Social Security

International Update:

Recent Developments in Foreign Public and Private Pensions

June 2011

The Americas

Chile

Beginning July 1, all employers will be required to pay the cost of survivors and disability insurance for their employees. The 2008 pension reform law phased in the transfer of this obligation from the employee to the employer: From July 1, 2009, to July 1, 2011, employers of companies with more than 100 employees and government agencies, regardless of the number of employees, must pay the premium; employees of all other companies are still responsible for the cost, currently an average of 1.49 percent of earnings per month, up to a maximum of 1,439,588 pesos (US$3,000).

The 2008 pension reform law changed the way these insurance premiums are set. Previously each pension fund management company (AFP) contracted with a single insurance company through a periodic bidding process. As a result, the amount of the premium varied from one AFP to another, and the average premium among all AFPs has fluctuated over time. Since 2009, all AFPs must conduct one joint annual bidding process to establish uniform premiums for all account holders in every AFP. Multiple companies may be chosen because the premiums are divided into seven categories for men and four for women.

Under Chile's retirement income system, employees contribute 10 percent of their earnings per month to a mandatory individual account managed by the AFP of their choice. The six existing AFPs also charge account holders an average administrative fee of 1.55 percent of earnings. Both the contribution and the fee are based on the employee's earnings up to the same ceiling as that for survivors and disability insurance. Employers' contributions to employees' individual accounts are voluntary.

Sources: "Aporte Patronal-Seguro de Invalidez y Sobrevivencia," Instituto de Previsión Social, 2009; "Aporte Patronal," Subsecretaría de Previsión Social, 2009; "Next Generation of Individual Account Pension Reforms in Latin America," *Social Security Bulletin,* Vol. 71, No. 1, 2011; "Estructura de Comisiones," Superintendencia de Pensiones, mayo de 2011; "El Sueldo de Casi Dos Millones de Trabajadores Subirá el 1 de Julio," *El Mercurio*, el 2 de junio de 2011.

Asia and the Pacific

New Zealand

On May 24, Parliament passed "Budget 2011," which includes a number of measures to lower the government's financial obligation to KiwiSaver plans. Introduced in July 2007, these plans are voluntary, government-subsidized savings for retirement; employees are automatically enrolled in a plan but may opt out if they wish. According to the government, it has to borrow money to pay for the more than NZ$1 billion (US$822.8 million) per year in tax breaks and subsidies it must provide under the current rules. To date, government subsidies represent more than 40 percent of the NZ$7.9 billion (US$6.5 billion) in total assets under management in all KiwiSaver accounts. The new budget aims to save the government some NZ$ 2.6 billion (US$ 2.1 billion) over 4 years by shifting more of the burden of saving for retirement to the individual.

The changes to KiwiSaver in the budget follow:

- Effective July 1, 2011, the tax credit for KiwiSaver plan members will be cut in half, to 50 cents for every dollar the member contributes up to a ceiling of NZ$521 (US$429).
- Beginning April 1, 2012, the employer contributions to an employee's account will no longer be tax free for the employee. (Tax credits for the employer were eliminated in 2009.)
- Beginning April 1, 2013, the minimum required contribution for both employees and employers will rise from 2 percent of earnings each to 3 percent each; the default contribution rate for those employees who do not make a choice will also rise from 2 percent to 3 percent.

The NZ$1,000 (US$823) government subsidy (also called the "kick start" payment) to individuals who open a KiwiSaver account for the first time will not be changed.

The budget also contains government plans to resume paying contributions to the New Zealand Superannuation Fund (NZSF), an investment fund created in 2001 to partially finance the projected rise in the cost of public retirement benefits as the country's population ages. In 2009, the government suspended its annual payments to the NZSF to help stem the country's rising budget deficit. The projected date to resume payments is during the 2016/17 fiscal year, 2 years earlier than originally planned.

Sources: " New Zealand," *International Update,* June 2009 and January 2011, US Social Security Administration; "KiwiSaver Tinkering Adds Compliance Costs to Business," scoop.co.nz, May 18, 2011; "Fact Sheet—KiwiSaver Changes," New Zealand Government, May 19, 2011; "NZ Budget Includes Lower Tax Credit, Higher Contribution to KiwiSaver," *Global Pensions*, May 20, 2011; "Experts Label KiwiSaver Move a Tax Grab Scheme Change," *New Zealand Herald*, May 20, 2011; "International Headlines," *Mercer*, May 25 and June 2, 2011.

Philippines

On March 29, the government launched the Social Pension Program to help the indigent elderly provide for their daily subsistence and medical needs. The Social Pension Program provides 500 pesos (US$11.59) a month (distributed on a quarterly basis) to those aged 60 or older who are frail, sick, disabled, and without any permanent source of income (pension, family support, and so forth). The benefit will be subject to legislative review every 2 years.

There are currently an estimated 6.3 million Filipinos aged 60 or older. Because of funding constraints, program guidelines prioritize eligibility by age, and currently only those aged 77 or older may benefit from the program. A national survey has identified more than 145 thousand citizens aged 77 or older—roughly 14 percent of that age group—as eligible to receive the social pension. The government earmarked 870 million pesos (US$20 million) for the program in 2011 and proposed expanding the program to reach over 1 million indigent elderly citizens in 2012.

The public pay-as-you-go retirement system in the Philippines includes mandatory social insurance for private-sector workers, covering workers up to age 60 who earn at least 1,000 pesos (US$23.17) per month, and separate systems for government employees and military personnel. There are also options for voluntary retirement savings.

Sources: "Social Pension for Elders under Fire," *Bohol Chronicle*, May 2, 2011; "95 Senior Citizens Benefit from Social Pension Program," Philippine Information Agency, May 10, 2011; "2,000 Metro Seniors to Get DSWD Pension This Month," *Tempo*, May 17, 2011; "DBM Releases P435.5M Social Pension for Indigent Senior Citizens," *Sun Star Bacolod*, June 8, 2011.

Africa

Uganda

On April 25, the Parliament of Uganda passed a law establishing the Retirement Benefits Authority (RBA), an independent regulatory authority responsible for regulating the establishment, management, and operation of retirement benefit programs in the private sector. (Many details, including when the RBA will begin operation, are not yet known.) The law is the first of two complementary laws meant to open up the pension sector in Uganda; a second law currently under consideration in Parliament would set up the legal and regulatory framework for the establishment of new retirement benefit programs in the country. Currently, the National Social Security Fund (NSSF) is the only provider of retirement benefits to workers in the private sector. According to the government, the RBA will protect the interests of members and beneficiaries of retirement benefit programs by promoting transparency and accountability within the pension sector.

The new law prohibits retirement benefit programs from operating unless licensed by the RBA. (In the coming months, the RBA will draft the guidelines for the licensing process.) At present, this only affects the NSSF, a provident fund program that has held a monopoly on the collection and management of social security contributions since the passage of Uganda's current social security legislation in 1985. However, if the second law is passed in 2011 as expected, new pension institutions, which provide retirement products and services, would also be able to apply for a license to operate and compete with the NSSF for members. As a result, the government anticipates that the pension sector will become more competitive and, therefore, more efficient.

The NSSF covers workers in companies with five or more employees. Currently, employees contribute 5 percent of gross monthly earnings and employers contribute 10 percent of gross monthly payroll to the NSSF. At age 55, employees can receive a lump sum old-age benefit equal to the total employee and employer contributions plus interest.

Sources: *Social Security Programs Throughout the World: Africa 2009*, US Social Security Administration; “Parliament Passes Retirement Benefits Bill,” *NewVision*, April 26, 2011; “What It Means for NSSF Monopoly to End,” *The Observer*, May 4, 2011.

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