Europe

Ireland

Two government-appointed commissions, one on public-sector expenditures and the other on taxation, have issued reports designed to help stabilize public finances, including pensions. The government is scheduled to include both reports in its budgetary deliberations in October. Ireland’s public finances have dramatically deteriorated since the economic crisis began in 2008, and government projections indicate there is no immediate sign of improvement. The government forecasts a fiscal deficit in the 2009 fiscal year of approximately 20 billion euros (US$28.5 billion), or nearly 12 percent of gross domestic product (GDP).

The Special Group on Public Service Numbers and Expenditure Programmes—set up in November 2008 to identify spending cuts in federal programs and staff, totaling 3.5 billion euros (US$5 billion)—issued its report in July. Regarding pensions, the report urged the government to consider implementing reforms suggested in the government’s 2007 Green Paper, which included raising the minimum public service pension age, increasing contribution rates, and removing accelerated accrual terms that allow civil servants to retire at relatively early ages. The report also recommended suspending the government’s annual payment (1 percent of GDP) into the National Pension Reserve Fund, noting that the government needs to borrow money in order to meet its obligation to the fund.

The Commission on Taxation, formed in February to establish a framework for setting tax policy over the next decade, released a report in early September. The report includes measures that affect retirement savings such as:

- Replacing the current tax exempt status of private pensions with a government-matching contribution for workers that contribute to a supplementary retirement plan.

- Introducing automatic enrollment of employees in a personal retirement savings account, with an opt-out feature.

- Creating a voluntary retirement savings program for individuals aged 18 or older with a government-matching contribution and limited preretirement access to accumulated funds.

- Taxing private pension lump-sum payments over 200,000 euros (US$290,163); currently, private pension lump sums are generally tax free.


Russia

On July 24, President Medvedev signed into law a bill that changes the financing of social security benefits as of January 1, 2010. The law will replace the Single Social Tax system with a flat-rate employer contribution, change the collection process, increase the contribution rate, and introduce a ceiling on employer contributions. The government anticipates that the increase in employer contributions will allow for future increases in pension benefits.

Under the regressive Single Social Tax system, employers pay up to 26 percent of payroll to the tax inspectorate, with the percentage decreasing as employees’ annual earnings increase. No statutory employee contribution is required. The tax inspectorate subsequently distributes these contributions to the Pension Fund, the Social Insurance Fund, and the Compulsory Medical Insurance Fund. The new law abolishes that tax system and replaces it with a flat-rate employer contribution—amounting to 26 percent in 2010 and increasing to 34 percent from 2011 onwards—payable on the first 415,000 rubles
(US$13,037.27) of annual earnings. (The ceiling will be indexed annually to changes in the average wage). Employers will have to pay these contributions directly to the three funds. In 2010, the combined contribution rate of 26 percent will be allocated as follows: 20 percent to the Pension Fund, 2.9 percent to the Social Insurance Fund, and 3.1 percent to the Compulsory Medical Insurance Fund. The increase in the combined contribution rate in 2011 to 34 percent will primarily benefit the Pension Fund by increasing its allocation to 26 percent; the allocation to the Social Insurance Fund will remain at 2.9 percent, and the allocation to the Compulsory Medical Insurance Fund will increase to 5.1 percent.

In Russia, old-age, permanent disability, and survivors benefits, as well as family allowances are paid through the Pension Fund. The Social Insurance Fund covers temporary disability, sickness, and maternity benefits; and the Compulsory Medical Insurance Fund covers medical benefits. Old-age benefits consist of three components: (1) a flat-rate minimum pension, (2) a notional account, and (3) an individual account. Participation in individual accounts is restricted to workers born after 1967. In addition to employer contributions to individual accounts, under a new government program implemented in January, workers are allowed to make voluntary contributions that will be partially matched by the government for 10 years once the worker begins contributing.


Peru

Effective September 1, individual account holders in Peru may choose from two new retirement benefits that are paid in two currencies—Peruvian nuevos soles and U.S. dollars. Under the mixed income (renta mixta) option, the individual account balance is divided into two parts at retirement: half going to a fund administered by an insurance company and the rest remaining in the individual account administered by a pension fund management company. A retiree receives both benefits at the same time. The insurance company provides an annuity in U.S. dollars and the worker makes programmed withdrawals from an individual account in nuevos soles. Under the second option—the bi-monetary annuity (renta vitalicia bimoneda)—a worker purchases two annuities at the same time from one insurance company, one in U.S. dollars and the other in Peruvian nuevos soles. The worker may receive these two annuities in either 12 or 14 payments per year.

Until now, the existing options for retirement benefits were paid in Peruvian currency only. These benefits include a family annuity, programmed withdrawals, and a deferred annuity (a combination of the other two options). The new rules permit two of these types of benefits, the family annuity and the annuity portion of the deferred annuity, to be paid in either currency. Under the deferred annuity option, the programmed withdrawals are made for one year (in nuevos soles), after which time the account holder purchases an annuity in either U.S. dollars or nuevos soles.

When public- and private-sector employees enter the workforce in Peru, they may choose between the mandatory individual account system (SPP) and the public social insurance system (SNP). Those who do not make a choice are automatically enrolled in the SPP. The normal retirement age for the SNP is 60, with at least 20 years of contributions. The normal retirement age for the SPP is 65, with the possibility of early retirement at any age if an individual account has accumulated assets that will replace at least 50 percent of average earnings in the past 120 months. In addition, to help the long-term unemployed population during the global economic crisis, a new law was passed in July that allows early retirement until 2012 for SPP account holders at age 55 for men and age 50 for women, who have been unemployed for at least 12 consecutive months.

Brunei

On July 14, the Sultan of Brunei announced two reforms to the country’s pension system, which will come into effect on January 1, 2010: the creation of a mandatory defined-contribution pension program, called the Supplemental Contributory Pension (SCP), and an increase in the retirement age from 55 to 60. According to the Ministry of Finance, the primary objective of the reforms is to increase retirement benefits for future pensioners.

The SCP will complement the existing universal old-age pension and the Employees’ Trust Fund (TAP), a national provident fund that is mandatory for all employees up to age 55 (age 60 starting January 1, 2010). As with TAP, the SCP will cover all citizens and permanent residents of Brunei aged 18 or older. Both employees and employers will contribute 3.5 percent of an employee’s monthly earnings to the SCP. Employees earning less than B$500 (US$347.69) a month will receive a government “top-up” to bring their monthly contribution up to B$17.50 (US$12.17). This top-up will not be extended to employers, who will have to contribute the entire B$17.50 per month for employees earning less than B$500. Contributions to the SCP will be in addition to the existing contributions to TAP, which will remain at 5 percent of monthly earnings for employees and 5 percent of monthly payroll for employers. The government expects the SCP to increase benefits paid to pensioners upon retirement by as much as B$150 (US$104.31) a month.


Thailand

Thailand’s government temporarily reduced social security contributions, effective July 1, and has taken steps to establish a voluntary national retirement savings program. Both employers and employees are expected to benefit from lower social security contributions during the present economic slowdown, and the new nationwide retirement savings program would target individuals not covered by existing pension programs. In September, the cabinet is scheduled to discuss the draft law that sets up the new savings program before sending it to parliament.

Lower contribution rates for social security—covering old-age, disability, survivors, sickness and maternity, and unemployment—were introduced to increase employees’ disposable income and discourage employee layoffs. Both employer and employee contribution rates are reduced from 5 percent to 3 percent of covered wages until December 31, 2009, after which time the original contribution rates will come back into effect. The government contribution rate of 2.75 percent of covered wages remains unchanged.

The planned retirement savings program could cover the nearly 25 million persons, more than two-thirds of the working-age population (aged 20 to 60), who do not participate in a formal retirement program. According to the government, Thai citizens would be eligible to enroll in the program as early as age 20. Workers’ monthly contributions to an individual account would range from 100 baht (US$2.94) to 1,000 baht (US$29.41), supplemented by a government match according to an age-based sliding scale: 50 baht (US$1.47) for those aged 30 or younger and up to 100 baht for those aged 50 or older. Upon retirement at age 60, participants would receive a monthly pension based on their accumulated contributions and investment earnings. The Finance Ministry estimates the annual cost of the program from 10 billion baht (US$294 million) to 20 billion baht (US$586 million).

Existing retirement programs in Thailand cover approximately 13 million people: 9 million through social security, an additional 2 million civil servant members in the Government Pension Fund, and upwards of 2 million private-sector workers in voluntary provident funds or other private retirement savings vehicles. In addition, since April 9, citizens older than age 60 without access to a pension have been eligible for a monthly pension of 500 baht (US$14.66) per month.

The Social Security Administration has released *Social Security Programs Throughout the World: Africa, 2009*, part of a four-volume series that provides a cross-national comparison of the social security systems in 44 countries in Africa. It summarizes the five main social insurance programs in those countries: (1) old-age, disability, and survivors; (2) sickness and maternity; (3) work injury; (4) unemployment; and (5) family allowances. The other regional volumes in the series focus on the social security systems of countries in Asia and the Pacific, the Americas, and Europe. The report is available online at http://www.socialsecurity.gov/policy/docs/progdesc/ssptw/2008-2009/africa/index.html.