



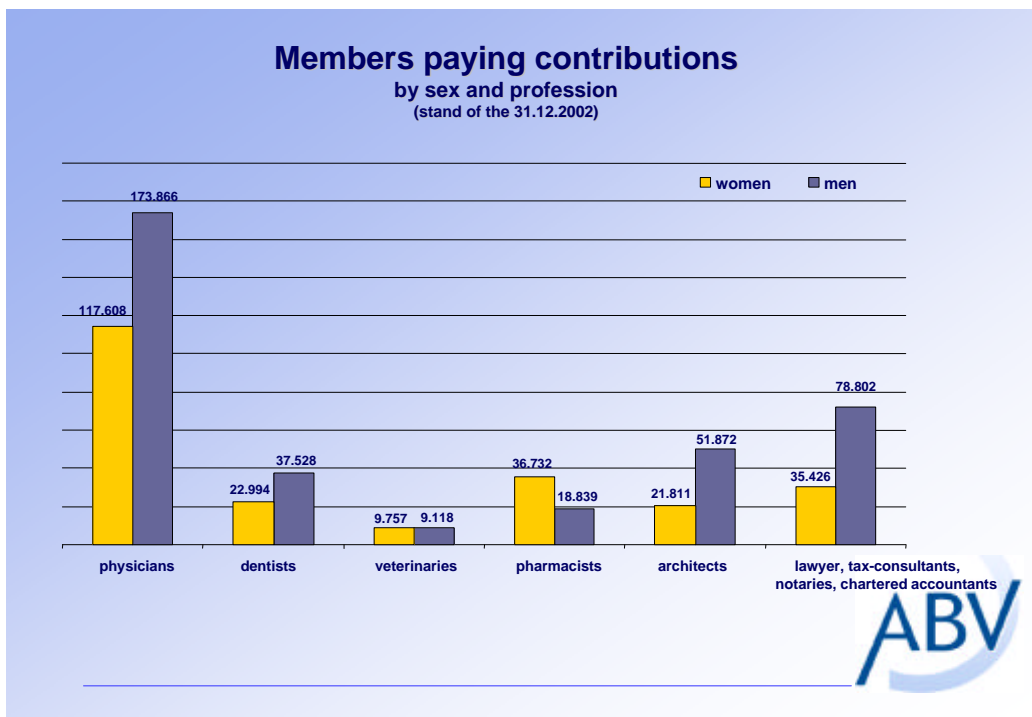
(Englisch 2004)

**The pension schemes of the liberal professions for members
of professional associations**

(01.06.2004)

Ladies and Gentlemen,

the professional pension schemes of the liberal professions are part of the structured system of retirement pension schemes in the Federal Republic of Germany. The professional pension schemes for the liberal professions only exist for the members of special professional associations (Berufskammern) as there are physicians, pharmacists, architects, notaries, lawyers, tax consultants, veterinaries, chartered accountants, dentists and psychological psychotherapists.



Following the leading opinion there are three positive elements which come along with the concept of a liberal profession:

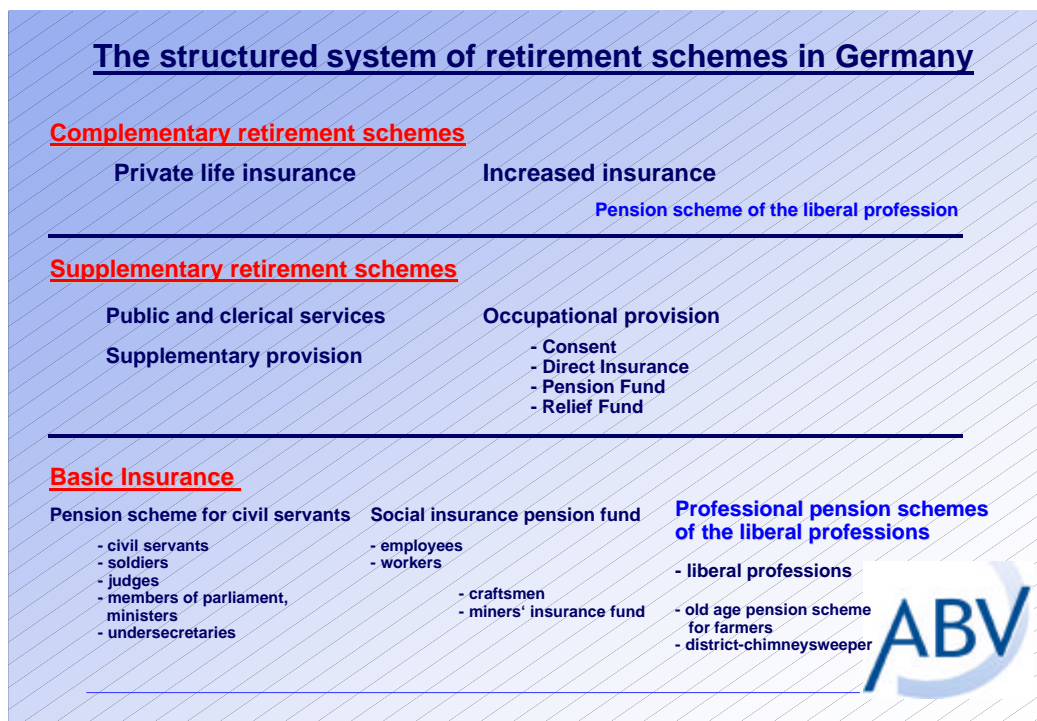
- professional independence (not the equivalence of economical independence),
- furnishing personal services,
- furnishing of mainly intellectual services that are based on qualified education

as well as one negative element of distinction:

- no business.

For the existing pension schemes of the liberal professions there is something else to consider. There are a few liberal professions which to be removed is unthinkable because of their importance for the national economy in order to fulfill certain functions in the general public interest, e. g. healthcare or judicature. The state does recognize this by giving the efficiency of these professions an importance that results in a comparability of the services of these professions and public services. Granting these professions own statues based on public law, providing them with self-governing bodies and transferring the administrative rights to their associations makes this obvious. All of the existing pension schemes of the liberal professions are related to these classical liberal professions organized in professional associations. It is to be stressed already at this point that the concern for the public services which the liberal professions have to provide was one of the motives to build up pension schemes of the liberal professions. Their existence and their right to exist can neither be justified nor explained without this background of professional, social or structural political elements.

The professional pension schemes of the liberal professions provide benefits as a compulsory system based on public law within the first pillar of the system of social security in Germany.



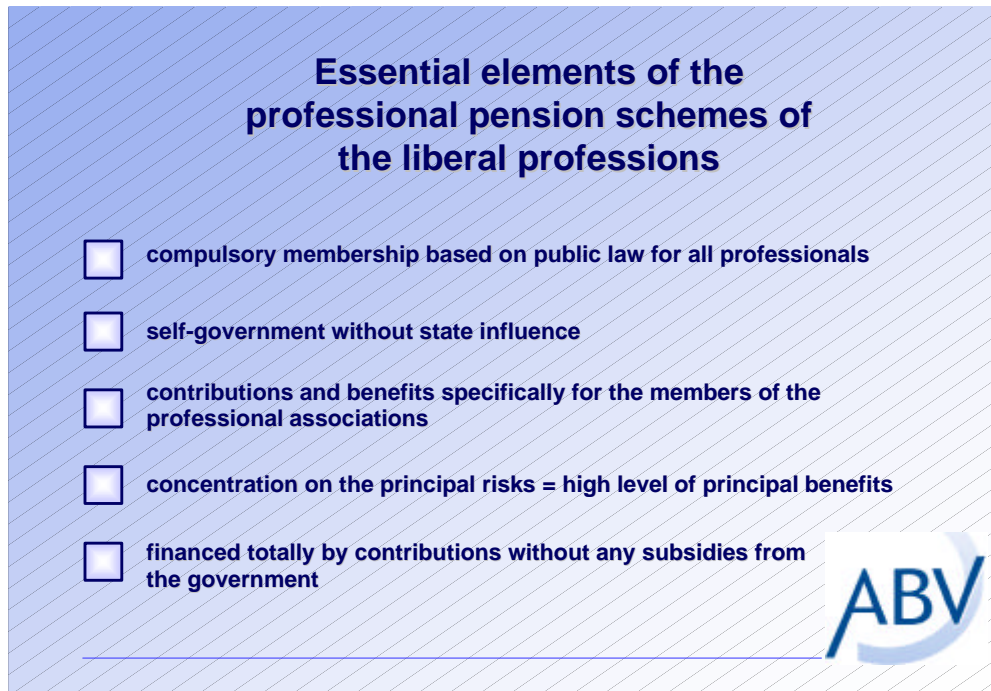
They exist independently aside

- other systems of compulsory basic provision, as
 1. social insurance pension scheme,
 2. old-age pension scheme for farmers and
 3. civil servants pension scheme,
- the systems of supplementary additional pension schemes as especially the company pension funds
- the systems of voluntary provision as especially the private life-insurance.

Altogether there are more than 85 professional pension schemes for the liberal professions. 81 of them are members of ABV in Köln, the association of pension schemes of the liberal professions.



All these pension schemes have the following in common:

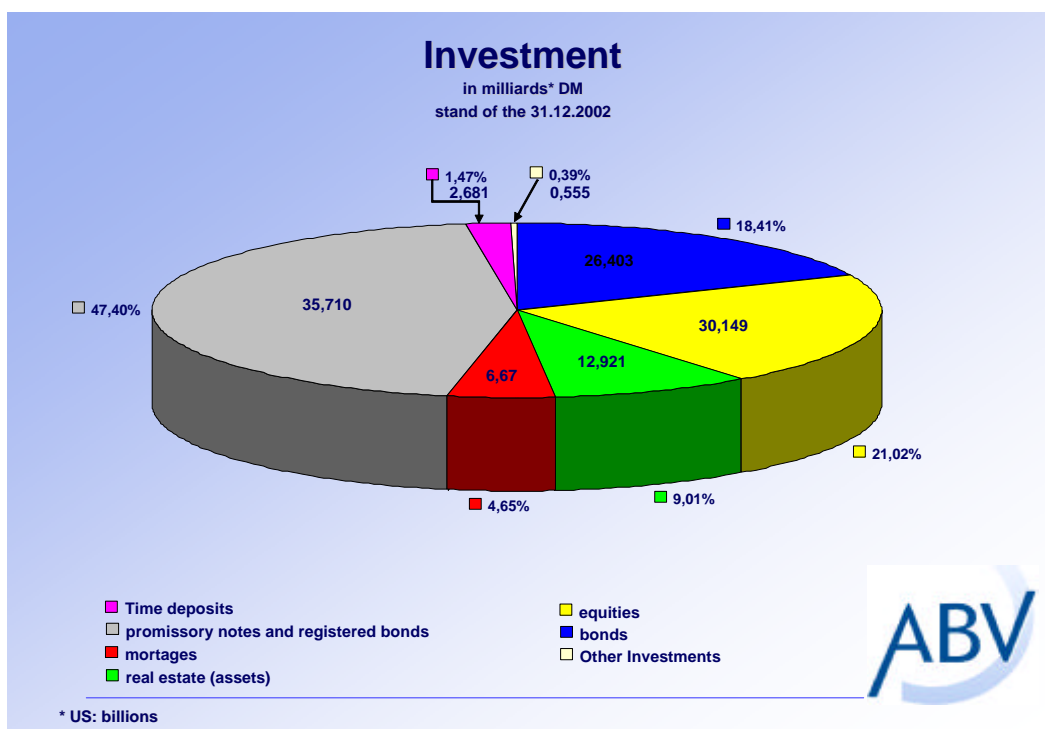


- compulsory membership based on public law for all self-employed or salaried working members of the specific profession,
- genuine self-governing by the representatives of the liberal professions,
- determination of the system of contribution/benefits by the representatives according to the needs and wishes of all members they present,
- concentration on main benefits, therefore higher level
- self-financed by contributions, therefore no dependency on state-subsidies

The professional pension schemes of the liberal professions are special systems of compulsory provision based on the law of the "Bundesländer" but only for members of the liberal professions regardless to the form of exercising their profession, self-employed or salaried.

Salaried professionals are according to their compulsory membership in the pension schemes exempted from the compulsory membership in the public social insurance pension scheme in which normally all employees have to be members.

The mandate to provide benefits is based in the law of the "Bundesländer" (e. g. Bavaria, Saxony etc.) according to the legislative power of the federal states pursuant Art. 70 of the constitution (Grundgesetz). The pension schemes for the liberal professions are not social insurance in the sense of Art. 74 no. 12 of the constitution. They do not only provide benefits for old-age, disability and survivors but fulfill also political tasks by preventing a superannuation of the professionals by providing sufficient benefits/pensions and therefore keeping the professionals efficient and productive. Beside the effect of improving the age structure they also fulfill an important political function on the labour market. Furthermore the pension schemes as capital funded systems play an important economic role. They contribute to maximize the capital fund which allow more investment, more growth and finally more employment. They provide the national economy with long-term investment capital. Therefore the professional pension schemes of the liberal professions provide more national product for all.



For the professional pension schemes of the liberal professions is characteristic that they are financed not by the method of "pay as you go" as it is used by the Social Insurance Pension Scheme. The pension Schemes of the liberal professions, however, are financed by a method that is called open capitalization. The characteristic of this method is that it also integrates the future member into the equivalence relation between contribution and benefits. In general it can be said that one payment of contribution gives, no matter when it is paid, the same amount of benefits. This method can be placed between the genuine pay-as-you-go-method and the genuine capitalization-method as it is used by the private insurance.

The professional pension schemes are submitted to the general supervision of the responsible minister of the federal state and to the specific actuarial supervision by another minister, mostly the minister of economics. Since the returns on the invested capital play an important role for the efficiency of the pension schemes the authorities of the federal states usually have decided to apply certain dispositions to control the investment which are the same as for the private insurance companies.

It will interest you how the professional pension schemes of the liberal professions started.

The first pension schemes were founded when after World war I and the following inflation all reserves, deposits and fortunes melted like the snow in the sun and many pensioners and widows had literally nothing anymore after 1923. At that time it was the medical association in Bavaria which created out of this need the idea of a selfgoverned institution run by solidarity and without any governmental help. An idea that was based on two thoughts: first of all help for singular persons in need, but second the responsibility for all members of the medical associations in general. The oldest pension scheme for liberal professions, so to say the archetype of pension schemes of the liberal professions, the Bavarian pension scheme for physicians, has overcome dictatorship, war and destruction of war; it transferred 1948 during the currency reform pension rights founded in "Reichsmark" by 1 Reichsmark to 0,80 DM and in 1950 by 1 Reichsmark to 1 DM without any governmental support just out of its own strength.

Often there is raised the question whether and how the compulsory membership fit into the concept of liberal professions. To this question the Federal Constitutional Court of Justice has in some decisions pointed out that a general and common provision with compulsory membership for the liberal professions is compatible with the idea of liberal professions and

does also fit into the contemporary social policy within the society. First principle and priority of the pension schemes is the strict self-government by the professionals themselves and the total self-financing exclusively by the contributions of the members without any governmental support or guaranty.

The major part of the professional pension schemes of the liberal professions was founded after World War II, meanwhile therefore existing some 40 odd years.


Probably it will also interest you how the professional pension schemes of the liberal professions reacted on the german reunification. The Federal Government has, starting with the "Staatsvertrag" (State Treaty) of may 1990 and the "Einigungsvertrag" (Treaty of Unification) of august 1990, always insisted on transferring the well-function structured system of retirement schemes of West-Germany to the new Federal States of the former GDR. Therefore also the liberal professions there had the chance to create their own self-governed pension schemes as their colleagues in the west. The liberal professions took this chance, pension schemes now exist in the new Federal States for almost all liberal professions

Altogether the professional pension schemes of the liberal professional had in 2001 627.015 members with pension rights and paid pensions for about 102.000 persons. The average old-age-pension in 2001 was 1.844,50 € per month and the average invalidity pension 2.011,37 €.

**Summary 2000/2001
ABV - member pension schemes**

	2000	2001
members with pension rights	598.884	627.015
members paying contributions	565.949	593.686
contributions in milliards* Euro	4,383	4,638
average contribution per member and month in Euro	645,42	651,19
investments in milliards* Euro	67,655	73,415
return on investments in milliards* Euro	4,855	4,169


* US: billions



**Summary 2000/2001
ABV - member pension schemes**


	2000	2001
number of pensioners	95.747	102.063
total sum of pension (incl. child benefits) in milliards* Euro	1,760	1,890
support of medical rehabilitation in milliards* Euro	0,028	0,043

* US: billions



**Summary 2000/2001
ABV - member pension schemes**

	2000	2001
average invalidity pension per month (without child benefits) in Euro	2.020,94	2.011,37
average child allowance per month in Euro	214,14	213,06
average pension of widows/widowers per month in Euro	1.043,74	1.072,80
average pension of orphans per month in Euro	314,20	318,78
average old-age-pension per month (without child benefits) in Euro	1.851,35	1.844,50




The professional pension schemes of the liberal professions provide their members with pensions for invalidity and for old-age when reaching the age of 65. Receiving pensions earlier or later is possible. Furthermore there are pensions for survivors (widow, widower, orphans); as well as supporting payments for medical rehabilitation. Members or their survivors have a right on the pension benefits.

A speciality of the professional pension schemes of the liberal profession ist that concerning the provision for cases of invalidity there is noch health check and furthermore there is, if any, only a very short qualifying period to be able to receive benefits. The invalidity would have been till the age of 60 sometimes even 65. By this method of calculation it is intended that even with a short time of payment of contributions there will be a pension that is high enough to keep up with the reached living standard.

Finally, the fact remains that: the classically “verkammert” professions, together with their provision schemes have created an old-age pension scheme tailor-made to their requirements. They had to do this as the State blocked their way to the State pension scheme in 1957. These provision schemes are no privilege for the professions, but came into being because the State demanded of the professions that they regulate their own pension provisions themselves. The release right of employees from the legal pension insurance burden underlined this reference to self-help.

**Professional pension schemes
for the liberal professions:
ARE NO PRIVILEGE!**

- Exclusion of the professions from legal pension provisions in 1957**
- Referral of the professions to self-provision**
- Preference for employees by the release right from legal pension schemes**



The professional pension schemes furthermore ease the burden on State and society because their payments come exclusively from contributions and profits from the fund assets, i.e., without any State subsidies. The professions also participate in the solidarity with the pension scheme throughout society, because they also pay the State subsidy (the

federal subsidy) for the pension scheme through their taxes without them receiving anything in return for their pension schemes.