Social Security

International Update:

Recent Developments in Foreign Public and Private Pensions

February 2016

Europe

Belgium Introduces New Rules for Minimum Returns on Occupational Pension Plans

On January 1, new rules for Belgium's occupational pension plans that change the legal guaranteed minimum rate of return on contributions—from a fixed rate to a variable rate—went into effect. Under the new rules, the variable rate changes according to economic conditions in Belgium. Previously, occupational (defined contribution and cash balance) plans were required to guarantee a minimum return rate of 3.75 percent of employee contributions and 3.25 percent of employer contributions for contributions made on or after January 1, 2004. (The minimum rate applies to the average annual return for the entire period of plan participation; the minimum rate may be reduced under certain circumstances.) Employers typically finance these plans through commercial group insurance with a guaranteed rate of return and are responsible for covering any shortfall between the insurer's guaranteed minimum rate and the legal guaranteed minimum rate. Prior to 2013, insurers generally provided a guaranteed minimum rate equal to the legal minimum rate; however, sustained low-interest rates caused by the global economic crisis led insurance companies to lower their minimum rates, with employers responsible for making up the shortfall.

Under the new rules, the legal guaranteed minimum rate of return on contributions made on or after January 1, 2016, is calculated based on the 24-month average annual return on 10-year "government linear ordinary bonds." This calculated rate must be at least 1.75 percent, up to a maximum of 3.75 percent. In contrast with the previous rules, the minimum return rate is the same for both employer and employee contributions. For contributions made in 2016, the legal guaranteed minimum return rate is set at 1.75 percent. (The minimum return rate on contributions made prior to January 1, 2016, varies depending on the type of pension fund.)

Belgium's occupational pension plans are voluntary (except where required through collective agreement) and have varying eligibility requirements, qualifying conditions, and benefit rules. (The specifics of each plan are determined through collective bargaining agreements between employer and employee representatives.) In addition to occupational pension plans, Belgium has a public pay-as-you-go (PAYG) social insurance program, which covers all employed persons. The normal retirement age under the PAYG program is 65, with 45 years of coverage. An early pension is possible at age 62, with 40 years of coverage.

Sources: "Belgium: Insurance Companies Revise Guaranteed Returns Downward," *Towers Watson Global News Briefs*, June 10, 2013; *Social Security Programs Throughout the World: Europe, 2014*, U.S. Social Security Administration, September 2014; "Belgium 2015," *IBIS eVisor Country Manual*, July 2015; "Belgium," *Swiss Life Employee Benefits Reference Manual*, 2015–2016; "Belgium: Legal Minimum Returns on Retirement Account Contributions Approved," *Towers Watson Global News Briefs*, January 12, 2016.

Asia and the Pacific

Japan Introduces a National Identification Number System

On January 1, Japan introduced "My Number," a unique 12-digit individual identification number to be used initially by government agencies dealing with taxation, social security, and disaster response. The new system aims to eventually replace the various identification number systems used for residence, tax, social security, and other purposes—each operating under its own bureaucracy and its own set of rules. By centralizing existing enumeration systems, the Japanese government expects to improve administrative efficiency across all levels of government, enhance public convenience (by making it easier for residents to access benefits and services), and prevent tax evasion and improper payments. Tax evasion has been widespread in Japan, and the government has been hampered in verifying whether companies or individuals have declared all of their taxable funds. The government estimates that My Number could boost annual tax revenues by as much as 240 billion yen (US$2 billion), while also allowing the government to more accurately identify and target individuals eligible for social security benefits.

Last October, the Japanese government began mailing letters to citizens and legal residents with their unique numbers and instructions on how to apply for new identification cards at their respective municipal governments. My Number is now required on certain public documents submitted for social security, taxation, and disaster response; for example, My Number must be included on personal income tax returns beginning with the 2016 tax year. Starting in 2018, My Number may also be used to identify personal bank accounts. Over time, the government plans to expand the uses of My Number to health insurance, passports, and commercial dealings with private businesses. In addition, employers are now required to collect My Numbers from all employees (including part-time workers) and their families for use on all tax and legal documents.

Although the Japanese government has emphasized the benefits of My Number, the public has expressed concerns about the risks attached to government management of personal information. These concerns have been partly prompted by the theft of over 1 million personal data records from the Japan Pension Service in June 2015 and the loss of nearly 50 million public pension records several years ago. In response, the government has stressed the strong protections in place against the improper use and dissemination of My Number information. Individuals or businesses that fail to handle this information as stipulated by law risk criminal penalties. The launch of a dedicated system to monitor the disclosure of personal information associated with My Number is scheduled for January 2017. This dedicated system will allow participating individuals to see when their information is accessed and by whom.

Sources: "Japan," *International Update*, U.S. Social Security Administration, November 2009; "Abe Is Bringing Social Security Numbers to Japan in Effort to Boost Tax Revenue," Bloomberg.com, September 3, 2015; "Japan to Adopt Wide-Ranging National Identity System," *Financial Times*, September 3, 2015; "Japan's My Number Social Security System Starts," Kazinform International News Agency, October 5, 2015; "Summary of Social Security and Tax Number Scheme," Japan Social Security Reform Office, November 6, 2015; "Use of My Number Social Security System Begins in Japan," *The Mainichi*, January 1, 2016; "Japan Introduces Social Security and Tax Number System to Simplify Administrative Process," *Mercer*, January 7, 2016.

South Korea Takes Steps to Mitigate the Economic Effects of an Increasing Retirement Age

The South Korean government has recently implemented several measures aimed at helping employers and workers cope with the economic effects of the new minimum normal retirement age that took effect on January 1. The new age is now 60 for workers in companies with 300 or more employees; the change will be extended to all companies on January 1, 2017. Prior to this change, many employers required their workers to retire around age 55, which was well below the eligibility age for receiving full public old-age pension benefits (currently age 61). To prevent a dramatic rise in labor costs that might discourage employers from hiring younger workers because of the new minimum normal retirement age, the government is encouraging employers to adopt a "wage-peak" system that pays workers incrementally less after they reach a specific age and begin to approach retirement. In addition, the government has enacted a new policy that allows workers to request early retirement payments to compensate for earnings lost under wage-peak arrangements.

The government is actively promoting wage-peak arrangements because it allows older South Koreans to remain in the labor force longer without placing a large financial burden on employers. Prior to the introduction of the wage-peak concept, employers had a strong financial incentive to let older workers go because wage contracts strongly linked pay to longevity. Under a wage-peak arrangement, however, pay decreases according to a predetermined formula after an employee reaches a specific age. Although the exact details of such an arrangement can vary from one employer to another, a typical arrangement is a 10 percent reduction in pay for each year of employment after age 55. Before an employer can implement a wage-peak arrangement, the employer must negotiate the terms of the arrangement with relevant unions. The government is urging companies to use the labor-cost savings generated by wage-peak arrangements to create new positions for young workers. As of January 2016, all state-owned companies and public agencies and over half of major private-sector firms had adopted such arrangements.

To help support older workers receiving lower pay under the wage-peak arrangements, the South Korean government passed legislation in December 2015 that enables workers aged 55 or older to request early disbursements from their employer-sponsored retirement accounts if (1) they have experienced a drop in pay as part of a wage-peak arrangement, and (2) their working hours have been adjusted by at least 1 hour per day or 5 hours per week for more than 3 months. Older workers can also request early disbursements if they switch from full-time employment to part-time employment or vice versa outside of a wage-peak arrangement.

These reforms come at time when South Korea is struggling with high poverty rates among the elderly, high unemployment rates among youth, and lower economic growth. According to the Organisation of Economic Co-operation and Development (OECD), nearly half of South Koreans aged 65 or older (49.6 percent) lived on less than 50 percent of the country's median income in 2013. This rate of relative poverty, which takes into account public old-age pension benefits and other transfer payments, was the highest among the 34 developed countries analyzed by the OECD. Younger South Koreans are also struggling economically, with 8.4 percent of workers aged 15 to 29 unemployed in December 2015. This rate of unemployment was over double the 3.2 percent rate for the entire economy, and it reached a 15-year high in February 2015. A long-term slowdown in South Korea's economy—the annual rate of growth has declined from 10.7 percent in 1999 to 3.0 percent in 2015—has made these two social problems particularly acute and challenging to address.

Sources: *Social Security Programs Throughout the World: Asia and the Pacific, 2014*, U.S. Social Security Administration, March 2015; South Korea Ministry of Employment and Labor press release, March 20, 2015; "South Korea: Employers Consider Wage-Peak Arrangements to Meet Rising Retirement Ages," *Towers Watson Global News Briefs,* November 4, 2015; South Korea Ministry of Employment and Labor press release, December 8, 2015; "Korea to Focus on Structural, Labor Reform to Fuel Growth in 2016," *Korea Herald*, January 2016; OECD. Stat, Organisation for Economic Co-operation and Development, February 16, 2016; Statistical Database, Korean Statistical Information Service, February 16, 2016.

The Americas

Chile Holds Latest Competition for the Lowest Administrative Fees on Individual Accounts

On January 21, Chile's Superintendent of Pensions announced that Planvital was selected as the pension fund management company (AFP) to cover all new entrants to the labor force for 2 years, beginning August 2016. Planvital was the only AFP among the six existing AFPs to enter the competition for the AFP with the lowest administrative fees. The number of AFPs that have offered bids has declined steadily since the inception of the competitive bidding process: four in 2010, three in 2012, and two in 2014.

The bidding process is part of Chile's 2008 pension reform provisions intended to improve competition among the AFPs. According to the pension reform law, the bidding process is held every 24 months. The AFP selected must maintain the lowest administrative fee among all AFPs for 2 years, with all of its affiliates (accountholders) being charged the same fee. New workers must remain with the winning AFP for 2 years unless (1) another AFP offers a lower fee for at least 2 consecutive months; (2) another AFP provides a higher rate of return sufficient to make up for a higher administrative fee; or (3) the winning AFP does not maintain the required minimum rate of return, is declared insolvent, or must liquidate its assets. Workers who already have an individual account with another AFP may switch to the winning AFP. (In Chile, AFPs may only charge one type of administrative fee, a percentage of the affiliate's earnings per month.)

Planvital had also won the 2014 competition when it offered the lowest administrative fee, 0.47 percent of an affiliate's monthly earnings. The lowest fee for August 2016 to August 2018 will be 0.41 percent. Table 1 provides the evolution of administrative fees from 2010 through 2015, when Planvital went from the provider with the highest fees to becoming the provider with the lowest fees. During that 5-year period, three other AFPs maintained the same rates: Capital, Cuprum, and Provida. Additionally, Modelo began operation in 2010 and won the first two competitions (2010 and 2012).

Planvital estimated that between 650,000 and 700,000 new affiliates would be enrolled automatically in their AFP during the August 2014 to August 2016 period. These figures included some 300,000 self-employed workers who provide professional services and who would have been required to enroll beginning in 2016, but a recent law postponed that requirement until 2018. From August 2014 through December 2015, Planvital enrolled some 394,000 new affiliates.

Table 2 shows the percentage of market share of all six AFPs from 2010 through 2015. Even though Planvital won the competition in 2014, it had the second lowest market share at the end of 2015. By comparison, Modelo, which won the first two competitions, only had a 15 percent market share. The same three AFPs continued to have the largest market shares despite a loss of members: Capital, Habitat, and Provida.

Workers contribute 10 percent of their taxable earnings to an individual account administered by an AFP. Employers cover the cost of survivors and disability insurance. At the end of 2015, all six AFPs combined had total assets under management equal to 70.7 percent of the country's gross domestic product and about 10 million affiliates.

Sources: "Chile," *International Update,* U.S. Social Security Administration, March 2010, February 2012, and February 2014; "Estructura de Comisiones," *Centro de Estadísticas*, Superintendencia de Pensiones, 2010–2015; "Número de Afiliados por A.F.P.," *Centro de Estadísticas*, Superintendencia de Pensiones, 2010–2015; "Ficha Estadística Previsional Número 38," Superintendencia de Pensiones, enero 2016; "Planvital Perdería 300 Mil Afiliados por Postergación de Cotización Obligatoria de Independientes," *Diario Financiero,* 8 de enero de 2016; "Superintendencia de Pensiones Adjudicó a Planvital Cartera de Nuevos," Superintendencia de Pensiones, 21 de enero de 2016.

Table 1.
Pension management companies' (AFPs') monthly administrative fees, 2010–2015 (in percent)

AFP	2010	2012	2014	2015
Capital	1.44	1.44	1.44	1.44
Cuprum	1.48	1.48	1.48	1.48
Habitat	1.36	1.27	1.27	1.27
Modelo	1.14	0.77	0.77	0.77
Planvital	2.36	2.36	0.47	0.47
Provida	1.54	1.54	1.54	1.54

SOURCE: "Estructura de Comisiones," *Centro de Estadísticas,* Superintendencia de Pensiones, 2010–2015.

NOTE: As a percentage of accountholders' monthly earnings in December each year.

Table 2.
Pension management companies' (AFPs') market shares, 2010–2015 (in percent)

AFP	2010	2012	2014	2015
Capital	22.2	20.2	18.5	17.6
Cuprum	6.9	6.7	6.6	6.5
Habitat	25.1	23.2	21.3	20.6
Modelo	0.7	8.7	15.1	14.9
Planvital	4.5	4.3	4.6	7.9
Provida	40.7	36.9	33.8	32.6

SOURCE: "Numero de Afiliados por A.F.P.," *Centro de Estadísticas,* Superintendencia de Pensiones, 2010–2015.

NOTE: As a percentage of total market share as of December 31 each year.

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