Social Security

International Update:

Recent Developments in Foreign Public and Private Pensions

November 2014

Europe

Finland

On September 26, the government and social partners reached an agreement on pension reform, beginning in 2017, including gradually raising the minimum and maximum retirement ages and changing the benefit formula for the earnings-related old-age pension. The government expects the pension reform package to put public finances on a more sustainable path while providing adequate benefits. The next step is for the government to present legislation to parliament; this is not expected to happen until sometime in 2015, following parliamentary elections.

One measure of the agreement would gradually increase the minimum retirement age by 3 months a year, from age 63 to 65 by 2027. During the same period, the maximum retirement age would rise from age 68 to 70. This measure would only affect workers born in 1955 or later; the minimum and maximum ages for workers born before 1955 would remain the same at ages 63 and 68, respectively. In addition, beginning in 2027, the retirement age would be linked to life expectancy so that the ratio of time spent working to time spent in retirement remains at least at the 2025 level. Every 5 years, the social partners would monitor the system to keep that ratio from falling below the 2025 level, which might require making additional increases in the minimum and maximum retirement ages.

Another measure deals with the accrual rate, a portion of the benefit formula for the earnings-related pension. (The formula is annual earnings multiplied by the accrual rate multiplied by a life-expectancy coefficient.) The measure would gradually standardize the accrual rates at 1.5 percent of earnings throughout a person's working life, beginning at age 17. At present, the pension accrues in two phases: (1) by 1.5 percent from age 18 to 53, and (2) by 1.9 percent from age 53 to 63. Also, according to the agreement, pension accrual would be based on total earnings instead of excluding the employee's earnings-related pension contribution. This would allow employees to start accumulating higher pension entitlements at an earlier age.

Other proposed changes include the following:

- Gradually increasing the combined employer/employee contribution rate (shared equally) for the earnings-related pension—from 23.3 percent to 24.4 percent for employees younger than age 53—from 2016 to 2019. (The current rate, 23.3 percent, is scheduled to rise to 23.7 percent in 2015.)
- Introducing a years-of-service pension at age 63 for individuals in physically demanding jobs with at least 38 years of work. Up to 3 years of maternity, paternity, and parental leave could be credited to a worker.
- Replacing the current part-time old-age pension with a partial early retirement pension available from age 61 (rising to age 62 in 2025) up to the full retirement age. The requirement to work part time would be abolished. A partial early retirement pension could be claimed before the earliest eligibility age, with a reduction of 0.4 percent for each month the worker is below the earliest age.

Sources: "Social Partners Agree on Finer Points of Finnish Pension System Reform," ipe.com, September 30, 2014; "Finland's Retirement Age Will Gradually Increase to 65 Beginning in 2017," Mercer, October 3, 2014; "Finland Economy: Pension Reform Addresses Demographic Challenges," Economist Intelligence Unit, October 22, 2014; *Agreement on 2017 Earnings-related Pension Reform,* Finnish Center for Pensions, October 27, 2014; "Proposal for Content of Pension Reform Completed," Finnish Centre for Pensions, October 27, 2014; "Pensions in Nordic Region: Retirement Age Rise," ipe.com, November 2014; "Finnish Government Announces Pension Contribution Hikes for 2015," Mercer, November 14, 2014.

Ireland

On October 14, the Finance Minister announced that the pension levy will be phased out by the end of 2015 because the country's public finances have improved. The levy applies to voluntary private-sector pension plans—defined benefit (DB) and defined contribution (DC) occupational and personal plans—in addition to voluntary personal retirement savings accounts (PRSA). The levy is assessed on the value of an individual's pension assets on June 30 of each year.

The levy was introduced in 2011 for a 4-year period to fund (1) a new jobs initiative at a time when registered unemployment reached 14.3 percent, and (2) a decrease in the value added tax for the hospitality sector. In 2011, the levy rate was set at 0.60 percent of an individual's pension assets. Then, in January 2014, the government raised the levy to 0.75 percent for a period of 2 years. Currently, the levy is deducted from the private pension savings of about 750,000 individuals. Since 2011, close to €2.3 billion (US$2.9 billion) has been collected from the levy.

According to the current timetable, at the beginning of 2015, the levy will be reduced from 0.75 percent to 0.15 percent and abolished by the end of the year. The government has collected more than €700 million (US$880 million) from the levy so far this year, compared with the €135 million (US$170 million) it expects to collect in 2015.

The Pensions Authority, the private pension regulator, reported that at the end of 2013, there were some 62,000 private-sector pension plans. Less than 2 percent of that total were DB plans and the remainder were DC plans. Also, coverage continues to be an issue. According to the Organisation of Economic Co-operation and Development, less than half of the Irish working-age population is enrolled in some type of private-sector plan. In 2002, the government introduced PRSAs to increase coverage; however, the take-up rate has been low. By 2011, some 6.6 percent of eligible workers had set up a PRSA.

The voluntary private-sector plans supplement the public pay-as-you-go system, which provides a benefit at age 66. The full retirement age is rising gradually to reach age 67 by 2021 and age 68 by 2028.

Sources: "What is the Pension Levy," *Pensions FAQ*, Standard Life, October 2013; *Annual Report and Accounts 2013*, Pensions Authority, 2014; *OECD Reviews of Pensions Systems: Ireland*, OECD, 2014; "Ireland," *International Update,* U.S. Social Security Administration, February 2014; "Ireland: New Levy Raises Funding Issue, Lower SFT Increases Need for Employee Communication," Towers Watson Global News Briefs, February 4, 2014; *Social Security Programs Throughout the World, Europe 2014,* U.S. Social Security Administration, September 2014; "Levy on Private Pension Funds to End in 2015," *The Irish Times,* October 14, 2014; "Irish Industry Welcomes End of Pension Levy," ipe.com, October 15, 2014.

Asia and the Pacific

Fiji

Effective November 1, changes to the Fiji National Provident Fund (FNPF) were implemented. The new measures, part of the 2011 pension reform law, include—

- dividing the worker's provident fund account into two parts to help protect retirement savings,
- introducing new oversight rules,
- providing a new information technology system, and
- allowing the worker to make additional voluntary contributions.

According to the government, the reforms will strengthen the system and help improve pension income for fund participants.

Under the new rules, members will have two accounts instead of one: a preserved account and a general account. The preserved account will be comprised of 70 percent of the existing balance and will be reserved for retirement. The general account will consist of the remaining 30 percent and will be accessible for early withdrawals. Other rules remain essentially the same. At the retirement age (55 years), full withdrawals may be made. Other circumstances in which a full withdrawal may be made include incapacity, leaving the country permanently, and death. Prior to the retirement age, a worker may access the general account for expenses such as education, medical care, periods of unemployment, and housing. First-time property buyers may access up to 30 percent of their preserved account as well.

Other changes to the system include—

- employer penalties (stiff fines, imprisonment, or both) for not transferring the contributions to the FNPF on time,
- an overhaul of the existing information technology systems coupled with new operational processes, and
- additional worker voluntary contributions beyond the required 8 percent of earnings to help increase their retirement savings.

The FNPF covers employed workers who are residents of Fiji. (Participation is voluntary for self-employed persons.) The employer and employee each contribute 8 percent of total wages to the worker's account. At retirement, the worker has a number of choices for withdrawing his or her funds: a lump sum payment; a single-life or joint-life annuity; or a term annuity for a period of 5, 10, or 15 years. The worker can also choose a combination of those benefits. Life annuity rates depend on age at retirement.

Sources: Fiji National Provident Fund Decree 2011, Decree Number 52, November 25, 2011; "Transition Period," Reforms and Change, FNPF, October 2014; "New Withdrawal Guidelines for Members," Media Centre, FNPF, October 30, 2014; "FNPF CEO Shares Reform Experience with ISSA Members," Media Centre, FNPF, November 17, 2014; *Social Security Programs Throughout the World, Asia and the Pacific, 2014,* U.S. Social Security Administration, forthcoming.

Reports and Studies

United Nations

Recently, the United Nations released *Reforming Pensions in Developing and Transition Countries*—a series of country case studies that updates the global discussion on pension reform. According to the study, since World War II, there have been two significant trends in pension reform:

1. the introduction of privately managed individual account programs that supplement or replace existing public programs (beginning in the 1980s in more than 30 countries), and
2. the rapid growth of universal noncontributory pension programs as the preferred public policy tool for alleviating poverty among older populations in both developing and transition countries.

The study finds that despite the ever-changing nature of national pension programs, driven by demographic and fiscal considerations, coverage levels around the world remain extremely low, with only 50 percent of the working population covered in Latin America; 30 percent in Asia, North Africa, and the Caribbean; and less than 15 percent in Sub-Saharan Africa. And, even when populations enjoy a higher level of pension coverage, as in the former republics of the Soviet Union, benefit levels may not be high enough to move older persons above the poverty line.

The individual case studies in this volume address not only the financial and actuarial issues involved in pension reform, but also political economy considerations. Those factors help explain why some regions (for example, the Middle East and South Asia) have undertaken relatively few pension reforms, while other regions (for example, Eastern Europe and Latin America) have introduced fundamental changes to their systems. Political economy is the focus of the case studies on Poland, Hungary, the Middle East, and the Republic of Korea. Another set of case studies covers pension systems and reforms in the BRICS countries (Brazil, Russia, India, China, and South Africa). A third section focuses on the expanded role of the state in providing old-age protection in Bolivia, Chile, and Argentina.

The study also provides some new insights on why the BRICS countries were not more strongly influenced by global trends in pension reforms, including the fact that those countries were not as reliant as others on international donor agencies. The analysis of the BRICS countries also sheds light on a subject that does not usually attract international comparative research—namely, the pivotal roles (both financial and political) that civil service pension programs play in these countries. The study concludes that in many countries, reforming the civil service pension program could be an essential part of the strategy to improve old-age income security for their respective populations.

Source: *Reforming Pensions in Developing and Transition Countries*, United Nations Research Institute for Social Development, Geneva, 2014.

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