Social Security

International Update:

Recent Developments in Foreign Public and Private Pensions

June 2016

Europe

Greece Enacts Pension and Tax Reforms to Acquire Debt Relief

During May and June, Greece's parliament enacted a series of tax and pension reforms to secure loans from global creditors worth €10.3 billion (US$11.5 billion). The pension measures, including generally lower benefits, higher contribution rates, and a new national pension, will help the country avert default on loans maturing in June and July—part of the bailout program agreed to last year with the European Union (EU), European Central Bank, and the International Monetary Fund. These policies are aimed at generating a budget surplus in 2018 of €5.4 billion (US$6.0 billion), or 3 percent of Greece's gross domestic product (GDP), and reducing pension spending (among the highest in the EU) by 2 percentage points to roughly 15 percent of GDP by 2019. According to the government, the pension system, which receives more than half of its revenue from the state budget, may collapse without reform. Currently, there is roughly one pensioner for every 1.7 workers, compared with one pensioner for every 2.1 workers in 2009.

Pension reforms remain a prominent form of structural adjustment adopted by Greece in recent years, with the country undergoing 11 rounds of pension reductions since negotiating the first bailout package with international creditors in 2010. Among the pension reforms implemented during May and June were:

- A gradual phasing out of the means-tested social solidarity benefit (EKAS) by 2020 for approximately 380,000 low-income pensioners. Initially, stricter eligibility criteria provided that approximately 100,000 current beneficiaries with non-EKAS (combined main plus auxiliary) pension income greater than €664 (US$742) per month are no longer eligible;
- A reduction in benefits by as much as 40 percent for the approximately 200,000 pensioners who receive combined (main plus auxiliary) pensions of more than €1,300 (US$1,453) a month;
- The introduction of a national flat-rate minimum pension of €384 (US$437) per month for workers who have at least 20 years of contributions at the normal retirement age of 67.

Other reforms are designed to achieve greater uniformity across all covered groups, especially for self-employed persons and farmers who will have to contribute at the higher statutory (combined employer-employee) rates applicable to employees (20 percent of income), rather than the current fixed-income amounts. (This reform will be phased in over a 5-year period.) In addition, there are now stricter eligibility rules for survivor pensions, modified replacement rates to curb early retirement, and reduced pensions for public-sector employees. (Specific details of these reforms are not yet available.)

Greece has a fragmented and complex multi-pillar public pension system. The first pillar is a multifaceted, unfunded arrangement that provides earnings-related benefits under main and auxiliary pensions, a minimum pension for individuals aged 65 or older who are not covered by a pension program, and the means-tested EKAS. Seven main pension programs cover various private-sector occupations/professions and public-sector entrants (since 2010); auxiliary pension programs, linked to one of the main pension programs, have benefits based on the same eligibility criteria as those applying to the corresponding main pension program. Voluntary defined-contribution occupational plans constitute a second pillar that supplies less than 1 percent of overall pension benefits. The third pillar consists of a few voluntary private pension plans, which operate through individual accounts on a funded basis.

Sources: *The 2015 Pension Adequacy Report: Current and Future Income Adequacy in Old Age in the EU: Country Profiles – Volume II*, European Union, 2015; "What's the Issue with Greece's Pension System?" *The Journal*, July 2, 2015; "The Greek Pension Reform Strategy 2010–2015," World Bank, March 2016; "Greece Legislates Tax and Pension Reforms," *Daily Sabah*, May 9, 2016; "Factbox: Greece Legislates Tax and Pension Reforms," Reuters, May 9, 2016; "Required Amendments in Pensions, Wages, Privatizations, Tabled in Greek Parliament," greekreporter.com, June 2, 2016; "Greek Lawmakers OK Changes for Next Bailout Money," MarketWatch, June 3, 2016; "Greece Cuts 200,000 Supplementary Pensions by 40%," greekreporter.com, June 8, 2016.

Asia and the Pacific

Hong Kong Expands Withdrawal Options under Mandatory Occupational Pension Program

On February 1, new rules went into effect that expand the withdrawal options under Hong Kong's mandatory occupational pension program—the Mandatory Provident Fund (MPF). As a result, MPF participants who reach the normal retirement age of 65 or who meet the requirements for early retirement (age 60 and must have ceased employment permanently) may choose to make periodic withdrawals from their MPF accounts or to withdraw their entire account balance as a lump sum. Previously, only the lump sum option was possible. For those opting for periodic withdrawals, there is no limit to the number of withdrawals per year, their timing, or the amount of each withdrawal. MPF trustees, who manage the MPF accounts, cannot charge participants fees other than transaction costs on the first four withdrawals in any given year. According to the government, the new rules will give MPF participants more flexibility in managing their retirement benefits.

The MPF system consists of privately managed occupational funds that are mandatory for employees under contract with an employer for at least 60 days and self-employed persons. (Certain employees are exempt from participation, including household workers; persons covered by statutory pension plans or provident funds, such as civil servants or teachers; and members of occupational retirement plans who are granted exemption certificates.) Employers and employees each must contribute at least 5 percent of monthly earnings (including salary, leave pay, commissions, gratuities, bonuses, and housing allowances) from HK$7,100 (US$913.81) to HK$30,000 (US$3,861.18) to an MPF account; additional voluntary contributions by employers and employees are possible. As of October 2015, total assets under management among all of the MPF funds was approximately HK$594.21 billion (US$76.48 billion).

Sources: *Social Security Programs Throughout the World: Asia and the Pacific, 2014*, U.S. Social Security Administration, March 2015; "Hong Kong: The Facts—Mandatory Provident Fund," Hong Kong Information Services Department, December 2015; "Withdrawal of MPF Benefits by Installments to Become Effective Tomorrow," Mandatory Provident Fund Schemes Authority, January 1, 2016; "MPF System: Background," Mandatory Provident Fund Schemes Authority, March 4, 2016; "Hong Kong," *IBIS eVisor*¸ May 20, 2016.

The Americas

Argentina Provides Increased Benefits for Pensioners

The Argentine government recently implemented several reforms that provide increased benefits to pensioners and their families. On February 5, Argentina's National Social Security Administration (ANSES) announced that it would pay a larger funeral grant for individuals covered under the Argentine Integrated Social Security System (SIPA). In addition, on March 1, ANSES increased the minimum benefit amounts for contributory and noncontributory pensions in accordance with a 2009 law. Six weeks later, on April 18, the President of Argentina issued a decree that granted recipients of minimum contributory and noncontributory pensions a one-time additional payment of 500 pesos (US$35.80). The increased benefits come at a time when Argentina is experiencing its worse economic situation since the early 2000s (the average annual growth rate from 2011 to 2015 was 0.6 percent) and more of the country's residents are living in poverty (the national poverty rate rose from 29.0 to 34.5 percent in the first three months of 2016).

Despite sharing the objective of improving the income security of pensioners and their families, the benefit changes involve different levels of generosity and conditionality. The funeral grant, which has been raised by 50 percent to a fixed amount of 6,000 pesos (US$429.55), is paid for all individuals insured by SIPA. By contrast, the permanent and one-time increases in pension benefits only apply to those receiving the minimum contributory pension or the minimum noncontributory pension. With the permanent increase, the minimum contributory pension is 4,299 pesos (US$307.77) per month (up 15.4 percent) and the minimum noncontributory pension is 3,460 pesos (US$247.71) per month (up 15.0 percent). The one-time payment of 500 pesos, which was paid in April, provided a further but temporary boost to the minimum pension benefits.

Argentina's pension system consists of the contributory social insurance program SIPA administered by ANSES and a noncontributory social assistance program administered by the Ministry of Social Development. The contributory program is mandatory for employed and self-employed persons and is funded by contributions from employees and employers. It provides a benefit consisting of three parts: (1) a basic flat-rate pension, (2) a compensatory pension for contributions made before July 1, 1994, and (3) an additional pension for contributions made since July 1, 1994. To qualify for a pension from SIPA, a person must be age 65 for men or age 60 for women and have at least 30 years of contributions. (An advanced-age old-age pension is also possible at age 70 with at least 10 years of contributions, including at least five of the last 8 years.) The noncontributory program, which is funded through general tax revenue, provides a social pension to those who are aged 70 or older, have income and assets below a subsistence amount, and are not receiving other social security benefits or nutritional support from family members.

Sources: "La ANSES Abonará un Subsidio de 6000 Pesos Para Gastos por Sepelio," *El Liberal*, February 5, 2016; *Social Security Programs Throughout the World: The Americas, 2015,* U.S. Social Security Administration, March 2016; "Pobreza y Desigualdad por Ingresos en la Argentina Urbana 2010–2015. Tiempo de Balance," Agustín Salvia and Julieta Vera, Pontificia Universidad Católica Argentina, April 13, 2016; "Oficializan el Pago de un Subsidio Extraordinario de $500 a Jubilados y Beneficiarios de la AUH," *Clarin*, April 18, 2016; "Argentina," *IBIS News*, April 22, 2016, May 17, 2016, and May 20, 2016; *World Bank Data*, World Bank, June 7, 2016.

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