Social Security

International Update:

Recent Developments in Foreign Public and Private Pensions

July 2014

Europe

Germany

On July 1, new pension rules went into effect that (1) allow certain workers with long careers to retire earlier with a full pension, (2) raise pension benefit levels for certain parents, and (3) modify the benefit formula for disability pensions. The estimated combined annual cost of those measures is €4.4 billion (US$6 billion), rising to €11 billion (US$15 billion) by 2030. While the state pension fund is expected to cover the cost for the first 10 years, many have expressed concern that these measures will be unsustainable over time. Germany has the lowest birthrate in the European Union, and by 2060 the ratio of workers to retirees is expected to reach about 1.5 to 1 (from the current 3.0 to 1). At the same time, life expectancy at retirement is projected to increase by some 5 years to 22.3 (men) and 25.5 years (women).

In the first measure, the retirement age for the length-of-service pension (paid to workers with at least 45 years of contributions) was lowered from age 65 to 63 for a limited period. Beginning in 2016, the age will rise by 2 months a year until it returns to age 65. The government estimates that initially some 200,000 workers will be eligible for early retirement under the new rules, most of who are in physically demanding jobs. The new pension rules did not change the scheduled increase in the retirement age: currently, age 65 and 3 months (gradually rising to age 67 by 1 month each year until 2024 and then by 2 months until 2029) and age 67 for those born after 1964.

In the second new measure, parents of children born before 1992 now receive pension credits for the first 2 years of their child's life, up from 1 year previously. Parents of children born after 1992 continue to receive credits for each of the first 3 years of their child's life. Under the German old-age pension system, caregiver credits are awarded for gaps in workforce participation in order to improve the level of old-age benefits. (Without those credits, benefits would be lower, especially for women, as a result of fewer years of contributions and lower lifetime average earnings.)

The third measure changes the calculation method for disability pensions by basing benefits on the period from the onset of the disability to age 62 (up from age 60 previously). This measure will potentially raise a disability pension by up to €40 (US$55) a month.

The government also announced plans to introduce the concept of flexible retirement to encourage older workers to remain in the labor force; this provision will be part of a future legislative package. Flexible retirement could include employers extending labor contracts that end with a worker's retirement (employers and employees must both agree), retirees reentering the labor force following retirement, and employers offering partial retirement.

Sources: *Germany's Population by 2060*, Federal Statistical Office, 2009; *Population Ageing and Development (Wall Chart),* United Nations, 2012; "Germany's New Pension Package: Retirement at 63," *CMS Hasche Sigle*, May 20, 2014; "Rentenpaket Beschlossen: Das Müssen Sie Wissen," *Abendzeitung,* May 23, 2014; "After Tightening Pensions, Germany Eases Rules for Some," *The New York Times,* June 30, 2014; *Social Security Programs Throughout the World: Europe, 2014*, U.S. Social Security Administration (forthcoming).

Asia and the Pacific

Australia

On June 30, the Reference Group on Welfare Reform released *A New System for Better Employment and Social Outcomes*, its interim report to the Minister for Social Services that provides a framework for revamping the country's social support system. According to the report, the current system, with about 20 different income support payments and 55 supplements in a variety of combinations, can be difficult to understand and may lead to inequities. Also, the current system does not focus on an individual's needs once he or she is receiving a benefit, such as support services to help find work and become more independent. The final report, expected to be completed in the second half of 2014, will be based on feedback received during a 6-week consultation period.

One of the report's focus areas is the Disability Support Pension (DSP), which, as of June 2013, had some 830,000 beneficiaries on its rolls (compared with the country's total population of about 23.5 million); these beneficiaries represent the largest working-age group receiving any type of income support in the country. Since 1974, the size of the program rolls has grown at a faster rate than the general population. In addition, as of June 2013, more than half of DSP beneficiaries had been receiving the pension for more than 10 years and 18 percent had been on the DSP for more than 20 years. During that time frame, less than 10 percent reported some earnings to the government.

The report finds that the current system can discourage individuals from working. It recommends that the social support system be simplified with a stronger focus on employment in order to help individuals build, reach, and utilize their capacity to work. Other recommendations related to disability include limiting the DSP to individuals with a permanent impairment that prevents them from working at all and setting up a tiered working-age payment based on their current and future capacity to work. The new structure would allow more distinctions between the degrees of partial capacity to work. (The different tiers would also apply to other limitations such as child rearing and caregiving.)

The report's recommendations follow the country's major disability reform, introduced in 2006 and implemented in stages. The assessment of an impairment has been changed from a medical model to how the impairment affects an individual's ability to function in a work-related environment. Since July 1, 2014, new impairment tables are being used to reassess the work capacity of certain DSP beneficiaries younger than age 35 who are required to participate in work-related activities that will help them prepare for, find, and maintain employment. In addition, since July 2013, the National Disability Insurance Scheme—a support system for individuals with a permanent and significant disability—is gradually being implemented by region.

The DSP is paid to workers from age 16 to the retirement age (age 65 and gradually rising to age 67 from 2017 to 2023) who have been assessed with a physical, intellectual, or psychiatric impairment and are unable to work or be retrained for work. The benefit is income and asset tested.

Sources: "Welcome," *National Disability Insurance Scheme*, 2014; *A New System for Better Employment and Social Outcomes*, Interim Report of the Reference Group on Welfare Reform to the Minister for Social Services, June 30, 2014; "Changes to Disability Support Pension from 1 July 2014," Australian Government, Department of Human Services, July 1, 2014; "Disability Support Pension: Eligibility Basics," Australian Government, Department of Human Services, July 1, 2014; "Behind the Labels: Who is Really on the Disability Support Pension and Why," *Sydney Morning Herald*, July 4, 2014.

Reports and Studies

International Labour Office

On June 3, the International Labour Office (ILO) released *World Social Protection Report: Building Economic Recovery, Inclusive Development and Social Justice, 2014/15*, the second in a series devoted to social protection issues around the world. The report finds that despite an overall improvement in social protection coverage rates in the past century, approximately 27 percent of the global population has access to comprehensive social security systems, while the remaining population is covered only partially or not at all. Countries with low rates of coverage generally have high levels of poverty and economic insecurity and increasing levels of inequality. The report states that social protection is a human right and recommends national social protection floors as a means to fill gaps in social protection coverage and ensure minimum levels of social security for people of all ages.

According to the report, most of the countries surveyed (166 out of 178) provide pensions to some citizens, often through a combination of mandatory contributory or noncontributory (universal, pension tested, or means tested) programs. However, only 42 percent of working-age individuals can expect to receive contributory or noncontributory social security pensions under existing laws and regulations, while less than half (48 percent) of all people over the pensionable age do not receive a pension. In many countries with high rates of informal employment, pensions are accessible to a minority, and many older persons rely on family support. For many individuals receiving a pension, the levels of those pensions may be considered inadequate.

In addition, the report observes that during the first phase of the global financial crisis, most countries introduced some type of fiscal stimulus to help protect their citizens against adverse effects (such as financial shocks). In an ILO survey of fiscal stimulus plans in 54 developing and developed countries, 44 percent of those countries provided temporary increases in old-age pensions. However, since 2010, countries are reducing their public expenditures because of fiscal deficits, and they are considering measures that affect the adequacy of social protection systems, such as pension reform. About 86 countries (47 developing and 39 high-income countries) have been considering various measures to change their contributory pension systems, which would have a negative impact on beneficiaries. Some of those measures include raising the retirement age and the number of years of contributions and eliminating minimum pension guarantees. At the same time, social assistance and other social protection coverage is declining because some governments (in developing and high-income countries) are tightening the eligibility criteria, which could exclude certain groups of people from receiving benefits at a time when they need them the most.

Source: *World Social Protection Report: Building Economic Recovery, Inclusive Development and Social Justice, 2014/15*. International Labour Office, June 3, 2014.

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