



ABIAL

Association of British and Irish Accountants
in Luxembourg

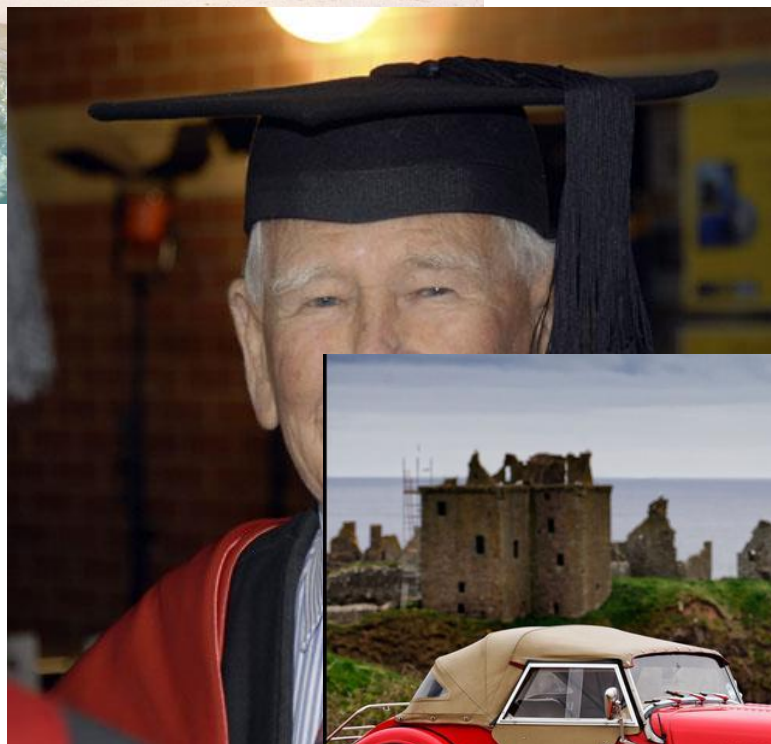


Legal pensions in Luxembourg

April 13, 2016







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Social Security Systems

Bismarck system

1st. Chancellor of Germany
21 March 1871 – 20 March 1890

- in favour of active persons
- financed by contributions in relation to the salary
- benefits function of loss of revenue

AIM

- Secure at retirement level of living

Beveridge system

British Economist
5 March 1879 – 16 March 1963

- in favour of the whole population
- financed mainly by taxes
- basic benefits

AIM

- Secure at retirement a minimum of revenues

Some stats

6.1. Gross pension replacement rates by earnings

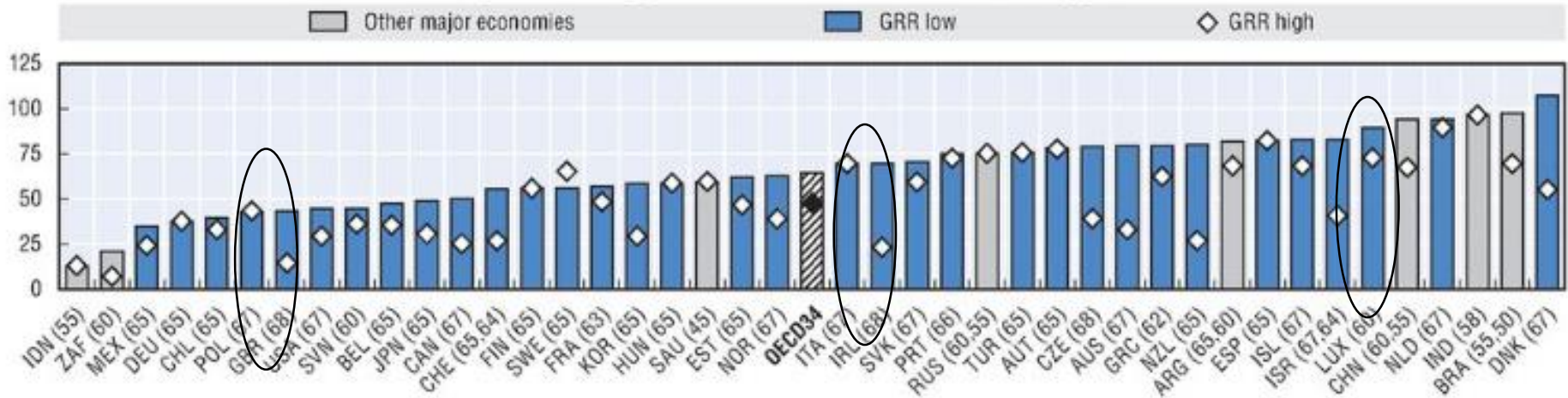
Individual earnings, multiple of mean for men (women where different)				Individual earnings, multiple of mean for men (women where different)					
Pension age	0.5	1.0	1.5	Pension age	0.5	1.0	1.5		
OECD members				OECD members (cont.)					
Australia	67	79.3 (75.7)	44.5 (40.9)	32.9 (29.3)	Norway	67	62.8	49.8	38.9
Austria	65	78.1	78.1	77.6	Poland	67	43.1	43.1	43.1
Belgium	65	47.6	46.6	35.3	Portugal	66	75.1	73.8	72.5
Canada	67	50.1	36.7	25.1	Slovak Republic	67	70.4	62.1	59.3
Chile	65	39.4 (36.7)	32.8 (28.8)	32.9 (28.9)	Slovenia	60	44.4 (46.8)	38.4 (40.4)	36.0 (37.9)
Czech Republic	68	78.9	49.0	39.1	Spain	65	82.1	82.1	82.1
Denmark	67	107.4	67.8	55.1	Sweden	65	56.0	56.0	65.2
Estonia	65	62.1	50.5	46.6	Switzerland	65 (64)	55.7 (55.1)	40.2 (39.9)	26.8 (26.6)
Finland	65	55.8	55.8	55.8	Turkey	65	75.7	75.7	75.7
France	63	56.8	55.4	48.2	United Kingdom	68	43.3	21.6	14.4
Germany	65	37.5	37.5	37.5	United States	67	44.4	35.2	29.1
Greece	62	79.4	66.7	62.3	OECD34	65.5 (65.4)	64.5 (64.2)	52.9 (52.5)	47.8 (47.4)
Hungary	65	58.7	58.7	58.7	Other major economies				
Iceland	67	82.6	69.2	68.1	Argentina	65 (60)	81.8 (88.2)	71.6 (71.5)	68.3 (65.9)
Ireland	68	69.5	34.7	23.2	Brazil	55 (50)	97.5	69.5 (52.9)	62.5 (52.9)
Israel	67 (64)	82.7 (74.7)	61.0 (54.1)	40.7 (36.0)	China	60 (55)	94.0 (86.5)	74.0 (69.0)	67.4 (63.2)
Italy	67	69.5	69.5	69.5	India	58	96.5 (91.3)	96.5 (91.3)	96.5 (91.3)
Japan	65	48.8	35.1	30.5	Indonesia	55	13.0 (11.8)	13.0 (11.8)	13.0 (11.8)
Korea	65	58.5	39.3	29.3	Russian Federation	60 (55)	75.2 (64.1)	75.2 (64.1)	75.2 (64.1)
Luxembourg	60	97.9	87.4	83.8	Saudi Arabia	45	59.6	59.6	59.6
Mexico	65	35.0	25.5 (23.6)	24.2 (22.4)	South Africa	60	20.9	10.5	7.0
Netherlands	67	94.0	90.5	89.3	EU28	65.2 (65)	69.9 (69.7)	59.0 (58.8)	54.4 (54.2)
New Zealand	65	80.1	40.1	26.7					

Source: OECD pension models.

(Source : OECD 2015)

Some stats

6.3. Gross pension replacement rates: Low and high earners



Source: OECD pension models.

Definitions

**Contribution
periods**

**Insurance
periods**

**Working
countries**

Real working periods

**Real working periods and non
working – special – periods
(studying periods from 18 to 25,
military service time, children
education time, ...)**

**Luxembourg, EC Countries
Argentina, Brazil, Capverdian
islands, India, USA, Switzerland,
Island, Morocco, Moldavia,
Tunisia, Uruguay**

Retirement pension

**NORMAL
RETIREMENT
AGE (65)**

**120 months of
contribution**

**EARLY
RETIREMENT
AGE (60)**

**480 months of
insurance**

**EARLY
RETIREMENT
AGE (57)**

**480 months of
contribution**

Disability pension

not able to execute, for reasons of illness or wear, his last profession or a occupation corresponding to his knowhow and experience

12 months of contributions, except accident or professional illness

Surviving pensions

Spouse or partner pension

12 months of contributions, except accident or professional illness

Orphan's pension

after death of father and/or mother up to age of 18 or 27 if in studies

General calculation rules

Base index 100 (cost of living)
Base 1984 (level of living)

Flat rate amount

Depending on service years
2'085€ * rate (40 years of service)

Proportional amount

Depending on each earned salary during your career
Sum of all salary multiplied with a rate
Rate is increased for a long career

Special proportional amount

Depending on each earned salary during your career
Due for disability pensions
Average salary used for period from disability date up to age of 55 multiplied with rate

Benefit calculation - Examples

General calculation rules

Base index 100 & BASE 1984

Year	Real yearly salary	Index 100	Index 100 & Base 1984
2007	52'000 €	7'779.07	5'649.29
2008	54'000 €	7'913.36	5'688.97
2009	55'000 €	7'863.43	5'604.73
2010	58'000 €	8'156.72	5'752.27
2011	63'000 €	8'697.57	6'107.84
2012	65'000 €	8'754.92	6'148.12
2013	66'500 €	8'793.16	6'174.97
		SUM	41'126.19

- Index 100: 52'000 / 6.6846
- Index 100: 54'000 / 6.8239
- Base 1984: 7'779.07 / 1.377
- Base 1984: 7'913.36 / 1.391

Benefit calculation- Examples

**Flat rate
amount**

Depending on service years
 $2'085\text{€} * \text{rate (40 years of service)}$

Retirement year	Rate
2020	24,400
2021	24,513
2022	24,625
2023	24,738
2024	24,850
2025	24,963
2030	25,525
2052	28,000

Retirement year: 2025
Service time: 40 years

Flat rate amount:
 $2'085 * 24.963\% * 40/40 = 520.48$

Actual annual amount in 2014
 $520.48 * 7,5627 * 1.418 = 5'581.58\text{€}$

Benefit calculation - Examples

Proportional amount

Depending on each earned salary during your career

Sum of all salary multiplied with a rate

Rate is increased for a long career

Retirement year	Rate
2020	1,800
2021	1,794
2022	1,788
2023	1,782
2024	1,775
2025	1,769
2030	1,738
2052	1,600

Retirement year: 2025 (60)

Sum of salaries (ind. 100 base 1984):
160'000.00

Proportional amount:

$160'000 * 1.769\% = 2'830.40$

Actual annual amount in 2014

$2'830.40 * 7,5627 * 1.418 = 30'352.95\text{€}$

Increase of the rate:

$(60 + 40) = 100 - 95 = 5 * 0.015\% = 0.075\%$

New applied rate: $1.769 + 0.075 = 1.844$

New proportional amount: 2'950.40

New actual annual amount: 31'639.82 €

Benefit calculation- Example

**Special
proportional
amount**

Depending on each earned salary during your career

Due for disability pensions

Average salary used for period from disability date up to age of 55 multiplied with rate

Year	Index 100 & Base 1984
2007	5'649.29
2008	5'688.97
2009	5'604.73
2010	5'752.27
2011	6'107.84
2012	6'148.12
2013	6'174.97
SUM	41'126.19
AVERAGE	5'875.17

Retirement year: 2014

Average salary (ind.100 base 1984):
5'875.17

Future service time up to age of 55:
15 years

Rate applicable for 2014: 1.838%

Special proportional amount:
 $5'875.17 * 15 * 1.838\% = 1'619.78$

Actual annual amount in 2014
 $1'619.78 * 7,5627 * 1.418 = 17'370.37\text{€}$

Benefit calculation

Flat rate amount	Proportional amount	Special Proportional amount
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Retirement pension

100%

100%

-

Disability pensions

100%

100%

100%

Surviving Partner pension

100%

75%

75%

Orphan pension

33.33%

25%

25%

**Contribution rate
fixed over 10 years
(2013 – 2022)**

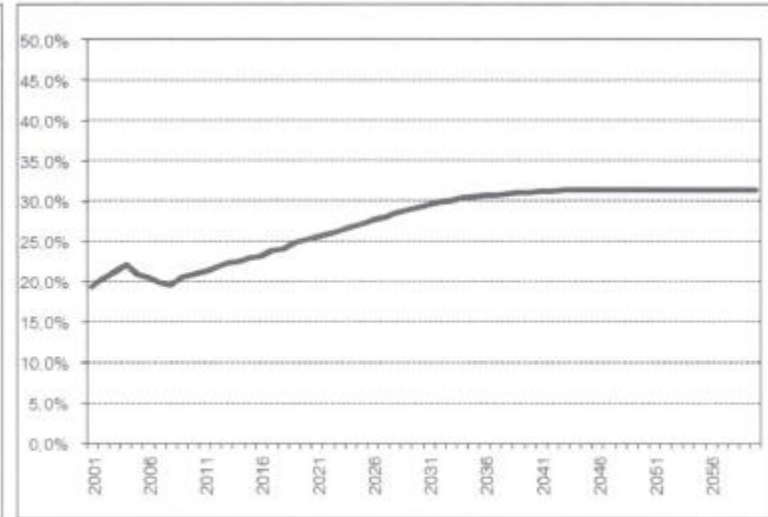
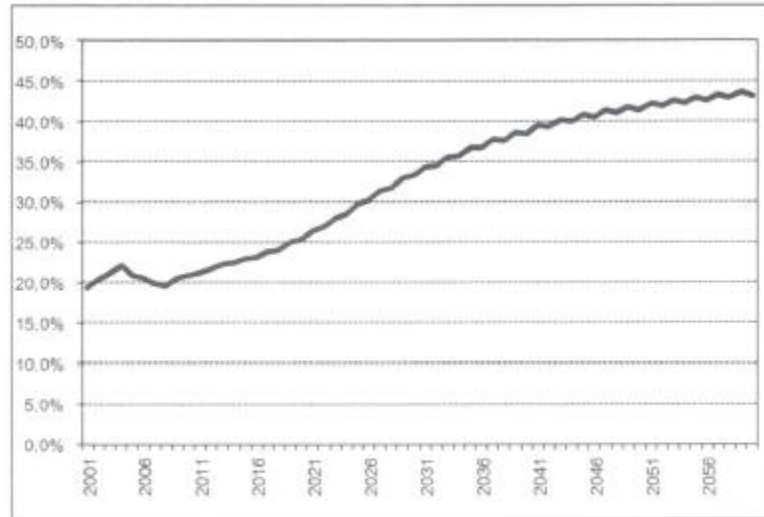
**Reserve : 1.5 times
annual pension
payments**

**Check of the
contribution in the
middle of period (2018)**

**Actual contribution
rates**

**Employer contribution rate : 8%
Employee contribution rate : 8%
Financed by taxes : 8%**

Evolution of the financing



Evolution of the premium rates with the old law (left) and the new law (right) between 2011 and 2060

Hypotheses :

GDP Increase : 3,0%

Employment rate increase : 1,5%

Practical issues

I have worked in three EC countries during my career; will my legal pension in Luxembourg be calculated on all these periods?

For the calculation of the right to a pension, all the periods will be taken into consideration.

The calculation of the amount of the pension will only take into consideration the salaries earned in Luxembourg and the service time in Luxembourg. However, you may get a pension out of each country where you have worked (which is calculated on the legal conditions in these countries).

Practical issues

I want to benefit from my retirement pension in Luxembourg; what do I have to do ?

**You have to apply for a pension in your country of residence (even if you work in Luxembourg); in practical, a form has to be filled out. Exception : you have never worked in your country of residence.
On the form, you have to indicate all your countries of working and your country will inform all the other concerned countries.**

Practical issues

I will have worked for 35 years in Luxembourg when I retire; what will be the amount of my pension compared to my last salary?

This is impossible to say.

As we have seen before, the pension is calculated on all salaries you have earned (however limited to the Social Security ceiling). Your percentage of pension in relation your last salary will so depend on your career.

Practical issues

Is the amount of my pension a net amount?

Bad news: No, you will have to pay taxes on it (which are slightly higher than the ones for a salary). Illness contribution amounts to 2.80% and dependency insurance rate is 1.40%.

And as of 2015, new bad news: a new special tax equal to 0.50% is due (calculated after deduction of a certain amount of the pension).

Compensation



Benefits through a pension plan financed by an employer

- Employee status
- Pension plan installed by employer



Benefits through a private insurance contract

- Tax deduction
- No tax deduction



**Real estate investment
Investment in financial assets**

Tax deductions

3rd pillar

Article 111 L.I.R.

- Min. 10 years if retirement benefit

- 672€ per person
- No taxation of benefits

Article 111bis L.I.R.

- Min. 10 years
- Payout : 60 years at the earliest
- Payout minimum 50% as an annuity

- 1,500€ up to 3,200€
- Annuity exempted to 50%
- Lump sum taxed as extra-ordinary income

Q & A

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