Social Security

International Update:

Recent Developments in Foreign Public and Private Pensions

September 2014

Asia and the Pacific

Australia

SuperStream, a new system to improve the administration of superannuation accounts, began operation on July 1. SuperStream is part of the government's 2011 *Stronger Super* reforms to overhaul the country's mandatory occupational pension system introduced in 1983. The aim of SuperStream is to correct many of the inefficiencies in managing superannuation accounts by—

- Establishing uniform systems for processing contributions and identifying members (many employers use manual processes such as submitting separate checks to multiple funds);
- Consolidating multiple accounts for workers; and
- Identifying and locating millions of unidentified or "lost" member accounts (as of June 2014, 6 million accounts with total assets of A$16.8 billion (US$15.7 billion), according to the Australian Taxation Office).

SuperStream sets up new standards for and simplifies the method of processing contributions to a superannuation account. For example, under the new rules, employers must submit the contributions electronically and adopt the worker tax-file identification number as the unique identifier. Since July 1, companies with 20 or more employees may begin implementing those new measures and must have them in place by June 30, 2015; companies with 19 or fewer employees have between July 1, 2015, and June 30, 2016 to fully implement those measures. Also, over the past few years, new tools have been developed to help workers become more proactive and search for their *lost* accounts.

According to the government, SuperStream will provide a number of benefits to employers such as streamlining the contribution process, lowering costs, and reducing the amount of time needed to deal with related issues. Superannuation members will also benefit from SuperStream, with increased retirement savings because—

- Contributions will be recorded much sooner and will begin earning interest earlier. A portion of the savings from lower administrative and operational costs will be passed on to the member;
- Lost member accounts will be located, and multiple accounts will be consolidated into one single account; and
- Members will have more confidence in the system and may increase their contributions.

Current total superannuation assets under management are more than A$1.7 trillion (US$1.6 trillion). Employers must contribute 9.5 percent of their employees' earnings (called Superannuation Guarantee or SG). Employee contributions are voluntary with a government matching contribution for low- and middle-income earners. The government's low-income subsidy provided to all low-income earners (whether or not they contribute) will be abolished in 2019. Effective September 1, the scheduled increase in the SG is delayed until 2021, when it will rise by 0.5 percent a year until it reaches 12 percent in 2025. According to the previously scheduled increase, SG would have reached 12 percent in 2019.

Sources: *Stronger Super,* Commonwealth of Australia, December 2010; "Australia," *International Update,* January and October 2011, U.S. Social Security Administration; "SuperStream, Employer FAQs," Australian Tax Office, May 12, 2014; "Regulatory Reform Challenges in the Australian Superannuation Industry," Sugard Australia, May 29, 2014; "Super Contributions Made Easy," Dynamic Business, June 12, 2014; Media release, Australian Tax Office, June 25, 2014; "Lost and ATO-Held Super Overview," *Research and Statistics*, Australian Taxation Office, July 30, 2014; "Mining Tax Repealed as Legislation Passes Senate After Palmer United Deal," *The Guardian*, September 1, 2014; "Low Income Superannuation Contribution (LISC)," *New Legislation,* Australian Taxation Office, September 4, 2014.

India

Changes to the Employee's Pension Scheme (EPS), effective September 1, increase coverage and raise the level of benefits. (Those changes were originally scheduled to be implemented in April 2014.) As a result, some 2.8 million pensioners have higher benefits, and an additional 5 million workers in the formal sector are obliged to join the EPS. According to the new rules—

- The government provides guaranteed minimum retirement and survivor pensions of 1,000 rupees (US$16.49) a month to EPS insured workers.
- Workers with earnings from 6,500 rupees (US$107.16) to 15,000 rupees (US$247.29) a month are required to participate; previously, the earnings limit was 6,500 rupees.
- The ceiling on contributions is increased from 6,500 rupees to 15,000 rupees a month.
- The benefit formula for earnings from September 1 onward is based on average monthly earnings in the past 60 months. For earnings up to September 1, the number of months required is gradually rising from 12 months to 60 months; the earlier the earnings, the fewer the number of months required.

The EPS provides a monthly pension at age 58 with at least 10 years of contributions. Employers must contribute 8.33 percent of payroll.

Sources: *Social Security Programs Throughout the World: Asia and the Pacific, 2012,* U.S. Social Security Administration, March 2013; "India," *International Update,* U.S. Social Security Administration, April 2013; "EPFO Trustees Approve Minimum Pension Scheme of Rs1,000," *Press Trust of India,* February 6, 2014; "EPFO Approves Rs1,000 Minimum Monthly Pension," zeenews.com, February 6, 2014; "Proposal for Rs1,000 Minimum Monthly Pension Approved: Government," *The Economic Times*, July 7, 2014; *India Country Manual*, IBIS e-Visor, August 28, 2014; "Minimum Pension of Rs1,000 Under EPFO: Wage Ceiling up at Rs15,000," *The Times of India*, August 28, 2014; "Amendments Introduced in Indian Social Security Schemes—Statutory Wage Ceiling Increased from INR 6,500 to INR 15,000 per Month," *Tax Insights from India Tax and Regulatory Services,* September 2, 2014.

Oman

Effective July 1, contribution rates and pensions in the pay-as-you-go (PAYG) public pension system have been raised. The higher contribution rates are needed to help fund the increased cost of pensions. At the same time, the contributions and pensions are now based on gross wages (wages and allowances) instead of the basic wage. Contribution rates finance old-age, survivor, and disability pensions.

Under the new rules, contributions are increased from 6.5 percent of basic wages to 7 percent of gross wages for employees; from 9.5 percent to 10.5 percent for employers; and from 4 percent to 5.5 percent for the government. The government's contribution rate will be evaluated in 5 years. The maximum earnings used to calculate contributions remains the same, 3,000 rials (US$7,768.40) a month.

In addition, the minimum old-age pension is now 202.5 rials (US$523), up from 150 rials a month (US$388), while the minimum survivor and disability pensions are either the minimum old-age pension or 50 percent of gross wages (up from 40 percent), whichever is greater. All three types of pensions (except for partial disability) that are higher than the minimum pension have been increased by 5 percent. Also, the accrual factor used to calculate old-age pensions has been raised from 2.5 percent to 3 percent for each year of service.

Oman's PAYG program covers all citizens employed in the private sector under a permanent work contract or working in one of the other Gulf Cooperation Council countries (Bahrain, Kuwait, Qatar, Saudi Arabia, or the United Arab Emirates). Men are eligible for an old-age pension at age 60 with at least 15 years of paid contributions, and women are eligible at age 55 with at least 10 years of paid contributions. (An early pension may be paid at ages 45–59 with at least 20 years of contributions for men or 15 years for women.) Workers at the retirement age who do not meet the contribution requirement for the old-age pension but have at least 1 year of paid contributions may receive a lump-sum, end-of-service benefit.

Sources: *Social Security Programs Throughout the World: Asia and the Pacific, 2012,* U.S. Social Security Administration, 2013; "Oman," *International Update*, U.S. Social Security Administration, November 2013; "Amended Social Insurance Law to Come into Effect from July 2014," *Muscat Daily*, November 3, 2013; "Oman Announces Social Security Reform Measures," Mercer, November 4, 2013; "New Norms in Place for Employer Contributions to Social Insurance," *Muscat Daily*, June 23, 2014; "Omani Social Security Contributions Must Factor in Allowances Under New Rules," Mercer, August 26, 2014.

South Korea

On July 1, the government introduced the new basic old-age pension, a means-tested program to help provide a stable income in old age and reduce poverty among the elderly (aged 65 or older). About 50 percent of the population aged 65 or older are considered poor, one of the highest old-age poverty rates among members of the Organisation of Economic Co-operation and Development (OECD) and three times the OECD average. The new basic pension replaces the old means-tested basic old-age pension with a more generous benefit that covers the same portion of the population, the poorest 70 percent (approximately 4.5 million out of a total 6.4 million persons with income below what the government has designated as the minimum cost of living, or 603,403 won (US$593) per month). According to government forecasts for 2015, the new benefit will cost more than the old benefit (both funded from general revenues), over 10.25 trillion won (US$10 million) per year compared with 6.12 trillion won (US$6 million).

The poor elderly with low or no income continue to receive full benefits under the new program, 200,000 won (US$197) a month. However, a reduced benefit is paid under the new program to workers covered by the earnings-related National Pension Scheme (NPS) depending on (1) the insured person's average earnings during the 3 years prior to the year the pension is first paid and (2) the number of years of contributions to the NPS.

The government guarantees a minimum new basic old-age pension of 100,000 won (US$98) a month; this amount will be adjusted annually according to changes in the consumer price index. Persons already receiving the basic old-age pension do not need to apply for the new benefit. However, recipients of basic living support, a social assistance program, cannot receive that benefit because the new basic pension will count as income against the social assistance income threshold.

Under the NPS, workers can receive a retirement benefit at age 60 (gradually rising to age 65 by 2034) with 20 years of contributions, or they can receive a reduced benefit with 10 to 19 years of contributions. An income test is applied to the full retirement benefit if the insured person is younger than age 65; the insured person must be retired to be eligible for the reduced benefit. The NPS covers around 20 million people.

Sources: "Benefits," National Pension Service, 2014; "Basic Pension Coming on July 1, but Tangled in Bureaucratic Complications," The Hankyoreh, June 24, 2014; "Basic Pension Program Begins Amid Disputes," *Korea Herald*, June 30, 2014; "100,000-120,000 Won Basic Pension to Be Paid Starting July 25," *Kyunghyang Shinmun*, June 30, 2014; "New Basic Pension Programs for Elderly Starts in July," KBS World News, July 1, 2014; "Korea Rolls Out Basic Pension Plan Friday," Arirang News, July 25, 2014; Press release, Ministry of Health and Welfare, August 7, 2014.

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.

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SSA Publication No. 13-11712