Social Security

International Update:

Recent Developments in Foreign Public and Private Pensions

April 2015

Europe

France: Further Pressure to Accelerate Pension Reform

Two reports, released at the beginning of 2015, highlight the need for accelerated pension reform in France. The first report, produced by the Pensions Advisory Council (known as COR or conseil d'orientation des retraites), focuses on the first-pillar public pension system. The COR's 30 members represent both houses of parliament, employers, trade unions, retirees, and independent pension experts. The second report, produced by the French General Accounting Office (cour des comptes), focuses on the second-pillar, privately managed complementary system. The second pillar is mandatory and is made up of two pension institutions: (1) ARRCO (Association for Employees' Supplementary Schemes)—for all private-sector workers and (2) AGIRC (General Association of Retirement Institutions for Executives)—covering only managerial and executive staff.

The 2014 pension reform adopted a series of measures to shore up the solvency of the first pillar, which include increasing the employer and employee contribution rates, gradually lengthening the number of years of contributions to qualify for a full benefit, and modifying the schedule of annual benefit adjustments according to increases in the cost of living. Although the COR has existed since 2000, the 2014 reform requires it to produce an annual report on the middle- and long-term prospects of the public pension system and a 5-year report, which includes projections and measures of how well the system is functioning in terms of adequacy, intergenerational equity, and the treatment of men and women as contributors and beneficiaries. The COR must also formulate recommendations regarding the range of options to ensure the longevity of the pension system.

In the COR's first annual report, it cautions that it is premature to examine the impact of the pension reform measures adopted in 2014. However, it urges the pension authorities to scale back their projection of future economic growth—estimated at 2 percent per annum to between 1.0 and 1.4 percent growth in the near term. The report also urges pension authorities to revise the projected unemployment rate from 4 percent of the labor force to one closer to the current rate of nearly 10 percent. By 2040 , the report projects that the pension deficit could reach nearly 9 percent of gross national product under the most pessimistic scenario; under an optimistic scenario (much better economic growth and employment conditions), the system could return to financial equilibrium.

In accordance with its legislative mandate, the COR report also introduces the following series of metrics of adequacy and equity to be applied to the pension system: (1) the average amount of pension benefits and the standard of living of pensioners, (2) the number of years spent in retirement, (3) the length of the working life during which pension contributions are made, and (4) the impact of pension contributions on individuals and the economy.

Future COR reports will investigate the use of such metrics, particularly with regard to future trends in the pension contribution rate (currently about 25.5 percent of gross earnings) needed to achieve an average replacement of about 75 percent of preretirement income. The COR anticipates paying particular attention to the gap in retirement income, which continues to exist between male and female beneficiaries (currently women receive, on average, about 68 percent of the pension income that men receive). Moreover, while the income gap has steadily narrowed in recent years, the retirement income of women living alone has only slightly improved.

Although the COR report expresses caution about adopting any immediate pension reform measures for the first-pillar system—awaiting improvements in economic performance and savings achieved by the 2014 reform—the General Accounting Office report urges immediate action to stabilize the second-pillar, complementary pension system. It is anticipated that the two complementary pension institutions will be unable to meet their pension obligations as early as 2018 for AGIRC and 2025 for ARRCO. Negotiations between employers and employees who manage the complementary pension system are scheduled to be concluded by June 2015, and reforms could be put in place in 2017.

The General Accounting Office report raises the issue of the earliest age at which beneficiaries can begin to draw a full old-age retirement benefit. According to the 2014 legislation, that age is currently fixed at 62 in the first pillar, with special provisions for workers who have long careers in arduous and unhealthy occupations. The second pillar has customarily followed any legislative changes in the first pillar. However, the report states the need to move progressively to age 64 or older for the second pillar, leaving open for discussion the issue of whether the first pillar could introduce a higher retirement age at a different pace.

The General Accounting Office report also asserts that important savings could be achieved by merging AGIRC and ARRCO and cutting back on the number of autonomous retirement funds (currently there are 37 affiliates) that belong to these two institutions. According to the report, a 15 percent reduction in the current level (2.7 percent) of second-pillar administrative costs would bring them into line with the first pillar.

Sources: "France," *International Update*, U.S. Social Security Administration, January 2014; *Évolutions et perspectives des retraites en France Rapport annuel du COR*—Juin 2014, Conseil d'orientation des retraites and *Garantir L'avenir des Retraites Complémentaires des Salariés (Agirc Et Arrco),* Cour des comptes, décembre 2014.

Americas

Chile: Results of a Survey on Pensions

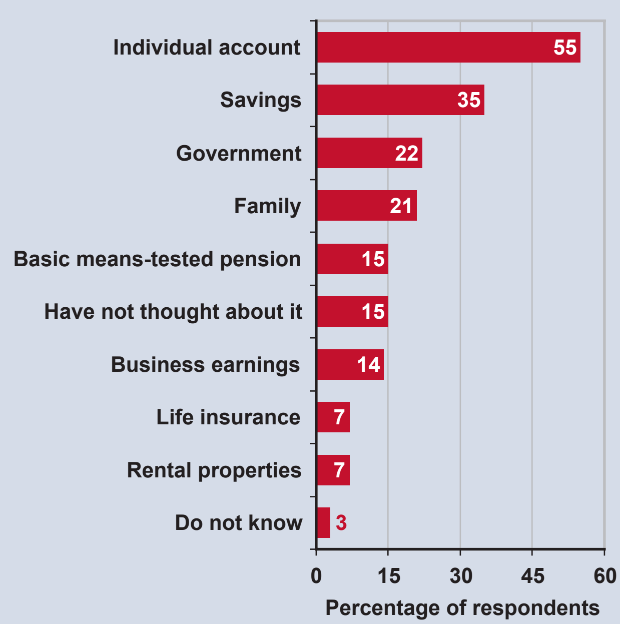
On March 31, the Presidential Pension Advisory Commission released the results of a public opinion and perception survey on the current system of individual accounts, conducted last fall. The commission, made up of 25 national and international pension experts, was appointed by President Bachelet a year ago and is scheduled to release its final report and recommendations this August. The survey included face-to-face interviews with 3,696 participants representing the national population aged 18 or older; 58 percent of respondents were working, and 65 percent of respondents lived in households with no one aged 60 or older residing in those households.

A number of survey questions focused on the participation of affiliates (enrolled, but not contributing regularly) and contributors (enrolled and actively contributing). About one-quarter of respondents were pensioners. Of the respondents who were not pensioners, one-quarter were affiliates who did not contribute; about a third were contributors, and about a fifth were not enrolled in either the system of individual accounts or the old pay-as-you-go (PAYG) public system; only about 1 percent of the respondents who were enrolled belonged to the PAYG system (because it is being phased out).

The chart below shows most of the responses to the survey question, "How do you or will you finance your retirement?" (The combined percentages exceed 100 percent because individuals had multiple responses.) More than half of the respondents said that they would rely on their individual account, about a third on savings, and about a quarter on the government. In addition, the respondents who were working pensioners (11 percent of the pensioners) gave the following reasons for not retiring:

- The pension is very low and must be supplemented (76 percent).
- To keep active (11 percent).
- They like the work (5 percent).

Survey respondent's plans for financing their retirement



SOURCE: "Encuesta de Opinión y Percepción del Sistema de Pensiones en Chile," 30 de marzo de 2015.

The table below shows the difference between perceived and actual knowledge of the retirement ages and the contribution rate. Most respondents were familiar with the retirement ages. Thus, the difference between the perceived and actual knowledge was relatively small. Although more than one-third of respondents claimed to know how much they contributed monthly, less than half of that group actually knew the correct answer. In addition, only 11 percent of respondents who were accountholders said they knew how much they paid for administrative fees each month.

Perceived and actual knowledge of the current system of individual accounts, as a percentage of all survey respondents

Survey question	Perceived knowledge	Actual knowledge
Retirement age (men)	86	77
Retirement age (women)	85	67
Contribution rate	38	16

SOURCE: "Encuesta de Opinión y Percepción del Sistema de Pensiones en Chile," 30 de marzo de 2015.

Other survey questions were related to the "statement" that a pension fund management company (AFP) is required to send to each accountholder every 4 months. Only 45 percent of respondents said they had received the statement in the last 12 months. Those who said "yes" were more likely to be older, more educated, and higher-income respondents. Of the pensioners who received the document in the last 12 months, 38 percent indicated the document was sufficiently clear, compared with 21 percent who indicated that the document was confusing or not clear; 6 percent did not read the document.

The last part of the survey contained questions regarding attitudes and opinions about the current system of individual accounts. For questions regarding adequacy, two-thirds of respondents who were not retired indicated that they would not receive a pension that met their expectations—ranging from 47 percent of individuals aged 18–24 to 76 percent of individuals aged 45–54 (the percentage for individuals aged 55 or older was just slightly lower than 76 percent). About three-quarters of the old-age pensioner respondents said that their pensions did not meet their needs. In addition, the responses (from all respondents) to a number of specific opinion questions included the following (in some cases, the combined percentages exceed 100 percent because individuals had multiple responses):

- The main problems affecting the current system are low economic compensation (79 percent), poor planning and investing (75 percent), uninformed contributors (29 percent), high administrative costs (24 percent).
- The financing source for pensioners should be individual (38 percent), intergenerational (24 percent), the government (44 percent).
- A state-run AFP should be established (79 percent); they would switch to a state-run AFP (69 percent).
- Only a total system change would improve pensions (66 percent).
- Low pensions are the responsibility of the AFPs (66 percent), the government (59 percent), employers (30 percent).
- Employers should be required to contribute (51 percent).
- Longer life expectancy requires a higher level of retirement savings (41 percent).
- Women are penalized in the current system because they live longer (39 percent). (The retirement age is 65 for men and 60 for women.)

Source: "Encuesta de Opinión y Percepción del Sistema de Pensiones en Chile," Comisión Asesora Presidencial sobre el Sistema de Pensiones, 30 de marzo de 2015.

Asia and the Pacific

Social Security Programs Throughout the World: Asia and the Pacific, 2014 Is Released

The Social Security Administration has released *Social Security Programs Throughout the World: Asia and the Pacific, 2014*—part of a four-volume series that provides a cross-national comparison of the social security systems in 50 countries in Asia and the Pacific. It summarizes the five main social insurance programs in those countries: (1) old-age, disability, and survivors; (2) sickness and maternity; (3) work injury; (4) unemployment; and (5) family allowances. The other regional volumes in the series focus on the social security systems of countries in Europe, the Americas, and Africa.

Changes made since the 2012 Asia and the Pacific volume include the following:

- *New old-age, survivors, and disability (OASD) laws or programs*—individual retirement savings accounts (Armenia), first OASDI program (Burma/Myanmar), notional defined contribution program (Tajikistan and Turkmenistan); new social insurance law (Vietnam, to be implemented gradually beginning in 2016).
- *New sickness and maternity laws, rules, or programs*—employer liability (Samoa), universal health insurance (Qatar), and universal coverage (Vietnam).
- *New unemployment laws or programs*—(Saudi Arabia and Vietnam, to be implemented in 2015).
- *Contribution rates begin gradual rise*—(Jordan, Singapore, and Taiwan).
- *Retirement ages begin gradual rise*—(Australia [for the mandatory occupational pension], Kazakhstan, and Palau).
- *Structural changes*—a new administrative organization (Indonesia) and separate systems unified (Laos).

Source: *Social Security Programs Throughout the World, Asia and the Pacific, 2014,* U.S. Social Security Administration, March 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.

Editor: Barbara E. Kritzer.

Writers/researchers: Barbara E. Kritzer and David Rajnes.

Social Security Administration
Office of Retirement and Disability Policy
Office of Research, Evaluation, and Statistics
500 E Street, SW, 8th Floor, Washington, DC 20254

SSA Publication No. 13-11712