The Americas

Chile

On July 1, two provisions of Chile’s 2008 pension reform law were implemented: a change in the rules for financing survivors and disability insurance and a new child rearing bonus for women. The 2008 law is the most comprehensive overhaul of the system of individual retirement accounts since its inception in 1981, and it is being implemented in stages. The cornerstone of the reform expands coverage and creates a basic benefit for Chileans who would not otherwise qualify for a pension.

According to the new law, the pension fund management companies (AFPs) will continue to contract with an insurance company to provide survivors and disability insurance for its account holders, but a new yearly bidding process is required to select the insurance companies and set the premiums. Beginning July 1, premiums must be the same for every account holder, and employers with at least 100 employees are required to pay for this insurance. This will be extended to include all employers in June 2011. Until then, workers in companies with fewer than 100 employees will continue to pay for survivors and disability insurance. Since the inception of the program, workers have been required to pay these premiums, which varied, and the AFPs had no limits on what they could charge and which insurance company they could choose.

In May, the Superintendent of Pensions announced the results of the first bidding process: Five insurance companies were chosen, one for each of the five AFPs, with monthly premiums (beginning July 1) averaging 1.87 percent of a worker’s earnings. The average for June was 1.33 percent. The reason for the higher premiums is that coverage for survivors and disability insurance has been expanded under the new law to include—

- Women up to age 65, provided they continue working. Until now, women were covered only up to age 60, the normal retirement age for women.
- Widowers and students up to age 24. Previously, only disabled widowers and students up to age 18 were eligible for a benefit.

The second pension reform provision increases women’s pensions by providing women aged 65 or older with a bonus for each child (biological or adopted). Eligible women include those who have contributed to an individual account at least once during their working lives, those who receive a basic noncontributory pension, and those who receive a survivor pension. The government will provide each eligible woman with a bond that credits time out of the labor force for raising children. The bond may only be redeemed after the woman’s 65th birthday and is paid out together with her pension. Both this provision and the extension of survivors and disability insurance to women up to age 65 encourage them to work beyond their normal retirement age of 60. (The retirement age for men is 65.)


Asia and the Pacific

New Zealand

On June 1, New Zealand’s government eliminated the mortgage diversion feature of KiwiSaver for any new applicants. KiwiSaver, a type of subsidized retirement savings plan, was introduced in July 2007 to supplement the country’s flat-rate universal public pension—known as New Zealand Superannuation. Since the inception of KiwiSaver, some plan providers have allowed members to divert up to half of their contributions to pay for their mortgage after they have contributed to an account for 12 months.
As of June 1, most account holders already participating in this aspect of KiwiSaver are permitted to continue as long as it is available from their provider. Individuals who stopped diverting contributions from KiwiSaver to their mortgage will not be permitted to restart, and those who transfer from one provider to another will not be allowed to continue.

The government decided to eliminate mortgage diversion for several reasons:

- The goals are counter to saving for retirement, the basic purpose of KiwiSaver.
- The rules are complex, and only some providers offered the feature. As a result, the take-up rate was low; some 600 out of more than a million account holders had chosen this option by the end of May.
- The additional compliance costs to providers are “unnecessary” and are passed on directly to the participants.

New entrants to the labor force and those starting a new job are automatically enrolled in a KiwiSaver plan but may opt out between the second and eighth week of their employment. Anyone younger than age 65, including the self-employed and anyone not in the labor force, may opt into a KiwiSaver plan with the provider of their choice. The government provides two incentives: a dollar-for-dollar tax credit of up to NZ$1,040 (US$655.57) per year for account holder contributions and a one-time tax-free payment of NZ$1,000 (US$630.36) to each KiwiSaver account. This past April, the government eliminated an employer tax credit and an annual subsidy of NZ$40 (US$25.21) to KiwiSaver account holders that helped defray the cost of the administrative fees that the providers charge. The cost of these government incentives was increasing rapidly as the take-up rate far exceeded government projections.


Philippines

The Department of Social Welfare and Development has proposed a 7.9 billion peso (US$164.2 million) Social Pension for Older Persons program, which will enable senior citizens aged 70 or older who are not currently receiving a pension to get a 500 peso (US$10.40) monthly stipend from the national government. The proposal, which requires presidential approval to become law, was submitted as part of next year’s budget. An estimated 2 million older persons would benefit from the noncontributory cash transfer.

The public retirement system in the Philippines includes mandatory social insurance for private-sector workers and special systems for government employees and military personnel. There are also voluntary alternatives for retirement savings that include private employee benefit plans and a new national Personal Equity and Retirement Account, which is currently being implemented.


Reports and Studies

Organisation for Economic Co-operation and Development (OECD)

The OECD recently released Pensions at a Glance 2009, which examines the performance of the private and public pension systems of the 30 OECD countries in the context of the ongoing crisis in financial markets. According to the report, private pension plans across the OECD lost an average of 23 percent of their value (around $5.4 trillion dollars) in 2008, with Australia, Ireland, and the United States experiencing the biggest losses. At the same time, the report warns that public pension systems are also at risk, as higher unemployment and lower earnings may lead to a decrease in contributions and an increase in benefit expenditures.

The report finds that the individuals most affected by the financial crisis are older workers, who not only have more difficulty finding jobs when unemployed but also have less time for markets to recover before retiring. For example, in the United States, workers aged 45–54 lost between 18–25 percent of the value of their account balances in private pensions (including 401(k)’s), depending on their tenure in the plan. According to the report, many OECD countries lack sufficient old-age safety nets to protect older workers from falling into poverty as a result of these losses.
Other findings of the report include the following:

- From 2004 to 2008, most OECD countries implemented reforms of their public pension systems to address issues of coverage, adequacy, financial sustainability and affordability, economic and administrative efficiency, and security of benefits. However, in contrast to the period from 1990 to 2004, these changes have been incremental rather than systemic.

- The pension reform process has stalled in some countries (including Australia, Norway, and the United States) and has been reversed in others (including Italy and the Slovak Republic).

To mitigate the impact of the financial crisis on pension systems, the OECD recommends that countries—

- Avoid short-term measures, such as reducing the number of unemployed older workers by transferring them to disability programs or reopening access to early retirement programs.

- Review public programs to ensure they provide sufficient protection against poverty while remaining sustainable.

- Reform private pensions through improved regulation, more efficient administration, and an automatic shift from equities toward less risky investments as workers get closer to retirement.

In addition to analyzing the impact of the financial crisis on private and public pension systems, the report provides comparative indicators and detailed country profiles on the pension systems of the 30 OECD countries. Multilingual summaries of Pensions at a Glance 2009 are available at http://www.oecd.org/els/social/pensions/pag.