balance sheet*	***26 companies***
(d) *the amounts included in the fair value of plan assets for:*	
• *each category of the reporting companies own financial instruments*	***no indication***
• *any property occupied by, or other assets used by, the reporting company*	***no indication***

(e)	*a reconciliation showing the movements during the period in the net liability (or asset) recognised in the balance sheet*	***31 companies***
(f)	*the total expense recognised in the income statement for each of the following, and the line item(s) of the income statement in which they are included:*	
	• *current service cost*	***22 companies***
	• *interest cost*	***25 companies***
	• *expected return on plan asset*	***17 companies***
	• *actuarial gains and losses*	***14 companies***
	• *past service cost*	***7 companies***
	• *the effect of any curtailment or settlement*	***5 companies***
(g)	*the actual return on plan assets*	***16 companies***
(h)	*the principal actuarial assumptions used at the balance sheet date, including, where applicable:*	
	• *the discount rates*	***36 companies***
	• *the expected rates of return on any plan assets for the periods presented in the financial statements*	***19 companies***
	• *the expected rates of salary increases (and if changes in an index or other variable specified in the formal or constructive terms of a plan as the basis for future benefit increases)*	***32 companies***
	• *medical cost trend rates*	***2 companies***
	• *any other material actuarial assumptions used*	***no indication***

5. National Legislation and National Standards

5.1. General

5.1.1 Direct application of IAS 19

Austria allows the direct application of IAS 19. In Austria the Commercial Code permits all group companies to prepare their consolidated financial statements according to internationally accepted accounting standards (i.e. IAS or US-GAAP). These financial statements must be prepared in line with the Seventh Directive and the informative value of these accounts must be equivalent to financial statements under the Austrian Commercial Code. In such cases IAS 19 can be applied directly. In **Belgium** IAS 19 can be applied except for the corridor approach, which is rejected by the European Committee and so indirectly by the Belgian Commission of Accounting Standards.

IAS 19 can be directly applied in **Denmark** (new Danish Companies Accounting Act (in force 01.01.2001)). The comments to the new Act address that IAS 19 can serve as inspiration to account for pensions in the annual accounts for commitments towards staff of foreign subsidiaries and former or present managing directors. In general, in Denmark, accounting for pensions costs is not considered a big issue from the perspective of the company, as the employer has to insure his obligation to provide pension payments to his employees by taking out an insurance contract, or by payment of contributions to a pension fund. Therefore commitments towards staff are limited to the agreed contributions for the period. This requirement does not apply for obligations towards present or former managing directors of a company and towards staff of foreign subsidiaries. Pension commitments for these two groups have to be recognised in the balance sheet as a provision.

The **Czech** legislation does not allow direct application of IAS instead of the national accounting regulations.

In **France** it is also not allowed to apply IAS 19 directly. According to a 1998 law, listed companies can apply directly IAS to prepare their consolidated financial statements, provided the international standards have been formally adopted through the French accounting authority and the consolidated financial statements are also in conformity with the European accounting directives. In practice, this law has never been implemented and all French companies prepare their consolidated financial statements in conformity with the national accounting regulations.

Germany allows the direct application of IAS 19. In Germany the "Kapitalaufnahmeerleichterungsgesetz" permits listed companies to prepare their consolidated financial statements according to internationally accepted accounting standards (i.e. IAS or US-GAAP). These financial statements must be prepared in line with the Seventh Directive and the informative value of these accounts must be equivalent to financial statements under the German Commercial Code. In such cases IAS 19 can be applied directly.

Direct application of IAS 19 is not possible in **the Netherlands**. Also **Norway** does not allow direct application of IAS 19.

5.1.2 *Indirect application of IAS 19 through implementation in national legislation or national law*

In **Austria** for companies whose consolidated financial statements are not prepared under IAS only indirect application of IAS 19 is possible as long as the Austrian Commercial Code is respected. The Austrian Commercial Code only stipulates that the pension accrual has to be calculated according to actuarial calculations and methods. The PUCM is such a method, therefore it can be applied.

In **Belgium** it is not possible to apply IAS 19 indirectly through national legislation or national standards. IAS 19 will only be applied when companies apply IAS in full. The non-acceptance of the corridor approach is still a problem.

The **Czech** accounting legislation does not address pensions specifically. On the other hand there is no obstacle in the Czech accounting law to treat pensions in accordance with IAS 19 to the extent that the Czech companies provide for pensions. Only the system based on the contributions payable to a defined contribution plan (state plan and pension funds) exists. The contributions are recognised as expenses.

Only defined contribution plans exist in the Czech Republic. There is a possibility to fund the post-employment benefit plan by various pension programs in addition to state plans. State plans are characterised as defined contribution plans. There is no obligation of the company to pay any future benefits. State plans include both the post-employment benefit plan and the contribution to the state employment policy. The amount of the contributions paid to a state plan is calculated on the basis of gross salaries during the employer-employee relationship and has two parts:

a) contributions paid by the company in addition to the gross salary (26% of the gross salary);
b) contributions paid by the company on behalf of the employee as contribution withheld from the gross salary (8% of the gross salary).

In **Denmark** it cannot be read directly from the new Act whether IAS 19 will be processed into a national standard, but Danish Accounting Standards have always been prepared based on IAS and a draft standard will probable be developed in the long term future.

In **France** IAS 19 can be applied indirectly through national legislation or standards. The national requirements are far less demanding and precise than IAS 19, which can be fully adopted by a French company without any conflict with national accounting law.

In **Germany** for companies whose consolidated financial statements may not be prepared under IAS only indirect application of IAS 19 is possible as long as the German Commercial Code is complied with. Past service costs are fully expensed when they arise.

In **the Netherlands** an indirect application of IAS 19 is possible for companies if the pension obligation, when applying IAS 19, is not lower than the obligation when applying Dutch GAAP. If this would unexpectedly happen, IAS 19 would no longer comply with Dutch GAAP. The Dutch accounting standards setting body (CAR) has drafted a new standard regarding employee benefits. This newly drafted version is almost completely in line with IAS 19 (revised 1998) and is expected to have an effective date of January 1, 2002.

In **Norway** it is possible to indirectly apply IAS 19. The Norwegian standard on pension accounting basically corresponds with IAS 19. However, it also includes options, which do not correspond with IAS 19. The same actuarial method of calculation may be used and the same

assumptions may be applied. Accordingly, the pension liabilities may be equal. The plan assets may also be calculated in the same way.

In **Switzerland** it is not currently possible to fully apply IAS 19 indirectly through national legislation or national standards. However, the accounting and reporting recommendations (AAR) No. 16 has been introduced in Switzerland with the effective date of January 1, 2000. These recommendations are similar to IAS 19. Some differences exist between these two recommendations, which should be analysed more deeply. That is not the subject of the present questionnaire. Once again, the Swiss AAR No. 16 concern, generally speaking, relates only the consolidated financial statements.

5.2. Insured Benefits

5.2.1 Payment of insurance premiums to fund a post-employment benefit plan

In **Austria** it is possible to fund a post-employment benefit plan through the payment of insurance premiums. In **Belgium** it is possible to pay insurance premiums to an insurance company to fund a post-employment benefit plan. It is also possible to set up a pension fund which is a (VZW or ASBL, Association Sans But Lucratif) trust. This trust is a separate entity but it is controlled by the Assurance Supervision Commission (OCA, Office de Controle des Assurances).

In the **Czech Republic** the payment of insurance premiums to fund a post-employment benefit plan is allowed. There are pension funds that are separate private companies – unit trusts. There are some tax advantages in paying contributions to such a pension fund (these contributions are tax deductible in the defined extent). The employer pays only an agreed premium to a pension fund and has no other additional obligations. Contributions are directly expensed.

In **Denmark** all occupational schemes should be insured. The employer is required by law that the occupational pension schemes should be an independent separate legal entity or an insurance company. These institutions should be approved by the Danish Financial Authorities. As mentioned above an exception is made for present or former managing directors an towards staff of foreign companies that within their own national legislation do have to be insured.

In **France** it is possible to pay insurance premiums to fund a pension plan. In most cases in France, benefits, which are insured, consist of the indemnity paid to employees on retirement date (see 3.2.1). Insurance policies entered into relation with this indemnity are not mandatory and aim to secure tax deductibility. According to most of these contracts, premiums paid to insurance companies are in substance assets managed by these companies on behalf of the employers and which can be used only to compensate the employers for the payment of the indemnity. The insurance companies do not pay the indemnity directly to the employee. Employers keep the legal obligation.

In **Germany** the payment of insurance premiums to fund a post-employment plan is allowed. For defined contribution schemes the employer is only obliged to pay an agreed premium to a life insurance company. The benefits for the employee depend upon the performance of the life insurance company. The contribution is expensed.

In **the Netherlands**, it is required by law that the pension scheme be an independent separate legal entity or an accepted insurance company. An exception is made for the director/major shareholder who is allowed to built up a long-term provision within the company's own balance sheet (a "book reserve").

The CAR permits the operating of a pension plan by an insurance company. In the current standard on pensions it is not disclosed specifically how an insurance company should execute a pension plan.

In **Norway** the payment of insurance premiums is the most common way to fund a post-employment benefit plan.

In **Switzerland** pension funds are always separate entities. Usually, it is the employer that founds the pension fund and consequently assumes every financial factor relating to the foundation of the pension fund. When the pension fund is created, it has its distinct juridical personality and may contract, for instance insurance contracts of some categories of employees or for all employees of the company. It has to pay insurance premiums.

5.3. Defined Benefit Plans

5.3.1. General

5.3.1.1 Application of defined benefit plans

In **Austria, Belgium, Denmark, France, Germany, the Netherlands, Norway and Switzerland** it is possible to have defined benefit plans. In the **Czech Republic** it is not possible to have any defined benefit plans.

5.3.2. Discount rate

5.3.2.1 Discounting post-employment benefit obligations

In **Austria** the Commercial code stipulates that actuarial calculations have to be applied without specifying the discount rate. Within Austrian taxation a rate of 6% is used. In **Belgium** the choice of discount rate is in principle free. Insurance companies apply legally 3.25% and give a profit participation.

In **Denmark** for a company no rules apply. An actuarial calculation is required only for the purpose of determining the pension obligation of a pension fund or an insurance company. In pension funds and insurance companies policies can only today be issued with a guarantee of 2% interest. However, in previous years policies were issued with a guarantee of 4,5% interest. Hence these interest rates are normally used as discount rate unless market yield are lower.

In **France**, the bulk of pensions are paid by national pension schemes, which are unfunded. This situation explains why the accounting literature on pensions is not developed, especially on the measurement of pension liability. The defined benefit plan most common in France is the retirement indemnity. This indemnity is an obligation for all French employers. Its amount depends on the last salary of the employee and on the period of activity with its employer. Rights to this benefit are acquired during the service life with the same employer on the condition that the employee will be with its employer at retirement date; it means that the rights are only vested on retirement date. This indemnity is in substance a defined benefit plan. There are also defined benefit plans, granted by big companies generally to the management, which provide guaranteed revenue at retirement age. The benefits provided by these plans are in addition to those provided by the normal national pension schemes.

In **Germany,** the discount rate applied in individual accounts is selected in a way to be in compliance with the tax regulation. The discount rate applied in group accounts may be different from the discount rate in individual accounts. In the group accounts it is possible to apply a discount rate in accordance with IAS 19.

In **the Netherlands**, an actuarial calculation is required only for the purpose of determining the liability of a pension fund or an insurance company. The Insurance Chamber (verzekeringskamer) has prescribed the use of the method of discounting. The interest rate to be used for determining the present value cannot be more than 4%.

In the draft standard the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the balance sheet date on high quality corporate bonds. If the market for corporate bonds suffers from a lack of liquid resources, the market yields on government bonds should be used.

In **Norway**, the discount rate should be determined by reference to the long-term risk-free interest or to market yields on high quality corporate bonds.

In **Switzerland**, the national legislation or national standards do not indicate which rate to use when discounting post-employment benefit obligations.

5.3.3. Future salary increases/decreases

5.3.3.1 National legislation or national standards

In **Austria** it is not permitted by national legislation nor by national standards to measure the defined benefit obligation on a basis that reflects estimated future salary increases. In **Belgium** it is not obliged to measure the defined benefit obligation on a basis that reflects estimated future salary increases. If a future salary increase is reflected it is only due to a voluntary act.

In **Denmark** it is not written into the new Act whether measurement of defined benefit obligations should be measured on the basis that reflects estimated future salaries, but in general permitted and applied by companies in practice. For a pension fund or an insurance company the obligations are calculated using actuarial analysis and must at least correspond to the difference between the capitalized value of the commitment and the capitalized value of future premiums to be paid by the policyholder using above mentioned discount rate. The calculation does not normally reflects estimated future individual salary increases.

In **France** there are no precise rules to measure defined benefit plan liabilities, as these types of pension schemes are not important.

In **Germany** the discussion about the inclusion of expected future salary increases has been reopened and is still going on. The present understanding is different for increases related to inflation as opposed to increases due to promotion. The inclusion of expected salary increases related to inflation is allowed if the interest rate used for discounting reflects expected inflation. Future salary increases due to promotion may not be included as long as no decision has been made about, or any promise given of the promotion.

In the current practice, in **the Netherlands**, it is not common to measure post-employment benefit obligations on a basis that reflects estimated future salary increases, however it is not prohibited. The draft standard obliges the measurement of the post-employment benefit obligations on a basis that reflects estimated future salary increases, in accordance with IAS 19.

In **Norway**, a post-employment benefit obligation should be measured on a basis that reflects expected future wage developments. Economic factors such as price trends, changes in interest rates and anticipated economic growth should be taken into account.

In **Switzerland** it is permitted to include estimated future salary increases in the measurement of the defined benefit pension obligations. The general guidelines are indicated in the AAR No. 16.

5.4. Plan assets

5.4.1 National legislation or national standards guidelines to measure the expected return on plan assets

In **Austria** there are normally no plan assets. In **Belgium** the expected return on plan assets has to be communicated to the OCA (Office de Contrôle des Assurances). There are specific (legal) guidelines for plan assets (e.g. the structure of plan assets).

In **Denmark** for companies there are no guidelines. For pension funds and insurance companies plan assets correspondence to the companies obligations towards policyholders and are valued at amortised cost (fixed assets) or valued at market value (other investments such as shares, financial instruments and real estate) are valued at market value. However this is expected to be changed in 2002 where insurance companies and pension funds are expected to use market value for all plan assets and fair value for obligations towards policyholders.

In **France** there are no guidelines on how to measure the expected return on plan assets because defined benefit pension schemes are not important.

In **Germany**, there are several means by which post-employment benefits can be provided. One of them is to establish a separate pension fund for a defined pension benefit plan ("Unterstützungskasse"). The company commits itself to pay the post employment benefit to the employee by this pension fund. The company contributes assets to the pension fund, which the pension fund uses only to pay the post-employment benefits to the employee. The assets of this fund are measured at fair value. However there is no need to provide guidelines on how to measure the expected return, because – contrary to IAS 19 – the return on plan assets may not reduce the expenses for employee benefits. In **the Netherlands** there are currently no guidelines on how to measure the expected return on plan assets.

In **Norway** the standard on pension accounting says the following about return on Plan Assets: "The expected return on plan assets is assessed based on how the funds are invested. Normally, the expected long-term rate of return on the plan assets can be assessed higher than the risk-free interest rate."

In **Switzerland** the AAR No 16 indicates the recommended method to measure expected return on plan assets without describing the method. The recommended method is the "accrued valuation benefit method".

Appendix I

Glossary of terms

These definitions are quotations of IAS 19.

Actuarial gains or losses may result from increases or decreases in either the present value of a defined benefit obligation or the fair value of any related plan assets.

A *curtailment* occurs when a company either:

(a) is demonstrably committed to make a material reduction in the number of employees covered by a plan; or
(b) amends the terms of a defined benefit plan such that a material element of future service by current employees will no longer qualify for benefits, or will qualify only for reduced benefits.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Defined contribution plans are post-employment benefit plans under which a company pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Defined benefit plans are post-employment benefit plans other than contribution plans.

The *expected return on plan assets* reflects changes in the fair value of plan assets held during the period as a result of actual contributions paid into the fund and actual benefits paid out of the fund.

Estimates of *future salary increases* take account of inflation, seniority, promotion and other relevant factors, such as supply and demand in the employment market.

Past service cost is the increase in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (where benefits are introduced or improved) or negative (where existing benefits are reduced).

Plan assets are assets (other than non-transferable financial instruments issued by the reporting enterprise) held by an entity (a fund) that satisfies all of the following conditions:

(a) the entity is legally separate from the reporting enterprise;
(b) the assets of the fund are to be used only to settle the employee benefit obligations, are not available to the enterprise's own creditors and cannot be returned to the enterprise (or can be returned to the enterprise only if the remaining assets of the fund are sufficient to meet the plan's obligations); and
(c) to the extent that sufficient assets are in the fund, the enterprise will have no legal or constructive obligation to pay the related employee benefits directly.

In IAS 19 (revised 2000) the definition of plan assets was changed.

The *Projected Unit Credit Method* (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

A *settlement* occurs when a company enters into a transaction that eliminates all further legal or constructive obligation for part or all of the benefits provided under a defined benefit plan, for example, when a lump-sum cash payment is made to, or on behalf of, plan participants in exchange for their rights to receive specified post-employment benefits.

Appendix II

List of all the companies surveyed

Austria

Austria Tabakwerke AG
BEKO AG
Böhler-Uddeholm Group
EVN
Top Call
VA Technologie
Verbund
Wienerberger

Belgium

Agfa

Czech Republic

Czech Telecom
Patria Finance

Denmark

Aalborg Portland Holding
Danisco
FLS Industries
GN Great Nordic
H. Lundbeck
Incentive
Neurosearch
SAS

France

DMC
Technip

Germany

Adidas-Salomon
Allianz
Bayer
Deutsche Bank
Dyckerhoff
Heidelberger Zement
Lufthansa
Messer Griesheim GmbH
Preussag
Puma
RWE
Schering

Netherlands

Gucci
Libertel
Teleplan International

Norway

Bergesen

Switzerland

Alusuisse-Lonza
Julius Baer Holding Ltd
Bossard Holding
EMS Group
Geberit International
Mövenpick
Schweiter AG
Siegfried Ltd
Sika Finanz AG
Von Roll

Appendix III

Corridor approach

In July 2000 FEE published a study "To what extent can options in International Accounting Standards be used for consolidated accounts under the EC Accounting Directives". The corridor procedure in IAS 19 Employee Benefits was one of the options analysed. Below section 4. out of the study is quoted:

"**4. IAS 19 Employee Benefits**

Corridor procedure

Actuarial Gains and Losses

Para 92: ***In measuring its defined benefit liability under paragraph 54, an enterprise should recognise a portion (as specified in paragraph 93) of its actuarial gains and losses as income or expense if the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting period exceeded the greater of:***

(a) 10% of the present value of the defined benefit obligation at that date (before deducting plan assets); and
(c) 10% of the fair value of any plan assets at that date.

These limits should be calculated and applied separately for each defined benefit plan.

Para 93: ***The portion of actuarial gains and losses to be recognised for each defined benefit plan is the excess determined under paragraph 92, divided by the expected average remaining working lives of the employees participating in that plan. However, an enterprise may adopt any systematic method that results in faster recognition of actuarial gains and losses, provided that the same basis is applied to both gains and losses and the basis is applied consistently form period to period. An enterprise may apply such systematic methods to actuarial gains and losses even if they fall within the limits specified in paragraph 92.***

The Fourth Directive does not address pensions specifically except for some disclosure requirements. However, Article 43.7 is widely interpreted as allowing no or only partial recognition of pension obligations with disclosure of the unrecognised obligation in the notes.

Art 31.1 *The Member States shall ensure that the items shown in the annual accounts are valued in accordance with the following general principles: (…)*

(c) valuation must be made on a prudent basis, and in particular:

(aa) only profits made at the balance sheet date may be included,
(bb) account must be taken of all foreseeable liabilities and potential losses arising in the course of the financial year concerned or of a previous one, even if such liabilities or losses become apparent only between the date of the balance sheet and the date on which it is drawn up,

(cc) account must be taken of all depreciation, whether the result of the financial year is a loss or a profit;

(d) account must be taken of income and charges relating to the financial year, irrespective of the date of receipt or payment of such income or charges….

Art 42: Provisions for liabilities and charges may not exceed in amount the sums which are necessary.
The provisions shown in the balance sheet under 'Other provisions' must be disclosed in the notes on the accounts if they are material.

Art. 43.7: The total amount of any financial commitments that are not included in the balance sheet, in so far as this information is of assistance in assessing the financial position. Any commitments concerning pensions and affiliated undertakings must be disclosed separately.

In April 1999 FEE has published a study "Comparison of the EC Accounting Directives and IASs". This Study contained a chapter on employee benefits and considered as one of the issues whether the optional "corridor" approach prescribed by IAS 19 for the recognition of actuarial gains and losses is permitted under the Fourth Directive. The Study also referred to the Commission's and Contact Committee's interpretation, which is now finalised: Examination of the conformity of IAS 19 (revised 1998) and the European Accounting Directives:

Post-employment benefits

"However, IAS 19 also incorporates a mechanism to spread certain gains and losses - in particular actuarial variations and the cost of past service benefit - over more than one accounting period' and it is this mechanism that gives rise to a potential conflict with the Fourth Directive. Since the basic approach of IAS 19 is to explicitly recognise that the reporting entity has a liability to pay pensions and assets out of which to pay them, it follows that the 'corridor' approach must mean that, until the 10% threshold is triggered, some part of a known (within the terms of the IAS) liability is not being recognised at the balance sheet date, potentially on a semi-permanent basis. This is a conflict with the basic principle of Articles 31.1(c)(bb) and 31.1(d) that all foreseeable liabilities must be provided for and that all charges relating to the financial year must be recognised in that year.

However, it should be noted that IAS 19 does not require the application of the corridor approach, and European companies are still able to comply with both IAS 19 and the Fourth Directive by applying paragraph 93 of IAS 19. This would result in the immediate recognition of all actuarial gains and losses, both within and outside the corridor.

Commission's Contact Committee Conclusion

IAS 19's mechanism to spread certain gains and losses (known as the corridor approach) conflicts with the basic principle of Articles 31.1 (c)(bb) and 31.1(d) in the Fourth Directive that all foreseeable liabilities must be provided for and that all charges relating to the financial year must be recognised in that year. However, IAS 19 does not require the application of the corridor approach, and European companies are still able to comply with both IAS 19 and the Fourth Directive by applying paragraph. 93 of IAS 19. This would result in the immediate recognition in the profit and loss account of all actuarial gains and losses, both within and outside the corridor. The enterprise can also adopt any systematic method that results in faster recognition of actuarial gains and losses, provided that the conditions laid down in IAS 19 are respected."

In its Study FEE concluded:

"The corridor procedure and the spreading of past service cost, as permitted by IAS 19, might result in deferred charges or a net amount of the pension obligation lower than its full amount. This would not be in compliance with Article 31.1 (c) (bb) of the Fourth Directive, which states that account must be taken of all foreseeable liabilities. However, Article 43.7 of the Directive is widely interpreted as allowing no or partial recognition of pension obligations, the unrecognised obligation being disclosed in the notes. FEE is of the opinion that this interpretation is acceptable under Art 43.1 (7) of the Fourth Directive.

However, there is an incompatibility between the Directives and IAS 19 as regards actuarial gains. FEE considers that deferring actuarial gains would not be in compliance with Art 42 of the Fourth Directive which states that provisions may not exceed in amount the sums which are necessary. Since the corridor procedure is optional, companies do not need to use the corridor procedure. In this way, they could comply both with IAS 19 and the Fourth Directive. However, companies may wish to use the corridor approach to align with international practice whereas the Directive would not allow them to do so.""

Appendix IV

Pension schemes in Europe

The 1994 FEE study, "Survey of pensions and other Retirement Benefits in EU and Non-EU Countries", examined, among other things, the situation in Europe regarding pension schemes. Below part of the results of that survey is quoted. Only countries included in this study on IAS 19 have been mentioned.

"General

The State pension scheme, the Occupational pension scheme and the Private pension scheme are the three basic pension schemes which are provided for employees at retirement, but to what extent a particular type of pension is received by employees varies from country to country.

In countries surveyed, the forms of pensions which former employees receive at retirement are listed in table 1 below.

Occupational pension schemes can be organised by a single employer or by industry-wide agreement. The main difference between the two is that membership of industry-wide schemes is open and compulsory for all employees of companies within a particular industry.

Table 1-Type of pension received by employees in each country surveyed

Country	***State Pension (social security)***	***Occupational***		***Private Pensions***
		Single Employer Schemes	***Industry-Wide Schemes***	
Austria	All	Minority	N/A	Minority
Belgium	All	Minority	N/A	Minority
Czech Republic	All	Minority	N/A	Minority
Denmark	All	Minority	Minority	Minority
France	All	Rare	Minority	Rare
Germany	All	Majority	Rare	Minority
Netherlands	All	Minority	Majority	Minority
Norway	All	Majority	Rare	Minority
Switzerland	All	All	Minority	Minority

Two categories of countries

Table 1 shows that all countries have a State pension scheme. However, occupational schemes are common in some countries only. These findings lead one to classify the countries into the two following broad categories:

- Countries in which State pension schemes are predominant and occupational schemes are more or less ancillary (Austria, Belgium, Denmark and France);
- Countries in which occupational schemes (single employer schemes or industry-wide schemes) are important and have been developed in addition to State schemes (Germany, the Netherlands, Norway and Switzerland).

Private pension schemes depend on individual initiative, with a level of incentive which varies from country to country. The above table shows that private pension schemes are not the principal source of pension benefit at retirement age.

State pension schemes

Most State pension schemes are *unfunded schemes* on a "pay as you go" basis which implies that benefits paid to retirees during a period are financed through general fiscal resources and/or through the contributions paid to the schemes by employers and/or employees during this same period. The employer is only liable to pay the contribution due for each period and therefore, from the point of view of the employer, the scheme can be considered as a *defined contribution scheme*. From the point of view of the employee, the scheme may take the form of *defined benefit schemes* although the benefit formula may change before the employee reaches retirement age.

Occupational Pension Schemes

In most of the countries surveyed benefits are also provided through supplementary schemes, the occupational schemes. Occupational pension schemes are schemes where the employer makes a commitment, as part of the terms of employment, to provide pensions and other post-retirement benefits to employees in retirement. These schemes can be sponsored by a single employer or through industry-wide or collective labour agreements. Industry-wide pension schemes are similar to single employer pension schemes, except that the membership of the pension fund is open to all employees of companies within a particular industry, for example the metal industry. They are normally on a compulsory basis, with obligatory membership for companies for which schemes have been introduced through collective labour agreements. Industry-wide schemes are particularly important and widespread in the Netherlands. In a few countries, such as France retirement provisions linked to collective agreements exist in some industries.

Especially in countries where the State pension does not provide a sufficient benefit at retirement, the so-called single employer and industry-wide schemes are widespread. These occupational schemes are important, and have been developed in addition to the State pension scheme as follows:

- Single employer schemes – Germany, Norway and Switzerland, where they are provided on a voluntary basis.
- Industry-wide schemes – the Netherlands, where they are normally compulsory for all employers in the industry concerned. Some large companies also have single employer schemes.

In some countries such as Belgium, where the occupational schemes were found to be less widespread, they are however found in larger companies. This could also be the case in other countries where occupational schemes are less developed.

There are single employer schemes in the Czech Republic. They are developed in addition to the State pension scheme and they are provided on a voluntary basis, but less widespread – contrary to Belgium they should be found both in large and small companies.

The terms of an occupational pension scheme are normally set out in a pension deed/rules.

Funded/unfunded schemes

Occupational pension schemes in Europe vary due to the different status of funding. Basically, two forms exist: funded schemes and unfunded schemes.

- ***Funded schemes*** are schemes where funds (assets or cash) have been transferred from the sponsoring employer to a separate legal entity and the sponsoring employer has irrevocably forgone his rights to these funds.
- ***Unfunded schemes*** are all the other schemes.

The various systems of funding identified are set out under occupational schemes in tables 2 and 3.

Defined benefit/defined contribution schemes

Under a defined benefit plan, the pension benefits of the employee upon retirement are defined in advance, by, for example, a fixed formula, which normally takes into account salary and the length of service. From the employer's perspective, he normally bears the investment risk of the plan and he must take action necessary to guarantee the payment of the defined benefit. Defined benefit plans may be funded or unfunded.

A defined contribution plan is always funded. The pension benefits to be received by the employee are calculated, based on the contributions to the plan and the investment return received from those contributions, which means that under this plan the investment risk is borne solely by the employee. In defined contribution plans, the employer contributes to the scheme at an agreed rate (premium).

Table 2-Types of pension plans in countries where occupational schemes are widespread

Occupational schemes:		***Defined Benefit schemes***	***Defined Contribution schemes***
(I)	Pension funds or trusts managed by independent trustees or directors	Norway, Switzerland , the Netherlands	Switzerland
(II)	Private insurance companies (insured schemes)	Norway (majority systems similar to I), the Netherlands	Switzerland, Germany (dir. Insur. Contr.)
(III)	Industry-wide schemes or agreements	the Netherlands (system I), Switzerland (system I)	German (*Pensionskassen*), Switzerland
(IV)	Company Trust/Company pension fund		
(V)	Entity managed by the company	Germany (support finds insured or not)	N/A
(VI)	Book provisions with designated assets	Germany (insured book provisions)	N/A
(VII)	Book provisions with no designated assets	Germany (majority), the Netherlands	N/A
(VIII)	No provision in the financial statements		N/A

Table 2 shows how the two types of pension plan are organised in those countries where an occupational pension is received by the majority of employees. Those plans which cover the majority of employees are indicated.

Table 3 below shows how the two types of pension plan are organised in those countries where an occupational pension is received by a minority of employees.

Tables 2 and 3 show that defined contribution plans are only found as funded pension schemes, because the plans involve a separate fund into which the sponsoring employer, and sometimes the employee, make irrevocable contributions and from which retirement benefits are paid.

Table 3-Type of pension plans in countries where occupational schemes are less widespread

Occupational schemes:		*Defined Benefit schemes*	*Defined Contribution schemes*
(I)	Pension funds or trusts managed by independent trustees or directors	Belgium, France	Czech Republic, Denmark
(II)	Private insurance companies (insured schemes)		Austria, Belgium, Denmark, France
(III)	Industry-wide schemes or agreements		
(IV)	Company Trust/Company pension fund		Austria
(V)	Entity managed by the company		
(VI)	Book provisions with designated assets	Austria	N/A
(VII)	Book provisions with no designated assets	Denmark, France (*indemnité de départ à la retraite*)	N/A
(VIII)	No provision in the financial statements	France (*indemnité de départ à la retraite*)	N/A

Private pension schemes

In all of the countries surveyed, private pension schemes are characterised by the employees taking out private pension plans on their own initiatives and agreements. The employer can, however, also decide to contribute to the plans. The survey revealed, however, that private pension plans which provide an (extra) pension on retirement are not very common in countries surveyed.

Different types of private pension schemes exist for employees in countries surveyed, as shown in table 4 below.

The survey revealed, however, that schemes are initiated privately and it is difficult to come to any clear conclusion about their importance. In some countries they are becoming more common, partly because people are interested in saving to provide for a comfortable old age, and partly because private pensions are advantageous because of tax reliefs or incentives. Private pension plans are normally taken out through an insurance company as defined contribution plans."

Table 4-Types of private pension schemes

Private pensions:	***Funded by the employee***	***Funded by the employer***	***Funded by the employee and employer***
Nearly all/all	Germany		
Majority	Belgium, Denmark, Norway, Switzerland		France
Minority	Czech Republic, France, the Netherlands, Switzerland	Denmark, France	Czech Republic, Denmark, the Netherlands
Rare	Austria	Austria, Belgium, Norway, Switzerland	Austria, Belgium, Germany, Switzerland