Portugal to apply pension funds to deficit

By Editor Test *Wed, Dec 7, 2011*

The measure aims to transfer pension funds' liabilities to the Portugese Social Security program while using the assets to help the government meet its budget deficit target and pay down its debt.

The Portuguese government has agreed to transfer €6bn ($8.05 bn) from the pension funds of four of country’s largest banks to the state as part of a plan to cut the deficit to 5.9% of GDP. The government will use the assets to meet its budget-deficit target and pay part of the state’s debts currently held by banks, according to a government official.

Maria João Louro, business leader for retirement, risk and finance at Mercer, said the government believes the “exceptional measure” is the only means of avoiding tax hikes while meeting its public deficit target.

The measure aims to transfer the pension funds’ liabilities – specifically, liabilities related with pensions in payment – to the Social Security regime.

Ana Marta Vasa, partner at Towers Watson in Lisbon, told IPE.com that the banks had an interest in transferring liabilities because they wanted to reduce the volatility on their balance sheets stemming from defined benefit plans.

João Louro added: “One of the main consequences for the four banks involved in this process will be the significant reduction of their pension funds’ assets by 50%. But the obligation to guarantee future pension increases, as well as post-retirement benefits and medical post-retirement expenses, will still be incurred by the banks’ pension funds.”

However, because this particular transfer only relates to pensions in payment without future increases, the current funding level of the first-pillar system is unlikely to be affected, according to João Louro.

“To control the current and future resources of the first pillar, it will be necessary to implement an effective governance policy and a continuous monitoring process on cash flows (due to the fact we are on pay-as-you-go system),” she said.

In a related matter, a year ago it was announced that Portugal’s ministry of finance and public administration, after more than a month of negotiations, would take responsibility for €2.8bn worth of pension liabilities for three schemes maintained by Telecom.

The asset transfer is set to help the government address its budget shortfall, which last year was almost 10%.

The treasury will now take responsibility for members of the three schemes – Plano de Pensões de Pessoal da Portugal Telecom/CGA, the Plano de Pensões Regulamentares da Companhia Portuguesa Rádio Marconi and the Plano de Pensões Marconi – and transfer them to the Regime Geral de Segurança Social, the state social security system.

Portugal Telecom’s most recent quarterly statement for the end of September indicated that the company had €2.3bn in assets in its pension plan, €471m in unfunded liabilities for pension obligations and a further €337m stemming from healthcare obligations.

The transfer to the social security system will therefore also cover workers for health-related matters, such as paternity or maternity leave, as well as unemployment, while the unfunded liabilities will be covered by the company.

The treasury, which is currently evaluating the best method for transferring the assets, said the move would reaffirm government commitment to a universal social welfare system for all workers.

While the Portuguese government currently only holds a 2% share in the company following its privatization, it possesses enhanced voting rights due to the 500 A shares it holds and can veto major decisions.

In the past, it was able to veto a takeover by Spain’s Telefónica of Brazilian mobile phone network Viva, in which Portugal Telecom and Telefónica have holdings. Telefónica is currently a majority shareholder in Portugal Telecom, along with Norges Bank, BlackRock and UBS, which hold 5.19%, 2.35% and 2% stakes, respectively.