Social Security

International Update:

Recent Developments in Foreign Public and Private Pensions

December 2008

Europe

Slovak Republic

An amendment to the Old-Age Pension Savings Act, signed into law by the President on November 4, 2008, allows workers to opt out of the mandatory second pillar of individual accounts from November 15, 2008, through June 30, 2009. According to the government, the move comes in response to the ongoing crisis in financial markets, which threatens investments managed by the six pension fund management companies (DSSs).

During this opt-out period, workers can elect to transfer their second-pillar account balances to the first-pillar public pay-as-you-go (PAYG) system. Once the funds in a worker's individual account have been transferred to the state-run pension provider, Socialna Poistovna, the worker will be credited with an equivalent number of years of contributions to the public system. Of the approximately 1.5 million workers (68 percent of the total workforce) currently enrolled in individual accounts, the Ministry of Labor estimates that between 30,000 and 150,000 will elect to leave the second pillar during this period. During a similar opt-out period that took place in the first 6 months of 2008, approximately 103,500 workers left the second pillar.

In January 2005, a two-pillar pension system, consisting of a reformed PAYG pillar and individual accounts that are mandatory for new entrants to the workforce, was introduced. Workers who were part of the workforce before January 1, 2005, could choose to participate in the two-pillar system or to remain solely in the reformed first-pillar public PAYG system. Workers contribute 4 percent of their earnings to the public PAYG system, with no contribution to the individual account system. Employers contribute a total of 14 percent of monthly payroll, of which 9 percent goes to the employee's individual account if they participate in the two-pillar system.

Workers may set up an individual account with one of six DSSs and may transfer their accounts to another company once a year. Each DSS offers three types of pension funds—growth, balanced, and conservative—with varying levels of risk. Currently, 67 percent of accounts are in a growth fund, 29 percent in a balanced fund, and 4 percent in a conservative fund. The net value of these assets was 65 billion SK (US$2.67 billion) as of November 28, 2008.

Sources: *Social Security Programs Throughout the World: Europe, 2008*; "Parliament Reopens Second Pension Saving Pillar," *Slovenska Tlacova Agentura*, October 24, 2008; "SDKU-DS Wants to Protect Pension Savings Scheme," *Tlacova Agentura Slovenskej Republiky*, November 7, 2008; "Economic News Summary," *Slovenska Tlacova Agentura*, December 2, 2008.

The Americas

Argentina

The Argentine Congress passed a law on November 21, 2008, that eliminates the current system of individual retirement accounts and transfers the assets to a new pay-as-you-go (PAYG) Integrated Argentine Social Security System—Sistema Integrado Previsional Argentino (SIPA). SIPA also incorporates the existing PAYG earnings-related program. Since 1994, workers have been allowed to choose between the PAYG earnings-related program and an individual retirement account managed by a pension fund management company (AFJP).

The new law affects some 9.5 million individuals in the AFJP system, approximately half of whom are retirees. About 74 billion pesos (US$22 billion) in assets will be transferred. Retirees who currently receive a monthly benefit from their AFJP will instead receive a benefit from SIPA, based on levels paid by their AFJP between January 1 and September 30, 2008. Annuitants will continue to receive their benefits from an insurance company. At retirement, current workers will receive a benefit based on PAYG rules and be credited for the years in which they contributed to an AFJP.

A bicameral legislative commission and an oversight panel, made up of representatives of business owners, workers, retirees, public officials, banks,

and legislators will supervise the administration of the funds from the individual accounts. No foreign investment will be permitted. The 10 existing AFJPs were required to transfer the funds to the government before December 15, 2008, and are expected to receive compensation in the form of government bonds.

Sources: Decreto de ley, introducido el 21 de octubre de 2008; "El Gobierno Elimina la Jubilación Privdada y Sólo Quedaría la Estatal," Clarin.com, el 21 de octubre de 2008; "Principales puntos del proyecto de ley de reforma previsional," Noticias Financieras, el 22 de octubre de 2008; "Fondos Pensiones Argentinos Recibirán Compensación Limitada," Dow Jones en Español, el 22 de octubre de 2008; "Senado Argentino Aprueba Nacionalización de Fondos Privados de Pensiones," Agencia EFE-Servicio Económica, el 20 de noviembre de 2008; "Apuran Los Cambios Jubilatorios: En Diciembre Ya No Habrá Más AFJP," Clarín.com, el 24 de noviembre de 2008.

Peru

Peru's Superintendent of Banks, Insurance, and Pension Fund Management Companies presented a proposal to Congress on November 3, 2008, that would make changes to the system of mandatory individual accounts. These changes are based on the 2008 final report of the government's special commission on pension reform. Proposed measures would:

- Require pension fund management companies (AFPs) to provide a low-risk fixed-income pension fund (Fund Four) that guarantees a positive rate of return. The new fund would target workers close to retirement. The other three existing types of funds offer varying degrees of risk. Fund One is permitted to invest 10 percent of its assets in equities and 90 percent in fixed instruments; Fund Two, 45 percent in equities and 55 percent in fixed income; and Fund Three, 80 percent and 20 percent, respectively.
- Limit administrative fees for Fund Four to 3 percent of a worker's contribution. Administrative fees for the other three types of funds currently represent between 15 percent and 19.5 percent of a worker's contribution. (Employers are not required to contribute.)
- Permit workers to set up two separate individual accounts with one AFP for their mandatory contribution. Each account would be set up with a different type of fund. Currently, workers may only have one account.
- Provide a one-time government subsidy to account holders over age 65 who have very low balances and do not qualify for the minimum pension guarantee. The subsidy would be deposited in the individual account.
- Set up an early retirement pension for unemployed workers aged 55 to 64.

Sources: "Peru Proposes New Pension Fund for Workers Close to Retirement Age," *Pension and Benefits Daily*, October 23, 2008; Proyecto de Ley Número 2821/2008-CR, el 30 de octubre de 2008; Superintendencia de Banca, Seguros y AFP, Nota de Prensa, el 3 de noviembre de 2008.

Asia and the Pacific

Japan

An advisory panel to the Japanese Ministry of Health, Labor, and Welfare released its interim report on November 19, 2008, calling for sweeping changes to the country's public pension system. The current system consists of two programs: the National Pension (NP) and the Employees' Pension Insurance (EPI). The NP, a partially funded flat-rate program, covers the self-employed, farmers, and nonworking spouses and students aged 20 to 60. For full-time private-sector employees, the EPI includes a flat-rate first tier (with contribution and benefit features identical to the NP program) and an earnings-related second tier. Among the report's recommendations are measures that would:

- Reduce contribution rates for low-income earners.
- Shorten the minimum years of contributions to qualify for a pension from the current 25 years, to 10 years.
- Exempt couples raising small children from paying contributions for a certain period in order to encourage them to have more children and help reverse the nation's declining birth rate.
- Increase the retirement age of the NP program from 62 to 65, and exempt those younger than age 25 from joining the program.
- Extend coverage of the EPI program for full-time employees to include part-time and temporary workers.
- Increase the monthly contribution threshold in the EPI program above the current 620,000 yen (US$6,655). The revised threshold was not specified in the report. To secure additional funding for pension reform, increased contributions paid by higher-income earners would not yield proportionally higher benefits.

Once the cabinet and ruling parties agree on a final package of recommendations, legislation will be submitted to the parliament.

Sources: "Government to Tweak Public Pension Plan," *Asia Insurance Review*, November 1, 2008; "Panel: Higher Earners Should Pay More toward Pensions," *Daily Yomiuri*, November 21, 2008; "Japan Proposes Revamping Public Plan by Increasing Contributions, Retirement Ages," *Pension & Benefits Daily*, November 21, 2008; *Social Security Programs Throughout the World: Asia and the Pacific, 2008*, forthcoming.

Reports and Studies

International Social Security Association

The International Social Security Association (ISSA) released the report, "Dynamic Social Security for Africa: An Agenda for Development" in conjunction with the First Regional Social Security Forum for Africa. The forum, sponsored by the ISSA and the Social Security Fund of Rwanda, was held in Rwanda, November 18–20, 2008. The report presents the most recent developments and trends in African social security programs within five policy areas: improvements in governance, administration, income maintenance, poverty reduction, and access to health care. It also examines issues such as the challenges relating to the aging of the population and low levels of coverage. The report is the first of a four-volume series examining regional social security programs. The remaining volumes will cover the Americas, Asia and the Pacific, and Europe. The full text of "Dynamic Social Security for Africa: An Agenda for Development" is available online at http://www.issa.int/aiss/Resources/ISSA-Publications/Dynamic-Social-Security-for-Africa-An-Agenda-for-Development

Sources: "Dynamic Social Security for Africa: An Agenda for Development," International Social Security Association, November 20, 2008.

World Bank

The World Bank, in collaboration with the Center of Excellence in Finance in Slovenia, released "Pension Reform in Southeastern Europe" on October 21, 2008, which examines the long-term sustainability of pension systems in Southeastern Europe. The report stresses the need for strategic pension reforms, together with reforms in the labor and financial markets, to ensure the old-age income security of retiring citizens throughout this region.

According to the report, by 2050 the countries of Southeastern Europe will see a doubling in the elderly dependency ratio—the ratio of elderly to the working population—because of low fertility rates, an increase in life expectancy, and negative net migration. To ensure the long-term sustainability of pension programs in the face of this population aging, the report recommends reforms designed to delay retirement and to diversify the sources of retirement income. As the report notes, significant progress has been made in both areas, with increases in the retirement age and the introduction of a funded second pillar in many countries. The report argues, however, that considerable work remains in many areas, most notably in equalizing retirement ages for men (currently ranging from 62 to 65 throughout the region) and women (currently ranging from 56 to 65).

While many countries in this region have made considerable progress implementing necessary reforms to improve their pension systems in recent years, the report argues that more attention needs to be given to reforming the labor market (such as reducing incentives for early retirement and creating demand for elderly workers) and the financial market (such as improving the efficiency and soundness of the financial system). According to the report, if no parallel reforms are made in these markets, even the best conceptualized pension reform will be unable to guarantee the long-term sustainability of pension systems in this region.

Sources: "Pension Reform in Southeastern Europe: Linking to Labor and Financial Market Reforms," World Bank, October 21, 2008.

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.

Editor: John Kearney.

Writers/researchers: Richard Chard, John Jankowski, Barbara E. Kritzer, and David Rajnes.

Social Security Administration
Office of Retirement and Disability Policy
Office of Research, Evaluation, and Statistics
500 E Street, SW, 8th Floor
Washington, DC 20254

SSA Publication No. 13-11712