Ireland recently implemented several measures that eliminated early retirement under the public pay-as-you-go pension system, modified the rules regarding the distribution of occupational pension fund assets, and introduced a new temporary levy on pension assets.

Effective January 1, 2014, the country abolished the transitional State pension for workers born after 1947. Previously, workers could retire at age 65 provided they met all eligibility requirements, including retirement from employment. This measure was part of a 2011 law, which also gradually raised the State pension (contributory) age from 66 to 67 by 2021 and from age 67 to 68 by 2028. (To address the country’s future demographic challenges, the increase in the retirement age satisfied terms of the bailout package agreed on in December 2010 between the Irish Government, the International Monetary Fund, and the European Union.) Official estimates project that the ratio of workers to retirees in the public pension system will decline from the current 6.0:1 to 2.3:1 by 2055.

In addition, a second measure came into force on December 25, 2013, which established a new benefit priority order for underfunded defined benefit (DB) plans to ensure a fairer distribution of plan assets. The measure addresses the private pension system’s lack of safeguards to protect the pension entitlements of workers in the event of company bankruptcy. Previously, when plans were wound up because of insolvency and funds were insufficient to meet pension obligations, funding retiree benefits was the priority. As a result, any shortfall meant that persons still working and deferred plan members who had left the plan but had not yet retired could lose some or all of their accrued retirement benefits. Under the new rules—

- If the plan’s employer is solvent but the DB plan winds up in deficit, pensioners would continue to receive priority over other (active and deferred) plan members, but only for the first 12,000 euros (US$16,219) of the pension received annually; thereafter, the plan trustees may reduce by up to 10 percent any pension above that amount up to 60,000 euros (US$81,096) and by 20 percent any pension of even greater value to help plans meet the obligations for future pensions.
- If both the DB plan and the sponsoring employer are insolvent at the date of wind up, the government would guaranty that all plan members receive at least 50 percent of their pension benefits, even if that outcome is not attainable by reducing pensioners’ benefits (as described earlier). This new policy follows a recent ruling of the European Court of Justice, which cited the government for failure to guarantee at least half of the pension benefits from an insolvent sponsoring company’s underfunded DB pension plan under the European Union’s 2008 Employer Insolvency Directive.

Finally, Ireland implemented a temporary levy of 0.15 percent of occupational pension assets on January 1, as part of the 2014 budget, which will run for 2 years. The new levy supplements an existing 0.6 percent levy, introduced in 2011 and scheduled to run for 4 years, to finance a jobs initiative targeting the unemployed. Pension industry experts estimate a cost to pension funds of 675 million euros (US$931 million) from the combined levies in 2014.


Chile

On January 27, the superintendent of pensions announced the selection of Planvital as the pension fund management company (AFP) to cover all new
entrants to the labor force beginning in August. Two of the country’s six AFPs participated in the bidding process that began last November: Planvital offered a lower administrative fee, 0.47 percent of an account holder’s monthly earnings, compared with Modelo’s 0.72 percent. Modelo won both the 2010 and 2012 competitions.

The bidding process, a provision of the 2008 pension reform to improve competition among the AFPs and lower costs for account holders, is held every 24 months. The AFP selected must maintain the same fee (the winning bid) for 2 years for all of its account holders. New workers must remain with the winning AFP for 2 years unless (1) another AFP offers a lower fee for at least 2 consecutive months; (2) another AFP provides a higher rate of return sufficient to make up for a higher administrative fee; or (3) the winning AFP does not maintain the required minimum rate of return, is declared insolvent, or must liquidate its assets. After 2 years, those workers may switch to any AFP without restriction. Workers already in the system may switch to the winning AFP (or another AFP) at any time. (AFPs that participate in the bidding process and do not win the competition are not required to lower their fees.)

Planvital currently charges the highest administrative fee among all six AFPs—2.36 percent of an account holder’s earnings; as of November 2013, it had the lowest market share, about 4 percent of all members. In 2010, Modelo was the first new AFP to enter the pension market in 15 years. Even though its fees have decreased from 1.14 percent in 2010 to 0.77 percent since 2012, in November 2013, it had about a 13 percent market share.

Workers contribute 10 percent of their taxable earnings (plus administrative fees), up to a maximum of 1,694,741 pesos (US$3,053) a month, to an individual account with the AFP of their choice. The AFP selected must maintain the same fee (the winning bid) for 2 years for all of its account holders. At the end of 2013, total assets under management for all AFPs amounted to 85.4 trillion pesos (US$15.4 billion); 58 percent of investments were domestic (almost half in fixed income), and 42 percent were foreign (about a quarter in fixed income).


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**Nicaragua**

Effective January 1, 2014, new rules for the public pension system gradually increased contribution rates for employers, raised the ceiling on contributions, and modified the benefit formula for higher earners. According to the government, these measures will help keep the system on a more sustainable path for the next 20 years. A recent International Monetary Fund report found that with no changes, the pension system would be in deficit by 2015 and its trust funds would be exhausted by 2021. The report indicates that the factors that contribute to this financial situation include the following:

- **Low rates of coverage.** Close to a quarter of the labor force is enrolled in the system.
- **Relatively generous benefits.** Over the past decade, benefits have grown faster than wages; average pensions grew at a nominal rate of 12 percent a year compared with wages, which grew about 9 percent a year.
- **A rapid decline in the ratio of workers to retirees.** The ratio of workers to retirees is projected to decline from about 6:1 currently to an estimated 4:1 by 2020.
- **A young retirement age (60) compared with increasing life expectancy at retirement.** Life expectancy at retirement has increased from 18.7 years in 1995 to 21.1 years in 2010. Under the new rules, the employer’s contribution rate is gradually increasing from 7 percent of payroll in 2013 to 10 percent by 2017: by 1 percent a year in 2014 and 2015 and by 0.5 percent a year in 2016 and 2017. (Employers are prohibited from passing on these increases by raising prices on products or services.) Although the employee contribution rate remains at 4 percent of earnings, by 2015 the ceiling on contributions for both employers and employees will nearly double to 72,410 córdobas (US$2,816) a month. Beginning in 2016, the Nicaraguan Social Security Institute (INSS) will adjust the ceiling every January to changes in the average salary among all insured workers.

The new rules also modify the benefit formula for about 20–25 percent of workers insured with the INSS—those who earn more than 7,000 córdobas (US$272) a month. The changes in the formula for the higher earners will yield a lower benefit than that yielded under the old rules. Analysts estimate that...
those earners will have to work up to 8 additional years in order to receive the same level of benefits.

The qualifying conditions for a retirement benefit remain the same. For a full benefit at age 60, workers must have at least 750 weeks of contributions; miners and other workers in arduous jobs may retire at age 55. Last summer a reduced benefit was introduced for retirement-age workers with less than 750 weeks, but more than 250 weeks of contributions. Also, to encourage older workers to remain in the labor force beyond retirement age, a deferred pension is paid to a worker eligible for retirement but who continues to work up to age 65.


## New Zealand

The Commission for Financial Literacy and Retirement Income recently released *2013 Review of Retirement Income Policies*, its third 3-year evaluation of New Zealand’s retirement income system and other related topics (such as savings, financial literacy, and taxation). The report examines the retirement income system’s two main components: (1) Superannuation (NZS)—the flat-rate, universal public pension funded by general revenues and (2) KiwiSaver—voluntary, government-subsidized retirement savings plans (introduced in 2007) that supplement NZS. In addition, the report suggests possible areas of reform to ensure the long-term sustainability of the system in the face of a rapidly aging population. The ratio of workers to retirees is expected to fall from 5.0:1 in 2011 to 2.3:1 in 2062. As a result, the cost of NZS (absent any changes) is projected to rise from about 4.6 percent of gross domestic product in the 2011–2012 period to 7.9 percent by 2060.

According to the report, the country’s combination of public provisions (including NZS) and private provisions (including a high level of mortgage-free home ownership) has ensured that the great majority of pensioners have a reasonable standard of living. In particular, the report notes that NZS, which provides a minimum level of income throughout retirement, has continued to provide efficient protection against the risk of outliving savings. However, the report finds that the trend is toward unequal outcomes in retirement, with some—the so-called “affluent elderly”—having substantial retirement wealth (including KiwiSaver balances) and others with little-to-no retirement wealth. Currently, around 60 percent of individuals aged 65 or older rely on NZS and other government transfers for at least 80 percent of their retirement income.

To keep the system fair and affordable for all generations of NZS pensioners, the report suggests possible areas of reform, including—

- **Increases in the NZS retirement age (from the current age 65) based on gains in life expectancy.** The report proposes a “schedule and review” process, which puts into place a schedule of future increases in the retirement age based on future forecasts of life expectancy and a timetable for review of those forecasts. In doing so, the report aims to place a cap on the number of years people can receive NZS benefits.

- **Possible changes to the indexation method for NZS benefits.** The report calls on the government to study the impact of a change from the current method, which is based on the change in annual wages alone.

The report also highlights concerns about KiwiSaver, particularly the lack of a requirement to use account balances for retirement; persons aged 65 or older with at least 5 years of membership may make lump-sum withdrawals from their accounts, and there is no requirement for how to use those funds (such as mandatory annuitization). Other concerns noted by the report include an insufficient level of savings for many members, poor communication between plans and members, and major gaps in information and data to analyze KiwiSaver’s effectiveness. To address those concerns, the Commission suggests that—

- **The age of access to KiwiSaver balances is kept at age 65.** According to the report, this would help soften the effects of an increase in the NZS retirement age, by allowing members to draw on their KiwiSaver balances should they retire prior to becoming eligible for an NZS benefit.

- **When fiscally prudent, an autoenrollment day should be held for those employees who are...**
currently not members of KiwiSaver. (Employees should retain the ability to opt out.)

- The government should review the viability of different approaches to the voluntary annuitization of personal savings, including KiwiSaver balances at retirement.

The Commission urges the government to take steps in these policy areas within the next 4 years, followed by a 5 to 10 year period before the changes are actually implemented to allow workers time to plan for their retirement.