Social Security

International Update:

Recent Developments in Foreign Public and Private Pensions

December 2012

Europe

Czech Republic

On November 7, the lower house of parliament overturned a presidential veto and approved the creation of a second pillar of voluntary individual accounts, effective January 1, 2013. Although participation is voluntary, once a worker chooses to participate, the decision cannot be reversed. According to the government, the aim of the legislation is to increase individual savings for retirement and to reduce the burden on the public pay-as-you-go (PAYG) program in the face of rapid population aging. Recent figures released by Eurostat, the European Union's statistical office, show a projected increase in the old-age dependency ratio—the projected number of persons aged 65 or older expressed as a percentage of the projected number of persons aged 15 to 64—from around 22 percent in 2010 to 55 percent by 2060.

Workers who choose to participate in the new second pillar will contribute 2 percent of earnings to their individual accounts and have 3 percent of earnings—from the present employer/employee contribution of 28 percent of earnings —diverted from the first-pillar PAYG program to their privately managed individual accounts. Workers aged 36 or older have until June 30, 2013, to choose to join the second-pillar program; workers younger than age 36 have until the end of the year in which they turn 35. Analysts expect that around 10 percent to 20 percent of the adult population will choose to participate in the second pillar, particularly those with higher incomes.

Pension providers must offer four funds with varying degrees of risk: a government bond fund, a conservative fund, a balanced fund, and a dynamic fund. (Details on the investment portfolios of each of these funds are not yet available.) To date, the majority of pension fund management companies that currently participate in the voluntary third pillar have applied to offer second-pillar funds.

The Czech Republic's pension system currently consists of the first-pillar PAYG program, which covers all employed and self-employed workers, and a third pillar of voluntary individual accounts. Currently, around 4.7 million workers participate in the third pillar.

Sources: *Social Security Programs Throughout the World: Europe 2012,* US Social Security Administration; "Czech President's Pension Veto Undermines Cabinet, Premier Says," *Business Week*, September 24, 2012; "Czech Parliament Approves Pension Reform in Victory for PM Necas," *Reuters News*, November 7, 2012; "Czech Second-Pillar Pension System Passes Final Hurdle," IPE.com, November 9, 2012; Eurostat: Statistics Database, European Commission, http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/themes; "Start Důchodové Reform," Ministry of Labor and Social Affairs, November 21, 2012.

Greece

In November, the parliament approved pension measures among a series of laws as a precondition to a bailout agreement with the European Commission, European Central Bank, and the International Monetary Fund that releases €49 billion (US$64 billion) in financial assistance over the next several months. About half of the €9.37 billion (US$12.2 billion) budgetary savings in 2013 affects pensions. The agreement is forecast to reduce Greek debt obligations from 190 percent of gross domestic product (GDP) in 2013 (without reform) to 124 percent of GDP by 2020.

The new laws, scheduled for implementation on January 1, 2013, affect the private-sector labor market, public-sector employment, and pensions. Specific pension- and retirement-related provisions include:

- An increase in the statutory retirement age from 65 to 67 to receive a full pension, a projected annual savings on pensions of €1 billion (US$1,300 million). (The timeframe has not been announced.) According to an earlier law, the retirement age for women will equal the current retirement age of 65 for men by December 2013. Also, beginning in 2020, the statutory retirement age for men and women is scheduled to be automatically adjusted (every 3 years) to reflect changes in life expectancy.
- A reduction in monthly pensions greater than €1,000 (US$1,299) by 5 percent to 15 percent (depending on income). A general freeze on

pensions (begun in 2011) remains in force through 2015.

- Decreases of up to 83 percent in the flat-rate retirement bonuses paid to public-sector employees with monthly pensions less than €2,500 (US$3,247). In 2011, seasonal bonuses for higher earners were eliminated, and a less generous flat-rate bonus for lower earners was introduced.

Sources: "Greece," *International Update*, US Social Security Administration, August 2010 and August 2011; "Package Foresees 4.5 bln Euros in Pension Cuts," ekathimerini.com, August 30, 2012; "Retirement Age Set to Rise," ekathimerini.com, September 13, 2012; "Greek Court Challenges Pension Reform Plan,"*Reuters News,* November 1, 2012; "Greece Submits Reforms, Cutbacks Bill," Dow Jones Global News Select, November 5, 2012; "Greece Braces for New Challenges after Austerity Vote," Agence France Presse, November 8, 2012; "Greek Parliament Passes Austerity Bill, Next Bailout Trance Pending," Select News, November 12, 2012; "Eurozone, IMF Reach Deal to Reduce Greek Debt," rté.com, November 27, 2012.

Lithuania

On November 14, the Lithuanian Parliament approved a law that changes the percentage of total employer/employee contributions that are diverted to second-pillar individual accounts, allows employees to make additional second-pillar contributions that will be topped up by government subsidies, and permits workers to opt out of the individual accounts. The president is expected to sign the new law shortly. The law is the latest in a series of reforms passed since 2008 that have made changes to how contributions are allocated between the first-pillar public pay-as-you-go (PAYG) program and the second pillar of individual accounts. (Participation in the second pillar is voluntary; however, once the decision to contribute to an individual account has been made, it cannot be reversed.)

Under the current rules, employers contribute 23.3 percent of payroll and employees contribute 3 percent of earnings for old-age, survivors, and disability benefits. For workers who participate in the second pillar, 1.5 percent (increasing to 2.5 percent in 2013) of these combined employer/employee contributions are diverted to individual accounts with the rest going to the PAYG program. The new law lowers the percentage diverted to the second pillar to 2 percent from 2014 onwards, but allows workers to contribute an additional 1 percent to their individual accounts. Those who make additional contributions will receive a government subsidy equal to 1 percent of the average national salary. Current participants in the second pillar and those who join before the end of this year will have from April through September 2013 to declare their intention of paying the additional contributions; new entrants to the labor force from 2013 onwards will be automatically enrolled to make the additional contributions.

The new law also allows workers to opt out of the second-pillar program from April through September 2013. Workers who choose to stop contributing to an individual account will have the option of transferring their existing account balances back to the first-pillar PAYG program, or leaving their account balances in the second pillar with only future contributions diverted to the PAYG program.

Sources: "Lithuania," *International Update*, US Social Security Administration, August 2009 and July 2011; "Lithuania to Cap Pension Fund Contributions at 2%, Allow Opt-Outs," IPE.com, July 20, 2011; *Social Security Programs Throughout the World: Europe 2012*, US Social Security Administration; "Focus on Central and Eastern Europe," *International Update*, US Social Security Administration, March 2012; "Lithuania's Parliament Approves of Pension Reform," *The Baltic Course*, November 15, 2012; "Outgoing Seimas Legislates for One Last Time Seeking to Revamp the Pension System," *The Lithuania Tribune*, November 15, 2012; "Lithuania Parliament Approves Long-Awaited Pension Reforms," IPE.com, November 26, 2012.

Asia and the Pacific

Australia-New Zealand Agreement

On November 22, the Australian Parliament passed a bill that allows portability of certain retirement savings between Australia and New Zealand. The bill stems from a memorandum of understanding, signed in July 2009 that required both countries to develop and pass applicable legislation. New Zealand passed its law in September 2010. The agreement, part of the Single Economic Market Initiative to encourage movement of "people, trade and capital" between both countries, will be implemented in July 2013. According to Australia's Minister for Financial Services and Superannuation, this new Trans-Tasman Retirement Savings Portability Scheme will allow individuals to combine their retirement savings and stop paying fees and charges in two countries.

The agreement covers transfers only between KiwiSaver accounts in New Zealand and superannuation funds regulated by the Australian Prudential Regulation Authority (APRA). Some other agreement provisions:

- Make participation voluntary for members and providers.

- Exempt funds transferred between the two countries from entry and exit taxes. These funds may not be transferred to a third country.
- Establish the date an individual can access the funds after transfer. New Zealand KiwiSaver funds transferred to an Australian superannuation fund can be withdrawn at age 65; Australian superannuation funds transferred to a KiwiSaver account can be withdrawn at age 60 if the member has retired.

The agreement will affect many individuals in both countries. In the past year, over 50,000 New Zealanders migrated to Australia and some 14,000 Australians migrated to New Zealand (compared with a total resident population of some 4.4 million in New Zealand and 23 million in Australia). The Australian government also expects the agreement to help reduce the number of lost accounts (small or inactive accounts unclaimed by any individual) since a large portion of the A$17 billion (US$17.7 billion) in lost accounts likely belong to New Zealanders who have left Australia permanently.

Since 1992, Australia has required employers to contribute 9 percent of an employee's earnings to a superannuation account. (Beginning in July 2013, this rate will rise gradually to 12 percent by 2019.) Participation for employees is voluntary. However, New Zealand workers are automatically enrolled in a KiwiSaver plan and may opt out. Employees with a KiwiSaver account and their employers are both required to contribute at least 2 percent of the employee's gross earnings.

Sources: Australia, *International Update*, US Social Security Administration, August 2009; "Population Clock," Australian Bureau of Statistics, March 31, 2012; Treasury Ministers Media Release No. 0065, October 11, 2012; "Trans-Tasman Portability of Superannuation Benefits," *Financial Planning*, November 2, 2012; "National Population Estimates: September 2012 Quarter," New Zealand Statistics, November 14, 2012; "NZ Welcomes Australian Move on Portable Super," scoop.co.nz, November 22, 2012; *Social Security Programs Throughout the World: Asia and the Pacific, 2012,* US Social Security Administration, forthcoming.

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