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Europe

France

The French parliament passed legislation in November 2008 that will, beginning in January 2010, prevent employers from forcing employees to retire with a public pension before they reach age 70. The government recommended the measure to encourage the employment of older workers. France is facing rapid population aging that is due to low fertility rates and longer life expectancy. This is projected to result in an almost doubling of the dependency ratio—the share of those aged 65 or older as a proportion of those aged 20 to 64—from the current 28 percent to nearly 50 percent by 2050.

Under current rules, employers are permitted to force their employees to retire at age 65. Employees can retire with unreduced pensions as early as age 60 if they have paid contributions for 40 years (rising to 41 years by 2012). The new law will allow employees to work until age 70, as long as they notify their employer in advance. Each year employers will have to ask their employees aged 65 to 69—prior to their birthdays—about their intentions to continue working the following year. Employees who indicate they want to keep working must be allowed to do so.

Sources: “World Population Prospects: The 2006 Revision Population Database,” United Nations, 2007; “Legislation Will Promote Employment of Older Workers,” *European Employment Review*, October 24, 2008; “French Parliament Votes to Allow Retirement at 70,” Reuters UK, November 1, 2008; “Compulsory Retirement to Be Banned before 70,” *European Employment Review*, November 25, 2008; “French Parliament Seals Retirement Law,” Reuters News, November 27, 2008; “France,” *Hewitt Monthly Legislative Update—Africa, the Middle East, and Europe*, December 2008.

Latvia

A new law in Latvia removed the limit on earnings for social security contributions between January 1, 2009, and December 31, 2013. Social security contributions are based on workers’ entire employment-related gross income, including fringe benefits and stock options. The annual earnings contribution ceiling, introduced

in 1997, was 29,600 lats (US\$59,280) in 2008. The minimum earnings level remains the same, equal to the annual minimum wage (2,188 lats or US\$4,382 in 2009). Another provision of the law increases the penalties on employers for delinquent payment of contributions to the government, from three-to-four times the amount of the outstanding contributions.

Latvia has a two-pillar pension system, a notional account first pillar plus individual accounts for the second pillar. The second pillar is mandatory for both those who were under age 30 when the system was implemented in July 2001 and all new entrants to the labor force since then. Participation is voluntary for those workers who were aged 30 to 49 in 2001. Total employer/employee contributions are 20 percent of earnings—with 11 percent directed to the first pillar and 9 percent to the second pillar. Beginning in 2010, the contributions will be divided evenly between the two pillars.

Sources: “Mandatory State Funded Pension Scheme,” State Social Insurance Agency, 2003; “Amendments to the Law on State Insurance,” Ernst and Young, August 2008; “Latvia. Saeima Removes the Cap of the Social Insurance Payments,” Infollex. It, August 2008; Watson Wyatt Worldwide, *Global News Briefs*, October 2008.

Poland

Two new social security laws went into effect on January 1, 2009. One law eliminates early retirement under the old public pension system and sets up a temporary system for a limited number of high-risk occupations. The other law establishes payout rules for second-pillar individual accounts.

The first law replaces the old rules for early retirement, which were set to expire on January 1, 2009, with temporary benefits (so-called “bridge pensions”). Under the new law, workers who have been employed for at least 15 years in a small number of covered professions are eligible to retire at age 55 (women) or 60 (men), provided they were born before December 31, 1948, began work in these professions before January 1, 1999, and have at least 20 years (women) or 25 years (men) of total contributions. Bridge pensions will be paid for 5 years until age 60 (women)

or 65 (men). The Ministry of Labor and Social Policy estimates that the new law will reduce the number of workers eligible for early retirement by more than 80 percent, from 1.3 million to approximately 250,000.

The second law introduces two methods for pension distributions: (1) programmed withdrawals and (2) annuities. Workers who retire before age 65 make programmed withdrawals from their individual accounts, which are managed by Open Pension Funds. Upon reaching age 65, the balance in their individual accounts is used to purchase life annuities. According to the Ministry of Labor and Social Policy, the law will affect approximately 2,000 women in 2009. Men will begin to retire under the new system in 2014.

Sources: "Polish Payout Bills Get First Reading," IPE.com, September 8, 2008; "Emerytury Pomostowe: Obowiązujące Rozwiązania," Ministerstwo Pracy i Polityki Społecznej, grudzień 2008; "Prezydent Podpisał Ustawę o Emeryturach Kapitałowych," *Gazeta Wyborcza*, 16 grudnia 2008; "Ruszą Wyплаты Pieniądzy z II Filara," *Rzeczpospolita*, 16 grudnia 2008; "Presidential Veto Overruled," IPE.com, December 23, 2008.

Russia

Since January 1, 2009, workers can make voluntary contributions to their individual accounts as part of a new government program to strengthen the funded component of the pension system. Previously, only employers were permitted to contribute to workers' individual accounts. The new program, passed into law in April 2008, offers tax incentives and government-matching contributions for individuals who participate.

Under the new program, workers determine both the frequency and the amount of their voluntary contributions, provided they contribute at least 2,000 rubles (US\$71) per year. The government will match workers' voluntary contributions up to a maximum of 12,000 rubles (US\$427) per year for 10 years if they sign up between October 1, 2008, and October 1, 2013. As an incentive to keep older workers in the labor force, the government will match contributions up to 48,000 rubles (US\$1,708) per year for workers who continue working after reaching the retirement age of 55 (women) or 60 (men). Matching will begin the year after the insured worker begins making contributions and will be financed by the National Welfare Fund, which was created in January 2008 to help support Russia's public pension system.

Old-age pensions in Russia are made up of three components: (1) a flat-rate portion, (2) a notional account, and (3) an individual account. Employers pay

26 percent of their payroll as part of the Single Social Tax, of which 20 percent funds pensions. For workers born after 1967, 6 percent of this 20 percent employer contribution finances basic flat-rate benefits, 8 percent goes to notional accounts, and the remaining 6 percent to individual accounts. For workers born before 1967, 6 percent of the employer contribution is directed to the basic flat-rate portion and 14 percent to notional accounts. Benefits from individual accounts will be paid starting in 2013.

Sources: Federal Law 55-fz, 2008; Federal Law 56-fz, 2008; *Social Security Programs Throughout the World: Europe, 2008*; Watson Wyatt Worldwide, *Global News Briefs*, September 2008; "Polovina Russiyan Ne Znayut o Novom Pensionnom Zakone," *Argumenty i Fakty*, September 30, 2008.

Switzerland

The Swiss government has lowered the minimum rate of return on mandatory occupational pension funds from 2.75 percent to 2 percent, effective January 1, 2009, because of declining financial markets. In making this decision, the government relied on reports from labor and industry representatives and solicited input from the pension funds. Generally, the government reviews the rate annually and makes adjustments at least every other year. When the occupational pension system was implemented in 1985, the minimum rate of return was set at 4 percent. However, in 2001, the government began adjusting the rate periodically to more accurately reflect expected rates of return.

Occupational pensions are mandatory for employees with annual earnings from one employer that exceed 19,890 francs (US\$18,127) and are funded with employee contributions ranging from 7 percent to 18 percent of gross earnings (depending on the age of the participant) and a matching contribution from the employer. Participation is voluntary for the self-employed and for salaried workers who are not required to participate. The mandatory occupational pensions supplement the old-age, survivors, and disability base pensions, which are mandatory for individuals residing or gainfully employed in Switzerland and voluntary for Swiss citizens living and working anywhere in the European Union.

Sources: *Social Security Programs Throughout the World: Europe, 2008*; "Unions Attack Slashing of Minimum Interest Rate," IPE.com, June 3, 2008; "Minimum Return Rate to be Slashed," IPE.com, September 22, 2008; "Swiss Cut Minimum Pension Rate," *Global Pensions*, October 22, 2008; "Switzerland," *European Pension & Investment News*, November 17, 2008; "Minimum Guaranteed Interest Rate Reduced," *Global News Briefs*, December 2008.

Asia and the Pacific

New Zealand

New Zealand's newly elected government has made some major changes to KiwiSaver in a tax law, passed on December 15, 2008. KiwiSaver, a type of subsidized voluntary retirement savings plan, was introduced in July 2007. The cost of the government incentives has been increasing rapidly as the take-up rate far exceeds government projections. Also, despite the high numbers of enrollees, some barriers exist for lower earners.

Beginning April 1, 2009, the new law will:

- Lower the minimum employee contribution rate from 4 percent to 2 percent of gross earnings. Currently, workers must choose either a 4 percent or 8 percent contribution rate and are assigned a 4 percent rate if they do not make a choice. The new law also lowers the default rate from 4 percent to 2 percent of earnings.
- Keep mandatory employer contributions at 2 percent of employee gross earnings, instead of raising them (as originally scheduled) to 3 percent in 2009 and 4 percent by 2011.
- Abolish the employer tax credit of NZ\$20 (US\$12) per week and tax employer contributions above 2 percent of earnings.
- Eliminate the government's annual subsidy of NZ\$40 (US\$23) to account holders that helps defray the cost of the administrative fees that the providers charge.
- Ensure that employers do not reduce their employees' salaries to finance the employers' contribution.

Government incentives for KiwiSaver that remain under the new law include:

- A dollar-for-dollar tax credit of up to NZ\$1,040 (US\$602) per year for account holder contributions.

- A one-time government tax-free payment of NZ\$1,000 (US\$579) to each KiwiSaver account.
- A subsidy for first-time home buyers and the ability to withdraw funds from a KiwiSaver account (after at least 3 years of saving) to make a down payment beginning in 2011. Eligibility for the subsidy will depend on household income and the price of the home.

New entrants to the labor force and those starting a new job are automatically enrolled in a KiwiSaver plan but may opt out between the second and eighth week of their employment. Anyone younger than age 65, including the self-employed and anyone not in the labor force, may opt in a KiwiSaver plan with the provider of their choice.

Sources: Taxation (Urgent Measures and Annual Rates) Act 2008; "New Zealand: Changes Make KiwiSaver More Affordable for All," *US Fed News*, December 9, 2008.

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