Social Security

International Update:

Recent Developments in Foreign Public and Private Pensions

November 2007

Europe

Ireland

The Irish government released its long anticipated *Green Paper on Pensions*, October 17, 2007. This is the first step in addressing the adoption of a pension reform plan for 2008. The purpose of the *Green Paper* is to present the public and policymakers with options to reform and to update the current pension system for assurance of a sustainable program that would provide adequate benefits. The *Green Paper* notes, like many developed countries, Ireland has an aging population and decreasing fertility rates that will lower the ratio of workers to beneficiaries. This ratio will decrease from 5.6 in 2006 to 1.8 in 2061. An analysis by the European Commission indicates that Ireland would need to run budget surpluses of about 5.7 percent of gross domestic product over the medium term to cope with the long-term costs of its aging population. To address these concerns, the *Green Paper* presents a range of options for reforming the public pension system, which include maintaining the current system and establishing mandatory private pensions that supplement the existing public pension system.

Sources: *Green Paper on Pensions* <http://www.pensionsgreenpaper.ie/publications_greenpaper.html> (10/18/2007); "Emerald Isle Releases Green Paper," October 17, 2007, <http://globalpensions.com/?id=me/17/news/27/48311/27/> (10/22/2007).

Italy

The lower house of parliament approved a pension reform package on October 12, 2007, that included:

- increasing the full retirement age from 57 to 58 in 2008 and then to age 60 by 2011,
- removing quotas on the number of workers in difficult jobs who are allowed to retire early each year, and
- raising the number of working years required to be eligible for full retirement benefits from 35 to 36 years.

The government approval follows a lengthy negotiation with Italy's four largest trade unions (see also the September 2007 issue of *International Update*). The unions' nonbinding referendum on the pension reforms was approved by more than 82 percent of Italian workers in October 2007. Implementation of these changes will begin January 1, 2008.

Sources: "Italian Govt Okays Retirement Plans," *Gulf Times*, October 13, 2007, <http://www.gulf-times.com/site/topics/article.asp?cu_no=2&item_no=178116&version=1&template_id=39&parent_id=21> (10/18/2007); *International Update*, "Italy," September 2007, <http://www.ssa.gov/policy/docs/progdesc/intl_update/2007-09/2007-09.html> (10/19/2007).

European Union

The European Union's (EU's) highest court ruled in October that employers could adopt mandatory retirement provisions. The European Court of Justice's 13-judge panel rejected a Spanish worker's appeal that his forced retirement at age 65 was age discrimination and in violation of EU law. The court stated that EU member states could introduce and enforce mandatory retirement ages as long as such laws are *objectively and reasonably justified*. The court cited national employment policies designed to reduce unemployment and improve labor market conditions as an example of when mandatory retirement is justified. Workers forced into retirement must be at least the national retirement age for their country (age 65 in Spain) and must have met the qualifying conditions to receive their social security pension.

At a time when the EU is fighting age discrimination and the loss of its workforce as baby boomers retire, some EU labor experts argue that this ruling sends a mixed message to EU policymakers, employees, and employers.

Sources: "Top EU Court Backs Mandatory Retirement Age of 65," *International Herald Tribune*, October 16, 2007, <http://www.iht.com/articles/2007/10/16/africa/retire.php> (10/23/2007); Opinion of Advocate General Mazák, delivered February 15, 2007, Case C-411/05, <http://curia.europa.eu/jurisp/cgi-bin/form.pl?lang=EN&Submit=Rechercher$docrequire=alldocs&numaff=C-411/05&datefs=&datefe=&nomusuel=&domaine=&mots=&resmax=100> (10/23/2007).

The Americas

Argentina

An October 2007 government resolution requires Argentina's pension fund management companies (AFJPs) to gradually reduce the assets they have invested in the other Southern Common Market (Mercosur) countries and "repatriate" these assets. The AFJP regulator, the Central Bank, and the National Securities Commission issued the resolution jointly after their officials met with President Kirchner. The government's goals for this measure are to help finance Argentina's domestic infrastructure, develop its capital markets, and sustain its economy, which has grown by at least 8 percent per year over the past 5 years. Currently, the AFJPs have about 8 percent of their assets in the other Southern Common Market countries—Brazil, Paraguay, and Uruguay. Close to 80 percent of these investments are in Brazil. By December 2008, about 8 billion Argentine pesos (US$2.5 billion) must be transferred to Argentina's capital markets. Thereafter, AFJP investments in other Mercosur countries will be limited to 2 percent of assets.

Sources: "Ordenan Repatriar $8.000 Millones a las AFJP," Rio Negro Online, 19 de octubre de 2007, <http://www.rionegro.com.ar/diario/2007/10/19/200710n19b05.php> (10/25/2007); "Argentina to Cap Regional Investment by Pension Funds (Update 1)," bloomberg.com, October 18, 2007, <http://www.bloomberg.com/apps/news?pid=20601086&sid=a5FRKy59gEJU&refer=news> (10/18/2007).

Asia and the Pacific

China

China's Ministry of Labor and Social Security (MOLSS) and the Organisation of Economic Co-operation and Development (OECD) signed a memorandum of understanding to carry out research and policy analysis on occupational pension systems in OECD member countries. China has been cooperating with the OECD since 1995 to deepen its financial markets and expand its economy. The cooperation on pensions is part of this ongoing relationship. For example, in 2007 they produced an advisory report on how multi-employer pension funds operate in selected OECD and non-OECD countries.

The MOLSS is now interested in learning about the pension reform experience of other countries as China anticipates reforming its occupational pension system. The memorandum of understanding encourages the signatories, beginning in 2008, to hold joint workshops and conferences on best practices for the operation and regulation of occupational pension systems in OECD countries. Assets under management in China's occupational pension market were valued at around 90 billion yuan (US$11.5 billion) at the end of 2006, or less than 0.5 percent of gross domestic product. They are projected to grow by 30 billion to 50 billion yuan (US$4 billion to US$7 billion) in 2007.

Sources: "Research and Policy Analysis on Private Pensions in China," OECD Directorate for Financial and Enterprise Affairs, <http://www.oecd.org/document/54/0,3343,en_2649_33761_39290806_1_1_1_1,00.html> (10/01/2007); "OCED, China, to Research Second Pillar," dailyii, <http://www.dailyii.com/article.asp?ArticleID=1451778> (11/06/2007); "Second Pillar System Study," *Global Pensions*, October 12, 2007, <http://globalpensions.com/?id=me/17/news/23/48239/10/> (10/15/2007); *Collective Pension Funds*, OECD Working Papers on Insurance and Private Pensions No. 9, August 2007, <http://www.oecd.org/dataoecd/16/21/39125266.pdf> (09/20/2007).

India

India extended its means-tested National Old-Age Pension Scheme (NOAPS) to all citizens aged 65 or older below the poverty line and removed restrictions on the number of recipients per household. Before this policy change, only one NOAPS pension was provided per household, and recipients were limited to individuals with little or no income, family financial support, or any other means of livelihood. NOAPS beneficiaries may receive as much as 400 rupees (US$10.14) each month; the federal government finances half (200 rupees) and encourages state governments with elderly residents covered by NOAPS to match that amount. According to government estimates, the actual number of persons aged 65 or older receiving NOAPS is around 3.5 million, or roughly 7 percent of the total number of those aged 65 or older. Under the new policy, the government expects the number of elderly with incomes below the poverty line—300 rupees (US$7.60) per month—and covered by NOAPS to increase from 7 million to nearly 16 million individuals.

Sources: "Government Announces Pension for Elderly BPL Citizens," *The Hindu*, September 14, 2007, <http://www.globalaging.org/pension/world/2007/announce.htm> (10/02/2007); *Seminar on the Social, Health and Economic Consequences of Population Ageing in the Context of Changing Families*, United Nations Economic and Social Commission for Asia and the Pacific, UN Population Fund, UN Department of Economic and Social Affairs, July 25, 2007, <http://www.unescap.org/esid/psis/meetings/Ageing_Change_Family/India.pdf> (11/02/2007);

“Old Age Pension for All Elderly Poor,” *Hindu Business Line*, October 1, 2007, <http://www.thehindubusinessline.com/2007/10/02/stories/2007100252361000.htm> (10/02/2007); *Technical Assistance Consultant’s Report-India: Pension Reforms for the Unorganised Sector*, prepared by NewSouth Global Pty. Ltd. for the Asian Development Bank and the Ministry of Finance, India, August 2006, <http://www.adb.org/Documents/Reports/Consultant/36346-IND/36346-02-IND-TACR.pdf> (11/02/2007); “Good Governance: Poverty Line,” India Watch, <http://www.wakeupcall.org/administration_in_india/poverty_line.php> (11/01/2007).

Reports and Studies

Totalization Agreement

The United States and the Czech Republic signed an agreement on September 7, 2007, to exempt U.S. and Czech employers and workers from double payroll taxation. Before the agreement can enter into force, both the U.S. Congress and the Czech parliament must ratify it. (In the U.S., the president must transmit the agreement to Congress for a required 60-session-day review period.)

The agreement will exempt U.S. citizens sent by U.S.-owned companies to work in the Czech Republic for 5 years or less from paying social security taxes to both countries. Czech citizens sent to work temporarily in the United States will receive similar tax treatment. As a result, the employers of these workers will pay social security taxes only to their own country. Individuals who have worked in both countries, but who currently do not meet the minimum benefit eligibility requirements for either system, may qualify for a benefit based on combined coverage credits from both countries. Combined coverage periods may be used to calculate retirement, disability, and survivor benefits. If both countries approve the agreement, the Czech Republic will be the 22nd country with a totalization agreement with the United States.

Sources: “U.S.-Czech Republic Social Security Agreement,” U.S. Social Security Administration, September 2007, <http://www.socialsecurity.gov/international/Agreement_Texts/czech.html> (10/23/2007).

For more information on other U.S. totalization agreements, go to <http://www.ssa.gov/international/agreements_overview.html>.

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