

An International Comparative Study on Corporate Annuity System

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Abstract—In the context of a global aging society, it is of practical and theoretical value to explore the construction of corporate annuity system. Based on the comparative analysis of corporate annuity system on a multinational basis which covers the United States, Germany, Britain, Japan, Singapore and Hong Kong and so on, this paper summarizes the common trend of corporate annuity development in different countries and regions, and further serves as a reference for the completion of corporate annuity system.

Index Terms—corporate annuity, old-age security system; defined contribution

I. INTRODUCTION

The corporate annuity system, as highly complex as it is, requires for continuous amendment in different countries including the United States and Germany that have implemented their own for over a century and the United Kingdom and other Western countries that have carried out for decades due to the ever-changing political, economic, cultural and environmental circumstances. In this paper, it will provide a comparative analysis on a multinational basis in the lights of system positioning, the managing model, the participation model and the principal part of establishment as well as rigidity of payment.

The development of corporate annuity system varies from country to country. It can be divided into three types according to the different proportions of public pension, corporate annuity and individual annuity.

A. Main-Backbone Type

The first type refers to the main-backbone type which prevails in countries e.g. the United States, Britain and Australia wherein the corporate annuity system has exceeded or substantially reached the scale of public pension in term of fund and plays an important role in multiple aspects including significance, social recognition, substitution rate and coverage.

B. Supplementary-Pillar Type

The second one is the supplementary-pillar type, namely that it is greatly obscure to define the public pension and corporate annuity system as the latter is only a supplement to the former. Most countries in the European continent (including Germany, Switzerland and France) and Japan belong to this type.

C. Mutual-Integration Type

The last one is a mutual-integration type that the old-age security system covers the responsibilities of enterprises other than being divided into three pillars. Various Asian and Latin American countries are classified into this type, though, there is something different. A majority of the Asian countries (regions), such as Singapore, Hong Kong, Taiwan, Malaysia, India, Indonesia, Brunei and so on, basically integrate the first two pillars, as a result of which the enterprises or employers assume more responsibilities to fulfill the overall framework of old-age security together with individual voluntary pension scheme, while it connects corporate and individual responsibilities on the whole in Latin American area. In other words, in Chile, Peru, Mexico, El Salvador, Bolivia and the like, it is rare for enterprises to assume the responsibilities and directly transits public pension to personal pension.

II. COMPARISON OF MANAGING MODEL

According to the different ways of corporate annuity management, it can be defined as internal management model and trust management model for the corporate annuity system of different countries, while the foundation model defined separately by many scholars is in fact a trust management model.

A. Internal Management Model

Internal management model better prevails in the European continent, that is, an enterprise directly takes up the responsibility of pension payment to the retired employees. A DB plan is always adopted either in a fund-based or non-fund manner. A fund-based method refers to the fact that the enterprise would always adopt Book Revenue, namely to maintain the accumulated pension funds on its business book so as to raise the fund for pension payment for retired workers in the future.

On the contrary, non-fund corporate old-age security plan means that the enterprise directly settles payment by current income upon the occasion of pension payment liability other than raising a fund in this regard in advance. It can be frequently seen in countries like Germany, Sweden and Finland, including the Direct Promise Plan and Internal Bank in Germany and Fund Borrowed by the Employer Plan in Sweden and Finland.

Featured as being simple and inexpensive, this model hides nowhere from its drawbacks. As the pension

income of the employees is closely connected to the enterprise, they will be at risk once the enterprise goes bankrupt and find it hardly possible to transfer their pensions to the new workplace. Therefore, it is necessary to bring forth proper provisions in terms of legislation and bankruptcy procedures for sake of the rights and interests of employees.

B. Trust Management Model

Enterprises will separate the pension fund and its own assets, which are further entrusted to lawful institutions. It is possible for an enterprise to entrust the right to an external institution (external trust model) to operate its funds, or act as a trustee and the external institution undertakes the trust or investment function only, or separately set up industry joint fund association or firm for trust management.

Among them, the external trust mode is the most popular one. External institutions vary from insurance companies, trust banks, fund companies and securities companies, with the trust institutions or insurance companies playing a dominant role generally. Insurance companies can provide plans in a variety of ways including individual insurance policy arrangements and group pension plan. Obviously, the trust management model is more professional, making it suitable for large and medium-sized enterprises of a larger fund volume, while it costs more and requires for external payments from the enterprises and employees. It is common in the United States, Britain, Australia, Canada, the Netherlands, Switzerland, Japan and other countries for a majority of enterprises to adopt the trust management model, which also promotes the gradual maturity of the local capital market. It can be said that the pension market in the seven countries has reached the most mature state directly tied to the trust model.

The foundation model is to provide old-age security to employees who participate in the pension fund, namely the enterprise entrusts a fund with an independent legal personality to operate its pension plan. A pension fund is an independent non-profit entity that can be set up separately by an enterprise or industry or by the joint establishment of enterprises and institutions in the same industry. A participant is the beneficiary of the asset investment, and the governing body is the executive committee of the foundation (also known as the entrusted management institution), which generally composed of employers of member enterprises or representatives of trade union is obliged to employ fund managers and private management companies that are responsible for the collection of premiums and pensions. In fact, the pension fund itself will not provide the services directly. In many countries, the membership of a pension foundation is mandatory, that is, it is a must for an enterprise to participate in a specific pension foundation if it wants to implement corporate old-age security through pension foundation. At present, it is quite popular in the United States and the United Kingdom for corporate supplementary pension implemented through private pension foundation, while the closed type of corporate annuity fund in Italy, Switzerland, Denmark,

Finland, Norway and Sweden follow this model.

III. COMPARISON OF VOLUNTARY NATURE OF SCHEME ESTABLISHMENT

In accordance with the voluntary nature of the establishment of corporate annuity plan, it can be classified as voluntary and mandatory on the whole. Voluntary system arrangements are often taken for those who encourage endogenous power within the enterprises to develop the pension scheme, supported by tax incentives. The principle of independent establishment is followed for the corporate annuity, which on one hand distinguishes it from the mandatory public pension (basic old-age security) system to better fit into the practical conditions of the enterprises, and gets rid of the nations the burden of corporate annuity fund management and financial undertakings and benefits the market-oriented operation on the other hand. However, in order to protect the interests of employees and implement a corporate annuity system different from the individual voluntary pension scheme, most countries follow the basic rules for disposing of risks carried out by the government. A voluntary scheme is taken by most of the countries in the world.

A mandatory system is the one implemented in a few countries by the governments through legislation to force all enterprises to establish the annuity plan. The reasons for such a mandatory manner are as follows. First, it better persuades the enterprises to work for the social policies and objectives encouraged by the government and expand the coverage of corporate annuity. Second, it is conducive to prevent short-sightedness of enterprises and employees. Third, it helps withstand the risk prevailing in the market of voluntary insurance. Lastly, it is easier to receive governmental tax incentives and supports from the ultimate governmental protectors. Thus, compared with the voluntary system, the subject of a mandatory system has to assume more legal responsibilities. Of the 15 EU countries, nine countries have adopted voluntary programs (including Austria, Belgium, Finland, Germany, Greece, Ireland, Italy, Portugal and Spain), and six countries choose the mandatory ones (including Denmark, France, Switzerland, the Netherlands, Sweden and the United Kingdom).

IV. COMPARISON OF PRINCIPAL BODY ESTABLISHMENT

The enterprise itself is the principal part of the annuity system, a way to assume the responsibility of old-age security. There are three types of corporate annuity systems including corporate annuity scheme, industry annuity scheme and national annuity scheme.

A. Corporate Annuity Scheme Model

The corporate annuity scheme is the one established by the enterprise which plays a leading role based on the premise of following relevant government regulations in formulation and implementation. It is often made by the enterprise itself as a voluntary scheme. It can be seen that corporate annuity scheme prevails in various countries

including the United States, Britain, Ireland, Australia, Japan and Germany, and has been somehow developed in Denmark and Spain.

B. Industry Annuity Scheme Model

This model is generally established by the industry or small and medium-sized enterprises in the industrial sector in the form of alliance with the industry as a principal part. It is often made as mandatory, popular in the European countries like Netherlands and Denmark and so on. For example, the industry annuity scheme in Netherlands has covered more than 40% of employees of the private sector, while corporate annuity scheme only reaches 19%. In the early stage, the annuity scheme in Denmark has been also created by industry.

C. National Corporate Annuity Scheme Model

A national corporate annuity scheme is always featured with special provisions for employees including governmental civil servants. It is quite common in some European countries. For example, the Greek IKA-TEAM National Corporate Annuity Scheme is mainly established by the government; and Denmark's ATP pension plan is a complementary one covering a wide range managed by governments, businesses and trade unions; Finland has set up two statutory pension schemes (LEL and TEL) to provide supplementary retirement income for workers in the private sector; France has established two national pension schemes named ARRCO and AGIRC on the basis of collective bargaining, which provide supplementary pension to employees of the private sector and management staff of the public sector; and the two schemes named STP and ITP in Sweden provide supplementary pension to blue-collar workers and white-collar workers respectively.

V. COMPARISON OF RIGIDITY OF ANNUITY PAYMENT

While processing the establishment of annuity system in most of the countries, there comes with a DB-based tendency followed by DC, that is, it requires equal relationships between the future retirement payment and the insurance premium of the employees during their working life in the lights of rights and obligations to reduce the financial burden of the government.

Certainly, these countries have also set up a mixed model of DB and DC according to the specific conditions of their own, which is further applied to public pension. Nevertheless, it prevents nowhere the development of DC scheme.

It seems that the governments have been accustomed to the role of a traditional social welfare designer gradually transformed from that of a provider, though, the countries and enterprises have transferred risk in fact gradually to be undertaken by the state, business, society and individuals together other than previous greater investment and payment risk traditionally by enterprises.

VI. COMMON TREND OF INTERNATIONAL ANNUITY DEVELOPMENT

In recent years, the development trend of corporate annuity system in these countries is manifested in the following aspects.

A. Tendency for Defined Contribution

At present, a majority of countries worldwide represented by the United States have shown a tendency for defined contribution model and its variants concerning the corporate annuity scheme, that is, it requires equal relationships between the future retirement payment and the insurance premium of the employees during their working life in the lights of rights and obligations to reduce the financial burden of the government. It seems that the governments have been accustomed to the role of a traditional social welfare designer gradually transformed from that of a provider, though, the countries and enterprises have transferred risk in fact gradually to be undertaken by the state, business, society and individuals together other than previous greater investment and payment risk traditionally by enterprises.

B. Privatization and Market-orientation

Represented by Chile, and the United Kingdom, there has shown further development tendency for the corporate annuity system that the welfare systems including the corporate annuity system has been accelerated for market-orientation and privatization to reach better market efficiency and performance in the operation and management of corporate annuity fund. Employees are encouraged to participate in the corporate annuity fund run by the private sector, and the operational mechanism of corporate annuity investment is further relaxed. In this way, it can enhance the competitiveness of the capital market. Moreover, the benign and fair competition in the corporate annuity fund market not only bring more volume and vitality for the capital market but also provide better investment performance for the participants and help the government achieve a shift from the role of market manager to market supervisor smoothly.

C. National Corporate Annuity Scheme Model

Since 1995, some elements of the private insurance markets in Sweden, Italy, Poland, Latvia, Mongolia and Kyrgyzstan have been applied to the public pension insurance system to create a "notional defined contribution" system, which is a hybrid system of pay-as-you-go system and accumulation system, defined benefit and defined contribution. Experiences have proved that such a new social old-age insurance system has achieved smooth operation with problems related to the transformation costs encountered by countries running the traditional pay-as-you-go system and those transferring to accumulation system or partial accumulation system basically overcome. Moreover, the EU has designed three transitional options for its member countries in the light of transformation to the said new system.

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