Social Security
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International Update:

Recent Developments in Foreign Public and Private Pensions

April 2010

Europe

Belgium

On April 1, a new law went into effect that seeks to discourage employers' use of certain early retirement programs in Belgium by increasing the contribution rate for participating employers. Among the programs affected by the new law is the so-called "conventional bridge pension," which provides an employer-sponsored supplement in addition to unemployment benefits to older workers who are laid off from their jobs before reaching the normal retirement age of 65. (The minimum age to receive this supplement is 58 in most sectors, but workers can qualify as early as age 50 under special circumstances.) The supplement is paid until the worker reaches the normal retirement age and is eligible for an old-age pension under the public pay-as-you-go (PAYG) system. Also, the number of years a worker receives the supplement counts as years of service under the PAYG system.

When the "conventional bridge pension" and related early retirement programs were introduced in the 1970s and 1980s, the government's goal was to free up jobs for younger workers while ensuring a decent income to older workers who lost their jobs. Largely as a result of such generous early retirement programs, the Organisation for Economic Co-operation and Development (OECD) found that the labor force participation rate of older workers in Belgium ranks among the lowest of all OECD member countries.

The new law changes the employer contributions to these early retirement programs from a fixed amount that decreased as an employee approached the normal retirement age to a percentage of the employee supplement. (The supplement is equal to 50 percent of the difference between an employee's previous net earnings and the unemployment benefit.) The percentage paid by the employer varies depending on an employee's age at the time benefits are first received: For employees aged 50–51, employers contribute 50 percent of the gross monthly amount of the supplement; for older employees, the rate decreases to 40 percent if aged 52–54, 30 percent if aged 55–57, 20 percent if aged 58–59, and 10 percent if aged 60 or older. The contribution rate may be further decreased on a case-by-case basis for companies in financial difficulty.

Aside from these employer-sponsored early retirement benefits, workers can receive an early pension under the state-run PAYG system at age 60 with at least 35 years of contributions. (The retirement age for a full pension is age 65 with at least 45 years of contributions.) Workers contribute 7.5 percent of earnings and employers contribute 8.86 percent of payroll, with the government providing annual subsidies.

Sources: *Social Security Programs Throughout the World: Europe, 2008*; OECD Economic Surveys of Belgium, 2007 and 2009; "Het Conventioneel Brugpensioen," Rijksdienst voor Arbeidsvoorziening, 1 januari 2010; "Wijzigingen Brugpensioen vanaf 1 april 2010," Centrum voor Loonbeheer, 12 maart 2010; "Brugpensioen Duurder vanaf 1 april," Nieuwsblad.be, 30 maart 2010; "Aanvul. Vergoeding Brugpensioen, Toeslag Bovenop een WLH-Uitkering en Toeslag bij Tijdskredietuitk.," *Acerta*, 30 maart 2010.

Ireland

On March 3, the government released the *National Pensions Framework*, which sets out its intentions for the future direction of the Irish pension system. The framework addresses a number of issues that threaten the fiscal sustainability of the pension system by 2050, including a tripling of the number of persons older than age 65, an increase in public spending on pensions (from 5½ percent of gross domestic product to almost 15 percent), and a decline in the number of workers supporting each pensioner (from nearly 6 to less than 2). The framework aims to increase private pension coverage, especially for low- and middle-income groups, and maintain state support for pensions.

Key elements of the framework include the following:

- *Gradual increase in the retirement age*. The age to qualify for a contributory state pension would rise from 66 to 67 in 2021, to age 68 in 2028. The existing state transition pension, payable from age 65 to 66 for individuals not in paid employment, will be abolished in 2014.

- *Replacement rate for the state pension*. The contributory state pension would remain the core of the pension system, maintaining a level equal to 35 percent of average earnings.
- *Automatic enrollment in the new supplemental pension plan*. Employees aged 22 or older would automatically be enrolled in a new national defined contribution (DC) pension plan, which is designed to supplement the state pension. Employees could opt out of the plan after 3 months, but would be reenrolled after 2 years. Although opting out would be possible thereafter, the government would give a one-time bonus to those who contribute to the new plan for more than 5 years without a break. Contribution rates (as a percentage of employee earnings) under the new plan would equal 4 percent from employees, 2 percent from the state (equaling 33 percent in employee tax relief), and 2 percent from employers. Employers providing DC plans with higher contribution levels or a defined benefit (DB) retirement plan would not be obligated to enroll their employees in the new system.
- *Occupational pensions.* Tax relief for employee contributions to existing retirement pensions (currently ranging from 20 to 41 percent) would change to 33 percent for both DC and DB occupational pension plans. From 2011, DC plans would have more streamlined and standardized provisions for the drawdown of funds at retirement.
- *Public service pensions*. A new retirement system will be introduced in 2010 for all new hires, providing a pension based on career average earnings rather than the existing calculation based on final salary. This includes a new minimum pension age of 66, which will be linked to the state pension age, and a maximum retirement age of 70. Since April 1, 2004, the minimum retirement age of most new entrants to the public service has been 65 with no compulsory retirement age.

The full report is available at http://www.pensionsgreenpaper.ie/downloads/NationalPensionsFramework.pdf.

Sources: *National Pensions Framework*, Ireland Department of Social and Family Affairs, 2010; "New Auto-Enrollment Pension Scheme to be Introduced from 2014," Ireland Department of Social and Family Affairs, March 3, 2010; "Full Text Analysis of the National Pensions Framework Paper," Mercer, March 4, 2010.

Asia and the Pacific

Australia

On March 22, the government-appointed Super System Review panel issued a preliminary report on the operational aspects of superannuation funds entitled *Superstream: A Proposal to Bring the Back Office of Super into the 21st Century.* The panel was formed in May 2009 to examine the country's nearly 20-year-old superannuation system. This report is the second in the series; the first, released in December 2009, dealt with governance of superannuation funds. A preliminary report on superannuation industry structure is expected to be released between April and May, and the final report on all three topics is due on June 30, 2010.

The preliminary report found a number of major problems related to the operations of the funds. For example, the industry has no standards for producing data and no uniform systems for processing contributions and identifying members. Many employers still use a manual process, and about 38 percent of companies still use checks to submit their fund contributions. Also, many small funds have a large number of inactive members, in part because the current process makes it difficult to switch from one fund to another and to rollover contributions.

Analysts estimate that the annual cost to the Australian superannuation industry of processing more than 100 million transactions exceeds A$3.5 billion (US$3.2 billion). The report's recommendations, which are predicted to save the industry as much as A$1 billion (US$916 million) per year, include—

- Establishing industry-wide standards to improve the quality of the data;
- Requiring the use of technology for processing and eliminating paper (employers would be fined if they did not transmit contributions electronically);
- Adopting the worker tax file number as the identifier for the entire system;
- Creating a better system to consolidate multiple member accounts; and,
- Simplifying processes and eliminating duplication.

The full report is available at http://www.supersystemreview.gov.au/content/downloads/superstream_paper/Super_System_Review_SuperStream.pdf.

Sources: "Australia," *International Update,* January 2010, U.S. Social Security Administration; *Superstream: A Proposal to Bring the Back Office of Super into the 21st Century,* Australian Government, March 22, 2010; Australian Government press release, March 22, 2010; "Reviews Bid to End Superannuation Paper Jam," *The Australian*, March 23, 2010; "Cooper Changes Would Lead to Super Fund Mergers," IPAsia, March 26, 2010.

Reports and Studies

International Social Security Association

The International Social Security Association (ISSA) recently released *Dynamic Social Security for Europe: Choice and Responsibility* in conjunction with the Regional Social Security Forum for Europe, which was organized by the ISSA, hosted by the Social Insurance Institution of Poland, and held in Warsaw, Poland, March 3–5, 2010. The report analyzes the most recent developments and trends in social security programs in Europe to better understand and address the key challenges facing ISSA member organizations. According to the report, those key challenges include—

- *Satisfying demands for personal choice and services.* In the context of social security, the widespread promotion and use of individual accounts poses difficult questions for governments, including how to balance account holders' demands for investment choice with the need to maintain protection against excessive risk.
- *Maintaining an adequate level of social security protection in the face of globalization.* Increasing pressure to create business-friendly environments—for example, by reducing employer contribution rates—may result in declining coverage and inadequate benefits.
- *Adjusting social spending to deal with population aging.* The European Commission projects that the ratio of workers to retirees in the European Union will decrease from 2.7 to 1 in 2009, to 1.4 to 1 by 2060, presenting significant risks to the long-term sustainability of government finances.
- *Recovering from the global financial and economic crisis.* An extended recovery could lead to large, long-term pension deficits, placing significant strain on weaker economies.

In addition, the report evaluates the large array of reforms implemented across the region to address these challenges, focusing on the areas of retirement, family benefits, and health care. According to the report, these reforms are increasingly complex and ambitious, creating significant challenges for social security administrators.

The report is the third of a four-volume series examining regional social security programs. The first volume on Africa was released in November 2008, the second on Asia and the Pacific in October 2009, and the remaining volume will cover the Americas. The full text of the report is available at http://www.issa.int/aiss/content/download/111419/2436975/file/2-DT-Europe.pdf.

Sources: *Dynamic Social Security for Europe: Choice and Responsibility*, International Social Security Association, March 2010.

Social Security Administration

The Social Security Administration has released *Social Security Programs Throughout the World: The Americas, 2009*—part of a four-volume series that provides a cross-national comparison of the social security systems in 36 countries in the Americas. 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 Europe, Asia and the Pacific, and Africa. The report is available at http://www.socialsecurity.gov/policy/docs/progdesc/ssptw/2008-2009/americas/index.html.

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