Social Security

# International Update:

Recent Developments in Foreign Public and Private Pensions

January 2008

## Europe

### Cyprus

Cyprus's Ministry of Finance released its December 2007 report on the long-term sustainability of the country's public finances, including its public pension system. According to the *Stability Programme of the Republic of Cyprus, 2007-2011*, addressing the budgetary impact of an aging population is a key priority for the government of Cyprus. The report predicts that individuals aged 65 or older will increase from 12.1 percent of the population in 2005 to 26.8 percent by 2050. Pension expenditures are expected to increase from about 5 percent of gross domestic product (GDP) in 2007 to nearly to 12 percent of GDP by 2050. According to the report, a number of reforms currently under discussion are likely to be approved by mid-2008, include the following:

- gradually raising the social security contribution rate by 1.3 percentage points (from the current 12.6 percent of earnings divided evenly between employers and employees) every 5 years from 2008 through 2037, for a total increase of 9.1 percentage points; and
- increasing the minimum number of years of contributions required for an old-age pension from 3 to 10.

In addition, the social partners (labor unions and employer organizations) have discussed raising the normal retirement age from age 63 to age 65.

**Source:** *Stability Programme of the Republic of Cyprus 2007-2011*, Ministry of Finance, Republic of Cyprus, December 2007, <http://www.mof.gov.cy/mof/mof.nsf/All/D717E339DD9DB552C22573AD003783C1/$file/Stability%20Programme%202007-2011,%20December%202007.pdf>, (12/18/07).

### United Kingdom

In December 2007, the British government announced that it will expand the Financial Assistance Scheme (FAS), the private pension funds insurer, to approximately 140,000 employees. These employees include 129,000 employees in "insolvent" pension plans and 11,000 in "solvent" pension plans that were not covered previously by the FAS. Under the expanded plan, the FAS will

- guarantee 90 percent of an employee's pension at the date his or her plan collapsed, up to a maximum of £26,000 (US$51,585);
- provide annual cost-of-living-allowances for pension payments after 1997;
- allow tax free lump-sum withdrawals from plans that include this option; and
- pay pensions at the higher of either the failed plan's normal retirement age (age varies according to plan) or age 60 when such payments are due.

The government estimates that its total cost for expansion of the FAS will be approximately £935 million (US$1.85 billion).

**Sources:** "DWP Finances Collapsed Pensions with Scheme Top-up," *IPE*, December 17, 2007, <http://www.ipe.com/news/DWP_finances_collapsed_pensions_with_scheme_top_up_26535.php>, (12/17/07); "Pension Rescue Package Unveiled," *Global Pensions*, December 17, 2007, <http://globalpensions.com/showPage.html?page=gp_display_news&tempPageId=663151>, (12/17/07); "The Financial Assistance Scheme—Am I Eligible?", *Department for Work and Pensions*, January 2008, <http://www.dwp.gov.uk/lifeevent/penret/penreform/fas/>, (01/08/08).

## The Americas

### Canada

On December 14, 2007, several amendments to the *Bankruptcy and Insolvency Act* of 2005 were signed into law that will affect Canadian pensions. The amendments provide employees greater legal protection for their wages and pensions when their employer goes bankrupt. The key provisions include a guarantee of up to 4 weeks of wages and accrued vacation pay covered by Canada's social insurance system and employee access to funds in individual registered retirement savings plans (RRSP), less employer contributions to the RRSP for the prior accounting year. Prior-year RRSP employer contributions will be available to the employers' creditors. In the event the company does not have sufficient assets to pay 4 weeks of wages and accrued vacation pay, the Canadian government will pay the remainder through the social insurance system. Canadian labor unions advocated for these employee protections since the *Bankruptcy and Insolvency Act* passed in 2005. The law will go into effect in early 2008.

**Sources:** *Statutes of Canada: Chapter 36: An Act to amend the Bankruptcy and Insolvency Act, the Companies' Creditors Arrangement Act, the Wage Earner Protection Program Act, Chapter 47 of the Statutes of Canada, 2005*, Canadian Parliament, December 14, 2007, <http://www2.parl.gc.ca/HousePublications/Publication.aspx?DocId=3218645&Language=e&Mode=1>, (12/26/07); "Bill Provides Pension Protection," *Global Pensions*, December 18, 2007, <http://globalpensions.com/showPage.html?page=gp_display_news&tempPageId=663253>, (12/26/07).

## Asia and the Pacific

### *New Zealand*

On December 17, 2007, New Zealand's Retirement Commission released its independent assessment of the country's retirement income policies. The *2007 Review of Retirement Income Policy* found that New Zealand Superannuation (NZS), the flat-rate universal public pension system, provides an adequate retirement income for most of the current retirees and those nearing retirement. However, the report suggests that gradually raising the normal retirement age from age 65 to age 66 or 67 should be considered to address New Zealand's rapidly aging population. According to the report, the government provides generous incentives for joining a KiwiSaver plan, the country's new subsidized retirement savings plan. These incentives, especially the tax credits for account holders and tax exemptions for employers, could be very costly to the government in the future. Other areas that the report evaluates include financial education, employment of older workers, and management of assets and income in retirement. The Commission, which is required to produce a report on the country's retirement income policies every 3 years, recommends that Treasury provide estimates of the likely future costs of KiwiSaver to the government including the sustainability of the current incentives and a report on the need and suggestions for alternate sources of funding for NZS as the population ages.

**Source:** *2007 Review of Retirement Income Policy*, New Zealand Retirement Commission, December 2007, <http://www.retirement.org.nz/files/2007_Review_of_Retirement_Income_Policy.pdf>, (1/3/08).

## Reports and Studies

### *Organisation for Economic Cooperation and Development (OECD)*

Pension fund assets continue to grow at a steady pace in OECD and selected non-OECD countries, the OECD recently reported in its latest edition of *Pension Markets in Focus*. The average growth rate of pension fund assets from 2004 to 2006 was 9.0 percent in OECD countries. For those same 2 years, pension assets grew much faster on average in Latin American countries (26.9 percent) and the BRIC (Brazil, Russia, India and China) countries (23.3 percent) with their relatively new pension markets.

In 2006, OECD and selected non-OECD countries' pension fund assets equaled approximately $16.9 trillion, up from $14.2 trillion in 2004, a 9 percent growth rate during this 2-year period. The ratio of OECD pension fund assets to OECD gross domestic product (GDP) also increased, from 70.7 percent in 2005 to 72.5 percent of GDP in 2006. Three OECD countries (Iceland, Netherlands, and Switzerland) had asset-to-GDP ratios above 100 percent in 2006, with Iceland's ratio at 132.7 percent. Such pension fund accumulations boost savings, increase the supply of long-term funds, and enhance capital markets.

**Source:** *Pension Markets in Focus*, OECD, November 2007, <http://www.oecd.org/dataoecd/46/57/39509002.pdf>, (12/20/07).

***International Update*** is a monthly publication of the Social Security Administration's Office of Policy. It reports on the latest developments in public and private pensions worldwide. The news summaries presented do not necessarily reflect the views of the Social Security Administration.

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SSA Publication No. 13-11712