Social Security

# International Update:

**Recent Developments in Foreign Public and Private Pensions**

**June 2008**

## Europe

### *Romania*

On May 20, 2008, private pension administrators collected the first contributions from Romanian workers with second-pillar individual retirement accounts. Implemented on January 1, 2008, Romania's new second-pillar individual accounts system supplements the first–pillar, public pay-as-you-go (PAYG) system. The new system is mandatory for workers who were under age 35 in 2007. All new entrants to the labor force have 4 months after beginning work to choose a licensed pension administrator. Those who do not select a privately managed pension administrator are randomly assigned to one. Workers between ages 35 and 45 may choose to join at any time. To date, more than 4 million workers, close to 45 percent of the labor force, have opened an individual account with one of the country's 16 pension administrators.

For workers in the two-pillar system, 9.5 percent of their earnings are split between the two pillars. For the first year, 2 percent goes to their individual account and 7.5 goes to the PAYG pillar. Workers' monthly contributions to their individual accounts will rise by 0.5 percent per year until they reach 6 percent in 2014. At the same time, their PAYG contributions will decrease to 3.5 percent.

All other workers remain only in the PAYG system and each month continue to contribute 9.5 percent of earnings for old-age, survivors, and disability insurance benefits (OASDI). Employers contribute 20.5 percent of an employee's gross earnings per month for OASDI and work injury benefits under the PAYG system and only the first pillar of the two-pillar system.

**Sources:** "Private Pensions-Proposition: Distribution of Employees Who Failed to Join Private Pension System Debated Shortly," Mediafax News Brief Service, January 30, 2008; "Employees Under 35 Must Adhere to Private Pension Fund 4 Months From Hiring," Mediafax News Brief Service, April 8, 2008; "First Mandatory Private Pension Contributions Transferred on May 20," *Ziarul Financiar*, May 5, 2008.

## The Americas

### *Uruguay*

Uruguayan pension fund management companies (AFAPs) are now allowed to invest a portion of their assets abroad. Effective May 12, 2008, up to 15 percent of AFAP assets may be held in fixed income instruments issued by international credit organizations in which Uruguay is a member. As a result, AFAPs initially purchased a total of $50 million of a 10-year, fixed-rate bond issued by the World Bank.

Total assets under management of all four Uruguayan AFAPs at the end of 2007 were US$3.4 billion or 15.7 percent of the country's gross domestic product. These investments included close to 60 percent in government debt and less than 1 percent in domestic stocks. From the start of the Uruguayan program in 1996 through 2007, the AFAPs' real rate of return has been 10.7 percent per year.

**Sources:** "Ley N18.127: Se Amplian las Posibilidades de Inversion de las AFAP," *Boletín FIAP*, abril-mayo de 2007; "Asociación Internacional de Organismos de Supervisión de Fondos de Pensiones (AIOS)," *Boletín Estadístico* Número 18, diciembre de 2007; "Administradoras de Pensiones Compran US$50 Millones de Bono del Banco Mundial," *El País*, el 8 de mayo de 2008.

## Asia and the Pacific

### *China*

China's national pension fund, the National Social Security Fund (NSSF), recently invited investment companies registered outside of China to manage up to 20 percent of the fund's assets (US$14.9 billion) overseas. The deadline for filing applications was June 18. The fund is looking to diversify its investments away from domestic markets, which have declined substantially after peaking last year. NSSF foreign investments totaled only US$1.66 billion at the end of 2007. To receive a license, eligible candidates must have at least US$5 billion worth of assets under management and have managed assets for at least 6 years as of April 2008. In addition, regulators in the applicant's home country must have signed a memorandum of understanding on supervisory cooperation with the China Securities Regulatory Commission.

China established the NSSF as a strategic reserve fund to help with the expected rise in pension expenditures. This is the second time that the fund has sought investments abroad. After new regulations issued in May 2006 permitted overseas investments, the fund hired 10 asset managers in November 2006 to manage its global equity and bond portfolios.

**Sources:** "China Social Security Fund to Tap Global Investment Managers," AFX UK Focus, May 22, 2008; "China Pension Fund to Award Overseas Mandates," Reuters India, May 22, 2008; "Pension Fund Seeks Overseas Investment Partners," *China Economic Review*, May 23, 2008; "Pension Fund Seeks Overseas Investment Managers," Dow Jones Chinese Financial Wire, May 23, 2008.

## *Turkey*

Turkey's new social security law will be implemented on October 1, 2008. The long-awaited reform, approved by the president on May 7, aims to reduce the social security system's sizable deficit and is the final condition required for the release of a US$1.3 billon loan installment from the International Monetary Fund. Turkey's social security (health and pension) deficit exceeded 25 billion new Turkish liras (US$20 billion) in 2007, and officials warned the deficit could reach nearly 30 billion new Turkish liras (US$24 billion) in 2008 without reform. Major pension-related provisions in the new law will:

- Gradually raise the retirement age to 65 for both men and women by 2048. The current retirement age is 58 for women and 60 for men.
- Increase the number of work days required for retirement eligibility from 7,000 to 7,200 days.
- Change the periodic pension benefit index mechanism from the monthly consumer price index (CPI) to an annual adjustment based on a combination of the CPI and gross domestic product figures announced in December every year.

**Sources:** "New Social Security Law Goes into Effect in Turkey," BBC Monitoring European, May 8, 2008; "Turkey President Ratifies IMF-backed Pension Reform," *The Guardian*, May 8, 2008; "Turk Unions Slam Gul's Approval of Social Security Bill," *Hurriyet*, May 12, 2008.

# Reports and Studies

## *Organization for Economic Cooperation and Development (OECD)-International Organization of Pension Supervisors (IOPS)*

On May 5, 2008 the OECD and the IOPS issued their jointly developed Guidelines on the Licensing of Pension Entities, an outline of suggested criteria for pension regulators and supervisory authorities. These Guidelines are the first set of standards on an international level to address pension licensing regulations and the licensing powers of pension supervisory authorities. The Guidelines provide a framework for developing licensing regulations and for the assessment of licensing applications submitted by "pension entities." Pension entities are independent legal bodies with responsibility for pension funds and include pension trustees, pension funds, pension fund management companies, insurance companies, and some financial institutions. The Guidelines address minimum requirements for pension entities related to start-up capital, funding policy, risk management mechanisms, governance structure, and investment policy.

The full text of the OECD-IOPS Guidelines on the Licensing of Pension Entities and related materials are available online at http://www.oecd.org/document/14/0,3343,en_2649_33761_39018574_1_1_1_1,00.html.

**Sources:** "OECD-IOPS Guidelines on the Licensing of Pension Entities," OECD, May 5, 2008; "International Groups Agree on Guidelines to Improve Management of Pensions Industry," *Pension and Benefits Daily*, May 6, 2008.

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