Social Security

International Update:

Recent Developments in Foreign Public and Private Pensions

June 2015

Europe

The European Commission Released The 2015 Ageing Report

In May, the European Commission released *The 2015 Ageing Report*—the latest in the series on aging, which provides statistics and projections related to aging among member countries of the European Union (EU). According to the report, rapid aging among EU member countries will continue to put fiscal pressures on public pension systems.

The report provides demographic statistics and projections for individual countries and the average for all member countries for the 2013–2060 period. The figures that follow represent the average for all member countries. The report finds that life expectancy at age 65 is expected to increase by 4.8 years for men and 4.6 years for women from 2013 through 2060 and reach 22.4 years and 25.6 years, respectively. During the same period, even though the fertility rate is projected to rise, it will remain below the replacement rate of 2.1 children per woman. In addition, the net migration rate (the difference between the number of individuals entering and leaving a country) is expected to increase from close to 900,000 to 1.4 million people by 2040 and then decrease to about 1 million people by 2060. Finally, the dependency ratio (the ratio of workers to individuals aged 65 or older) is projected to decline from 4 to 1 to 2 to 1 by 2060.

The report also contains data that are changing in part because of pension reforms in most of the member countries: labor force participation rates of older workers (aged 55 to 64); effective retirement ages (the ages at which a people actually retire); and the number of years spent in retirement. The report finds that older workers are projected to have the largest increase in labor force participation rates, 21 percentage points for women and 10 percentage points for men. Effective retirement ages are also rising because of increases in the statutory retirement ages (including linking retirement ages to life expectancy). The effective retirement age for men is expected to increase from 63.6 years in 2014 to 65.3 by 2060 and from 62.6 years to 64.8 for women, respectively. At the same time, the number of years spent in retirement is projected to rise from 18.1 to 21.7 for men and from 22.6 to 25.3 for women.

According to the report, public pension expenditures for EU members as a percentage of gross domestic product, on average, are expected to increase from 11.3 percent in 2013 to 11.7 percent by 2040 and then to decrease to 11.1 percent by 2060. However, when the expenditures are presented by country, there is a wide range of figures, from a decrease of more than 3 percentage points to an increase of 4.1 percentage points. When breaking down expenditures by type of pensions, the cost of old-age and early retirement pensions is projected to increase by 0.4 percentage points from 2013 through 2060, and the cost of disability and survivor pensions is projected to decrease by 0.1 percentage points and 0.5 points, respectively. When considering age groups, expenditures are expected to decrease for all individuals younger than age 70 and increase for individuals aged 75 or older.

Source: *The 2015 Ageing Report: Economic and Budgetary Projections for the 28 EU Member States (2013–2060),* European Commission, March 2015.

Asia and the Pacific

New Zealand: Government Subsidy for KiwiSaver Accountholders Eliminated

Effective May 21, kickstart, the government subsidy for each new KiwiSaver account, was eliminated. The tax-free NZ$1,000 (US$710) kickstart has been a feature of KiwiSaver since 2007, when these voluntary retirement savings plans were introduced. According to the government: (1) the subsidy is no longer needed as an incentive because KiwiSaver has been very popular and enrollment has exceeded projections—as of April 2015, there were 25 million members; and (2) kickstart is too expensive—to date, it has cost the government NZ$2.5 billion (US$1.8 billion). Abolishing the subsidy will save the government NZ$125 million (US$89 million) a year for the next 4 years.

Accountholders can still receive up to NZ$521 (US$370) a year as a tax credit for annual KiwiSaver contributions of up to NZ$1,043 (US$741). (Budget 2015 projects that the government will spend NZ$705 million (US$500 million) for the tax credit.) However, according to industry experts, children and individuals who are not in the labor force could have negative account balances because—

- they usually do not make regular contributions;
- the cost of annual provider fees (NZ$30 to NZ$40 (US$21 to US$28) and typically a percentage of the account balance) could significantly lower account balances;
- there is no minimum balance requirement.

Since 2007, the government contribution to KiwiSaver has decreased. In 2009, the NZ$40 (US$28) annual subsidy to help defray the cost of the administrative fees that the providers charge was eliminated; the employer NZ$20 (US$14) tax credit was eliminated and replaced with a tax on employer contributions above 2 percent of earnings; since 2012, all employer contributions are subject to taxation. In 2011, the member tax credit was cut in half.

KiwiSaver supplements New Zealand Superannuation—the flat-rate, universal public pension funded by general revenues. New entrants to the labor force and new employees who do not have a KiwiSaver account are automatically enrolled in a KiwiSaver plan, but may opt out. All others must opt in (the self-employed and all individuals who are not in the labor force). Those employees who do not choose a provider are assigned to one of the default providers. Employees must choose a contribution rate of 3 percent, 4 percent, or 8 percent of pretax salary (the default is 3 percent); others decide on the rate with their provider. Employers are required to contribute a minimum of 3 percent of the employees' earnings. As of June 2014, close to 40 percent of enrollees were automatically enrolled. About 40 percent of those who had been enrolled automatically opted out; 11 percent of all enrollees opted in (chose to participate).

Sources: "New Zealand," *International Update,* U.S. Social Security Administration, January 2009, June 2011, and March 2013; "KiwiSaver Statistics," New Zealand government, 2014; "$1,000 Kick-Start Payment," KiwiSaver Benefits, New Zealand government, May 2015; "$1,000 KiwiSaver KickStart Canned," stuff.co.nz, May 21, 2015; "Budget 2015: KiwiSavers Lose $1,000 'Kick-Start'," *New Zealand Herald*, May 21, 2015; "KiwiSaver Loses its Buffer," *New Zealand Herald*, May 29, 2015; "New Members to New Zealand's Kiwisaver Scheme Will No Longer Get a $1,000 Kick-Start Payment," Mercer, June 2, 2015.

The Americas

Canada: Ontario Lays Groundwork for New Mandatory Savings Program

On May 5, the Ontario Retirement Pension Plan Act, 2015 became law when it received Royal Assent. The act outlines the framework for the new mandatory Ontario Retirement Pension Plan (ORPP), scheduled to be implemented by 2017 to supplement the earnings-related Canada Pension Plan (CPP). In its 2014 budget, the provincial government pointed to several studies indicating that workers in Canada may not save enough for retirement because of low occupational pension coverage, weak participation in voluntary savings, and longer life expectancy. The Ministry of Finance is responsible for conducting a cost-benefit analysis of the new program by the end of 2015.

Roughly 3 million individuals aged 18 up to age 70, who are employed in Ontario but are not covered by an existing workplace pension plan, will be eligible for the ORPP. (Self-employed workers are exempt from participating under current federal income tax rules.) Enrollment in the program will be phased in over 2 years, beginning with employers and their employees in large companies. A government consultation paper released last December asked stakeholders whether current participants in workplace pensions should be excluded from the ORPP; the government has yet to reach a decision on that issue.

According to the act, employers and employees will each contribute 1.9 percent (a combined total of 3.8 percent) of covered employee earnings up to a maximum of C$90,000 (US$72,037), indexed annually to inflation. Contribution rates will be phased in gradually (no schedule specified). A minimum covered-earnings threshold remains to be established; under consideration is the C$3,500 (US$2,801) used for the CPP.

ORPP retirement and survivor benefits will have a targeted replacement rate of 15 percent of an individual participant's preretirement earnings, indexed to inflation. Full benefits will be paid as a life annuity beginning at age 65, with an actuarial adjustment for benefits paid from age 60 to age 70.

A separate organization, the ORPP Administrative Corporation (ORPP AC), will administer the new savings program. The ORPP AC will act as trustee and be responsible for the overall operation of the program, including enrollment, contribution collection, record-keeping, administration of benefits, and investment of funds. A professional board of directors, chosen by an independent nominating committee, will provide financial oversight and issue annual reports.

The ORPP will supplement Canada's public pension system, which currently consists of the CPP, Old-Age Security (OAS), and Guaranteed Income Supplement (GIS) programs. OAS is a nearly universal pension paid to Canadians aged 65 or older and financed through general revenue. (The OAS retirement age will rise gradually to age 67 from 2023 through 2029.) Benefit amounts are based on the duration of residency, with maximum benefits paid to persons with at least 40 years of residency. Low-income OAS pensioners living in Canada are eligible for the income-tested GIS.

Sources: "Canada," *Social Security Programs Throughout the World: The Americas, 2013,* U.S. Social Security Administration, March 2014; "The Ontario Retirement Pension Plan," Ministry of Finance, November 2014; "Ontario Retirement Pension Plan Act, 2015," Legislative Assembly of Ontario, May 5, 2015; "2015 Ontario Budget," Ministry of Finance, May 26, 2015; "Q&A on the Ontario Retirement Pension Plan," *The Windsor Star*, June 2, 2015.

Honduras: New Social Protection Law Passed

On May 8, Congress passed the Social Protection Law that provides a new framework for the Honduran social security system. The new law creates a social protection floor, extends coverage for contributory public pensions, and establishes personal retirement accounts for workers who earn at least twice the minimum wage. (Other provisions not related to pensions include a new universal health care system, unemployment insurance, and mandatory work injury and occupational disease coverage.)

According to the government, the goal of the new law is to provide universal coverage; only 5 percent of the working-age population will qualify for a pension under the current public pension system. After the law enters into force (it is scheduled to do so 45 days after it is published in the Official Daily Gazette), the "Executive Power" (the constitutionally elected president, ministers, and secretaries of state) has 18 months to create any complementary laws (social security, personal accounts, and so forth) and send them to Congress.

The new law guarantees the inalienable right to social security for all Hondurans. To meet that requirement, the law establishes noncontributory benefits that are financed by the government for the poorest and most vulnerable people. Social assistance for older adults includes conditional cash transfers and survivors and disability benefits. Beginning in 2018, the new law will also gradually extend old-age, survivors, and disability coverage to companies with less than 10 workers. In addition, a separate system will be set up for self-employed persons.

Currently, the combined contribution rate for old-age, survivors, and disability insurance (or OASDI) is 6.5 percent of a worker's covered earnings (from workers, employers, and the government). Also, workers and their employers in companies with at least 10 employees must each contribute an additional 1.5 percent to the private contributions program—the Régimen de Aportaciones Privadas (or RAP)—a nonprofit financial institution that provides individual retirement savings accounts; participation is voluntary for companies with a minimum of five employees. Workers may withdraw their RAP savings at retirement (age 65 for men and age 60 for women) or if they are permanently leaving the country. RAP also provides low-interest loans. Eventually, once the new structure is in place, RAP will convert to a pension fund management company (AFP), and a worker may opt to move the account balance to another AFP or bank. More details regarding the personal retirement account have not been specified.

Under the new law, the combined contribution rate for OASDI will be at least 6.5 percent of a worker's covered earnings (not including the personal retirement account) and will be indexed to inflation. According to the government, the contribution rate for minimum wage workers remains the same. About 80 percent of the labor force earns the minimum wage, which varies according to the industry and size of the company.

Sources: "Honduras," *Social Security Programs Throughout the World: The Americas, 2013,* U.S. Social Security Administration, March 2014; "Honduras, Nueva Ley de Seguridad Social en Honduras," FIAP, mayo de 2015; Ley Marco de Protección Social, 7 de mayo de 2015; "Resumen Beneficios Ley Marco de Seguridad Social," Congreso Nacional de Honduras, 7 de mayo de 2015; "Honduras: Ley Consolida Pagos al IHSS y al RAP en una Sola Cuenta," elheraldo.com, 8 de mayo de 2015.

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