KEY THEME: CORPORATE (PRIVATE) POST EMPLOYMENT BENEFITS.

TITLE: FROM DEFINED BENEFITS TO DEFINED CONTRIBUTIONS IN SPAIN: AN EVALUATION OF THE LAST 20 YEARS. ARE HYBRID MODELS THE SOLUTION?

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ABSTRACT:

The modern Spanish experience in the area of social welfare complementing the public Social Security system can be traced back to the final stage under Franco in the form of labor agreements which formally were based on DB, although in practice they were of indeterminate amounts. With just a few exceptions, for many years international accounting principles were not applied to them.

Beginning in 1989 externalization began to systems independent of companies (Pension Plans and Collective Insurance) in two stages: a voluntary stage until 1999, and a second one dating from that year which was mandatory for most companies: internal funds were prohibited. This legislation led to a renegotiation of existing commitments until hitting almost 90% of DC retirement models, with minimum DB guarantees in the event of employee deaths or invalidity. Existing beneficiaries remained within the original system.

After 20 years of experience with externalization, it is worth asking ourselves if we have gone from the frying pan (for companies) into the fire (for employees) as the current economic crisis has highlighted the relevance of economic cycles in DC models and the need to seek solutions by developing hybrid models which strike a balance and serve the interests of both businesses and workers. Currently negotiations have already begun to redefine models in major companies.

The author will bring to bear his professional background (over 30 years in the public and private systems) as well as his teaching experience at different universities to present the following:

- (1) A quantitative and qualitative assessment of social welfare in Spain, with special emphasis placed upon its weak points: economic cycles, levels of coverage for improbable contingencies (death or invalidity), clone investment policies, mobility, globalization, etc.

- (2) Proposals regarding the characteristics which hybrid models should feature in Spain for their potential proliferation.

主題：企業(民間)退職給付引当金

(ファイル名：2009年 PBSS 東京会議　スペインの経験イグナシオ・デル・ブランコ)

タイトル：スペインの確定給付型(DB)から確定拠出型(DC)へ：この２０年の分析。折衷型は問題解決へつながるか？

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アブストラクト：

公的社会保険制度を補う社会福祉に関し近代スペインが積んだ経験の発端は、形式的には確定給付型に基づいた労使合意が行なわれたフランコ独裁時代末期にさかのぼる。但し、これは事実上、不確定量であった。また、わずかな例外を除き、長年にわたり国際会計の原則は適用されていなかった。

１９８９年以降、２段階を経て企業の個別制度(年金プランおよび団体保険)が具体化し始める。それは１９９９年までの任意加入段階、そしてこの年を境に大多数の企業に対し内部資金の禁止となり、これが義務づけられる結果となった第２段階である。この法は既存契約の再交渉を招き、労働者の死亡および身体障害における最低限確定給付保険付き確定拠出型年金の実に９０%近くにまで及んだ。尚、既存の受給者は元来の制度内にそれまで通り留まった。

ところで２０年にわたるこの経験を経て、こんな自問が湧いてくる。我々は悪しき状況(企業側)から最悪の状況(労働者側)に陥ったのではないか。現在の経済危機は、確定拠出(DC)型経済サイクルの重要性、そして企業および労働者両者の利益を尊重した折衷型へと成熟することによる解決策を模索する必要性の表明ではないか、と。現に既に大手企業ではモデル再編の交渉が始まっている。

筆者の職務経験(公官庁および民間企業にて３０年以上)、またいくつかの大学で教鞭をとっていることから、以下について述べる：

- （１)スペインにおける量的･質的検討。特に、経済サイクル、不慮の事故(死亡や身体障害)に対する補償範囲、投資クロニカル政策、可動性、グローバリゼーション等の弱点に重点を置いて考察。

- （２潜在する波及性のため、スペインにおいて折衷モデルが備えるべき特徴の提案。

PRELIMINARY NOTE: to economize somewhat on space, the text that follows will include additional numerical tables, graphs and diagrams in the slide presentation.

1. AN INTRODUCTION TO SUPPLEMENTARY SOCIAL WELFARE IN SPAIN.

1.1. SOCIAL SECURITY MUTUAL BENEFIT SOCIETIES.

Modern Spanish social welfare systems come into being at the time of the industrial development of the latter years of the 19th century in the form of so-called "Mutual Societies" or "Montepíos" (Charitable Funds for Dependents) which were a response to associative systems in which there existed a direct link between the company and its workers. Large corporations directly established welfare models which preceded the birth of the public system (Social Welfare) and which fundamentally protected the three most frequent contingencies: retirement, death and invalidity.

The Spanish public Social Security system came into being at the outset of the 20th century. As it developed it coexisted with the private systems maintained and which on certain occasions substituted the public system and, on other occasions, supplemented it.

For many decades the basis of the Mutual Societies were based on a financial model of distribution referred to as "pay as you go". By the 1980's they were experiencing serious financing problems as a result of the following issues:

a) The increase in monies owed due obligations which there were not financially covered by agreed-upon contributions.

b) The lack of capitalization of obligations accrued to both pensioners and employees.

c) Labor force ageing which created a serious problem in the "pay as you go" model.

d) Not only international, but in particular Spanish accountancy requirements, which by legal mandate established the need to ensure adequate funding of the mathematical provisions of pensioners and employees' accruements.

e) The compulsory updating of hypothetical calculations both financial (such as technical interest) and economical (salaries, CPI) as well as demographic

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- ; in the majority of cases with a reduction in the obligations accrued.

Very few Mutual Societies have survived until today. Those that still do exist, even though they account for various billions of Euros, are mostly to be found in professional sectors of an associative nature (lawyers, architects, engineers) or in certain regions such as the Basque Country or Catalonia. Very few Mutual Societies remain which retain links to companies, although even today some which date back to the 19th century still endure. For example, the society which encompasses certain employees of the Bank of Spain and others, such as Loreto, which brings together most Airline personnel. All have gone through a thorough process of modernization which has resulted in hybrid or mixed models to make it possible for them to address the aforementioned problematical situations.

Financial systems have evolved from the "pay as you go" model via capital coverage and collective capitalization to the individual capitalization model. Most were designed on the basis of mixed systems which defined both benefits and contributions concurrently. Nowadays most have also evolved to models similar to the so-called "notional defined contribution".

1.2. INTERNAL COMPANY FUNDS. COMPANY COLLECTIVE AND SECTORIAL AGREEMENTS.

- One-off capital payments on retirement known popularly as “retirement prizes”. This model, adopted principally by industrial sectors which grouped together small and medium sized companies, went on to include several million workers.

  In many cases this model consisted of an amount which was determined in an absolute manner, although also quite common were models in which the capital perceived was in relation to a given number of salaries at the time of retirement.

- Lifelong income reverting on death (widowhood and orphanhood) as a differential supplement between a pensionable salary and the public pension provided by Social Welfare. In certain cases such benefits could also appreciate in line with the consumer price index. This system was developed principally in large companies, particularly in those which enjoyed an important boost in their industrial growth, such as the energy or the finance sectors.

In the “income models” are to be found many systems in which the amount of the benefit depended on a percentage applied to the pensionable salary minus the social welfare pension, which led to a situation in some companies where a part of the workforce really did not have any supplements or, at best, only very small ones. The most extreme case occurred in models where the percentage applied was so small that it led to a model applicable almost exclusively to management, even though the model when agreed upon was to be applied to all staff in general.

At the same time, in the majority of large companies, as well as in a good part of the principal industrial sectors, an agreement was reached to protect against such contingencies as death and invalidity during active service. Benefits were defined in the same way as previously described in the case of retirement, that is, either capital or life long income.

The restoration of democracy which followed the death of Franco and the first free elections in more than 40 years brought with it a major simultaneous implantation – at least as far as their influence was concerned - of workers’ syndicates which initiated action to put forward their demands in all industrial sectors, resulting in a major increase in salaries in the context of the increase in the cost of living which took place in the 1970's.

In this context, the supplementary social welfare systems began to take on greater form as a consequence of the increase in the number of benefits and of access to such benefits by a greater number of employees, with the exception of those areas in which the definition of the benefit was so restrictive that it continued to be a model for management.

At any rate, as most companies had been financing their pension obligations by means of models which were akin to distribution, the pressure on their company balance sheets became more and more intense, leading to the renegotiation of existing obligations which, in turn, gave way to substantial modifications in such obligations. So much so that new workers joining the company were either left without any benefits at all, or their benefits were converted into a fixed contribution, considerably less than the contribution to which employees who had joined earlier had access. This occurred especially in the finance sector both in 1980 and in 1986.

In spite of the cutbacks which the systems underwent, many companies still did not honor their financial obligations nor, particularly, international principles applicable to pensions: registration, accruement, uniformity and a true likeness.

In 1984 the Government published a ministerial order which made it possible to make contributions against future Pension Plans on company balance sheets, internal funds, with a special tax treatment.

In 1987 the Pension Plan and Funds Law was published, which made it possible to voluntarily externalize a company's existing Pension Plan obligations, with the great advantage that any contributions both for past and for any possible future services were deemed to be tax-deductible costs.

The Regulation of the Law which was published in 1989 and which stayed in force until November, 1990 made it possible for any company to externalize their obligations, should they so desire.

Likewise, a new Law was published in 1990, together with the General Accountancy Plan, which allowed companies to make provisions for their obligations in easy installments over 10 to 15 years - something which in theory and in the light of international regulations they should already have done. In short, they were allowed to defer accrued obligations which, due to provisions not having been made for them in company balance sheets, distorted the perception of companies' real value.

During these years it was common practice for companies to subscribe to collective insurance policies to annually cover risk contingencies corresponding to their activity, making the annual cost thereof equate to the risk premium, plus a margin of profit for the insurance company, but without paying attention to the need to make mathematical provisions for this type of contingency.

The fact is that in 1990 we faced an important provisions deficit given the obligations of most companies, not only with regard to their currently active employees, but also with regard to personnel already receiving benefit income. This situation explains what would happen in the next phase.

1.3. 1990: PENSION PLANS AND FUNDS - FIRST PHASE.

The 3rd of November 1990 was the deadline for companies to take advantage of the Law published in 1987 which permitted them to voluntarily establish Pension Plans in which to externalize their pension obligations. To do so they could transfer mechanically their existing obligations, or modify them by reaching agreement with their syndicate representatives. Such modification could be of a complete nature, passing from a fixed benefit to a fixed contribution.

Externalization, which came to an end in 1990, turned out to be a relative failure insofar as only a few large companies availed themselves thereof. Some directly externalized the obligations they had, and others transformed them radically from fixed benefit to fixed contribution.

However, most companies did not avail themselves of the tax benefits which were implicit in being able to deduct their pension costs from their company tax, something which in theory was not possible if they maintained an internal fund or an insurance policy apart from their pension plans.

This relative failure is explained by most companies' lack of financial provision and the fact that they would have had to declare important financial deficits had they proceeded to develop a pension plan. This fact was not put forward in that way of course, rather, it was wrapped up in ideological discussions and even in interventions which from the scientific point of view were hardly rigorous and which enabled people to use hypotheses which were "daring", to say the least, in the evaluation of the obligations of internal funds, or to use methods of financing akin to distribution which in theory were prohibited. Particularly painful was what happened to traditional long standing Spanish Mutual Societies which slowly watched as deficits of overwhelming amounts appeared as a result of the use of the so called "open collective" method or the "never ending loop".

The coexistence of companies which maintained a true likeness and others which in Spanish accountancy had entries which were debatable, at best, engendered important discussions which added to the concern of the European Union, due to the fact that a company could declare itself bankrupt and not face up to its pension obligations, thereby leaving the States to deal with that responsibility – something which two sentences in two different countries of the European Union took pains to make clear. This led to the following phase.

1.4. 1995 - 1999 & 2002: PENSION PLANS AND FUNDS - SECOND PHASE

90% of the volume of externalized obligations was transformed to fixed pension contribution, while in risk activities mixed models of guaranteed minimum benefit were established in which the fixed contribution capitalization fund served first and foremost to finance fixed death or invalidity benefits. Only in a handful of companies could the establishment of a hybrid model or objective benefit be observed.

Nonetheless, employees in their millions failed to see these obligations honored by their companies there remained internal balances, which to most meant the effective absence of provisions, as a result of which the deadlines which were due to come into effect in November 2002 were extended time after time by sector agreements in small and medium sized companies. Which brings us to the present day when we see that to all extents and purposes tens of thousands of small companies are not in effect fulfilling their legal obligations without their being any sign of Governmental action, other than successive legislative announcements.

2. THE PRINCIPAL CHARACTERISTICS OF PENSION PLANS AND COLLECTIVE INSURANCE POLICIES.

2.1. PENSION PLANS AND FUNDS.

We can also synthesize their principal characteristics:

a) The creation of the Pension Plan is entrusted to the so-called promoter, which must always be a company. A company may only have one Pension Plan and all employees must be able to join it.

b) Companies must negotiate with their syndicates the constitution of the Pension Plan, including all characteristics, its operational regulations and the selection of those who are to be its external suppliers.

c) The administration and the management of investments are entrusted to an organization which has only one unique corporate purpose.

d) The titles must be deposited in a different company from the one that manages the Plan.

e) The Pension Plans must be reviewed and audited by independent actuaries.

f) The titleholders of the patrimony, participants and pensioners elect either directly or through their syndicates their representatives on the Control Committee. Representatives directly designated by the promoting company will also form part of this Committee.

g) Group Businesses may constitute group pension plans.

h) Companies from different sectors or from a single sector may constitute sector or multi-sector plans, known as joint promotions.

i) Employees may contribute provided that there is a specific agreement that they may do so. Normally only companies contribute.

j) Company contributions are neutral from the point of view of employees' taxes, although the company may deduct such contributions from company tax, whilst employees' contributions diminish tax obligations, as they reduce the base level of personal taxes. The sum of company and personal contributions is limited quantitatively by age.

k) Insurance policies which cover the obligations of a Pension Plan receive the same treatment, given that the buyer or the signatory of the policy is the Pension Plan itself.

l) Supplementary Social Welfare Mutual Societies, although formally collective insurances, receive the same tax treatment as pension plans even though they are organized in a manner similar to that of an insurance company.

m) The Pension Plan Control Commission holds the representation of the whole of the Plan and agrees upon the investment policy to be applied to the Pension Fund in which its patrimony is incorporated. They elect a president and a secretary, positions which are generally held in the first instance by a representative of the workers and in the second instance, by a member of the company.

Miniscule pension plans for less than 5 people exist, as do others for hundreds of thousands. The largest is the plan for State Government civil servants which involves more than 500,000 people, although in this case contributions are meager, only representing, in accord with budgetary law, around 0,5% of the general salary mass, as opposed to other models in which the average contribution exceeds 10% of the salary, although these are really a minority in Spain.

A part of those Spanish companies with pension obligations did not externalize into Pension Plans, particularly those with obligations to beneficiaries already in effect.

In this case, there was an obligation to sign an alternative model in collective insurance, where the buyer must be the company itself.

In this type of insurance, given that the intention is to cover obligations by means of instruments which are external to the company itself, certain rights such as recovery or advances are restricted.

Funding is insisted upon, using methods and hypotheses which are “at least as rigorous as those applied by Pension Plans and Funds”.

Taxation for such companies is different from that of pension plans: they may not deduct the original contributions, although they may deduct contributions which are made thereafter. It is the company’s decision whether an employee may or may not allocate the insurance premiums to his personal taxes. If he does so he is obliged to bestow consolidated rights. For tax purposes it is obligatory to allocate insurance premiums for risk activity to employees.

3. PENSION OBLIGATIONS IN SPAIN AND ITS ECONOMIC EVOLUTION.

3.1. POSITIVE ASPECTS OF PENSION PLANS.

entry (for example, the 1st of January 1980) have been reduced, at least in part.

f) Models have been set up which grant benefits irrespective of the public pension bestowed by Social Welfare, which is itself independent of whether the employee has or does not have a supplementary system.

g) The control of systems has been made more democratic by means of direct participation through a body similar to a company's Board of Directors.

h) It is now obligatory to provide regular information concerning the principal economic and financial data.

i) Investments in which Pension Funds could invest have been regulated.

j) There is greater transparency as to the level of provision for company obligations.

k) Legal and economic security has been bestowed on both employees and beneficiaries.

l) Companies have been freed from the acute economic pressure caused by the absence of prior provisions, and the far from prudent hypotheses which were used for years, and at the same time from the impact of economic cycles on mature collectives from the benefits point of view.

m) The treatment of tax as far as companies and employees are concerned has enabled systems of prevention to be financed by establishing deductible costs in company tax and by not allocating them in personal yearly tax returns.

3.2. NEGATIVE ASPECTS OF PENSION PLANS.

In line with the positive aspects described above, pension plans came into being with a series of negative aspects which we might summarize as follows:

a) Important economic differences remain between employees with identical professional career paths, depending upon their date of entry into the company.

b) The modification of the reference point for retirement benefit coverage in the patrimony assigned to the Pension Fund, substituting salaries with market or net asset value.

c) The establishment of apparently simple fixed contribution models which in fact function in a highly complex way, particularly because of the impact of economic cycles and the variations in patrimony resulting from the value of the hypothetical sale of fixed income assets.

d) Important differentials between different participants in the levels of benefit coverage, considered to be the quotient between the capitalization fund and the salaries at the moment of the contingency, normally that of retirement, due to the influence of economic cycles and the evolutional nature of composite capitalization, where what matters is not the mean profitability obtained, but rather where positives and where negatives occurred, and which fund had accrued in each of these periods.

e) It is difficult to achieve sustained attractive levels of profitability, in financial terms more than two points above salaries, and it is difficult even to achieve profitability levels which are close to salaries, which therefore implies negative financial results due to the high level of instability inherent in both the needs of variable income and in market price evaluations of fixed income assets.

4. A MODEL WHICH SYNTHESIZES THE COMMON INTEREST AND SOFTENS THE IMPACT OF ECONOMIC CYCLES.