**Europe**

**Slovak Republic: Workers Allowed to Opt out of the Second Pillar**

Between March 15 and June 15, some 1.5 million workers may opt to withdraw their funds from second-pillar privately managed individual accounts and reallocate them to the first pillar pay-as-you-go (PAYG) public pension program. The change will help the government lower the PAYG budget shortfall caused in part by population aging. The program’s support ratio (the number of covered workers for each pensioner) is expected to decline from 1.6 to 1.0 currently, to 1.0 by 2030, and to 0.76 to 1.0 by 2060.

This is the fourth time that the government has allowed workers to opt out of the second pillar since its introduction in January 2005: three previous opt-out periods, which ended in 2008, 2009, and 2013, led to 106,000; 66,000; and 90,000 accountholders, respectively, leaving the second pillar. When launched in 2005, the second pillar was mandatory for new entrants to the labor force, became voluntary when the current government was in power from 2006 to 2010, was mandatory again when the current opposition parties assumed power, and then reverted to a voluntary program after the current government returned to power in 2012.

The government asserts that workers’ benefits will be higher under the PAYG program than under the mixed (public/private) program. This year, the first cohort of retirees will begin receiving payouts from the second pillar. Based on relatively low account balances of around €5,000 (US$5,620) per person, the Finance Ministry estimates that 60 percent of beneficiaries will receive less than €30 (US$34) a month. (At retirement, the insured worker has two options: an immediate life annuity or temporary programmed withdrawals with a deferred life annuity.) The low balances are the result of declining employer contribution rates over time, from 9 percent initially in 2005 to 4 percent of payroll since 2012 (workers do not contribute), and low rates of return (2 percent a year on average since 2009). Current assets under management are €6.5 billion (US$7.4 billion).

Both pillars permit retirement at age 62 with 15 years of contributions. Beginning in 2017, the retirement age will be raised gradually according to changes in life expectancy.


**Asia and the Pacific**

**Australia: 2015 Intergenerational Report Released**

On March 5, the Treasury released Intergenerational Report 2015: Australia in 2055 (IGR), which assesses the expected impact of population aging on fiscal and other federal government policies during the next four decades. The IGR is the fourth report in a series, one released every 5 years. The table contains some of the demographic projections for the 2014–2015 and 2054–2055 periods. (A fiscal year in Australia spans 2 years and runs from July 1 to June 30.) By 2055, the report expects the number of people aged 100 or older to be eight times greater than it is today; the number of people aged 85 or older could increase nearly five times since 1975. Also, the increase in life expectancy at birth is projected to rise by 3.6 years (men) and 3 years (women).

Australia has a two-pillar retirement income system: the Age Pension and the superannuation guarantee. The Age Pension is a means- and asset-tested, noncontributory benefit funded from general revenue. The mandatory occupational pension program requires employers to provide a superannuation...
guarantee—a contribution of 9.25 percent of employee earnings a month (gradually rising by 0.5 percent a year starting in 2021 until reaching 12 percent by 2025)—to a superannuation fund or a retirement savings account on behalf of the employee. Employee contributions are voluntary. At the end of June 2014, superannuation assets under management were A$1.84 trillion (US$1.4 trillion), about 116 percent of gross domestic product (GDP).

According to the IGR, pensions currently represent about 2.9 percent of GDP and, with no changes, could rise to 3.6 percent of GDP over the next 40 years. However, the IGR states that if the current government’s proposed changes presented in Budget 2014 are implemented, that share could decrease to 2.7 percent. The government’s proposed measures include—

• **Increasing the retirement age to 70.** The retirement age is already scheduled to rise to 67 by 2023. Beginning in 2025, the age would rise by 6 months every 2 years and reach age 70 in 2035. Persons born before July 1, 1958, would be exempt from the increase to age 70. (Those born before July 1, 1952, are exempt from the rise to age 67.)

• **Changing the method of indexation.** Beginning in 2017, pension benefits would be adjusted to changes in the consumer price index only. Currently, they are adjusted according to the greater of the increase in the consumer price index or the pensioner and beneficiary living cost index.

• **Adjusting the means and asset tests used to determine eligibility for the Age Pension.** The report asserts that this measure would reduce the proportion of Age Pension beneficiaries who receive a full benefit (currently 60 percent); but, the proportion of retirees who receive any pension (currently 70 percent) would remain essentially the same, in part because over time, superannuation assets are expected to represent a larger portion of an individual’s retirement income.


### Bolivia: Transfer of Individual Retirement Accounts to the Government

On January 14, the government announced via a Supreme Decree that a new public entity will be formed and will take charge of all the individual retirement accounts within 18 months. Since the inception of the current individual account program in 1997, two private pension fund management companies (AFPs) have administered the accounts. (At the end of 2014, assets under management were equal to about 32 percent of gross domestic product.) The Public Management Body for Long-Term Social Security (the Gestora), the new public entity, was created by the 2010 pension reform law to nationalize the system of individual accounts, but its implementation has been postponed until now. According to the government, the delay was due in part to the backlog of thousands of claims made by the AFPs to recover payments from delinquent employers. (As of August 2014, there were some 6,000 cases that had not been settled.) By May 2015, all records relating to the worker’s contributions must be transferred to the Gestora.

The main roles of Gestora will include administering the individual accounts, collecting contributions, paying benefits, and managing the investment of funds. The Supreme Decree gives the Gestora broader investment limits than the AFPs because Gestora’s role is to increase the rate of return and guarantee higher benefit levels. The average annual nominal rate of return over the past several years has ranged from a high of about 8 percent to a low of about 5 percent. Currently, AFPs are permitted to invest in government

### 2015 Intergenerational Report: Demographic Projections

<table>
<thead>
<tr>
<th>Category</th>
<th>2014–2015</th>
<th>2054–2055</th>
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<tbody>
<tr>
<td>Life expectancy at birth (years)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Men</td>
<td>91.5</td>
<td>95.1</td>
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<tr>
<td>Women</td>
<td>93.6</td>
<td>96.6</td>
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<tr>
<td>Population aging (number of people)</td>
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<tr>
<td>100 or older</td>
<td>5,000</td>
<td>40,000</td>
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<tr>
<td>85 or older</td>
<td>80,000</td>
<td>2,000,000</td>
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<tr>
<td>Labor force participation rates for workers aged 65 or older (percent)</td>
<td>12.9</td>
<td>17.3</td>
</tr>
<tr>
<td>Dependency ratio a</td>
<td>4.5 to 1.0</td>
<td>2.7 to 1.0</td>
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</tbody>
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*a. The report defines dependency ratio as the ratio of the working-age population (15 to 64) to the population aged 65 or older.*
bonds, short-term deposits, and companies listed on the Bolivian Stock Exchange. The Gestora will be allowed to have a more diversified portfolio, including companies with an investment-grade rating. Also, the Gestora will be required to set up a reserve fund to cover any losses.

The government will provide an initial capital contribution of 80 million bolivianos (US$11.3 million) to the Gestora. In addition, the 2015 general state budget authorizes up to 120 million bolivianos (US$17 million) to finance the agency’s start-up and operating costs. Accountholders will continue to pay 0.5 percent of earnings each month for administrative costs; that rate will be reviewed every 3 years.

A general manager will be nominated by the Ministry of Economy and approved by the President. The salaries for the top officials of Gestora will range from 30,000 to 70,000 bolivianos (US$4,234 to US$9,879) a month, compared with close to 20,000 bolivianos (US$2,823) a month for the President; 2,500 bolivianos (US$353), on average, for retirees; and 1,440 bolivianos (US$203) for minimum wage workers.

The current system of individual accounts replaced the public pay-as-you-go system in 1997. All salaried workers, including armed forces personnel, are covered by the system; participation for self-employed individuals is voluntary. Accountholders are required to contribute 10 percent of earnings per month to an individual account; employers may make voluntary contributions on behalf of their employees. At retirement, an accountholder must choose between a fixed or variable life annuity, depending on the account balance at the time.

The 2010 pension reform law lowered the retirement age from 65 to 58 for both men and women and to even younger ages for mothers and workers in the mining industry; it also set up a solidarity benefit for those workers who do not qualify for a guaranteed minimum benefit (180 months of contributions), but have at least 120 months (10 years) of contributions. Both workers and employers fund the solidarity benefit. Also, a universal benefit—financed by the government through taxes on hydro-carbons and dividends from public enterprises—is paid to all citizens aged 60 or older who reside in Bolivia. In addition to the individual account system, the Gestora will administer both the solidarity and universal pensions.