Social Security

International Update:

Recent Developments in Foreign Public and Private Pensions

October 2011

Europe

Italy

On September 14, the Italian parliament approved pension changes as part of a 54 billion euro (US$73 billion) austerity plan designed to restore investor confidence in the country's creditworthiness. (Spending on public pensions for private-sector workers and public employees in Italy accounts for approximately 14 percent of gross domestic product (GDP)—more than any other member country in the Organisation of Economic Co-operation and Development.) The plan reduces the country's considerable public debt (approaching 120 percent of GDP)—one of the largest in the eurozone. The Italian Treasury projects that the package of spending cuts and tax increases will cut the fiscal deficit from this year's 3.8 percent of GDP to zero by 2014. Despite the austerity plan, Standard & Poor's rating agency lowered Italy's sovereign debt rating on September 20 from A+ to A and placed the country on negative outlook (implying chances of a further downgrade in the next 18 months), based on the country's worsening economic outlook and fragile coalition politics.

Pension-related measures contained in the austerity plan include—

- Postponing payouts from retirement funds for public-sector employees by up to 2 years, which is expected to reduce expenditures by 330 million euros (US$446 million) in 2012 and by 1.065 billion euros (US$1.440 billion) in 2013;
- Accelerating the scheduled gradual increase in the retirement age for women in the private sector from 60 to 65 (matching the retirement age for men) from 2014 through 2026 (instead of from 2020 through 2032 as previously planned), which is projected to save roughly 90 million euros (US$122 million) annually after 2015.

Italy has a multi-pillar retirement system for private-sector workers. The first pillar includes two tiers: a means-tested social pension for those older than age 65 and a notional defined contribution program, a type of earnings-related pension system financed on a pay-as-you-go basis. The second pillar consists of supplementary occupational pension plans, while the third pillar comprises tax-advantaged voluntary, retirement savings plans managed by financial institutions. Public-sector employees have special retirement systems.

Sources: "Italy—Current Pension System," European Social Observatory, May 2010; "Factbox—Italy PM Wins Confidence Vote on Austerity," Reuters News, September 14, 2011; "Italy's Austerity Measures—A Summary," italychronicles.com, September 19, 2011; "Italy's Rating Downgrade Could Speed Up Austerity: Germany," Agence France Presse, September 24, 2011.

The Americas

Chile

A new law enacted on August 28 eliminates the health care contribution for pensioners who receive means-tested benefits and lowers the contribution rate for middle class pensioners. Beginning November 1, a pensioner whose benefit is less than 255,000 pesos (US$490) a month will no longer be required to pay monthly contributions for health care. In November 2012, the health care contribution for middle class pensioners (the fourth income quintile) will be reduced to 5 percent of covered earnings. (The current contribution rate is 7 percent of the pension or covered earnings.) As a result, the "net" retirement benefit will increase by 7 percent for some 700,000 pensioners and by 2 percent for more than 300,000 pensioners. President Piñera assured pensioners that their medical benefits will remain the same. (The public national health system provides medical care at no additional cost to individuals older than age 60.)

Chile's 2008 pension reform established a new solidarity pillar as a supplement to the existing privately managed individual accounts. That new pillar provides two types of means-tested benefits: a noncontributory pension and a top-up benefit for self-financed pensions less than 200,000 pesos (US$384) a month, rising to

255,000 pesos (US$490) in July 2012. To qualify for either means-tested benefit, an individual must—

- Be aged 65 or older;
- Not be eligible for any other pension;
- Have lived in Chile for at least 20 years, including 4 of the 5 years immediately prior to applying for a benefit; and
- Be a member of a family that is rated among the 60 percent poorest in the country.

Sources: *Social Security Programs Throughout the World: The Americas 2009*, US Social Security Administration; "Piñera Anuncia Indicación para Eliminar Cotización de Salud a 700 Mil Pensionados," Emol.com, el 20 de junio de 2011; "Chile," *International Update,* July 2011, US Social Security Administration; "Senado Chileno Aprueba Ley que Elimina Cotización de Salud de 7% a la Tercera Edad," América Economía y Mercados, el 18 de agosto de 2011; Ley 20.531, el 29 de agosto de 2011.

Peru

On September 13, President Humala's cabinet approved a new means-tested, old-age program called Pensión 65 to be introduced in stages beginning in late 2011. According to government officials, the program will start with five of the country's poorest regions and will be extended gradually to the rest of the country by 2013. The cost of the program for 2012 is estimated at 225 million nuevos soles (US$81 million).

Pensión 65 will provide 250 nuevos soles (US$90) per month to individuals aged 65 or older in extreme poverty who do not receive any other government benefits. The Ministry of Social Inclusion and Development, a new government agency (to be established), will oversee the program.

Another measure to help combat poverty was implemented on August 15, increasing the monthly minimum wage from 600 nuevos soles (US$216) to 675 nuevos soles (US$243). Next year the minimum wage will be raised to 750 nuevos soles (US$270). (The minimum earnings used to calculate social security contributions are equal to the monthly minimum wage.)

According to Peru's National Statistics Institute, about one-third of the country's population lived in poverty in 2010. In 2007, more than 40 percent of individuals aged 75 or older were considered poor; in rural areas, about 65 percent of that age group were poor. At the same time, less than 10 percent of individuals aged 60 or older received any type of pension.

Sources: *Social Security Programs Throughout the World: The Americas 2009*, US Social Security Administration; "Peru President Launches Pension for Older People in Poverty," HelpAge International, July 30, 2010; "Poverty Decreases in Peru but Still Affects One Third of Population," Living in Peru, May 19, 2011; "Pension 65 Will Cover 100 pct of the Poorest Departments This Year," Living in Peru, August 25, 2011; "Peru Cabinet OKs Approval of 'Pension 65' for Poorer Peruvians," Dow Jones News Service, September 14, 2011; "Inician Pensión 65 con Partida de S/225 millones," El Comercio, el 14 de septiembre de 2011; Peru Compliance Alert, International Benefits Information Service Advisors, September 30, 2011.

Asia and the Pacific

Australia

On September 21, the government unveiled the details of its *Stronger Super* reforms to the nearly 20-year-old superannuation system, consisting of mandatory employer contributions to private pensions or retirement savings accounts. *Stronger Super* is based on the July 2010 recommendations of the Super System Review panel, also known as the Cooper Review. To address the issues of the superannuation system, the government will introduce the Stronger Super reforms to Parliament in stages.

According to the Cooper Review, the current regulatory infrastructure of the superannuation industry is too complex and costly for most workers; the fees associated with the funds disproportionately affect smaller accounts. As a result, about 80 percent of Australian workers do not actively choose a fund and are placed in a default superannuation fund designated by their employer. In addition, the industry has no standards for producing data and no uniform systems for processing contributions and identifying members. Another issue is the number of inactive, unidentified or "lost" accounts. Currently, each worker has an average of three superannuation accounts, and one-in-two working Australians has an unidentified or *lost* member account, which amounts to some A$13.6 billion (US$13.2 billion) in total assets. (A member is anyone with a superannuation account.)

A key provision of the government's plan is the introduction of MySuper—a simple, low-cost superannuation product with a standard set of fees and a single diversified investment strategy—to replace the default funds. Employers would be permitted to negotiate a discounted administrative fee for their employees. Beginning October 1, 2013, employees who do not make a choice would be placed in a fund that offers a

MySuper product. All existing default accounts would have to be transferred to a MySuper product by July 1, 2017. In addition, regulated superannuation funds would be required to offer life insurance and total and permanent disability insurance with an opt-out provision. MySuper products would have to provide a standard level of insurance coverage; its members would also have the ability to either increase or decrease coverage.

A major part of the reform (called SuperStream) aims to improve the administration of superannuation accounts. Those measures include establishing industry-wide standards to improve the quality of data, using e-commerce, adopting the worker tax-file number as the identifier for the entire system, simplifying administrative processes, and eliminating duplication. Data and e-commerce standards would apply to superannuation funds on July 1, 2013, and be extended to large and medium-sized employers 1 year later. The government's goal is to incorporate small employers by July 1, 2015, but implementation details for small employers have not yet been established. Other provisions of the reform include—

- Consolidating multiple accounts. Beginning in 2014, lost and inactive accounts—no contributions or rollover within the past 2 years—with balances of less than A$1,000 (US$ 974) in eligible rollover funds would be consolidated into the member's current active account unless the member opts out.
- Improving oversight powers of the superannuation industry for the Australian Prudential Regulation Authority, the Australian Securities and Investment Commission, and the Australian Taxation Office.

Sources: "Australia," *International Update,* May 2010 and January 2011, US Social Security Administration; Assistant Treasurer and Minister for Financial Services and Superannuation Press Release No. 131, September 21, 2011; "Stronger Super Information Pack," 21 September 2011, Australian Government.

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