Social Security

International Update:

Recent Developments in Foreign Public and Private Pensions

July 2015

Europe

Malta: Pensions Strategy Group Released Its Report

On June 17, the Pensions Strategy Group released its report, *Strengthening the Pension System: A Strategy for an Adequate and Sustainable Maltese Pension System*. Established in 2013 by two government ministries, the group consists of experts from inside and outside of the government. The report projects that without any changes, the public pension system's revenues will decrease from 9 percent of gross domestic product (GDP) in 2013 to 7.7 percent of GDP by 2060, and the system's expenditures will reach 12.5 percent of GDP by 2060. In addition, Malta's population is rapidly aging, as the percentage of the population aged 65 or older is expected to increase from 17.5 percent in 2013 to 28.5 percent by 2060. At the same time, the fertility rate has dropped. With more women entering the labor force, the average age for a woman who gives birth to her first child has increased by nearly 5 years (to 30.6 years) from 2000 to 2014.

The report made 27 recommendations to strengthen the pension system. The following recommendations apply to credits for raising children and education:

- Increase gradually the child-raising credits to 5 years of contributions for the first child raised up to age 6, 4 years for the second child, 3 years for the third child, and 8 years for each child with a disability up to age 10. Currently, the credit is 2 years of contributions for each child and 4 years of contributions for each child with a disability.
- Increase gradually the number of years of contributions required to be eligible for the child-raising credits, from 10 years to 12 years.
- Establish credits for "life-long learning" that range from 3 months to 12 months per year of study, depending on the level of education or training.

The report made the following recommendations to encourage older workers to remain in the labor force:

- Remove the age limit for making contributions to the public pension system, currently age 65.
- Eliminate gradually the mandatory retirement age (65 for those born since 1962).
- Increase the number of years required for a full pension to 41 years for workers born since 1965. Currently, workers born since 1962 must have 40 years.
- Provide a higher pension to workers who remain in the labor force past the full retirement age. Currently, workers may continue working, but they do not receive any increase.

The following recommendations cover benefit levels:

- Set the level of the guaranteed national minimum Pension (GNMP) at the poverty level and gradually extend the benefit to all pensioners, starting with those born before 1941; currently, the GNMP is set at 60 percent of the national median income and covers individuals born since 1962.
- Change the method of indexing benefits from increases in the cost of living (COLA) to a combination of 50 percent wage growth and 50 percent COLA, or full COLA, whichever is greater.
- Create incentives for contributing to voluntary pensions.

Other recommendations include the following:

- Create an organization that would perform strategic reviews every 5 years to make sure the public pension system is keeping the balance between contributions and benefits "across generations."
- Improve the level of financial literacy regarding retirement income and savings and investment through education in the schools, community, and the workplace—coupled with reliable and independent information.

Source: *Strengthening the Pension System: A Strategy for an Adequate and Sustainable Maltese Pension System,* Pensions Strategy Group, June 17, 2015.

Asia and the Pacific

Australia: Income and Asset Testing Rules to be Changed

On June 22, Parliament passed a bill that changes the rules for the income and asset testing of the Age Pension and other social security benefits, effective January 2017. According to the government, this measure will save some A$2.4 billion (US$1.84 billion) over a 5-year period. The effect on current pensioners depends on their assets; some 170,000 pensioners with lower assets will see an increase of A$30 (US$23.03) in their biweekly pensions; about 235,000 pensioners will see a reduction in their partial pensions; and, around 90,000 pensioners will have their Age Pension eliminated. At the same time, some 50,000 individuals who currently receive a partial pension will receive a full pension because the asset-test limit will be raised from A$202,000 (US$155,084) to A$250,000 (US$191,935) for a single person and from A$286,500 (US$219,958) to A$375,000 (US$287,903) for a couple.

In addition to the Age Pension, which is funded by general revenues, Australia's retirement income system has the Superannuation Guarantee—the employer-based retirement savings program, which consists of mandatory personal accounts that are funded primarily through employer contributions. Employee contributions are voluntary.

Sources: "Pension Changes 2015: New Assets Test Limits in Federal Budget," *Cutting to the Chase,* May 13, 2015; "Asset Test Changes," *Pensions*, Parliament of Australia, June 19, 2015; "$2.4b Pension Changes Pass Parliament," news.com.au, June 22, 2015.

India: New Pension Program Introduced for the Working Poor

On June 1, the Indian government launched a new voluntary pension program for low-income earners called Atal Pension Yojana (APY). APY targets citizens in the unorganized sector (farmers, low-wage workers, and self-employed persons), which comprises most of the labor force in India. According to labor force surveys, only 12 percent of an estimated workforce of 470 million people is covered by some form of old-age income protection (a pension plan or provident fund). APY replaces Swavalamban Yojana NPS Lite, which had a very low take-up rate since its inception in 2010. Participants of the Swavalamban program are automatically enrolled in the APY, but they may opt out. Unlike the Swavalamban plan, APY provides a guaranteed rate of return.

APY is available to citizens aged 18–40 who have a bank savings account, who are not covered by any statutory social security retirement program, and who do not pay income tax. (Contributions are automatically deducted from the individual's bank account.) The subscriber may choose the contribution rate, which varies according to the age at which the individual enrolled in the program, the number of contributions required, and the pension level desired—from 1,000 rupees (US$15.72) a month to 5,000 rupees (US$78.61) a month. For example, a person enrolling in the program at age 18 must contribute 42 rupees (US$0.66) a month for 42 years, and a person enrolling at age 40 must contribute 291 rupees (US$4.58) a month for 20 years in order to receive a monthly benefit of 1,000 rupees. For the highest monthly pension (5,000 rupees a month), the required contributions are 210 rupees (US$3.30) a month and 1,454 rupees (US$22.86) a month, respectively. For the first 5 years, the central government will provide a subsidy of 50 percent of the subscriber's contribution each year, or 1,000 rupees, whichever is lower, for persons who subscribe by December 31 of this year. Each April, subscribers have the option to adjust the monthly contribution in order to receive a higher or lower pension. A subscriber is fined when he or she does not maintain a sufficient account balance to pay the monthly contribution. An account is frozen after 6 months with an insufficient balance and past-due fines, and it is closed after 12 months.

The retirement age is 60. Early withdrawal is permitted under certain conditions such as a terminal illness or the subscriber's death. Survivors receive the entire account balance when the subscriber dies. APY is administered by the Pension Fund Regulatory and Development Authority.

Sources: "Atal Pension Yojana to Replace Swavalamban Yojana from June 1," *The Tribune*, March 5, 2015; "Atal Pension Yojana—Government Guaranteed Pension Scheme for the Unorganised Sector," *One Mint*, March 13, 2015; "Frequently Asked Questions—Atal Pension Yojana," Pension Fund Regulatory and Development Authority, May 27, 2015; "Guaranteed Pension by Govt. of India," Pension Fund Regulatory and Development Authority, May 27, 2015.

The Americas

El Salvador: A New Advisory Pension Reform Commission is Established

In May, the government announced the formation of an advisory commission to evaluate the current pension system. Led by the Secretary of Planning, the commission's goal is to analyze various reform proposals. Major issues for the pension system include low coverage and low rates of return. A 2014 household survey found that 1 in every 5 working-age El Salvadorans is saving for a pension; 1 in 6 adults of retirement age receives a pension; and 2 of every 10 workers is actively contributing to an individual account; the rest will either be eligible for a minimum pension or no pension (close to 80 percent of contributors are likely to qualify for a minimum pension, whereas about 20 percent are likely to qualify for a higher benefit). Low rates of return are mainly a result of the high percentage of investments (80 percent) in government instruments.

According to the government, the transition costs resulting from the introduction of the individual account system in 1998 are unsustainable. In 1998, all insured persons who were aged 55 (men) or 50 (women) remained under the public pay-as-you-go (PAYG) pension system, which is being phased out over time. Transition costs include paying benefits under the PAYG system and providing a payment that represents the value of an individual's accrued rights under the PAYG system to those workers who switched to the new system of individual accounts. Because the public system has close to 1 million retirees and only about 13,000 contributors, the government must bear most of the cost of public pensions. Government costs for the PAYG system from 2006 through 2014 were $21.7 trillion; current annual costs are $460 million. This includes an increase in benefits established by a 2006 law.

The government's goals to improve the pension system include increasing coverage, achieving higher rates of return through broader investment limits, and raising benefit levels. A government official stated that the pension fund management companies (AFPs) will continue to operate, and a mixed system—PAYG for the first pillar and individual accounts for the second pillar—is a possibility.

Participation in the individual account system is mandatory for public- and private-sector employees (who have entered the labor force since 1998) and voluntary for self-employed individuals. Workers who were aged 36 or older in 1998 had a choice between an individual account and the PAYG program. To date, more than 60,000 workers have retired with an individual account.

Sources: "El Salvador," *International Update*, U.S. Social Security Administration, May 2012; *Social Security Programs Throughout the World: The Americas, 2013,* U.S. Social Security Administration, March 2014; "Cobertura, la Tarea Pendiente en Pensiones," laprensagrafica.com, el 23 de abril de 2014; "SSF Presentará Plan de Reforma de Pensiones," laprensagrafica.com, el 28 de abril de 2015; "Gobierno Integra Una Comisión para Analizar la Reforma Previsional," elmundo.com, el 16 de mayo de 2015; "Goes Sin Consenso Interno Para Reforma de Pensiones," elsalvador.com, el 24 de mayo de 2015; "Lorenzana Aseguró que Ya Tienen Propuesta para Reforma Pensiones," laprensagrafica.com, el 12 de junio de 2015; "El Salvador to Present Pension Reforms This Year," *Mercer*, June 12, 2015.

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