Social Security

International Update:

Recent Developments in Foreign Public and Private Pensions

July 2011

Europe

Lithuania

On June 9, the Lithuanian parliament passed a law that gradually increases the normal retirement age from age 62.5 to 65 for men and from age 60 to 65 for women by 2026. Under the law, the retirement age will increase by 2 months a year for men and by 4 months a year for women starting in January 2012. (To receive a full pension, workers must also have 30 years of contributions.) According to the government, the law was necessary to improve the country's finances; in 2010, Lithuania had a budget deficit of 7.1 percent of gross domestic product (GDP), well above the 3 percent ceiling required under the European Union's Stability and Growth Pact. The government aims to reduce the deficit to 5.3 percent of GDP in 2011.

Lithuania faces significant demographic challenges in the coming decades. Eurostat, the European Union's statistical office, projects that the population will decline—primarily because of negative net migration and a low fertility rate—from 3.3 million in 2010 to 2.7 million in 2060. In addition, the country faces a rapidly aging population, with the old-age dependency ratio (the projected number of persons aged 65 or older as a percentage of persons aged 15 to 64) projected to fall from the current 1:4 to 1:2 by 2060.

Lithuania's pension system consists of a first-pillar, public pay-as-you-go (PAYG) social insurance program, and a second-pillar comprised of individual accounts. Participation in the second pillar is voluntary; however, once the decision to contribute to an individual account has been made, it cannot be reversed. Employers contribute 23.3 percent of payroll and employees contribute 3 percent of earnings. For workers who contribute to individual accounts, 2 percent of this combined employer/employee contribution rate is diverted to individual accounts with the rest going to the PAYG program. (A July 2009 law called for an increase in the portion diverted to individual accounts to 5.5 percent in 2011, 6 percent in the 2012–2014 period, and back to 5.5 percent from 2015 onwards; however, in June 2010, the Parliament froze the second-pillar contribution rate at 2 percent.)

Sources: "Baltic States," *International Update*, US Social Security Administration, August 2009; *Social Security Programs Throughout the World: Europe, 2010*, US Social Security Administration; "Seimas Pritare Kaupiamosios Imokos Tarifo Isaldymui," Naujoji Pensiju Kaupimo Sistema, June 30, 2010; "Lithuanian State Budget Deficit was 1.5% of GDP in First Quarter," *Bloomberg*, April 29, 2011; "Lithuania Raises Retirement Age to 65," *Agence France Presse*, June 9, 2011; "Lithuania Raises Retirement Age to 65 to Help Narrow Budget Deficit," *Bloomberg*, June 9, 2011.

The Americas

Chile

The last phase of incorporating 60 percent of the poorest individuals aged 65 or older into the first-pillar solidarity pension system (SPS) began July 1. The first phase was implemented in July 2008, with 40 percent of the target population covered. The government estimates that the number of beneficiaries will increase from more than 900,000 in May 2010 to more than 1.1 million over the next year.

The SPS, the cornerstone of the 2008 pension reform law that made major changes to the now 30-year-old individual accounts system, provides both a means-tested noncontributory pension (also called the basic solidarity pension) and a means-tested, top-up benefit (also called the social security solidarity contribution). In 2010, as mandated by the 2008 pension reform law, the government introduced a new way to measure poverty, which includes modifying the definition of family and per capita family income and using different sources to verify income. The basic solidarity pension is 75,000 pesos (US$158) a month, compared with 172,000 pesos (US$362) for the monthly minimum wage.

To qualify for the basic solidarity old-age pension, an individual must—

- be aged 65 or older;
- not be eligible for any other pension;

- have lived in Chile for at least 20 years, including 4 of the 5 years immediately prior to applying for a benefit; and
- be a member of a family that is rated among the 60 percent poorest in the country.

To qualify for a solidarity disability pension, an individual must—

- be older than age 18 and younger than age 65,
- not be eligible for any other pension,
- be assessed as disabled by a medical commission,
- have lived in Chile for at least 5 of the 6 years immediately prior to applying for a benefit, and
- be a member of a family that is rated among the 60 percent poorest in the country.

At age 65, the basic disability benefit ceases and the beneficiary becomes eligible for the basic old-age benefit.

The top-up (old-age and disability) means-tested benefit is paid to those individuals who have contributed to an individual account and whose self-financed monthly benefit is below the basic old-age or disability pension; the other requirements are the same as those for the basic solidarity pension (old-age and disability).

Sources: "Chile," *International Update,* August 2008, US Social Security Administration; "Instrumento Técnico de Focalización del Sistema de Pensiones Solidarias," Gobierno de Chile, Subsecretaría de Previsión Social, 2010; "Gobierno: Sistema de Focalización No Reduce Cobertura de Pensión Básica," *Terra*, el 11 de marzo de 2011; "Programas de Pensiones No Contributivas en Países FIAP," Federación Internacional de Administradoras de Fondos de Pensiones, mayo de 2011; "Sistema Chileno de Pensiones Solidario Se Ubica Como Segundo Más Caro," *Noticias Financieras,* el 13 de mayo de 2011.

Mexico

On May 16, CONSAR, the pension regulator, announced the guidelines for hiring experienced external asset managers to invest a portion of pension fund assets accumulated in individual retirement savings accounts. According to CONSAR, the goal is to strengthen the funds' investment strategies, increase the rate of returns, and provide better pensions to Mexican workers. No date for implementation has been announced. The asset managers must have the following qualifications:

- At least 10 years of experience with a minimum of 5 years managing specific asset classes,
- At least $50 billion in assets under management,
- The support of a custodian bank and independent valuators, and
- The supervision of authorities in the countries where the pension fund management companies (AFOREs) are allowed to invest.

These external asset managers will be allowed to invest up to 20 percent of a pension fund's assets in foreign instruments. At the end of May, total assets under management among the 15 AFOREs equaled 1.46 trillion pesos (US$123 billion), about 10 percent of gross domestic product. Only about 10 percent of those assets were invested in foreign instruments, compared with close to 60 percent invested in government debt. Since 2008, each AFORE must provide five different types of pension funds with varying degrees of risk that range from only fixed instruments to up to 30 percent of assets permitted in equities. An account holder may choose one fund among the five, with restrictions according to age. The average historical real rate of return since the inception of the program in 1997 is 6.38 percent. However, of the 42 million individual accounts in the system, nearly half are considered inactive with no new contributions in the past 3 years.

Sources: "Next Generation of Individual Account Pension Reforms in Latin America,"*Social Security Bulletin,* Vol. 71, No. 1, 2011; CONSAR Press Release Number 06/2011, May 16, 2011; "Aumenta Número de Cuentas Inactivas de Afores," *El Universal*, el 3 de junio de 2011; "Mexico Allows Pension Funds to Use External Managers," *Financial Times,* June 12, 2011; "Panorama General del SAR," CONSAR, el 15 de junio de 2011; "International Headlines," *Mercer*, June 22, 2011.

Asia and the Pacific

India

On June 9, the Indian cabinet lowered the eligibility age for the noncontributory means-tested Indira Gandhi National Old-Age Pension Scheme (IGNOAPS) from age 65 to 60 and raised benefits for older beneficiaries (those aged 80 or older) to help keep up with inflation. The changes are retroactive to April 1 and are projected to cost an additional 27.7 billion rupees (US$615 million) in the 2011–2012 budget; the government had previously budgeted 5.9 billion rupees (US$131.2 million) for old-age and other pension programs, including IGNOAPS.

Currently, there are 16.9 million individuals aged 65 or older receiving monthly benefits of 200 rupees

(US$4.44) under IGNOAPS. To be eligible, an individual must have income below the official poverty line of 300 rupees (US$6.66) per month. The government estimates the lower age limit for IGNOAPS could benefit an additional 7.2 million persons aged 60 to 64. (According to official statistics, India has about 80 million persons aged 60 or older, of which 51 million have incomes below the poverty line.) In addition, the monthly benefit provided to IGNOAPS beneficiaries aged 80 or older has been raised from 200 rupees to 500 rupees (US$11.10). According to the government, an estimated 2.6 million poor persons aged 80 or older will receive the higher monthly benefit.

Implemented in 2007, IGNOAPS extended coverage to those aged 65 or older with incomes below the national poverty line. (The previous old-age social pension program limited old-age pensions to one per household and relied on state-specific definitions of destitution.) At that time, the central government also assumed responsibility for state-run pension programs for widows and disabled persons and encouraged state governments to top-up the IGNOAPS benefit. Because the eligibility age for the old-age pension under IGNOAPS is lower, the upper age limit for programs covering both widows and the disabled has also been reduced by 5 years to age 59.

Sources: "India," *International Update*, US Social Security Administration, November 2007; "Lowering the Age Limit from 65 Years to 60 Years under Indira Gandhi National Old Age Pension Scheme and Increase in Rate of Pension to Persons of 80 Years and Above," *India Public Sector News*, June 9, 2011; "Pension Age for Poor Lowered to 60," *Financial Express*, June 10, 2011; "Decision on Pension Scheme Hailed," *The Hindu*, June 14, 2011.

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