Social Security
Benefits America!
International Update:
Recent Developments in Foreign Public and Private Pensions

August 2010

Europe

Greece

On July 8, the Greek parliament approved major changes to the national pension system, a key element in the 110 billion euro (US$145 billion) agreement with the European Union (EU) and the International Monetary Fund (IMF) to restore the country's long-run financial stability. The reform cuts pension benefits and curbs early retirement. By 2050, IMF staff projections indicate that the reform could reduce annual pension expenditures for private-sector workers and civil servants by 8.5 percent of gross domestic product (GDP). The IMF also projects that these reforms will lower replacement rates from an Organisation for Economic Co-operation and Development–leading average at 75 percent of wages to around 60 percent.

Despite past mergers of pension funds, the Greek retirement system remains complex and fragmented. Benefits are generous relative to wages and often claimed before age 60. Furthermore, the benefit structure offers little incentive for older workers to remain in the labor force, especially for low-income workers, whose minimum pensions are not reduced for early retirement. Without reform, the EU projects that pension spending in Greece will increase by 12.5 percent of GDP over the next four decades, well above the EU average rise of 2.4 percent of GDP.

Under the reform, workers are likely to remain in the labor force longer because—

- The statutory retirement age for women will be gradually raised from 60 to 65, by December 2013, to match the current retirement age for men. Beginning in 2020, the statutory retirement age for men and women will be automatically adjusted (every 3 years) to reflect changes in life expectancy.
- Early retirement will be restrained by limiting the minimum early retirement age to 60 by 2011, which includes workers in arduous occupations. The government aims to increase the effective average retirement age from the present 61.4 years to 63.5 years by 2015.
- The minimum contribution period to receive a full pension will gradually increase from 37 years to 40 years by 2015. Pension benefits will be reduced by 6 percent each year for individuals who retire between the ages of 60 and 65 with less than 40 contribution years.

The reform also lowers pension benefits in the following ways:

- Pension amounts will be frozen during the 2011–2013 period and indexed to changes in the consumer price index (instead of indexed according to changes in civil service pensions) starting in 2014.
- Benefits for new claims will be based on career-average earnings rather than the current highest 5 out of the last 10 years.
- The average annual accrual rate (at which entitlement to future pension benefits accumulate) will be limited to 1.2 percent of earnings, resulting in a less generous earnings-related pension. This benefit will top up a new means-tested, noncontributory monthly pension of 360 euros (US$474) for citizens older than the normal retirement age.
- A new flat bonus of 800 euros (US$1,053) per year will replace the seasonal bonuses (for Christmas, Easter, and summer) currently payable to pensioners. The new bonus will be available only to those with pensions less than 2,500 euros (US$3,290) a month. As a result, monthly pensions of more than 1,400 euros (US$1,806) will be reduced by an average of 8 percent. This reduction will affect about 10 percent of pensioners.
- Pensions greater than 1,400 euros (US$1,843) per month will be taxed by 5–10 percent starting in August 2010.

Sources: "The Economic Adjustment Programme for Greece," *European Economy*, May 2010; *Greece: Staff Report on Request for Stand-By Arrangement*, International Monetary Fund, May 2010; "Yesterday the Greek Government Approved a Bill Aimed at Achieving Pension Reform," Plansponsor.com, May 11, 2010; "Greek Parliament Approves Pension Bill," Reuters News, July 8, 2010; "Greek Parliament Ratifies Pension System Reform Bill," Xinhua News Agency, July 15, 2010.

The Americas

Jamaica

The Jamaican government recently increased benefit levels and the contribution ceiling for the country's public pay-as-you-go system, the National Insurance Scheme (NIS). At the same time, those groups of workers that pay flat-rate contributions (such as the self-employed) also pay more each week. The NIS covers old-age, survivors, and disability insurance; cash sickness and maternity; and health care for pensioners and work-injury programs. Since the ceiling on NIS contributions was last raised in October 2003, the value of earnings has eroded because of an accumulated inflation rate of 115 percent.

On July 1, retirement benefits were increased by 20 percent, and other benefits (such as disability and death benefits, work injury, and a variety of grants) increased by 11.0–33.5 percent. To help maintain the value of the National Insurance Fund (NIF) and to ensure that benefits and contributions are more closely linked, on August 2, the ceiling on contributions was doubled and is now J$1 million (US$11,503). Private-sector employees and employers each continue to contribute 2.5 percent of wages, while the flat-rate contributions for self-employed and domestic workers rose from J$20 (US$0.23) to J$50 (US$ 0.58) per week. Self-employed workers who earn more than J$20,800 (US$239) per year also pay up to 5 percent of covered earnings. In addition, members of Parliament and the Jamaican Defence Force now pay the same contribution rate as private-sector employees. Previously, they paid the same flat rate as domestic workers.

Currently, the NIF is paying more in benefits than it collects from contributions. As of May 31, 2010, the NIF's net asset value was J$62.3 billion (US$716.6 million). However, according to actuarial projections, the fund could become insolvent in 20 years if no changes are made to the system. The percent of the population aged 60 or older is expected to rise from about 11 percent today to about 14.5 percent by 2025, and the number of pensioners could almost double from 2015 through 2035. Another actuarial review of the NIS will be completed this year to provide the government with recommended changes needed to maintain the sustainability of the fund.

Sources: *Social Security Programs Throughout the World: The Americas, 2009*; "Cabinet to Receive Submission on Measures to Increase NIF Contribution," Jamaica Parliament, June 24, 2009; "Budget Debate Presentation," Hon. Bruce Golding MP Prime Minister, April 20, 2010; "Strong NIS Reforms—Women to Stay on the Job Longer: Employee Contributions to Double," *The Jamaica Gleaner*, April 23, 2010; "New NIS Rates Effective August 2," Jamaica Information Service, July 2, 2010; "House Approves Increases in NIS Benefits," Jamaica Information Service, July 16, 2010.

Asia and the Pacific

Australia

On July 5, the Australian government released the final report of the Super System Review panel, which was formed in May 2009 to examine the nearly 20-year-old superannuation system—the country's mandatory occupational pension system. The report, also called the Cooper Review, has 177 recommendations. Two of the major areas studied by the panel include (1) choice of funds and investments, and (2) efficient administration.

Instead of the current "one size fits all" structure, the report suggests creating three different types of funds, depending on the level of participation.

- **MySuper,** a simple low-cost fund with a single diversified investment strategy, would replace the default fund. Currently, about 80 percent of members (anyone with a superannuation account) do not make active choices.
- **Choice funds** would offer a range of investment options for those who want to play a more active role in the investment strategies of their superannuation accounts. Choice members would pay proportionately higher fees.
- **Self-managed funds** are for those who want to take full responsibility for the investment and administration of their superannuation accounts. These types of funds already exist; recently the number of self-managed funds has increased significantly. According to the report, self-managed funds function relatively well and only need certain changes relating to service providers, auditors, and regulatory framework.

"Superstream"—the group of recommendations in the report to improve the administration of superannuation accounts—includes establishing industry-wide standards to improve the quality of data; increasing the use of technology; adopting the worker tax-file number as the identifier for the entire system; and simplifying administrative processes and eliminating duplication.

The government estimates that MySuper and Superstream could lower member fees by 40 percent and increase the lifetime retirement savings of an average wage worker by A$40,000 (US$34,731).

The full report is available at http://www.supersystemreview.gov.au/content/content.aspx?doc=html/final_report.htm.

Sources: Super System Review Final Report, Commonwealth of Australia, July 2010; Minister for Financial Service, Superannuation and Corporate Law and Minister for Human Services press release, July 5, 2010; "Super Set for Golden Age," *The Sydney Morning Herald*, July 14, 2010.

Reports and Studies

European Commission

On July 7, the European Commission released a Green Paper (consultation paper) seeking input on how to ensure sustainable, safe, and adequate pensions in the European Community. The consultation period will run for 4 months (ending November 15), during which time anyone with an interest in the subject can submit their views via a dedicated Web site. The European Commission will then analyze all responses and formulate proposals for the best course of future action.

The Green Paper takes a comprehensive view of the pension framework that should be developed to support pension policies in each Member State of the European Union (EU). The paper notes that most Member States have already moved from largely single-tier, public pension systems to multi-tier systems, with employer-sponsored defined benefit plans; defined contribution (DC) pension plans; and a variety of other retirement savings programs. As a result, the paper stresses that the adequacy and security of future pension income will be heavily influenced by the role of privately managed DC pension plans. The viability of these plans will increasingly rest on good economic performance, the ability of labor markets to provide opportunities for longer and less interrupted careers, a strengthened relationship between contributions and benefits, and a combination of safe and appropriate returns from financial markets.

The Green Paper also brings attention to two particularly contentious issues: (1) the question of the appropriate retirement age, and (2) the need for stronger regulation of privately managed pension assets. In recent years, many European countries have increased the statutory age to receive full pension benefits—to age 65 or even age 67 in some cases—to deal with aging populations. (By 2060, the old-age dependency ratio—the share of those aged 65 or older as a proportion of those of working age—is projected to fall from the current 1:4 to a ratio of just 1:2). The financial and economic crisis has only aggravated the challenge, with larger numbers of workers turning to unemployment insurance, disability insurance, and early retirement. While the paper explicitly affirms that fixing the statutory retirement age is a sovereign right of every Member State, it suggests that greater efforts will have to be made to encourage people to stay in the labor force for a greater number of years over their lifetimes. The paper notes that a particularly positive development for strengthening the sustainability of pension systems has been the introduction, by a number of Member States, of automatic adjustment mechanisms that increase the retirement age based on gains in life expectancy.

Finally, the paper analyzes the risks to future pensioners presented by the growing reliance on DC pension plans (currently 60 million Europeans are enrolled in DC plans), including the impact of potential slow economic growth on the financial returns of those plans. The paper asserts that the current economic crisis has revealed "certain weaknesses" in the regulatory systems of Member States, with some performing better than others in providing guarantees for future pensioners. Although increased EU-wide regulation of second- and third-pillar pension programs is not explicitly advanced, the paper does request feedback on the feasibility of more effective cross-border regulations. Along the same lines, the paper places considerable emphasis on the need for better information to be provided to citizens about the guarantees and risks that are embedded in every national pension framework.

The paper is available at http://ec.europa.eu/social/BlobServlet?docId=5551&langId=en.

Source: "Green Paper: Towards Adequate, Sustainable and Safe European Pension Systems," *European Commission*, July 7, 2010.

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