Social Security

International Update:

Recent Developments in Foreign Public and Private Pensions

October 2007

Europe

Bulgaria

The Bulgarian government will increase old-age pensions awarded before June 30, 2007, by 10 percent and reduce mandatory contributions to the pay-as-you-go (PAYG) public pension system by 1 percentage point of wages. Effective October 1, 2007, the minimum monthly old-age pension will rise to 102.85 leva (US $74.61), and the average old-age pension is expected to be 183.34 leva (US $132.24). The 1 percent reduction in the contribution rate applies to combined employer/employee contributions to the PAYG system only. The rate for workers born before January 1, 1960, will decrease from 23 percent to 22 percent. For those born after December 31, 1959, the rate will fall from 18 percent to 17 percent. Workers born after December 31, 1959, are also required to contribute an additional 5 percent of earnings to an individual account. The government estimates that the contribution reduction will reduce annual revenue for the PAYG system by about 231.5 million leva (US$167.9 million). The increase in old-age pensions is due to a surplus in contribution revenue realized in the first half of 2007.

SOURCES: "Average Pensions in Bulgaria Will Exceed 90 Euro as of October 1, 2007," sofiaecho.com, August 29, 2007, <http://www.sofiaecho.com/article/id_24625/catid_67> (09/10/2007); "Inflation in Bulgaria to Reduce Pension Increase from 10 to 7 Per Cent," sofiaecho.com, August 15, 2007, <http://www.sofiaecho.com/article/id_24380/catid_67> (09/11/2007).

Finland

Beginning January 1, 2008, Finnish retirees will pay less in taxes on their pensions, to bring their pension taxes in line with taxes that wage earners pay on their salaries. The tax reduction on pension income is part of the government's plan to bring uniformity to the tax system. The 2007 tax rate on pension benefits from €15,000 to €30,000 (US$21,347 to US$42,695) will decrease from between 19 percent and 30 percent to between 17 percent and 28 percent. This and other tax cuts in Finland are largely due to the country's growing economy. Gross domestic product (GDP) is projected to increase by 4 percent in 2007 and 3 percent in 2008. A budget surplus of 1.4 percent of GDP is projected for 2007 and 0.9 percent for 2008.

SOURCES: "Budget Review 2008," Ministry of Finance, Finland, September 2007, <http://www.vm.fi/vm/en/04_publications_and_documents/01_publications/01_budgets/20070913Budget/netti_enkku.pdf> (10/04/2007); "Economic Bulletin," Ministry of Finance Economics Department, Finland, June 20, 2007, <http://www.vm.fi/vm/en/04_publications_and_documents/01_publications/02_economic_surveys/20070620Econom/econbull207-d.pdf> (10/05/2007).

Germany

The German government approved a draft law to extend the social security tax exemption that workers receive for contributions to defined contribution occupational pension plans. The measure will be submitted to the German Parliament for final approval. Created by the pension reform of 2001 and scheduled to expire on December 31, 2008, the exemption allows employees to contribute up to 4 percent of their earnings to an occupational pension plan without having to pay social security tax on those contributions. Initial government concerns over the cost of extending the tax exemption were overcome by pressures from the pension industry, trade unions, and employer groups that argued that expanding corporate pensions depended on maintaining the exemption. Since 2001, the share of German employees (currently 30 million) covered by a corporate pension plan has grown from 50 percent to 65 percent. The government estimates that the tax exemption will create an annual revenue shortfall of more than €2 billion (US$2.8).

SOURCES: "Social Tax Exemption for Pension Contributions May Be Extended," Watson Wyatt, August 2007, <http://www.watsonwyatt.com/news/globalnews2.asp?ID=17724&nm=Europe%20-%20Germany> (09/21/2007); "Germany Shows Support for Deferred Compensation Scheme," ipe.com, August 9, 2007, <http://www.ipe.com/news/Germany_shows_support_for_deferred_compensation_scheme_22932.php> (09/27/2007); "Germany to Axe Social Tax Exemption for DC Schemes," ipe.com, January 2, 2007, <http://www.ipe.com/news/Germany_to_axe_social_tax_exemption_for_DC_schemes_20438.php> (09/28/2007).

Switzerland

Effective January 1, 2008, the Swiss government will raise the minimum rate of return for mandatory occupational pension funds from 2.5 percent to 2.75 percent. By law, these pension funds must guarantee a minimum rate of return each year. Originally, this minimum annual rate was set at 4 percent, but subsequent reductions brought the rate down to 2.5 percent. An advisory commission recommended earlier in 2007 that a higher minimum rate of return would be justified based on recent favorable financial market activity. According to the Swiss Pension Fund Association, private-sector pension funds in Switzerland, including mandatory occupational funds, returned a nominal 11.0 percent in 2005 and a nominal 6.9 percent in 2006.

SOURCES: "Switzerland to Raise Pension Savings Interest Rate," ipe.com, September 5, 2007, <http://www.ipe.com/news/Switzerland_to_raise_pension_savings_interest_rate_25197.php> (09/06/2007); "Swiss Second Pillar 'Should Up Saver Rates'," ipe.com, May 4, 2007, <http://www.ipe.com/news/Swiss_second_pillar_should_up_saver_rates_22006.php> (09/02/2007).

Asia and the Pacific

Georgia

In September 2007, the government of Georgia expanded a supplemental pension pilot program to the entire country. The program, which has been operating only in the capital city of Tbilisi since January 2007, supplements the basic monthly public pension of approximately 38 lari (US$23), with up to 10 lari (US$6) in additional benefits for individuals who worked for 25 years or more. Individuals who worked fewer than 25 years receive a monthly supplement from 2 lari (US$1) to 7 lari (US$4). Under the supplemental program, the maximum pension is now 48 lari (US$29), about one-third of the official living wage in Georgia. The government estimates that this supplemental program benefits more than 500,000 pensioners and will add approximately 5 million lari (US$3 million) per month to the cost of the public pension system.

SOURCES: "Some Pensioners Receive a Raise: But Will it Really Help at All?" geotimes.ge, September 3, 2007, <http://www.geotimes.ge/index.php?newsid=6483&lang=eng> (08/25/2007); "Social Security Programs Throughout the World: Asia and Pacific, 2006," U.S. Social Security Administration, March 2007, <http://www.socialsecurity.gov/policy/docs/progdesc/ssptw/2006-2007/asia/georgia.html> (08/22/2007).

New Zealand

Most older New Zealanders are living longer and healthier lives than previous generations, according to the Ministry of Social Development's newly released report, *Positive Ageing Indicators 2007*. The report describes the overall well-being of people aged 65 or older in New Zealand and provides statistics for this age group across a range of social indicators including income, health, housing, transportation, employment, and access to social services. The report is the first volume in a new series that will be updated every 5 years. A major source of data is the country's Census, conducted every 5 years, as well as statistics collected by a wide range of other government agencies. Findings related to retirement income in the 2007 volume include the following:

- Most older New Zealanders have "adequate income" and live in "suitable housing" (about three-quarters own their own homes).
- The portion of the population aged 65 or older increased from 9 percent to 12 percent from 1976 through 2006.
- About 12 percent of the population aged 65 or older is employed, an increase of 3.7 percent over the past 10 years.

SOURCE: *Positive Ageing Indicators 2007*, New Zealand Ministry of Social Development, August 2007, <http://www.msd.govt.nz/documents/work-areas/social-research/positive-ageing-indicators-2007.pdf> (08/25/2007).

Reports and Studies

United Nations

The United Nations recently issued two reports on Vietnamese social security and old-age poverty. The reports respond to a government of Vietnam request for assistance with the empirical analysis of the existing social security system in preparation for eventual system redesign. The first report, *How Progressive Is Social Security In Viet Nam?*, uses data from the Vietnam Household Living Standards Survey of 2004. The report highlights the fact that about 40 percent of social security (including retirement) benefits go to households in the top income quintile, and less than 7 percent is paid to households in the poorest income quintile. The second report, *The Relationship Between*

Old Age and Poverty in Viet Nam, highlights the following:

- Only 22 percent of those aged 60 or older live in households where a person receives a pension.
- Twice as many urban elderly receive a pension than do the rural elderly.

Many elderly who live alone work beyond the normal retirement age (age 60 for men and 55 for women), including about half of elderly women aged 70–75, and 20 percent of those aged 80–85.

SOURCE: "How Progressive Is Social Security In Viet Nam?" United Nations Development Programme, August 22, 2007, <http://www.undp.org.vn/undpLive/digitalAssets/7589_SS_Progressive__E_.pdf> (10/04/2007); "The Relationship Between Old Age and Poverty in Viet Nam," United Nations Development Programme, August 22, 2007, <http://www.undp.org.vn/undpLive/digitalAssets/7583_Old_Age_and_Poverty__E_.pdf> (10/01/2007).

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