



March 2009

## Europe

### *Ireland*

A new levy on public employee wages went into effect March 1 to help finance public-sector pensions. The levy, part of the Financial Emergency Measures in the Public Interest Act 2009, is expected to yield €1.4 billion (US\$1.8 billion) per year. Provisions of the new law offer cost-cutting measures to address Ireland's shrinking economy and emerging budgetary shortfalls that threaten its sovereign debt rating. According to European Commission forecasts, the Irish economy will shrink 5 percent in 2009, the greatest decline among the 16 euro-area nations. The pension levy and other provisions of the new law are to be reviewed annually.

The levy affects more than 350,000 public workers and is graduated so lower-paid employees pay a smaller percentage of their income. Under the new law, the contribution rate on pre-tax income equals 3 percent of the first €15,000 (US\$18,914) of annual earnings; 6 percent of earnings greater than €15,000 but less than €20,000 (US\$25,218); and 10 percent on earnings of €20,000 or more. Due to the sliding scale, the contribution rate averages about 7.5 percent for all public-sector workers.

The levy applies to the earnings of all public employees. Although many public-sector workers already contribute toward their retirement benefits, those benefits are financed largely from general tax revenues. Until now, only public-sector workers in Ireland who entered the public service after 1995 were required to contribute 5 percent of earnings toward their retirement. At retirement, public employees are eligible to receive a monthly pension equal to 50 percent of final income, which is indexed to changes in public-sector wages, plus a tax-free lump sum equal to 150 percent of their final salary. The retirement age is 60 for employees who entered public service before April 1, 2004, and 65 for those who entered after that date.

**Sources:** "The Sticking Point: Irish Public Sector Pensions Explained," *Belfast Telegraph*, February 4, 2009; "Government Cuts Back Pensions and Spending," *Toronto Star*, February 4, 2009; "New Levy on Civil Service Pensions," *Global Pensions*, February 5, 2009; "Lenihan Publishes Bill on Public Sector Levy," *Irish Times*, February 19, 2009; "Lenihan Signals He's Not for Turning over Pay Deduction," *Irish Times*, February 19, 2009; "Irish Parliament Passes Levy Bill," *Global Pensions*, February 26, 2009.

## The Americas

### *Canada*

Attempting to mitigate the effects of the financial crisis on Quebec pension plans, the provincial government of Quebec January 15 passed a law temporarily guaranteeing benefits to workers and pensioners of companies with insolvent pension plans. The law is retroactive to December 31, 2008 and includes measures to help companies meet their pension obligations. Approximately one million workers and pensioners in 950 defined benefit plans with assets worth C\$98 billion (US\$77 billion) are covered by the law.

Under the new law, the publicly run Quebec Pension Plan (QPP), which administers its provincial social security programs, will take over the pension plans of companies that go bankrupt during a three-year period, from December 31, 2008 to January 1, 2012, and manage them for five years. During its five-year management, the QPP will guarantee that pensions will be at least equal to the reduced pensions that would have been payable upon termination of the pension plans. It will not, however, cover any funding shortfalls that existed at the plans' termination. At the end of the three-year period, the government will evaluate the program and decide whether to end it, extend it, or make it permanent.

In addition, the government is considering the introduction of measures to reduce the burden of pension plans on companies. These measures include extending the amortization period for addressing plan

deficits from 5 years to 10 years and allowing plan sponsors to consolidate solvency payment schedules as of December 31, 2008.

**Sources:** “Dans un Contexte de Crise Financière, Québec Propose des Mesures pour Sécuriser les Régimes de Retraite et Rétablir Leur Solvabilité,” Régie des Rentes Québec, 14 janvier 2009; “Projet de Loi No 1 sur les Régimes Complémentaires de Retraite,” Régie des Rentes Québec, 15 janvier 2009; “Quebec To Guarantee Private Pension Plans,” *Reuters News*, January 15, 2009; “New Law Lets Quebec Take Over Pension Plans; Would Manage Bankrupt Firms’ Programs,” *Montreal Gazette*, January 16, 2009; “Funding Relief for Defined Benefit Pension Plans in Canada,” *Blakes Bulletin: Pension & Employee Benefits*, February 2009.

## Uruguay

Uruguay February 1 implemented most provisions of a new flexible retirement law providing more workers access to a public pension. Specifically, the key changes:

- Allow workers aged 65 with 25 years of service to receive an advanced age pension. Workers over age 65 need fewer years of service; for example, workers aged 66 need 23 years and workers aged 70 need 15 years. Previously, an advanced age pension was provided only to workers aged 70 with 15 years of service.
- Modify the benefit formula for the advanced age pension to 50 percent of the average of a worker’s last three years of wages plus 1 percent for each additional year, up to a maximum of 14 percent. The old formula was based on average earnings in the last 10 or 20 years, whichever was higher.
- Provide women one year of credit toward their retirement for each child (natural or adopted), up to a maximum of five. This measure will increase women’s pensions because they generally spend more time raising children and often have shorter work histories than men.
- Eliminate the requirement for a disability benefit of 6 months of service immediately prior to the onset of a disability. Workers aged 26 or older still need 2 years of service while those under age 26 need 6 months.
- Create a special unemployment benefit for workers aged 58 or older with at least 28 years of service who have been unemployed for at least one year.

The benefit is equal to 40 percent of the worker’s average earnings in the 6 months prior to becoming unemployed and ceases when the worker becomes eligible for a retirement benefit.

In addition, effective July 1 the number of years required for an old-age benefit will be reduced from 35 to 30. The minimum retirement age will remain at age 60. The new law is based on recommendations from the National Dialogue on Social Security April 2008 report.

**Sources:** *Social Security Programs Throughout the World: The Americas, 2007*, Ley 18.395, 15 de octubre de 2008; Watson Wyatt Worldwide, *Global News Briefs*, December 2008; “Nuevas Leyes, Decretos y Resoluciones a Implementar Desde Enero y Febrero 2009,” Banco de Previsión Social, 16 de enero de 2009.

## Reports and Studies

### Social Security Administration

The Social Security Administration has released *Social Security Programs Throughout the World: Asia and the Pacific, 2008*, part two of a four-volume series that provides a cross-national comparison of the social security systems in 48 countries in Asia and the Pacific. It summarizes the five main social insurance programs in those countries: old-age, disability, and survivors; sickness and maternity; work injury; unemployment; and family allowances. The other regional volumes in the series focus on the social security systems of countries in Africa, the Americas, and Europe. The report is available on the Web at <http://www.socialsecurity.gov/policy/docs/progdesc/ssptw/2008-2009/asia/index.html>.

### Totalization Agreement

An agreement went into effect March 1 between the United States and Poland to exempt employers and workers from dual social security tax liability. U.S. citizens sent by U.S.-owned companies to work in Poland for 5 years or less are now exempt from paying social security taxes to Poland. Polish citizens sent to work temporarily in the United States by Polish-owned companies receive similar tax treatment. As a result, the employers of these workers pay social security taxes only to their home country. Individuals who have worked in both countries, but do not meet

the minimum benefit eligibility requirements for either national system, may qualify for a benefit based on combined coverage credits from both countries. Combined coverage periods may be used to calculate retirement, disability, and survivor benefits. Poland is the 24th country with a totalization agreement with the United States.

**Sources:** “U.S.-Polish Social Security Agreement,” U.S. Social Security Administration, April 2, 2008, [http://www.socialsecurity.gov/international/Agreement\\_Pamphlets/Poland.html](http://www.socialsecurity.gov/international/Agreement_Pamphlets/Poland.html).

*International Update* is a monthly publication of the Social Security Administration’s (SSA’s) Office of Retirement and Disability Policy. It reports on the latest developments in public and private pensions worldwide. The news summaries presented do not necessarily reflect the views of the SSA.

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