

# 1<sup>st</sup> Pillar Pensions in Luxembourg

« The Pension Planning »

AMCHAM Event

at LALUX Assurances HQ

3<sup>rd</sup> July 2024

Alain Reuter

President

- The Caisse nationale d'assurance pension, **CNAP**, is in charge of the **general pension scheme**
  - General pension scheme
    - legal/State pension scheme for the private sector
    - 1<sup>st</sup> Pillar pensions
  - The public sector has its own pension scheme, the **special pension scheme** or **special transitional pension scheme**, operated by the State itself



- How do I become affiliated with CNAP?
  - Your employer affiliates you (at **CCSS**) for all the social security risks, including pension insurance
    - Old age pension, invalidity benefit, survivor's pension
  - You have to register with the **CCSS** if you are **self-employed**
  - If you want to pay **voluntary contributions**, you have to register with the **CCSS**
- You may buy into the system
  - You may be able to transfer amounts from **third party countries** or international organisations into your CNAP account.
  - You may be able to top up amounts in the past where you reduced or stopped contributions for family reasons (**at CNAP!**)

- In order to qualify for a Luxembourg old age pension, you need to have contributed for at least **10 years**
  - Not all of these years need to be registered with CNAP
  - All the member states in the EU (incl. UK, CH, NO, LI and IS) have mutual recognition of insurance periods
  - Luxembourg has concluded bilateral conventions with a lot of countries for mutual recognition of insurance periods (not China!)
    - [www.secu.lu/conv-internationales/conventions-bilaterales/](http://www.secu.lu/conv-internationales/conventions-bilaterales/)
- Other countries are **third party countries** in the previous slide (e.g. Singapore, Australia, Dubai, ...)
  - You may be able to transfer amounts from third party countries into your CNAP account
  - You may not transfer amounts from mutually recognised insurance period countries into your CNAP account

- In order to qualify for a Luxembourg old age pension, you need to have contributed (incl. voluntary) for at least **10 years**
  - This qualifies you for a pension at the age of **65 years** of age
- You may take retirement at the age of **60 years**
  - If you acquire a total of 40 years of contributions (incl. voluntary) or **complementary periods** (→ e.g. study years between 18 and 27, raising children, ...). At least 10 years need to be contribution years, incl. voluntary.
- You may even retire at the age of **57 years**
  - If you acquire **40 years of compulsory** contribution years. Neither complementary periods nor voluntary contributions are counted towards a retirement at age 57.

➤ Pensions consist of 2 main elements

- Flat-rate amount:  $F \approx \frac{N}{40} * \alpha * MSW$ ,
  - where N = number of qualifying years (up to 40)
  - $\alpha$  is a percentage, currently valued at 24,85% increasing gradually to 28% in 2052
  - MSW is the minimul social wage equivalent (*saire social minimum, SSM*)
  - (*majorations forfaitaires*)
  - Today's value for 40 qualifying years: 619,23 €
- Earnings-related amount:  $E = N * \beta * \overline{Rev}$ ,
  - where N = number of qualifying years
  - $\beta$  is a percentage, currently valued at 1,775% decreasing gradually to 1,6% in 2052
  - $\overline{Rev}$  is the average revalued (index 100, basis year 1984) annual revenue taken into account for contributions
  - (*majorations proportionnelles*)

- Pensions amounts for a pensioner with 40 years of qualifying periods at the age of 60, according to their average revenues over their career.

Average career revenue (value 2024)	Flat-rate 24,85% of MSW	Earnings related 1,775% of av. rev.	Boost for working longer	Total gross pension amount	Replacement of revenue
<b>2.571 €</b>	620 €	1.825 €	77 €	<b>2.522 €</b>	98%
<b>5.000 €</b>	620 €	3.550 €	150 €	<b>4.320 €</b>	86%
<b>7.500 €</b>	620 €	5.325 €	225 €	<b>6.170 €</b>	82%
<b>10.000 €</b>	620 €	7.100 €	300 €	<b>8.020 €</b>	80%
<b>12.500 €</b>	620 €	8.875 €	375 €	<b>9.870 €</b>	79%

- All pensions are exportable

- The Luxembourg pension scheme is *basically* a pay-as-you-go, **PAYG**, system
  - Current outgoings are directly financed through current incomings
  - A slight surplus is put aside into a reserve that is invested in the financial markets to generate a decent return on investment
  - The system has been able to thrive because of the dynamism of the Luxembourg labour market in the last 40 years
  - The system will suffer as the baby-boomer generation nears retirement, i.e. now!
  - Thus arises the need to go beyond the reform of 2012 in order to make adjustments in this generational context.
- As an administration, CNAP has reached the limits of being able to cope with the increasing number of people needing its services
  - Things are usually not trailing because of delays on our side
  - We are trying to modernise in parallel to being at your disposal for your immediate concerns



Thank you for your attention!