Social Security

International Update:

Recent Developments in Foreign Public and Private Pensions

March 2008

Europe

Portugal

A new law, effective March 1, 2008, creates a system of voluntary individual retirement accounts to supplement Portugal's public pay-as-you-go system. Workers covered by the public system may now choose to set up an individual account managed by a new government agency called The Institute for Managing Social Security Capitalization Funds. Each month, workers under age 50 may contribute either 2 percent or 4 percent of their average earnings in the previous 12 months to an individual account. Workers aged 50 or older who set up an individual account must contribute 6 percent of their average earnings in the previous 12 months. Average earnings are re-calculated every January. Workers may change their contribution rate or suspend making contributions once a year. However, they may resume their contributions at any time. At retirement (age 65 for both men and women), the account balance can be converted into an annuity or withdrawn as a lump sum. If the worker dies before retirement, the account balance may be transferred to the worker's children or spouse.

Sources: Ministério do Trabalho e da Solidariedade Social, "Decreto-Lei n.26/2008," 22 de Fevereiro de 2008 ; " Segurança Social: Regime Público de Capitalizaçao Publicado Hoje en Diário da República," Rádio e Televisão De Portugal (rtp.pt), 22 de Fevereiro de 2008.

Russia

Russia's Finance Ministry created a National Welfare Fund (NWF) on January 31, 2008 to help support Russia's public pension system. The NWF was set up as part of recent budgetary reforms with $32 billion in assets from the Stabilization Fund (established in 2004 with the profits from Russia's oil and natural gas exports). Initially, NWF assets will be invested in foreign currencies, sovereign bonds, and foreign government bonds, all with very high investment credit ratings. After an investment strategy is formulated and fund managers are hired, the NWF will be permitted to invest in corporate securities and investment funds. The government hopes to use the NWF to increase the level of pension benefits. The average monthly pension in October 2007 was 3,292 rubles (US$135) compared with the government's subsistence level of 3,809 rubles (US$156), Russia's poverty level. In addition, this fund will help with system financing as the Russian population ages and the ratio of workers to retirees reaches 3.3 to 1 by 2020.

Sources: "Russia's Putin Calls for Higher Pensions," Reuters.com, January 15, 2008; "Russia Creates 32-Billion-Dollar Fund to Support Pensions," Haaba.com, January 31, 2008 ; "Fund to Support Russia's Pensions," *Global Pensions*, February 1, 2008.

The Americas

Jamaica

Amendments to Jamaica's 2004 Income Tax Act enacted on February 15, 2008 include tax incentives for contributions to occupational retirement plans. There will also be higher lump sums available for retirement and survivor benefits. These changes are intended to encourage greater participation in pension funds and retirement plans. The amendments are expected to become effective soon, once they are signed by the Governor General and published in the *Jamaica Gazette*.

One amendment allows workers and their employers to make tax-deductible contributions to an occupational retirement plan up to a combined 20 percent of the employee's annual income. Where the employer contribution is less than 10 percent of the employee's earnings, the employee may make up the difference. The self-employed may receive the same tax incentives on contributions of up to 20 percent of their income. Currently, the maximum annual contribution allowable as a deductible expense to a worker's retirement plan is limited to J$6,000 (US$84). As of July 1, 2006, per capita annual income in Jamaica was approximately J$218,000 (US$3,300).

Another amendment in the new legislation replaces the maximum lump sum amount payable upon an employee's retirement or death, which is currently limited to J$150,000 (US$2,069) and J$120,000

(US$1,655), respectively. Retirement benefits are paid as an annuity with the option for a tax-free lump sum to be taken and a reduced pension received, while survivor benefits are payable as lump sums. In mid-2007, there were over 500 employer-sponsored pension funds, with retirement savings of J$103.5 billion ($US1.5 billion), covering about 70,000 workers out of a total workforce of 1 million. Around 8,000 persons currently receive benefits from these pension funds.

Sources: "Senate Approves Amendments to Income Tax Act," Jamaica Information Service, February 16, 2008; "Income Tax Relief for Pension Payments," *Jamaica Gleaner*, December 30, 2007; "Building a Viable Pension Sector for Jamaica," *Jamaica Gleaner*, August 5, 2007.

Asia and the Pacific

Japan

In January 2008, a bipartisan National Commission on Social Security was established by Prime Minister Fukuda to study alternative social security financing methods and the future roles of government and individuals in the Japanese system. The 15-member panel, including representatives from industry, labor, and the public, is expected to release an interim report this summer, followed by a final report of its findings by the end of the year. Japan's birthrate, below replacement level since 1970, and the country's rapidly aging population have raised concerns over the future sustainability of its social security programs. The consensus among demographers is that the population of 127 million may have peaked in 2007 and could decline to less than 70 million over the next 50 years. A 2006 report from Japan's National Institute of Population and Social Security Research predicts that 36 percent of the population will be aged 65 or older by 2050, almost twice the current percentage of nearly 20 percent. During the same time, the proportion of the prime working age population, those aged 20 to 64, is estimated to decline from 61 percent to less than 50 percent of the population.

Sources: *Population Statistics of Japan*, 2006, Japan National Institute of Population and Social Security Research, 2006; Prime Minister of Japan and his Cabinet, "National Commission on Social Security," January 29, 2008; "Social Security Reform a Key Issue," *Washington Times*, February 6, 2008.

Malaysia

Malaysia's Employee Provident Fund (EPF) has introduced changes intended to boost the retirement savings of members older than age 55 and provide incentives to keep them in the labor force. Beginning February 1, 2008, these changes include the following:

- Individuals who work after age 55 must contribute to an EPF account until they retire or reach age 75. Members must withdraw their account balance (including interest) by age 80. Previously, EPF contributions (employee and employer) were voluntary for this group. The new rules do not apply to employees who reached age 55 before February 1.
- EPF contributions on behalf of employees attaining age 55 after February 1 have been reduced by 50 percent for both workers and employers as an incentive to keep those older workers in the labor force. The mandatory contribution rate for employees in this group has fallen from 11.0 percent to 5.5 percent of monthly earnings, while the rate for their employers has declined from 12.0 percent to 6.0 percent. Active workers, aged 55 or older before February 1, and their employers continue to contribute at the combined rate of 23 percent. Since February 1, those same rates are maintained for workers (and their employers) younger than age 55.

The EPF currently has 11.4 million members. There are 5.4 million active contributors, including 601,000 members older than age 55.

Sources: "Retirees Who Work Again Must Contribute," *New Straits Times*, January 24, 2008; "Keep Saving with EPF till You're 75," *New Straits Times*, January 26, 2008.

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