Europe

Updated regulations, effective May 1, simplify and modernize the coordination process among the social security systems in the European Union (EU) member states, which in recent years had become increasingly complex and cumbersome. EU regulations on social security coordination do not replace national systems, but create linkages between systems to guarantee that individuals can have uninterrupted coverage when moving from one country to another within the region.

The updated rules apply to all citizens of EU member states covered under national social security programs, including workers and their families, tourists, and those who are not in the workforce such as job seekers and pensioners. Citizens will be issued a limited number of portable documents (including the European Health Insurance Card) by the social security institution where they are insured. These documents will be used to verify entitlement to coverage for each country. In addition, the new regulations require citizens to be temporarily assigned to a specific social security system if social security institutions in different EU countries cannot agree on which national legislation applies in a particular case. Thus, individuals will not be denied medical treatment or access to sickness insurance benefits while their status is being resolved.

A major information network, the Electronic Exchange of Social Security Information, will be implemented by May 2012 in all EU countries. The system will streamline application processing and benefits administration through the electronic sharing of information among EU countries. The EU will also launch a Web site with an updated citizens’ guide and access to an online directory of social security institutions in Europe.


Sweden

On May 1, Sweden’s AP7, which manages assets of the mandatory individual premium pension accounts, replaced its premium choice and default funds with low-cost equity and fixed income funds. Savers with accounts in the now-defunct funds—about 2.6 million participants in the old default fund and around 100,000 participants in the premium choice fund—had their account balances automatically transferred to a new government default fund with a generational (lifecycle) structure. The government had expressed dissatisfaction with the defunct funds’ long-term performance and believes the change in AP7’s mandate will provide those who do not select their own funds with better pensions in the long run. In addition, under new rules, all premium pension account holders will be charged an administrative fee for shifting their investments between approved funds.

For active investors, the new funds managed by AP7 represent low-cost government alternatives to private-sector investment options. A participant may select among three separate portfolios, each with a different level of risk exposure (low, medium, and high). The previous default fund, available only to participants who did not choose a fund, operated as a global share fund, with equal risk exposure at all ages; active investors could not select the fund as an investment option or choose to opt back in once they left the fund. Under the new default arrangement, individuals who do not make an investment choice are invested 100 percent in equities until they reach age 55, after which time they are gradually moved into fixed income investments.

Sweden’s state pension system is financed by combined employer/employee contributions of 18.5 percent of an employee’s earnings—16 percent to pay-as-you-go notional accounts and 2.5 percent to premium pension individual accounts. Contributions to the premium pension accounts may be invested in up to five.
On January 1, 2010, the Swedish Pension Agency replaced the Swedish Insurance Agency as the state pension administrator, and the Premium Pension Authority, which had been established in 2000 to manage the individual premium pension plan accounts, was abolished. The government expects the new organizational structure to help cut waste and improve customer service.


---

Asia and the Pacific

**Australia**

On May 2, the government announced changes to the country’s mandatory occupational pension system (superannuation) to help raise the level of retirement savings, which include increasing the employer’s contribution rate, raising the age limit on employers’ mandatory contributions, and establishing tax rebates for low-income workers. The government predicts that by 2035, these measures could add some A$500 billion (US$407 billion) to superannuation savings, which currently equal more than A$1 trillion (US$815 billion).

One measure gradually raises the superannuation guarantee, the employer’s mandatory contribution to an employee’s account, from the current 9 percent of wages to 12 percent, beginning in 2013. The contribution rate will increase by 0.25 percent per year for the first two years and by 0.50 percent per year from 2015 to 2019. As a result, an average worker who is currently aged 30 is expected to have an additional A$108,000 (US$88,000) in a superannuation account at retirement.

Another measure requires employers to make superannuation guarantee contributions beginning July 1, 2013 for workers up to age 75. Currently, employer contributions are mandatory until a worker reaches age 70 and voluntary until they reach age 75. (Participation for the self-employed is voluntary.) In addition to increasing savings, this measure is designed to encourage older workers to remain in the labor force. The government estimates that about 33,000 employees could benefit.

A third measure will provide some 3.5 million low-income workers with an annual government tax rebate of up to A$500 (US$407) deposited into a superannuation account beginning July 2013. This measure supplements the government matching contributions (co-contributions) to workers who earn up to A$62,000 (US$50,523) per year and make voluntary contributions to a superannuation account. Up until last year, the co-contribution was 150 percent of a worker’s contribution, up to a maximum of A$1,500 (US$1,222). However, a temporary measure introduced last year to lower the co-contribution rate to 100 percent (up to a maximum of A$1,000 or US$815) is now permanent and co-contribution thresholds are frozen at the current levels for the next 2 years.


---

**Singapore**

On May 1, the government of Singapore announced that it will gradually increase the employer contribution rate to the state-run Central Provident Fund (CPF) by 1 percent in two steps: 0.5 percent on September 1, 2010, and an additional 0.5 percent on March 1, 2011. Currently, employers contribute 14.5 percent of earnings for most employees, and employees contribute 20 percent of earnings. (Contribution rates are based on an employee’s age, with lower rates for employees aged 51 or older). According to the government, the contribution rate increase is made possible by the strong economic rebound in Singapore; recent forecasts by the Ministry of Trade and Industry project growth in the gross domestic product of 7 percent to 9 percent for 2010.

The CPF is a publicly managed defined-contribution system that is mandatory for most workers. Contributions are allocated into four separate individual accounts: (1) an Ordinary Account (OA), which can be used to finance the purchase of a home, approved investments, CPF insurance, and education;
(2) a Special Account (SA), which is principally for old-age needs; (3) a Medisave Account (MA), which pays for hospital treatment, medical benefits, and approved medical insurance; and (4) a Retirement Account (RA), which finances retirement. At age 55, CPF members must set aside a minimum sum of S$117,000 (US$83,227) from the OA and SA to fund the RA, with any remainder being available for withdrawal. Withdrawals from the MA are also possible at age 55 on funds greater than the Medisave minimum sum of S$32,000 (US$22,763). (The Medisave minimum sum will increase to S$34,500 (US$24,541) on July 1). Finally, funds in the RA can be used to purchase a life annuity or to make programmed withdrawals from age 62 (increasing gradually to age 65 by 2018).