Social Security

# International Update:

Recent Developments in Foreign Public and Private Pensions

March 2011

## Europe

### *Finland*

On March 1, a new guaranteed monthly minimum pension was introduced, supplementing the income-tested universal pension. Expenditures from the guaranteed pension are expected to amount to approximately 94 million euros (US$130 million) in 2011. The government estimates that 120,000 pensioners, less than 10 percent of all pensioners (especially those with low income and women), will qualify for the benefit.

The guaranteed pension is payable to those with total pretax monthly pension income below 687.74 euros (US$950.80) in 2011. This threshold now becomes the total minimum benefit (universal pension plus guaranteed pension) payable regardless of the pensioner's family status, effectively increasing the maximum amount to 687.74 euros for both single individuals and for each partner in a marriage/cohabitating arrangement; previously, the corresponding amounts received were 586.46 euros (US$810.78) and 520.19 euros (US$719.16), respectively. However, the benefit is reduced based on the value of other pension income received and residency of less than 40 years, and it is subject to income tax.

The universal pension, which is funded by general revenues and subject to a residency requirement, comprises the first tier of Finland's retirement system. A mandatory earnings-related, pay-as-you-go pension program, financed mainly by employer and employee contributions, provides the principal source of retirement income for most private-sector employees. The employer must establish a plan through a contractual arrangement with a pension provider or pension fund.

**Sources:** *Finland 2011: Country Manual*, IBIS eVisor, 2011; *Budget Review 2011*, Finland Ministry of Finance, January 2011; "Changes to KELA Benefits in 2011," KELA—The Social Insurance Institution of Finland, January 21, 2011.

## The Americas

### *Guatemala*

On January 1, changes to Guatemala's pay-as-you-go (PAYG) public pension system went into effect, raising the minimum retirement age for new entrants to the labor force from age 60 to 62 and the minimum years of contributions required for a benefit from 15 years to 20. Transitionally, all workers covered by the system as of December 31, 2010, are permitted to retire at age 60. However, the required minimum number of contribution years for these workers is increasing by 1 year each year until reaching 20 years in 2015. These measures were adopted to help reduce the fiscal burden caused by the aging of the population in Guatemala. Life expectancy at birth has increased from age 42 in 1950 to age 70.2 in 2010 and is projected to reach age 77.9 by 2050. In addition, the percent of the country's population aged 60 or older has risen during the same time period, from 4.2 percent to 6.5 percent, respectively, and it is expected to reach 13.3 percent by 2050.

The country's public PAYG pension system covers private-sector employees, including agricultural workers and some public-sector employees. Participation for the self-employed is voluntary. Public pensions are financed by worker, employer, and government contributions. The benefit is equal to 50 percent of the insured worker's average earnings in the 60 months prior to retirement plus 0.5 percent for each 6-month period of contributions exceeding 120 months. An additional 10 percent of the insured worker's pension is paid as a dependent's supplement on behalf of a wife, partner, or disabled husband; for each child younger than age 18 (no age limit if disabled); and for a dependent mother and a dependent disabled father who are not pensioners. The minimum monthly benefit, including supplements, is 340 quetzales (US$43), and the maximum is 4,800 quetzales (US$607). Benefits are adjusted periodically according to a financial assessment of the program.

**Sources:** *World Population Prospects: The 2008 Revision,* United Nations, 2008*; Social Security Programs Throughout the World: The Americas, 2009*, US Social Security Administration; "Guatemala Aumentó a 62 Años la Edad para Jubilarse," *La Nación*, el 1 de enero de 2011; "En Pie Cambio de Edad de Jubilación," Sigloxxi.com, el 12 de enero de 2011; *IBIS News, Guatemala*, February 24, 2011.

# Asia and the Pacific

## *New Zealand*

On February 1, the Savings Working Group (SWG) released *Saving New Zealand: Reducing Vulnerabilities and Barriers to Growth and Prosperity*, a report analyzing savings policy in New Zealand and its effect on economic growth and investment performance. Established by the government in August 2010, the SWG is composed of private- and public-sector experts. According to the report, national savings are inadequate relative to the country's investment needs, leading to overdependence on foreign borrowing; currently, net foreign liabilities are 85 percent of gross domestic product. As a result, the economy is exposed to shifts in international financial markets, which may cause financial shocks and economic disruption. To reduce this vulnerability, the SWG recommends that the government adopt policies to increase savings in the country—through KiwiSaver (the government subsidized retirement savings plans set up in 2007), superannuation, and other types of savings vehicles.

Key recommendations related to KiwiSaver follow:

- Membership in KiwiSaver should remain voluntary at this time. Currently, all individuals younger than age 65, including the self-employed and anyone not in the labor force, may have a KiwiSaver account.
- To increase membership, auto-enrollment should be extended to include the self-employed and employees aged 16 or older who are not yet members of KiwiSaver. Since 2007, all new entrants to the labor force aged 18 or older are auto-enrolled in KiwiSaver, with an opt-out provision.
- The default employee contribution rate should be increased to 4 percent of earnings, but with the possibility to opt down to 2 percent. Under current rules, employees contribute 2 percent (the current default), 4 percent, or 8 percent of earnings; employers contribute at least 2 percent to an employee's account.
- To reduce costs, fees, and expenses, a new low-cost default scheme should be created that invests only in index-based shares and bonds and offers only a limited number of basic combinations for those investments. An additional "ultra-low-risk" fund should also be set up, which invests only in short-term government securities.
- KiwiSaver (and superannuation) providers should be required to produce regular reports that specify all fees and charges, as well as the net investment returns to the member (after deducting all costs).
- The government should consider encouraging the development of a market for annuities or similar instruments and requiring members to convert a portion of their savings into an annuity or other appropriate instrument at retirement. Currently, the annuities market is very limited.
- The government's one-time payment of NZ$1,000 (US$752) to every KiwiSaver account should be spread out over a number of years, rather than paid as a lump sum after the first contribution to the account is made. This would distribute the potential large cost to the government of a sudden influx of new members over a period of years, while providing an incentive to members to continue contributing to their accounts after the first year.

This report is available at http://www.treasury.govt.nz/publications/reviews-consultation/savingsworkinggroup/pdfs/swg-report-jan11.pdf.

**Sources:** "New Zealand," *International Update*, September 2010, US Social Security Administration; *Saving New Zealand: Reducing Vulnerabilities and Barriers to Growth and Prosperity*, Savings Working Group, February 1, 2011.

## Reports and Studies

### *Social Security Administration*

The Social Security Administration has released *Social Security Programs Throughout the World: Asia and the Pacific, 2010*—part of a four-volume series that provides a cross-national comparison of the social security systems in 48 countries in Asia and the Pacific. 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 Africa, the Americas, and Europe. The report is available at http://www.ssa.gov/policy/docs/progdesc/ssptw/2010-2011/asia/index.html.

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