Social Security

International Update:

Recent Developments in Foreign Public and Private Pensions

April 2012

Europe

Greece

In February and March, the Greek Parliament approved a new round of reforms to the country's pension system as part of an austerity package with the European Union, the European Central Bank, and the International Monetary Fund. The austerity package—part of a larger agreement that includes a 130 billion euros (US$173 billion) bailout—provides assurance for a landmark 14.5 billion euros (US$19.3 billion) debt restructuring deal with private-sector lenders and enhancements for future monitoring of Greek compliance of debt repayment.

This is Greece's third bailout in less than 2 years and its second set of major changes to the pension system during that time. Pension reform measures in this latest austerity package include those implemented retroactively to the beginning of the year and others scheduled to be implemented later this year. They affect the primary pensions provided by the main pension funds (industry, agriculture, self-employment) and occupation-based auxiliary pensions. (Both types of pensions are financed on a pay-as-you-go basis with benefits guaranteed by the state.)

Pension reform measures effective January 1, 2012, aim to generate savings of about 450 million euros (US$601 million) throughout 2012, roughly 0.2 percent of gross domestic product (GDP). One of the provisions reduces monthly primary pensions greater than 1,300 euros (US$1,734) by 12 percent. Another provision establishes a progressive schedule to reduce monthly auxiliary pensions by 10 percent for pensions from 200 euros (US$267) up to 250 euros (US$333), by 15 percent for pensions from 250 euros up to 300 euros (US$400), and by 20 percent for pensions above 300 euros.

Greece will implement several changes to auxiliary pension funds by the end of June, including those that—

- Identify funds with excessive lump-sum retirement benefits (relative to contributions paid) and introduce reforms to eliminate arrears and deficits in those funds.
- Begin to merge all remaining auxiliary pension funds into a single fund.
- Replace the current benefit formula with a less generous one that involves a notional rate of return linked to growth in insured workers' wage bill and a sustainability factor adjusting retirement benefits to eliminate future imbalances. (The government expects annual savings of 0.4 percent of GDP by 2014.)

Other measures are scheduled to be implemented by the end of September, including those that require the government to—

- Enact legislation to reduce the employer contribution rate of the largest social security pension fund for private-sector employees (currently 13.33 percent of covered monthly payroll) by 5 percent in an effort to foster employment.
- Prepare jointly with its social partners an actuarial study of auxiliary pensions for companies with pension costs considered excessive (relative to comparable firms across industries) and finalize proposals to eliminate that differential in a fiscally neutral manner.

Sources: "Greek Pensions Pact Details Revealed," PlanSponsorEurope.com, February 13, 2012; "Officials Reach Bailout Deal for Greece," *Washington Post*, February 20, 2012; "The Second Economic Adjustment Programme for Greece," *European Economy*, March 2012; "Greece Finalizes Austerity Measures," mercer.com, March 7, 2012; Greece: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding, International Monetary Fund, March 9, 2012.

The Netherlands

On February 7, the lower house of the Dutch Parliament approved a bill that raises the retirement age for first-pillar (AOW) public pensions, introduces penalties for early retirement and incentives for delayed retirement, and gradually increases AOW pensions for all workers. The bill, which incorporates the provisions of an agreement signed in June 2011 between the government and its social partners, now awaits approval by the upper house of Parliament. According to the government, the measures are necessary to improve the long-term sustainability of the public pension system in the face of a rapidly aging population; recent projections indicate that the ratio of workers to pensioners will fall from the current 4:1 to 2:1 by 2040. Without the reforms, the cost of the program is projected to increase from 30 billion euros (US$40.1 billion) to around 50 billion euros (US$66.8 billion) in this period.

The key measures of the bill include the following:

- In 2020, the retirement age for men and women will increase from age 65 to 66. In addition, retirement ages will be automatically adjusted every 5 years (starting in 2025) to reflect changes in life expectancy. Based on current projections, the next increases will occur in 2025 (from age 66 to 67) and in 2040 (from age 67 to 68).
- From 2020 onward, workers who retire before the normal retirement age (but no sooner than age 65) will receive a reduced AOW pension, while those who delay retirement (by up to 5 years after the normal retirement age) will receive a higher pension. Pensions will be reduced by 6.5 percent for each year before the normal retirement age that a worker claims benefits, or they will be increased by 6.5 percent for each year after the normal retirement age that a worker delays claiming benefits.
- From 2013 to 2028, AOW pensions will increase by 0.6 percent of the current value of the AOW pension for married persons per year. (Currently, a married person receives 752.12 euros (US$1,004.53) a month.) As a result, by 2028, the AOW pension will be 9.6 percent higher than what it is presently.

The AOW is a basic state pension that covers everyone who lives or works in the Netherlands, regardless of nationality. For each year of coverage, an individual is entitled to 2 percent of the full pension. (The full pension is paid with 50 years of coverage from age 15 to 65.) Benefits are payable abroad in other European Union countries and under reciprocal agreement.

Sources: *Social Security Programs Throughout the World: Europe, 2010*, US Social Security Administration; "Wet Verhoging Pensioenleeftijd, Extra Verhoging AOW en Flexibilisering Ingangsdatum AOW en Memorie van Toelichting," 2011; "Sociaal Akkord AOW en Witteveenkader: Op Verzoek van het Ministerie van Sociale Zaken en Werkgelegenheid," *Centraal Planbureau*, 10 juni 2011; "Wie krijgt AOW?" and "AOW-Bedragen," Sociale Verzekeringsbank, januari 2012; "AOW and Pensioen: AOW-leeftijd en Pensioenrichtleeftijd (in Aanvullend Pensioen) Worden Verhoogt," *GHW Nieuws*, februari 2012; Tweede Kamer der Staten-Generaal persbericht, februari 2012.

The Americas

Colombia

On April 2, Colpensiones, a state-owned "industrial and commercial" company, took over the administration of the pay-as-you-go (PAYG) public pension system from the country's Social Security Institute (ISS). ISS is closing down because it has been unable to overcome its financial and complex structural problems. (At the end of 2010, ISS was 3.3 billion pesos (US$1.8 million) in debt.) The government expects Colpensiones to operate more efficiently by better using available technology.

The company is under the supervision of the National Banking Superintendent and covers some 1 million pensioners and 6.4 million workers. Its administrative functions include (1) managing enrollment, (2) collecting contributions, (3) maintaining work history records, (4) paying benefits, and (5) providing information to individuals about their responsibilities and rights under the PAYG system and the importance of saving for retirement.

In addition, Colpensiones will administer the Periodic Economic Benefits program (Beneficios Económicos Periódicos, or BEP), which will cover workers who—

- Earn less than the minimum wage.
- Have made sporadic contributions to either the ISS or an individual account managed by a private company.
- Will not qualify for a minimum pension (equal to the minimum wage) from either system.

According to government estimates, between 3.5 million and 4.0 million workers could be eligible for the BEP program. The benefit will be financed by the solidarity pension fund, which was originally set up to support low earners who contribute more often (than BEP beneficiaries) to either the individual account system or the social insurance system. (The solidarity fund receives monthly contributions from employees with income of more than four times the minimum wage and from the government.) No implementation date has been announced.

Since 1993, Colombia's social security system allows workers a choice between the PAYG public pension system and an individual account system. Workers may switch from one system to the other every 5 years, up to 10 years before retirement.

Sources: "Coctel de Fórmulas en Reforma Pensional," *Portafolio*, el 10 de mayo de 2009; "Colombia," *International Update*, US Social Security Administration, August 2009; "En Abril, Fin del ISS y Llega Colpensiones," *El Tiempo*, el 20 de enero de 2012; "Del ISS a Colpensiones," Pensiones Colombia, febrero de 2012; "Pensión Subsidiada para 6 Millones," *El Tiempo*," el 16 de marzo de 2012; "Trabajadores Informales Tendrán Subsidios del Gobierno," *Noticias Financieras*, el 16 de marzo de 2012; "Preguntas Frecuentes," Colpensiones, el 20 de marzo de 2012.

Asia and the Pacific

Australia

On March 29, a law was passed that makes changes to the country's mandatory occupational pension (superannuation) system to help raise the level of retirement savings. The new law gradually increases the employer's contribution rate, removes the age limit for making contributions, and introduces a new tax rebate for low-income earners. Those measures are part of the government's "Stronger, Fairer, Simpler" tax reform plan announced in 2010. Beginning July 1, 2013—

- The mandatory employer contribution rate will gradually increase from 9 percent to 12 percent of payroll by 0.25 percent per year from 2013 to 2015 and by 0.50 percent per year from 2015 to 2019. (Employee contributions remain voluntary.) The government estimates that some 8.4 million employees will benefit from this measure.
- The age limit for making contributions (either employer or employee) to a superannuation account will be abolished. The current limit is age 70.

In addition, effective July 1, 2012, workers with annual income of up to A$37,000 (US$38,271) will become eligible for a government tax rebate of up to A$500 (US$517) a year that will be deposited in their superannuation accounts. No worker contribution is required. According to the Australian Tax Office, 57 percent of all individual taxpayers earn less than A$40,000 (US$41,374) per year. This measure will supplement the existing government matching contribution (called co-contribution) of up to A$1,000 (US$1,034) for workers who earn up to A$61,920 (US$64,046) a year and make voluntary contributions to a superannuation account.

Sources: "Stronger Fairer Simpler: A Tax Plan for Our Future," Australian Government, May 2010; "Australia," *International Update*, US Social Security Administration, June 2010; "Tax Laws Amendment Bill 2011," Parliament of Australia, November 2011; Minister for Financial Services and Superannuation and Minister for Employment and Workplace Relations media release, February 23, 2012; "Key Superannuation Rates and Thresholds: Super Co-contribution," Australian Tax Office, February 24, 2012; "International Headlines," *Mercer*, March 26, 2012; "Superannuation Guarantee (Administration) Amendment Act 2012, No. 22," March 29, 2012.

International Update is a monthly publication of the Social Security Administration's (SSA's) Office of Retirement and Disability Policy. It reports on the latest developments in public and private pensions worldwide. The news summaries presented do not necessarily reflect the views of SSA.

Editor: Barbara E. Kritzer.

Writers/researchers: John Jankowski, Barbara E. Kritzer, and David Rajnes.

Social Security Administration
Office of Retirement and Disability Policy
Office of Research, Evaluation, and Statistics
500 E Street, SW, 8th Floor, Washington, DC 20254

SSA Publication No. 13-11712