Social Security

International Update:

Recent Developments in Foreign Public and Private Pensions

July 2008

Europe

Finland

On May 22, 2008, the Finnish government submitted a bill to Parliament proposing the merger of the Financial Supervisory Authority with the Insurance Supervisory Authority. The bill would create a single body responsible for the oversight of private-sector credit, insurance, and pension companies to begin operations in early 2009. While the merger has been discussed for several years, the current proposal stems from a report released last February by a financial supervision working group, which suggested that such a supervisory body would foster overall public confidence in financial market operations. Cost efficiencies, greater resources, and improved ability to attract more knowledgeable staff are viewed as the main advantages of the merger. The duties of the new supervisory authority would be essentially the same as those of the existing authorities. According to the bill, the Ministry of Finance would act as the liaison between the new supervisory authority and the government. The Finnish Parliament will begin deliberations on the proposed merger in September with approval expected by November. No significant changes to the proposal are expected.

Sources: "Finland's Financial and Insurance Supervisory Bodies are Finally Set to Merge After More than 10 Years of Talks," *European Pensions and Investment News*, December 3, 2007; "Finland to Merge Supervisory Authorities," IPE.com, May 23, 2008; personal communication, official in Finnish Ministry of Finance, June 2008.

The Americas

Argentina

As of July 1, 2008, higher-earning Argentine workers are required to contribute more for old age, survivors, and disability insurance (OASDI). The earnings limit for monthly contributions was raised in two stages: from 6,750 pesos (US$2,233) to 7,256 pesos (US$2,400) in March and to 7,800 pesos (US$2,580) in July.

Workers pay 11 percent of their earnings (on a minimum of 240 pesos or US$80) for OASDI. They may choose between the public pay-as-you-go (PAYG) system and an individual retirement account. For those workers who have an individual retirement account, 1 percent of their contribution pays for administrative fees. Employers only contribute to the PAYG system: either 10.17 percent or 12.71 percent of gross payroll (a minimum of 240 pesos or US$80), depending on the type of business. There is no ceiling for employer contributions.

Workers may switch between the PAYG and individual account systems every 5 years. New entrants to the labor force have 90 days to choose between the two systems. Those who do not make a choice are automatically covered by the PAYG system. In the past few years, about 80 percent of new workers were undecided.

Sources: *Social Security Programs Throughout the World: The Americas, 2007*; "El Estado Capta Más Aportes Jubilatorios," *La Nación*, el 17 de febrero de 2008; Decreto 279/2008, el 21 de febrero de 2008.

Asia and the Pacific

Philippines

On June 10, 2008, the Philippine Congress passed a bill creating private voluntary retirement accounts as a supplement to the country's public pay-as-you-go (PAYG) system. The President is expected to sign the bill into law. Once the law is implemented, public- and private-sector employees and the self-employed who work in the country may set up Personal Equity and Retirement Accounts (PERAs). Filipinos working abroad who are not covered by any other pension program may also have PERAs. A worker may contribute to as many as five PERAs, each with a different qualified PERA investment product. These products include a variety of financial instruments, including mutual funds, annuity contracts, stocks, and unit investment trust funds. All of a worker's PERAs must be managed by a single administrator, which may be a bank or a financial services company.

Individuals working in the Philippines may contribute up to 100,000 pesos (US$2,255) per year to their accounts (married couples up to double that amount) while overseas workers may contribute up to twice these limits. All workers will receive a tax credit of 5 percent of their annual contributions. Employers may contribute to their employees' accounts and receive a tax deduction, provided they already pay the employers' PAYG contribution. All income from the PERAs will be tax exempt as long as workers do not withdraw their funds before age 55. At retirement, workers may choose between a lump sum withdrawal or an annuity.

Sources: "Bill on Retirees' Pension Fund Passed at Bicam," Inquirer.net, June 10, 2008; "Personal Equity and Retirement Account (PERA)," ciudadista.wordpress.com, June 11, 2008; "Lawmakers Approve Private Pension Schemes," GMANews.tv, June 11, 2008; "PERA: Putting More Retirement Money for Workers," humanrights.gov.ph, June 12, 2008; "PERA to Promote Long-term Savings, Say Bank Officials," *The Philippine Star*, June 17, 2008.

Reports and Studies

United Nations Economic Commission on Latin America and the Caribbean (ECLAC)

According to a new ECLAC publication, the population of Latin America and the Caribbean is aging rapidly because of rising longevity and declining birthrates. Fertility rates in the region have declined from an average of 5.9 children per woman in 1950 to 2.4 in 2005. Countries whose fertility rate is at or below replacement (2.1 children per woman) include Cuba with 1.5 children per woman and Chile with 1.9 children per woman; those with a rate of at least one child above replacement include Bolivia and Haiti, both with 3.5 children per woman.

Life expectancy at birth in the region grew from 51.8 years in 1950 to 73.4 years in 2005. These figures are 8 years more than those of developing countries as a whole and 1.2 years less than average life expectancy in Europe. In Latin America and the Caribbean, the population aged 60 or older grew from 5.5 percent of the total in 1950 to 8.8 percent in 2000 and is expected to represent 23.6 percent of the regional population by 2050.

The report found that social security regional coverage as a whole is inadequate. In 2005, less than 50 percent of individuals aged 65 or older received some form of retirement income. In Brazil, Chile, and Uruguay, that figure was above 60 percent for urban areas compared with about 25 percent in Colombia and about 18 percent in Guatemala. In rural areas, a very small proportion of the elderly population receives retirement income. The report recommends that countries in the region design strategies that provide adequate social protection for the elderly (aged 60 or older) without neglecting the needs of other age groups.

Sources: "Demographic Change and Its Influence on Development in Latin America and the Caribbean," ECLAC, June 2008.

International Update is a monthly publication of the Social Security Administration's (SSA's) Office of Retirement and Disability 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 SSA.

Editor: John Kearney.

Writers/researchers: Barbara E. Kritzer and David Rajnes.

Social Security Administration
Office of Retirement and Disability Policy
Office of Research, Evaluation, and Statistics
500 E Street, SW, 8th Floor
Washington, DC 20254

SSA Publication No. 13-11712