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PENSION PROGRAMS/SCHEMES IN THE INTERNATIONAL CONTEXT

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- How can companies meet the nondiscrimination rules when the controlled group consists of U.S. and non-U.S. companies?
- On what basis should pension benefits be compared to ensure equity?
- How do the programs differ among various countries?
- What happens when employees transfer?
- Does indexation of pensions make sense?
- Are death benefits comparable?

MR. F. ROGER ATKINS: I look after Wyatt's International consulting practice in Washington, and would like to introduce our panel. Ed Hustead is a senior vice president of Hay, Huggins in Washington and looks after international matters. Barry Watson recently retired after a distinguished career with Wyatt International. Greg Glashan heads up international consulting for Buck Consultants in New York.

Greg is going to talk about discrimination and taxation, and how these issues differ from country to country. Barry will discuss indexation and surplus, and Ed will then deal with vesting and portability.

MR. GREGORY T. GLASHAN: There have been laws passed around the world to abolish certain forms of discrimination to make them illegal in the context of employee benefit plans. I will deal with laws which limit benefits in favor of highly paid employees, ban discrimination based on gender, type of marriage, type of employment, and which deal with indexation of pensions and deferred vested benefits. The U.S. has by far the most prohibitions against providing benefits in favor of the highly paid. On the whole, other countries do not have a general prohibition against providing benefits in favor of highly paid employees. Furthermore, in many countries, it is rather normal to offer different benefits to different levels of employees.

For example, in Australia, it is common to provide benefits at different levels for executives, for salaried employees, and for hourly employees. In countries with high rates of taxation, an executive retirement plan may be the most tax-effective way to deliver compensation. However, what has been evolving outside the U.S. is a gradual reduction in the absolute level of benefits that can be provided on a tax-effective basis.

For example, the U.K. now has a provision capping the maximum pensionable salary in a qualified plan. Furthermore, it is generally believed that the way in which this cap will be adjusted in the future will result in more employees being affected by the cap and therefore a gradual increase in the role of nonqualified plans in the U.K.

The U.S. multinational company should expect that many of its non-U.S. retirement plans will provide benefits which discriminate in favor of the highly paid employees on a tax-effective basis, but the ability to continue to provide these benefits in this way is being eroded and the role of nonqualified plans will increase.

It has been common in the past that the social security programs in many countries will have had different conditions based on gender, for example, a lower retirement age for females than for males. In general, programs which are sponsored by private employers are designed to supplement social security, so in those countries where social security discriminates based on gender, the private plan similarly discriminates.

For example, in Switzerland, the retirement age for males is 65 and 62 for females. Most employer-sponsored plans have the same retirement ages as social security. Furthermore, most of the plans provide more generous survivor benefits for married males than for married females or single males or females. However, it is now more common for the social security systems to provide the same benefits to males and females, and for the private plans to follow suit.

Let us take a look at the European Community (EC), which is the area of great interest to most American multinationals. The EC constitutes Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, and the United Kingdom. Although each country has its own courts and its own social security system, they have agreed to follow the conditions of the Treaty of Rome and its various amendments. This means that, in effect, there is an EC constitution which can override local laws and customs. In some EC countries, the social security systems still have conditions which are different based on gender of the contributor and typically the employer-sponsored plans are the same. While the EC constitution has a provision which prohibits gender discrimination with respect to pay, a directive had been issued stating that it was not illegal to have gender-based employee benefit plan provisions as long as the social security system had gender-based provisions.

For example, the normal retirement age of the social security systems in Belgium and the U.K. in 1990 was 65 for males and 60 for females, and the vast majority of retirement plans at that time in these countries had different retirement ages for males and females.

In 1990, the European Court of Justice (ECJ) issued the now famous Barber Judgment. The key conclusion of the court was that benefits are a form of pay and, therefore, gender-specific provisions in a retirement program are illegal. The ruling also made it clear that each element of the plan had to be gender neutral. So from the day of the ruling, it is clear that benefits must accrue on a gender-neutral basis. Mr. Barber worked for an insurance company in the U.K., and his retirement plan allowed for early retirement within ten years of normal retirement age. The normal retirement age of the plan was 65 for males and 60 for females. He was over 50 but under 55 when he left his employer, and so he received a deferred vested benefit. He sued in a U.K. court to receive the same benefits as a female would have received. When this failed, he appealed to the ECJ and won the appeal. Unfortunately, the ruling left the situation ambiguous with respect to benefits earned for service prior to the date of the ruling. Under a worst-case scenario for plan sponsors, a typical plan would have to provide benefits with a retirement age of 60 for all current and terminated male members and use male rather than female factors where this was more favorable to the member. This would be a financial disaster for most of the plans.

In order to resolve these uncertainties, a Protocol was attached to the Maastricht Agreement, which would have added a constitutional amendment to the Treaty of Rome making it clear that the provisions of the Barber Judgment would not be retroactive. However, as the voters in Denmark rejected the Maastricht Agreement, the situation is currently unresolved. There are a few other cases before the ECJ, and these may help make things clearer.

The strategy of most employers in the U.K. has been to equalize plan provisions after Barber. Generally this means increasing the normal retirement age for females to 65 and using gender-neutral factors. Most U.K. actuaries are currently making their valuations on the assumption that Barber will not be retroactive. At the moment, there is no indication that the government will equalize the treatment of males and females within the U.K. social security system in the near future. Until this takes place, it is likely that the design of plans in the U.K. will be unsatisfactory.

Belgium is another country affected by Barber. Since the ruling, the government has amended the social security system to provide a flexible retirement age between 60 and 65 for both males and females, but females will continue to receive higher benefits than males with identical contribution histories. The typical company-sponsored plan was a defined-benefit pension arrangement integrated with social security, with a retirement age of 65 for males and 60 for females. Married males received a fully subsidized survivor benefit while married females did not. At retirement, the full value of the benefits was taken as a lump sum. This meant that, in practice, the typical plan was a defined-benefit lump sum program with different levels of benefits for married males, single males, and females. One solution to the Barber problem here is to switch to a defined-benefit lump sum plan with a benefit level which is gender neutral.

My conclusion is that the U.S. multinational company should expect that a number of its European plans may no longer comply with the law with respect to discrimination based on gender, and that plan amendments are now required.

Turning to discrimination based on type of marriage, generally speaking, it is permitted to restrict marriage-related benefits to lawful spouses and to exclude common law arrangements in marriages where both partners are of the same gender. However, in a few countries, it is not permitted.

For example, in the Netherlands, the plan must treat common law marriages in the same way as legal marriages between a male and a female. In practice, plans in many countries in various parts of Europe are more liberal than in the U.S. in recognizing nontraditional marriages in their retirement plans.

Discrimination against part-time employees is also illegal within the EC. The ECJ ruled that as most part-time employees are female, excluding part-time employees would be a form of gender discrimination.

In the Netherlands, it's now a requirement that deferred vested benefits must be indexed under the same terms as pensions in course of payment. The objective of this law is to reduce the loss of pension benefits under final average pay plans for persons who leave before retirement. Another way of looking at it is to say that the Dutch policy is to reduce discrimination by way of reduced pension benefits which persons who change jobs will suffer, over those who stay with the same employer. This may sound strange to U.S. management, but it is another example of different social goals and policies in other countries.

My other topic is taxation. While the tax laws are still generally much simpler outside of the U.S., the overall level of complexity has increased significantly on a more or less worldwide basis. Generally speaking, employer contributions are tax deductible, but in a few countries the situation is markedly different. For example, in Germany, contributions by employers are tax-imputed income to the employees, but contributions up to a certain limit are taxed at a preferential rate. So it's not unusual for benefits to be split funded with employer contributions only to the tax preference limit and the rest is book reserved. In Australia and New Zealand, the whole concept of pension fund taxation has been turned upside down. In Australia, the trust must pay a tax which is effectively 15% of the employer contribution, and in New Zealand, there is a withholding tax of 33% of the contribution. In a few countries, there is a tax on the investment income of the trust. For example, in Australia, the trust has to pay a tax equal to 15% of adjusted investment income, in addition to the 15% on employer contributions mentioned earlier. In New Zealand, the tax is 33%. Ireland introduced a temporary tax on the investment income of pension trusts, but this has now been repealed. Belgium has a withholding tax of 10% on bond interest and 25% on dividend income.

Turning to the taxation of benefits, there is a wide variation of treatment. In the U.K., part of the benefit can be converted to a tax-free lump sum. If taken in the form of a pension, it would be taxed at normal rates. Needless to say, most employees elect to take the lump sum. In Belgium, lump sums are taxed at low preferential rates, while pension payments do not receive this treatment. As a result, virtually all retirement benefits in Belgium are taken as lump sums. In Australia, lump-sum payments are taxed at lower rates than pension payments. The Australian government has stated that it intends to change the taxation system to promote pension payments over lump sums, but so far nothing has been done.

In New Zealand, most benefits are paid tax free. The tax system for retirement plans in New Zealand is the opposite of most systems. When the taxation changes were made in 1989, the theory was that if the government gets its tax up front, then the benefit should not be taxed on receipt. Furthermore, because the employee gets the benefit tax free, then the target benefit could be reduced, and the cost to the employer would not be increased. This did in fact happen in many cases, and both past service and future service benefits were reduced.

In the U.S. and in many other countries, there is no tax advantage to book reserving the liability for retirement benefits, but this is not the case everywhere. In both Germany and Japan, the tax system set up after World War II encouraged the use of book reserves by giving employers a tax deduction if they established plans, but did not require the setting aside of specific assets. While Japan has reduced the level of tax deduction available to book reserve arrangements and has also encouraged funded plans, Germany has not, and remains strongly committed to the book reserve system. In order to obtain the tax deduction in Germany, the plan must be established properly and the reserves determined in accordance with the prescribed rules, which generally requires using a modified entry age normal actuarial cost method, 6% interest and no salary scale.

MR. ALEXANDER MILLER: In the U.S., there is a lot of resistance to paying lump sums on the grounds that the employee will take the money and squander it and be left destitute. With all of this emphasis on lump sums in these other countries, what has been the experience? Has the problem that U.S. employers seem to fear emerged or are people more responsible after retirement?

MR. GLASHAN: I think a reason why everyone wants a lump sum in Australia is because they have a means-tested social security benefit. It is probable, that statistically, you may find many Australians end up being destitute, while in reality it is something else. As far as Belgium is concerned, part of the reason why lump sums are preferred is that people are allowed to use their retirement assets as a pledge to get a mortgage on their house. So they take their lump sum and pay off their house. In a lot of countries, the social programs are a lot better than in the U.S. so there can be a much larger support base in retirement.

MR. ROBERT M. KATZ: Could you comment briefly on the situation of a non-U.S. national who works here and is covered by a qualified U.S. plan, and then returns to his home country. What kind of tax situation would he face at home since our tax system is quite different?

MR. GLASHAN: It is a problem. Generally speaking, if you are now a resident outside of the U.S., not a U.S. citizen and you want to get your U.S. benefits, you will normally have to pay U.S. withholding taxes, unless there is a tax treaty that deals with this situation.

MR. LESLIE JOHN LOHMANN: I have been practicing in Japan for two years so I thought a few comments would be helpful. With regard to the highly paid, if someone becomes an officer of the company, they are excluded from the employees' plan. Many plans distinguish between voluntary and involuntary terminations, and there is also discrimination between regular employees and the various types of part-time employees. Benefits are normally expressed as multiples of the monthly pay, and so there really is not any discrimination between males and females from that point of view. People take their benefits and buy a house, so although they have a low income after retirement, they have no living cost, which is an extremely high part of an individual's normal expenditures.

MR. ATKINS: Barry Watson is now going to discuss indexation and surplus.

MR. CHARLES BARRY H. WATSON: By indexation I refer to the increase of either benefits in payment or accrued benefits which are not yet in payment, to allow for changes in either the cost of living, or in some cases, for changes in average compensation rates. Should this be done on some sort of an automatic basis or solely as an ad hoc gesture by the employer? In the U.S., the employer tends to grant indexation only on an ad hoc basis, and will do so only when his economic circumstances and the general change in the cost of living call for it. On the other hand, outside the U.S. in those countries where benefits are paid in the form of pensions, there is a growing tendency to require indexation in some form of automatic basis beyond the control of the employer. One of the reasons behind this trend is the general desire to have some sort of coordination between industry and labor and government in carrying out an industrial policy.

What happens with respect to indexation around the world may become more important to the U.S. as we enter more into the world economy. We are concerned about how we are competitive within the world economy. But this does not only mean that we want to make sure that our higher levels of wage rates and our better environmental working conditions are translated overseas. We may also be faced with a counter push coming from the opposite direction that we will be forced to make certain changes in how we look at the situation, and indexation is an area where there may well be pressures on the U.S. to adapt to the more general trend in the world.

A number of countries require that certain minimum benefits are provided which must be indexed in certain fashions. For example, in the U.K., plans which have contracted out of the earnings-related portion of social security must provide a Guaranteed Minimum Pension (GMP) that must be indexed at least during the time up to retirement and now some of it must be indexed after retirement. Another law requires indexing, on a different basis, up to retirement, of the accrued pension of people who leave before retirement. The U.K. also has a law pending that will require the indexing after retirement of future pension accruals, and maybe also of past accruals. Similarly in Switzerland there is a minimum benefit which is subject to indexation. In Canada, there was a proposal which is now in abeyance, that a pension up to 60% of the Yearly Minimum Pensionable Earnings (YMPE) would have to be indexed.

In Germany, the labor courts stated a number of years ago that every three years employers must look at the pensions that they were paying and increase them to allow for changes in the cost of living unless the economic circumstances of the company prevented this.

On the other hand, it is not uncommon, particularly in countries like the U.K., for plan sponsors to include a provision in the plan rules to index the pensions by changes in the cost of living up to a maximum of say 3-5%.

What benefits are indexed? It can be the whole gamut, retirement, survivor, pensions, disability benefits, deferred vested benefits either in payment or during the deferral period. As indicated earlier, the U.K. and Ireland both require that deferred vested benefits have to be indexed up to the time of normal retirement date. In a number of instances, it is more common to mandate by law the indexation of the so-called ancillary benefits – survivor, disability, and deferred vested benefits, than it is to require the indexation of the actual retirement pension. This is perhaps because it is realized that many employers are already indexing the retirement pension and where the correction needs to be made is in the benefits that the employer might be less inclined to adjust.

There can be many formulas used for indexation, the consumer price index (CPI), national wage increases, and so on. Sometimes the CPI may be modified by imposing a maximum limit or by only recognizing a percentage of the CPI increase. A key question when limits are put on the CPI increase is what should be done in subsequent years. Another way that has been talked about as a method of allowing for indexation is to provide pension increases based on a so-called "excess interest" earnings rate. If the investment earnings of the pension fund are considerably more than the assumed rate of return, then part of the excess would reflect the impact of inflation and could be allocated to increase the benefits of the members.

How is indexation going to be paid for, meaning both allowed for in costing provisions, and also in actually finding the money to pay for the benefit? Funding assumptions can be adjusted in many countries to allow for a certain rate of increase in pensions in payment. Surplus can be used in many countries, and some have laws which require indexation be a first charge on the surplus. Some countries actually have investments that grant rates of return that are indexed to the CPI. This is certainly true in Brazil, and these type of securities are also available to some degree in the U.K. Some countries, and Germany is a prime example, will not allow you to finance in advance for indexation, particularly if you are using a book reserve approach, unless indexation is made a contractual provision of the plan.

A U.S. multinational company with a branch operation overseas may have a problem with respect to U.S. tax deductions. If the plan does not have a built-in requirement for indexation, then under the IRS rules it cannot be allowed for, even though an established pattern of increases may exist, and even though there may be requirements under local labor law to provide increases. In the case of plans of subsidiaries, there may be similar problems but here it is only related to foreign tax credits.

Under *SFAS 87* accounting rules, indexation needs to be recognized if there is an established or a substantive commitment, to provide increases. This has meant that some companies have taken the approach of granting somewhat irregular increases to avoid accounting in advance for future pension increases. Whether this will be successful indefinitely is another issue.

The control and use of surplus in the U.S. and other industrialized countries raise a lot of questions today. There is the question about how surplus emerges, what are the impacts on overfunding, who owns the surplus, how surplus is used both under ongoing plans and in the event of plan windup. Surplus emergence is not a problem under a defined-contribution plan, but under defined-benefit plans, the choice of assumptions, the actual investment experience, and the varying pattern of contributions can give rise to very significant amounts of surplus. Who really controls the assumptions. Is it the plan sponsor? Is it the trustees? In some cases the trustees have considerable voice in the choice of assumptions. What influence does the actuary have? What influence does the government have on this? In both the U.S. and Canada, efforts have been made by the revenue authorities to exercise control over the assumptions used in valuing plans. In Germany, the assumptions are laid down completely for book reserve plans, but surplus is not an issue as no funds are accumulated.

In order to see whether there is a surplus, it is necessary to define a basis to measure both the assets and the liabilities. Also, one has to decide which liabilities should be measured and which benefits are going to be considered? Some of the benefits may be of marginal significance and can be ignored, and one has to consider whether to look only at accrued benefits or at projected benefits. The U.K. defines a basis for liabilities, a basis for assets, and then states that assets in excess of 105% of the liabilities are surplus and that action must be taken.

Who owns the surplus is a major philosophic question. Is it the employee, because the benefits are deferred pay, or is it the sponsor because under a defined-benefit plan, he promises the benefit and assumes the complete risk? The source of surplus is important here. If it arises solely from investment experience, then the question is who has made the contributions? Under an employer-pay-all plan, it would presumably belong to the employer. Transfers or plan mergers may result in special treatment. Canada is contemplating that the ownership of surplus would have to be decided and defined within the plan document.

There are basically three ways in which surplus can be used in most foreign countries. One is a contribution holiday for the plan sponsor, and perhaps the employee, which will either reduce or eliminate the surplus. In some instances, like the U.K., a maximum period of time is specified. It may be possible for the sponsor to withdraw surplus but only if the plan allows or can be amended to allow for it. In Ontario, there has been a moratorium on surplus withdrawal, and certainly any surplus that is withdrawn will be taxed. Another way to use surplus is to introduce plan improvements, either at the initiative of the sponsor, by the discretion of the trustee, or by mandate of the government.

MR. KATZ: Would you say that a plan that provides for fully indexed benefits can have a surplus?

MR. WATSON: If you are indexing by the cost of living and you have phenomenally successful investment results, I think it would be possible.

MR. DONALD E. KELLER: You said that many of the countries have requirements for limits on surplus. What are the penalties if companies do not comply with the limits?

MR. WATSON: A surplus tax usually. There are financial penalties if surplus is not used in one way or another. However, it will be taxed if taken out of the plan, so it may not be any worse in the long run.

MR. JOSE LUIS SALAS*: In Mexico, it seems that almost all the plans now have surplus. What has been really happening is that salaries have lost substantial purchasing power during the last 12 years. So in inflationary situations like we have in Mexico, an assumption of the recovery of the purchasing power of salaries should be allowed for when determining if the plan has a surplus or not.

* Mr. Salas, not a member of the Society, is Director of Consultores Association De Mexico SA in Mexico DF, Mexico.

MR. ATKINS: Unless the government says that you only consider accrued benefits without allowance for future salary increases, I would agree with you. Mr. Hustead will now discuss vesting and portability.

MR. EDWIN C. HUSTEAD: It is important to consider the culture and the larger role that social security has played in Europe compared to the U.S. In the U.S. there is basically little vesting and portability, despite the rule that requires five-year vesting in qualified pension plans. In a typical final-pay defined-benefit plan, the vested benefit for a person leaving a job in his or her 30s has little real value.

Defined-contribution plans appear to do a better job of vesting and portability by their nature, but what we are finding is, that despite the large tax penalty, people are taking their money out and spending it with the obvious impact on the ultimate retirement income. Portability is something often talked about in the U.S. but has only been dealt with effectively in specialized situations such as multiemployer plans.

In Europe in general, the same situation exists on the surface. Many of those countries that had ten-year vesting are moving to five-year vesting. The U.K. has two-year vesting and some have one-year vesting. Portability, except for one notable exception, does not exist formally as a requirement. However, the way benefits are designed and the interaction with the social security system established much more vesting and portability than in the U.S., but this is also changing somewhat, which is important to keep in mind.

The key reason for vesting and portability being much higher in Europe is the fact that the social security systems are much more predominant and provide a relatively good level of income, particularly for the lower paid. Thus, a very large portion of retirement income is vested and portable by virtue of the social security system. What is happening now is that the social security systems are eroding throughout Europe, resulting in reduced replacement rates, requiring people to work longer, and limitations are being placed on full and automatic indexing. Companies in Europe are now having to look at the fact that they have a larger gap to fill, and they will be grappling more with issues such as vesting, portability, and indexing in their own plans.

There is much more cooperation between labor and management in Europe, and as a practical matter, unionization of white collar workers, so that changing benefits in Europe can be similar to a union situation in the U.S. It is also important to keep in mind that generally, large employers in Europe are of about the same size as medium-sized employers in the U.S. There is a much smaller average size of the work force. The combined effect of the predominance of social security and smaller organizations, smaller plans, leads to one thing that affects portability and vesting quite a bit, which is the dominance outside the U.K. of the insurance approach to financing pensions, and the building up of an individual's reserve within that insured situation.

In general, defined-benefit plans continue to dominate except where they traditionally have not been used, but as companies are grappling more and more with declining social security, more creative approaches are being sought for defined-benefit plans. It is doubtful that defined-benefit plans will disappear, but if social security erodes, company benefits will automatically take up the slack when the plans are integrated.

This is leading many companies to consider freezing the social security offset so as to control the impact of reductions in social security. The insurance contracts generally used in Europe, Belgium, and Greece, for instance, use nominal rates of interest so that some indexing occurs naturally through the vesting period and after retirement, as in many cases, the actual returns are credited to the individuals.

It is important to review how portability has been dealt with in the Netherlands. A quite creative approach to the basic problems of portability and defined-benefit plans has been developed on a voluntary basis as companies believe that it is good social policy to do so. They have, however, been helped somewhat by having plans of relatively similar design. A system has been created that uses an agreed-on set of actuarial assumptions, including a nominal interest rate of 4%, so that indexing of both pay and benefits is allowed for implicitly. This is used as the basis to determine the transfer value payment. Benefit differences are dealt with by utilizing a system to basically equate benefits from one plan to another. As a simple example, if an employee leaves an employer that provides a 1.5% accrual rate and goes to a new employer that uses a 2% accrual rate, then ten years of service from the first employer would equate to 7.5 years of credit with the new employer.

A brief comment on the subject of a European pension plan. The presentations have identified widely different social security systems, taxation systems, vesting, portability and indexing requirements, and funding systems throughout Europe. There is no effective or practical way of achieving a European pension plan at the present time so that employees of the same employer who are located in different countries can all participate in a single plan.

MR. ATKINS: Complete portability, similar to the Netherlands system, has existed for many years in the U.K., where a transfer club constituting the nationalized industries and the civil service agreed to basically transfer years of service from one organization to another. There is also a similar transfer arrangement between various international organizations.

In Australia, the government is attacking the problem by first dealing with vesting, as you have to have vesting before you can have portability, next there is some portability in that you can transfer the vested benefit into various types of rollover funds, and now they have introduced preservation, which requires that the funds are not available until you reach a certain age like 55 or 60.

MR. KELLER: Could you describe what kind of insurance products are used in Europe?

MR. HUSTEAD: I think it is similar to the general group deferred-annuity purchase in the U.S.

MR. ATKINS: There are regulations in a number of countries which dictate what products can be sold. The level annual premium method is quite commonly used to determine the premium.

MR. SAMUEL D. HARRIS: With trust funding so prevalent in the U.S., are there any real barriers that prohibit trust funding in the European countries?

MR. HUSTEAD: It varies quite a lot by country. In some countries the predominant method is book reserving, as in Germany.

MR. ATKINS: If you looked at the size of pension fund assets outside the U.S., the major countries are Canada, the U.K., Japan, the Netherlands, Switzerland, Belgium, and Australia.

MR. DANIEL M. ARNOLD: A mention was made that companies in Europe are much smaller than in the U.S. Many smaller pension plans in the U.S. used to be set up as tax shelters to protect the payment of taxes by the principals. What is the motivation in Europe? Is it a tax shelter issue for companies or is it true retirement planning?

MR. HUSTEAD: It is just a tradition of filling in the gap on social security. Generally there are no rules as to discrimination in the U.S., so you don't have to try to shelter income for the highly paid employees in the same way.

MS. JACQUES J. E. PELLETIER: I would like to comment on the statement made that when people receive a settlement from their pension plan, they seem to spend it. I wonder whether this is based on verifiable statistics or on impressions? In Canada there are registered pension plans which have a preservation feature. However, a lot of retirement savings are accumulated through group Registered Retirement Savings Plans (RRSP) which are essentially nonlocked in funds used by employers to accumulate pension assets. Experience shows that only a small proportion of RRSPs get deregistered and spent.

MR. HUSTEAD: Recent studies in the U.S. have shown that something like 0.75 of the distributions from 401(k) plans are being spent, even after the tax penalty.

FROM THE FLOOR: It is interesting to note that while the EC has chosen to leave regulation of retirement income to the member nations, it seems that the ECJ is becoming more and more powerful and putting unanticipated obligations on employers.