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Social Security

International Update:

Recent Developments in Foreign Public and Private Pensions

October 2015

Europe

Russia: Second-Pillar Contributions Continue to be Diverted to the First Pillar in 2016

On October 7, the head of the Pension Fund of the Russian Federation announced that contributions to second-pillar individual accounts will be diverted to the first-pillar public program in 2016, marking the third straight year of contributions being diverted. The move is aimed at reducing the government's budget deficit—projected to reach 2.8 percent of gross domestic product (GDP) in 2016—caused largely by low oil prices, and it is expected to save around 344 billion rubles (US$5.3 billion) in 2016. In 2014 and 2015, second-pillar contributions amounted to some 240 billion rubles (US$3.7 billion) and 300 billion rubles (US$4.6 billion), respectively, which together represented 0.5 percent of GDP.

In January 2015, Russia implemented a new public pension law that created a two-pillar pension system consisting of a mandatory first-pillar earnings-related benefit and a second-pillar individual account that is voluntary for workers born after 1966; workers born before 1967 are not eligible to participate in the second pillar. (Previously, the old-age pension [called the labor pension] was made up of a flat-rate portion; a notional account; and a mandatory individual account, which allowed a worker the choice between a government-run pension fund and a privately managed fund [also called the nonstate pension fund, or NSPF]). New entrants to the labor force from 2015 forward are eligible for an earnings-related benefit based entirely on the new rules; transitional rules apply to workers in the labor force before 2015. Workers who opt for the second pillar have 6 percent of their earnings directed to an individual account that is managed by an NSPF and 10 percent of their earnings directed to the first pillar. However, since January 2014, all contributions have been diverted to the first pillar.

Sources: "Russia: New Public Pension Law Implemented," *International Update*, U.S. Social Security Administration, February 2015; "Russia to Freeze Pension Contributions for Third Year—Vedomosti Daily," *Reuters*, September 30, 2015; "Russia Considering Pension System Alternatives as Deficit Widens," *Bloomberg Business*, October 7, 2015; "Russia Decides to Freeze Pension Contributions—Agencies," *Reuters*, October 7, 2015; "Russian Roundup: Contribution Moratorium, System Changes, Consolidation," *IPE.com*, October 8, 2015.

Asia and the Pacific

New Zealand: Report on KiwiSaver Is Released

On September 16, the Treasury released *Review of KiwiSaver Fund Management Market Dynamics and Allocation of Assets,* which examines the various aspects of KiwiSaver after 7 years of operation. Objectives of the report include observing the effect of KiwiSaver on the overall economy, assessing the level of competition among KiwiSaver providers, and determining if the rate of return is providing the highest level of retirement income.

Introduced in July 2007, KiwiSaver is a subsidized retirement savings plan that supplements the country's flat-rate universal public pension—known as New Zealand Superannuation (NZS). Workers are automatically enrolled in a KiwiSaver plan but may opt out. According to the report, the take-up rate for KiwiSaver has far exceeded initial government projections. In 2005, when the bill was being discussed in Parliament, the government predicted that by June 2014, some 680,000 individuals would have enrolled in a plan. As of June 2014, there were some 2.3 million accountholders.

One objective of the report is to monitor KiwiSaver's role in the country's economy. As of June 2014, KiwiSaver assets under management (AUM) totaled NZ$22.8 billion (US$15.5 billion)—about 9 percent of gross domestic product (GDP), and by 2020, they are projected to reach NZ$70 billion (US$48 billion)—or 23 percent of GDP. Also, the report states that while KiwiSaver AUM represent only 3 percent of household wealth, KiwiSaver is still in its early stages and has the potential to grow.

Another objective of the report is to assess the level of competition among the providers. Of the 20 providers that offered KiwiSaver accounts in June 2014, six of them managed 93 percent of the total AUM. Five of the six providers had default funds. (Workers who do not choose a provider are automatically assigned to a default fund, chosen by the government through a tender process.) As of July 2014, four additional providers were named as default providers; when combined, these nine providers managed 90 percent of AUM. According to the report, while the market seems to be working "in an economically efficient and competitive manner," the government should monitor the five largest banks that offered KiwiSaver accounts and controlled 65 percent of AUM in 2014 (compared with 59 percent in 2007) to make sure that they do not gain significantly more market share. The banks have the advantage of an established network, less stringent rules for providing financial advice, and the ability to easily combine KiwiSaver with the marketing of other financial products.

The level of competition is also reflected in the level of fees that providers charge accountholders. Fees as a percentage of AUM have declined from 2.2 percent in 2009 to 1.95 percent in 2014. The report finds that this decrease shows that economies of scale are being utilized and some competition exists among the providers. However, these fees are high according to international standards. The fee structure is complex and not easily comparable.

The report asserts that with lower levels of competition, providers do not have to lower their fees. A higher level of knowledge among consumers stimulates competition. On the whole, consumers need to increase their level of financial literacy. An October 2014 survey conducted by the government's Financial Markets Authority found the following:

- 42 percent of survey participants believe that KiwiSaver is guaranteed by the government. (The government provides tax credits.)
- 66 percent of survey participants think that a KiwiSaver Growth fund was a medium-to-lower risk option. (It is a medium-to-high risk option.)

The report indicates that the government's online KiwiSaver FundFinder calculator has helped to raise the level of awareness of fees and rates of return. This tool easily compares these and other metrics.

According to the report, net rates of return for KiwiSaver are mixed compared with some government financial institutions. KiwiSaver investments have a higher percentage in income than growth instruments, compared with the New Zealand Superannuation Fund (NZSF, a reserve fund to help finance the future cost of NZS—the public pension funded by general revenues—as the population ages) and other government financial institutions that have a higher percentage invested in growth instruments. Over time, the NZSF has outperformed KiwiSaver.

Source: *Review of the KiwiSaver Fund Manager Market Dynamics and Allocation of Assets*, Treasury, New Zealand Government, September 2015.

Thailand: New Voluntary Retirement Savings Program Is Introduced

On August 20, the government launched the National Savings Fund (NSF) for the roughly 25 million informal workers not covered by a formal pension program. The voluntary NSF is designed to encourage retirement savings through government matching of member contributions based on savings and age. Government officials expect that NSF savings will help support a worker's economic security in old age while contributing to the country's economic growth. Government surveys estimate that 42 percent of adults older than age 60 have insufficient retirement income to maintain their preretirement living standards, while 31 percent have no savings.

Workers aged 15 to 60 who are not participating in a formal pension program (such as farmers, day laborers, and self-employed professionals) are eligible to participate in the NSF by making a monthly contribution of at least 50 baht (US$1.37) up to a maximum annual contribution of 13,200 baht (US$362.34). The annual government match equals 50 percent of member contributions not to exceed 600 baht (US$16.47) for workers aged 15–30; up to 80 percent of member contributions not to exceed 960 baht (US$26.35) for workers aged 31–50; and up to 100 percent of member contributions not to exceed 1,200 baht (US$32.94) for workers older than age 50. NSF members are not required to maintain the same contribution amount each month; however, members who stop contributing altogether lose the government match. Also, professional fund managers will invest the funds and the government will provide a guaranteed rate of return.

A pension is paid beginning at age 60 (the normal retirement age) based on the value of the member's account balance. A monthly subsistence allowance of 600 baht may be provided to members with low account balances. An amendment to the law establishing the NSF (effective September 26) allows applicants older than age 50 who join within 1 year to contribute to the fund for up to 10 years.

More than 300,000 people joined the NSF within the first month following the fund's launch—well above the expected 100,000–200,000 range. The government's NSF goal is to reach 600,000 members by the end of 2015, 1.5 million members by the end of 2016, and 3 million members by the end of 2018.

The Thai retirement income system for the formal sector includes the Social Security Fund for private-sector employees and the Government Pension Fund for civil servants and state enterprise employees; together those funds cover 14 million of the more than 16 million workers in the formal sector. Also, many companies provide supplemental retirement benefits that cover nearly 3 million workers in private-sector provident funds.

Sources: "Pension Lifeline," *Bangkok Post*, August 10, 2015; "National Savings Fund to Provide Social Insurance for Self-Employed People," Thailand Government Public Relations Department, August, 22, 2015; "NSF Seeks B1.5bn in New Funding," *Bangkok Post*, September 22, 2015; "National Savings Fund Officials Upbeat After," *The Nation*, September 30, 2015; "National Savings Fund Urges Quick Sign-Up," *Bangkok Post*, October 3, 2015.

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