SOCIAL SECURITY ADMINISTRATION USA

International Update

Recent Developments in Foreign Public and Private Pensions

September 2019

Europe

Romania Increases Pension Point Value Under Social Insurance Pension Program

On September 1, Romania implemented the first in a series of gradual increases to the pension point value used in the calculation of social insurance pensions. When fully implemented, the increases will lead to significantly higher public pensions. The increases are part of a new law signed by the Romania president on July 8. Other components of the new law will become effective in September 2021, including a new early retirement option for women with at least three children. (This option will allow women with at least three children and 15 years of contributions to retire 6 years before the normal retirement age, plus an additional year for each additional child.) The cost of the new law is estimated at 8.4 billion lei (US$1.96 billion) in 2019, 24.8 billion lei (US$5.79 billion) in 2020, and 58.1 billion lei (US$13.56 billion) in 2021.

Under Romania's social insurance program, old-age and disability pensions are calculated as the product of the insured's lifetime average accumulated score multiplied by the pension point value at the time of retirement or the time the disability claim was made. The lifetime average accumulated score is calculated by dividing the insured's total pension points by the years of contributions required for a full pension. Pension points are calculated by dividing the insured's average gross monthly earnings in a year by the national average gross monthly wage for that year. The new law increased the pension point value from 1,100 lei (US$256.74) to 1,265 lei (US$295.25). The pension point value will continue to increase to 1,775 lei (US$414.28) on September 1, 2020, and to 1,875 lei (US$437.62) on September 1, 2021. Starting in 2022, the point value will be automatically adjusted based on 100 percent of the annual inflation rate and 50 percent of the real increase in average gross wages.

Romania's pension system consists of a pay-as-you-go social insurance program and mandatory individual accounts. The social insurance program covers employed persons with individual labor contracts, civil servants, unemployment benefit recipients, certain self-employed persons, and certain other workers. The mandatory individual account program covers employed and self-employed persons younger than age 35 on January 1, 2008. To receive a full old-age pension under either program, an individual must have reached the normal retirement age of 65 (men) or 61 (women, gradually rising to age 63 by 2030) and have at least 35 years (men) or 31 years (women, gradually rising to 35 years by 2030) of contributions; a reduced pension is paid with at least 15 years of contributions (men and women). (Lower age requirements apply to persons employed in arduous and very arduous work and to certain categories of disabled persons.)

Sources: *Social Security Programs Throughout the World: Europe 2018*, U.S. Social Security Administration, September 2018; Law 127, 2019; "Your Social Security Rights in Romania," European Commission, 2019; "Romanian President Promulgates Pension Law," Romania-Insider.com, July 8, 2019; "Romania Increases Public Pension, Lowers Pension Age for Some Women," Mercer, August 7, 2019; "Romania," IBIS eVisor News, August 28, 2019.

The Americas

Mexico Announces Agreement to Reduce Administrative Fees for Mandatory Individual Accounts

On August 22, Mexico's government announced that it had reached an agreement with pension fund management companies (Administradoras de Fondos para el Retiro, or AFOREs) to reduce the administrative fees for the country's mandatory individual account program. Under the agreement, the 10 AFOREs that administer the program will lower their average annual administrative fee to 0.7 percent of an account's accumulated assets by December 2024. To ensure that the AFOREs meet this target, the agreement requires them to submit projections of their administrative fees for 2020–2024 annually to the National Commission for the Retirement Savings

System (Comisión Nacional del Sistema de Ahorro para el Retiro, or CONSAR), which supervises the individual account program. The agreement is intended to bring the program's administrative fees closer in line with international levels and to boost the pension incomes of future retirees. According to CONSAR, the average annual administrative fee for the program in 2019 was 0.98 percent of accumulated assets compared to 0.80 percent for similar programs in other countries. The government expects the agreement to save program participants around 100 billion pesos (US$4.9 billion) through 2024 and increase the old-age pensions of new program enrollees by 10 percent.

Since the launch of the individual account program 22 years ago, the administrative fees charged by the AFOREs have steadily declined as the assets they manage have increased. For the 10-year period from 2008 to 2018, CONSAR reports that the program's average administrative fee dropped from 1.98 percent to 1.01 percent of accumulated assets. During the same period, the assets under management grew from 855 billion pesos (US$43.6 billion) to 3.22 trillion pesos (US$160.5 billion). In August 2019, there were 3.80 trillion pesos (US$189.4 billion, or about 15 percent of Mexico's gross domestic product) in assets under management, and the AFOREs' administrative fees ranged from 0.82 percent to 1.04 percent of accumulated assets. CONSAR projects that the program's assets under management will reach around 9.40 trillion pesos (US$468 billion) by 2030.

In addition to the mandatory individual account program, Mexico's old-age pension system includes a social insurance program and a universal program. The individual account and social insurance programs cover private-sector employees and cooperative members, while the universal program covers all resident citizens of Mexico. The social insurance program was closed to new enrollees on July 1, 1997, when the individual account program was introduced. (Individuals who were covered by the social insurance program before this date have the option of claiming a social insurance old-age pension at retirement.) To qualify for a pension under the individual account program, an individual must have reached age 65 and have at least 1,250 weeks of contributions; for a social insurance pension, an individual must have reached age 65 and have at least 500 weeks of contributions. The universal pension can be claimed at age 65 for indigenous persons or age 68 for other covered individuals.

Sources: *Social Security Programs Throughout the World: The Americas, 2017*, U.S. Social Security Administration, March 2018; Acuerdo de la Junta de Gobierno de la Comisión Nacional del Sistema de Ahorro para el Retiro, por el que dicta políticas y criterios en materia de comisiones, 2019; "Comisiones vigentes en 2019," Comisión Nacional del Sistema de Ahorro para el Retiro, 2019; "Mexico Introduces Universal Old-Age Pension Program," *International Update*, U.S. Social Security Administration, March 2019; "Recursos Registrados en las Afores," Información Estadística, Comisión Nacional del Sistema de Ahorro para el Retiro, August 2019; "Hacienda anuncia acuerdo para disminuir el cobro de comisiones de Afores," *El Financiero*, August 28, 2019; "Pension Fund Commission Reduction Will Give Retirees 10% More," Mexico News Daily, August 28, 2019; "Afores deben reducir dependencia de comisiones: expertos," *El Economista*, August 29, 2019.

International

Organisation for Economic Co-operation and Development Releases Report on Aging and Employment Policies

On August 30, the Organisation for Economic Co-operation and Development (OECD) published "Working Better with Age," a report examining potential policy prescriptions for OECD member countries to produce more and better job opportunities for their aging populations. It emphasizes that increased longevity and reduced fertility are contributing to population aging, which could negatively affect living standards and strain social protection systems. Building on lessons learned from past case studies and policy notes, the report summarizes the main challenges and best practices for improving the employment prospects of aging cohorts in OECD countries.

The report's initial two chapters show that increased life expectancy and policy reforms have enabled older individuals in many OECD countries to be more active in the labor market. In particular, the report indicates that the average labor force participation rate for individuals aged 55 to 64 increased from 56 percent in 2008 to 64 percent in 2018. Despite these gains in labor force participation rates, the report notes that the effective retirement age (the average age of exit from the labor force) is now lower than it was in 1980 in virtually all OECD countries. The report states that this situation has resulted from weak incentives for individuals to continue working at older ages, employers' reluctance to hire and retain older workers, and underinvestment in training for individuals throughout their working lives.

The report's remaining chapters offer recommendations for improving employment prospects (especially among older populations), including:

- *Strengthening incentives for working longer.* Old-age pension programs can encourage later retirement through various policy measures, including by increasing flexibility in work-retirement transitions (such as phased retirement programs); linking retirement ages to life expectancy while increasing accrual rates for lower earners (as in Portugal); and avoiding publicly funded early retirement programs. The report notes that access to welfare benefits (unemployment and disability benefits) for workers of all ages is acceptable, but these benefits should not incentivize early retirement for those with remaining work capacity.
- *Reducing employment barriers at older ages.* The report highlights various barriers that may deter individuals from working longer, including poor working conditions, limited training, and interrupted careers. Public policies, such as anti-discrimination laws, can help overcome these challenges by providing equal opportunities for workers. The report also highlights age-management strategies—for example, adjusting work responsibilities and working-time arrangements across the life course—used in Finland, Germany, and Norway as a way to keep all employees productive. Finally, the report notes that overly strict employment protection legislation (such as limiting the ability of employers to dismiss older workers) can be counterproductive in improving the employment outcomes of older workers.
- *Promoting lifelong training.* According to the report, ensuring that older workers remain employable and productive requires a lifecycle approach to prevent skill obsolescence in the increasingly digital age. This can be achieved through career and advice guidance services targeting older workers (Australia, the Netherlands, and South Korea), policies encouraging employers to train employees (Germany and Slovenia), measures identifying the training needs of mid-career or older workers (United Kingdom and France), and measures to assess or validate skills and competencies (the Netherlands, Finland, and Portugal).

Sources: "Working Better with Age," Organisation for Economic Co-operation and Development, August 30, 2019.

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