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International Update:

Recent Developments in Foreign Public and Private Pensions

July 2010

Europe

United Kingdom

On June 24, the Department for Work and Pensions (DWP) outlined the new government's agenda on public pension provision. As part of that agenda, the DWP announced new policy initiatives, including a review of the scheduled automatic enrollment in workplace pensions and the launch of a public consultation on the timing of an increase in the qualifying age for the Basic State Pension (BSP). At the same time, the government declared its intention to restore the link in April 2011 between the BSP and earnings, by indexing the benefit to the rate of increase in earnings, prices, or 2.5 percent—whichever is highest. Since 1980, the BSP has been indexed to inflation; as national average earnings rose faster than prices, the level of pensions relative to average earnings has gradually eroded over time.

While affirming its commitment to introduce automatic enrollment on schedule in October 2012, the government announced details of a review by an independent expert commission to be completed by September 30, 2010. The commission is assessing the role of the National Employment Savings Trust—established to manage a new occupational pension scheme for encouraging greater saving for retirement—by targeting low to moderate earners and those working for smaller employers. The review is specifically evaluating the scope of automatic enrollment, including the possibility of age limits, company size limits, and vesting periods. The evaluation builds on the work in 2005 of the Pensions Commission, which recommended automatic enrollment in workplace pensions.

As a second initiative, the government invited interested individuals and organizations to comment on the timing of the scheduled increase in the state pension age (SPA)—the age of eligibility for the BSP. The consultation is scheduled to run until August 6, 2010, and the results will be published this fall. Under the current timetable, the SPA is due to rise from age 65 (the current SPA) to 66 by 2026, to 67 by 2036, and to 68 by 2046. With life expectancy at age 65 increasing at a faster rate than previously projected in the United Kingdom, the government has stated that leaving the SPA unchanged is not an option. According to the government, working longer to receive a state pension will also mean higher benefits and help ensure the long-term sustainability of the public pension system.

Sources: "The History of State Pensions in the UK: 1948 to 2010," Institute for Fiscal Studies, 2010; "When Should the State Pension Age Increase to 66?" Department for Work and Pensions, June 2010; "Independent Commission to Review Auto-enrolment," *Professional Pensions*, June 24, 2010; "Public Consultation Launched into Changes to UK State Pension," ipe.com, June 24, 2010; "EU Approves UK Pension Scheme NEST," eubusiness.com, July 6, 2010.

The Americas

Brazil

On June 15, President Lula approved a 7.7 percent increase in public pensions that was passed by the legislature in May; he originally proposed 6.14 percent. The increase is retroactive to January 1, 2010, and affects some 8.3 million beneficiaries whose pensions are higher than the minimum monthly benefit (505 reais or US$283). The government estimates the cost of this higher increase at 1.6 billion reais (US$898 million) per year and plans to make budget cuts to offset the additional cost.

At the same time, the president vetoed another provision passed by the legislature that eliminated the social security factor (fator previdenciário) set up in 1999 to encourage workers to defer retirement, by calculating benefits according to the insured's contributions, age, and life expectancy at retirement. According to government projections, maintaining this adjustment could save the government from 20 billion reais to 30 billion reais (US$11.2 billion to US$16.8 billion) over the next 5 years. The social security factor is mandatory in benefit calculations for workers insured after November 1999 who qualify for the Contributory Pension (35 years of contributions for men and 30 for women).

Brazil's public pay-as-you-go system covers most private-sector workers and the self-employed. Workers contribute between 9 percent and 11 percent of earnings, depending on their level of earnings, and employers contribute 20 percent of payroll for old-age, survivors, and disability insurance (OASDI); sickness and maternity benefits; and family allowances. The self-employed contribute 20 percent of earnings for OASDI and sickness and maternity benefits. Earmarked taxes cover administrative costs and the government pays for any deficit. Since 2009, the social security deficit has grown by almost 13 percent (inflation-adjusted) and is currently close to 45 billion reais (US$25 billion).

Sources: *Social Security Programs Throughout the World: The Americas, 2009;* Brazil's Lula to Raise Minimum Wage 8.7% in 2010, Folha Says," Bloomberg.com, December 9, 2009; "Lula Sinaliza Que Vetará o Fim do Fator Previdenciário," *Diario Catarinense*, 21 maio 2010; "Brazilian President Sanctions Adjustment to Pension Payments," IHS Global Insight Daily Analysis, June 16, 2010; "Lula Mantém Fator Previdenciário," Valor Econômico, 16 junho 2010.

Africa

Egypt

On June 13, the Egyptian Parliament passed a pension reform law that will replace the current public pay-as-you-go (PAYG) pension system with a system of individual accounts on January 1, 2012. Specific regulations concerning the system are due before Parliament by the end of 2010. According to the Ministry of Finance, the reforms are intended to encourage greater savings for retirement and improve the pension system's long-term sustainability. In the coming decades, the Egyptian population is projected to age rapidly because of improvements in life expectancy (from 71.1 years in 2010 to 77.7 years in 2050) and declining fertility rates (from 2.68 children per woman in 2010 to 1.92 in 2050). As a result, the share of the population aged 65 or older is projected to increase from 4.6 percent in 2010 to 13.1 percent in 2050—an increase that would place significant strain on the existing pension system.

Key elements of the new system include the following:

- The contribution rate will be set at 16.5 percent of earnings for employees and 10 percent of payroll for employers. Employees will be able to make additional voluntary contributions.
- The retirement age will increase gradually from age 60 at present to 61 by 2015, to 62 by 2018, to 63 by 2021, to 64 by 2024, and to 65 by 2027. The increase will affect all new entrants to the workforce on or after January 1, 2012.
- A minimum pension—equal to 15 percent of the national average wage and funded from the state budget—will be available to all resident citizens of Egypt aged 65 or older, including individuals who have not contributed to the pension system.
- A new investment board, expected to include specialized advisers and portfolio managers, will be created to administer and invest the assets from the individual accounts.

The current public PAYG program in Egypt covers approximately 80 percent of employed persons, one of the highest levels among developing countries. Contributions are based on two components: (1) base earnings, or earnings up to 775 Egyptian pounds (US$136) a month, and (2) variable earnings, or earnings exceeding 775 Egyptian pounds a month plus certain other forms of compensation, including bonuses, incentives, and commissions. Employees contribute 13 percent of base earnings and 10 percent of variable earnings, employers contribute 17 percent of base earnings and 15 percent of variable earnings, and the government contributes 1 percent of earnings plus the cost of any deficit.

Sources: *World Population Prospects: The 2008 Revision*, United Nations, 2008; *Social Security Programs Throughout the World: Africa, 2009*; "Egypt: Towards Reform," *IPE.com*, June 2, 2010; "Egypt Pensions Draft in Parliament, Businesses Wary," *Reuters*, June 9, 2010; "Parliament Approves New Pensions and Insurance Law," *Daily News Egypt*, June 14, 2010; "Egypt Raises Retirement Age, to Introduce Jobless Benefits," Reuters, June 14, 2010; Ministry of Finance press release, June 29, 2010.

Reports and Studies

International Social Security Association

The International Social Security Association (ISSA) recently released *Dynamic Social Security for the Americas: Social Cohesion and Institutional Diversity* in conjunction with the Regional Social Security Forum for the Americas. The forum, organized by the ISSA and hosted by the Ministry of Social Insurance of Brazil, was held in Brasilia, Brazil, May 24–27, 2010. The report analyzes the most recent developments and trends in social security programs in the

Americas to better understand and address the key challenges facing ISSA member organizations in the region. According to the report, those key challenges include—

- *Improving governance and administration.* Issues such as weak administration, inadequate record-keeping, high administrative costs, and noncompliance affect many countries across the region.
- *Extending coverage.* Countries should continue to focus on improving coverage for targeted groups, including workers in the informal economy and other individuals not covered by existing social security programs.
- *Improving social dialogue.* In order to build a national consensus on social security reform, countries should include all social partners and stakeholders in a process of social dialogue, including public consultations and debates.

The report is the fourth 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 third on Europe in March 2010. The full text of the report is available at http://www.issa.int/content/download/126849/2591388/file/2-DT-Americas2010.pdf.

Sources: *Dynamic Social Security for the Americas: Social Cohesion and Institutional Diversity*, International Social Security Association, May 2010.

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