Social Security

International Update:

Recent Developments in Foreign Public and Private Pensions

February 2009

The Americas

Cuba

Cuba's new social security law, effective January 22, phases in major changes to retirement rules over a seven-year period. Law 105 addresses Cuba's rapidly aging population and declining workforce that are threatening the system's long-term solvency. The law raises the normal retirement age from 60 to 65 for men and from 55 to 60 for women, and increases the number of years of work required for an old-age pension from 25 to 30.

The law also modifies the old-age benefit formula to 60 percent of average earnings in the highest 5 of the last 15 years for the first 30 years of service plus 2 percent for each additional year, up to a maximum of 90 percent of average earnings. Previously, the formula was 50 percent of average earnings in the highest 5 of the last 10 years for the first 30 years plus 1 percent for each additional year.

Another major provision encourages older workers to return to the labor force. Old-age pensioners, aged 65 or older (men) and aged 60 or older (women), who return to work after a minimum of 30 years of service will receive a 2 percent increase in their pensions for each year they continue working (no limit was specified).

In addition, to help the country's economic and social development, the law encourages returning older workers to change to certain jobs. Those who choose a different job receive a pension and earn a full salary while they work. The government may authorize some pensioners to return to work in the same job if there is a need for workers in that particular sector. However, pensioners who are not eligible for this special exemption and return to the same job they had before they retired can work, but the amount of their combined pension and salary cannot exceed their pre-retirement income.

Sources: *Social Security Programs Throughout the World: The Americas, 2007*; "Aprueba Parlamento Cubano Extender En Cinco Años Edad para Jubilación," Agencia Mexicana de Noticias, 27 de diciembre de 2008; Ley No. 105/08, 22 de enero de 2009; "Nueva Ley Retrasa Cinco Años Edad de Jubilación en Cuba," Agencia Mexicana de Noticias, 27 de enero de 2009.

Asia and the Pacific

Israel

The Israeli government January 13 approved a pension safety net compensating certain workers who are nearing retirement and lost money in voluntary employer-sponsored pension plans since November 2008. To be eligible the recipients must be aged 57 or older and participate in one of three types of private plans covered by the legislation— provident funds, executive insurance plans, and budgeted pension funds (similar to a 401(k)). Their accounts must have been uninsured with a total value of less than NS1.5 million (US$370,032). If these conditions are met, the government will replace financial losses incurred from November 1, 2008 until the participant retires, up to a limit of NS750,000 (US$185,426). The Ministry of Finance estimates that this safety net could eventually cover approximately 200,000 people (about 15 percent of the population currently aged 55 or older) at a potential total cost of up to NS150 billion (US$37 billion) over the next 13 years, an amount equal to about 23 percent of the Israeli annual gross domestic product.

The government also now allows individuals who began saving after January 1, 1995, to switch their retirement savings between life insurance policies and provident funds without paying fines or taxes. No estimates for the cost of this change have been provided.

Sources: *Complementary and Private Pensions Throughout the World: 2008*; "Cabinet Committee Expects to Approve Safety Net Next Week," *The Financial Times*, December 11, 2008; "Investors Gain Increased Pension Flexibility," *Globes Online*, January 1, 2009; "Knesset Committee Approves Pension Safety Net," *Globes Online*, January 13, 2009.

Malaysia

Malaysia January 1 implemented a number of changes to the Public Service Pension Scheme (PSPS) for public-sector employees and retirees that increase benefits and broaden coverage. The government expects savings from an increase in the mandatory retirement age to help offset the added expenditures of these changes, which are projected to cost 9 billion ringgits (US$2.5 billion) per year. The mandatory retirement age was raised from 56 to 58 on July 1, 2008 to reflect the increased longevity of the population.

Specifically, the key changes:

- Increase the number of years of service required for a maximum pension from 25 to 30, with an accompanying rise in benefits.
- Provide a minimum pension of 720 ringgits (US$199) per month for public employees with at least 25 years of service.
- Raise survivor pensions to 100 percent of the deceased worker's benefit from the current 70 percent.
- Allowed public employees who opted to join the Employee Provident Fund (EPF) for private-sector workers when they first entered public service the option to switch to the PSPS during January 2009, with their decision effective on February 1, 2009. The PSPS provides a lifetime annuity and medical benefits in retirement, while the EPF offers a lump sum.

Separately, the cabinet directed the Human Resources Ministry and the Ministry of Finance to prepare a working paper on the feasibility of a pension benefit option program for participants in the EPF. Government officials noted that many EPF contributors exhaust their lump-sum benefit within two years of retirement and indicated that such a program could provide EPF retirees with a monthly pension purchased from accumulated contributions. If created, the program would be implemented by the Ministry of Finance.

Sources: "Government to Fork Out RM9 Billion to Implement New Pension, Retirement Policy," *Bernama Daily Malaysian News*, December 24, 2008; "Additional RM1.3b for Pension Benefit," *New Straits Times*, December 25, 2008; "They Can Still Play Vital Role," *New Straits Times*, January 12, 2009; "Pension Scheme for Private Sector Workers," *Bernama Daily Malaysian News*, January 15, 2009; "Study on Monthly Payout from EPF," *New Straits Times*, January 16, 2009.

Reports and Studies

Organisation for Economic Co-operation and Development and World Bank

The Organisation for Economic Co-operation and Development (OECD) and the World Bank January 7 released "Pensions at a Glance: Asia/Pacific" analyzing the pension systems of 18 Asian countries including China, India, and Vietnam. Using a variety of indicators, such as replacement rates and pension wealth, the report finds that strategic pension reforms are needed in many countries to ensure the future sustainability of their programs and adequacy of pension benefits.

According to the report, the pension systems of many Asian countries are unprepared for the rapid population aging forecast between 2010 and 2030. While significant variation exists across the region, the report finds that many countries, including China, the Philippines, and Vietnam, have overly generous programs with replacement rates that are around 10 percent higher than the OECD average of 58.3 percent. In addition, the non-OECD Asia/Pacific countries have relatively low average retirement ages of 59 (men) and 57 (women), compared to 65 (men and women) in most OECD countries. The report warns that this combination of high benefits and early retirement ages is unlikely to be sustainable as populations age.

The report also highlights a number of issues that threaten the adequacy of pension benefits in many countries throughout the region, including:

- Low levels of coverage ranging from 7.5 percent of the working age population in South Asia to 18 percent in East Asia, compared to 70 percent in the OECD countries.
- A lack of social pensions that provide a safety-net for workers not covered under programs in relatively small formal sectors.
- The ability to make early withdrawals of accumulated contributions prior to retirement, which can exhaust retirement savings prematurely.
- The distribution of pensions in lump sums rather than lifetime annuities.
- A lack of automatic adjustments of pension payments to reflect changes in the cost of living.

The report also urges countries with defined-benefit programs to shift to calculating pension benefits based on lifetime average earnings rather than final salaries. According to the report, benefits based on final salary tend to favor higher paid workers whose earnings increase more rapidly with age than lower paid workers.

Sources: "Pensions at a Glance: Asia/Pacific Edition," OECD and World Bank, 2008; "Pensions in Asia/Pacific: Ageing Asia must face its pension problems," OECD and World Bank, 2008.

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Editor: Barbara E. Kritzer.

Writers/researchers: Richard Chard, John Jankowski, 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

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