Social Security

Benefits America!

International Update:

Recent Developments in Foreign Public and Private Pensions

October 2010

Europe

Slovenia

On September 9, the government approved a draft law for Slovenia's pay-as-you-go public pension system that would increase the retirement age for men and women and change the way old-age benefits are calculated. The law, which is intended to improve the long-term fiscal sustainability of the pension system in the face of rapid population aging, now awaits approval from Slovenia's Parliament. According to projections by Eurostat, the European Union's statistical office, the share of those aged 65 or older as a percentage of those of working age (aged 15–64) will increase from approximately 24 percent in 2010 to 62 percent in 2060.

Under the draft law, the full retirement age for workers with at least 15 years of contributions will gradually increase by 6 months each year starting in 2021, from age 63 to age 65 for men and from age 61 to age 65 for women. Workers with long work histories (at least 43 years of contributions for men and 41 years for women) will be eligible for a full pension at age 60 (men) and age 58 (women). (Currently, men can retire with a full pension at age 58 with at least 40 years of contributions and women at age 56 and 8 months with at least 37 years and 3 months of contributions). Early retirement with a reduced pension will be possible at age 60 (men and women) with at least 40 years (men) or 38 years (women) of contributions. In addition, the draft law would change the way that benefits are calculated by basing old-age pensions on the highest 34 consecutive years of earnings, rather than the current highest 18 consecutive years.

Separately, on September 28, the government adopted budget bills for 2011 and 2012 that will freeze pensions at current levels for 2011, with an increase in 2012 only if inflation exceeds 2 percent. The austerity measure is an attempt to reduce the government deficit from the projected 5.8 percent of gross domestic product in 2010 to below 3 percent—the level required under the European Union's Stability and Growth Pact—by 2013.

Sources: *Social Security Programs Throughout the World: Europe 2010*; Republic of Slovenia press release, September 9, 2010; "Govt Adopts Pension Reform Bill," *Slovenska Tiskovna Agencija*, September 9, 2010; "Slovenian Government Adopts Pension Reform Bill," *HIS Global Insight Daily Analysis*, September 10, 2010; "International Headlines," *Mercer*, September 15, 2010; "Government Adopts 2011, 2012 Austerity Budgets," *Slovenska Tiskovna Agencija*, September 28, 2010.

The Americas

Peru

On September 14, the Central Bank raised the pension fund limit on investment abroad to 30 percent of total assets. This increase is the last in a series begun in 2006, when the limit was 10.5 percent. As in other countries in the region, when the system of individual accounts was introduced in 1992, foreign investment was not permitted. As the system has matured, the allowable percentage of foreign investment has gradually been raised.

Currently there are four pension fund management companies (AFPs) in Peru with total assets under management of 78.1 billion nuevo soles (US$27.5 billion). More than 25 percent of these assets is invested abroad, 20 percent is invested in Peruvian government bonds, and the remaining investments include domestic stocks and bonds. Since 2005, each AFP must offer three types of funds with varying degrees of risk: Fund 1, preservation of capital; Fund 2, balanced; and Fund 3, growth. A fourth fund, which would be limited to mainly fixed instruments, is currently under consideration.

In Peru, public- and private-sector workers have a choice between the individual account system (SPP) and the public pension system (SNP). Those who do not make a choice are enrolled in the SPP by default. SNP members may switch to the SPP at any time, but most SPP members are not permitted to switch to the SNP. Contribution rates are different for each system. For the SNP, workers pay 13 percent of gross earnings for old-age, survivors, and disability insurance; SPP members contribute 10 percent of gross earnings to an individual account plus an average of 1.95 percent in administrative fees and 1.10 percent in premiums for survivors and disability insurance, as of June 2010. Employers do not contribute to either pension system on behalf of their workers.

Sources: "Ahorro previsional voluntario en los sistemas de capitalización individual países," FIAP, diciembre de 2006; *Social Security Programs Throughout the World: The Americas, 2009;* "Comisiones por la Gestión de Aporte Obligatorios y Primas de Seguro por AFP," Superintendencia de Banca y Seguros del Peru, junio de 2010; "Límites de inversion generals para los fondos administrados por las Administradoras Privadas de Fondos de Pensiones," Banco Central de Reserva del Perú, el 14 de septiembre de 2010; Boletín Semanal del Sistema Privado de Pensiones: Año 2010—Número 38, Semana del 13 al 17 de septiembre de 2010.

Uruguay

Effective October 1, the government increased the minimum public pension by 17 percent to 3,606 pesos (US$174) per month. A subsequent 50 percent increase on July 1, 2011, will raise the benefit to 4,500 pesos (US$217) per month. This amount is still below the current poverty line of 5,600 pesos (US$270) per household and just slightly below the minimum monthly salary of 4,799 pesos (US$231). Between 40,000 and 45,000 beneficiaries will be affected at an estimated cost to the government of 186 million pesos (US$ 9 million) a year.

Uruguay's "mixed" pension system, introduced in 1996, has a public pay-as-you-go first pillar plus individual accounts as a second pillar. The public pillar covers employed and self-employed persons including rural and household workers. (Certain groups such as the armed forces, the police, bank employees, notaries, and university professors are covered under separate systems.) The individual accounts are mandatory for those earning above 19,805 pesos (US$957) a month and voluntary for all other income levels. In December 2009, approximately 900,000 workers, or 56 percent of the labor force, had individual accounts in four pension fund management companies (three privately managed and one state run), with assets totaling 70 billion pesos (US$3.4 billion).

Sources: *Social Security Programs Throughout the World: The Americas, 2009;* Banco de Previsión Social, Boletín Estadístico 2010; "Nuevo Salario Mínimo en Uruguay," Economía para Todos, 8 de marzo de 2010; *CIA World Fact Book*, September 2010; "Jubilación Mínima Aumenta a $3606," *El País Digital*, 1 de septiembre de 2010; "Aumento Jubilados y Pensionistas de Menores Ingresos a Partir 1 de Octubre," *Tiempo*, 1 de septiembre de 2010.

Asia and the Pacific

South Korea

On September 14, the South Korean government approved an extension of the mandatory employer-sponsored retirement benefit system to small employers (those with four or fewer employees). Beginning December 1, 2010, small employers will initially pay 50 percent of the contribution rate currently required of larger employers (a minimum of 8.33 percent of the employee's annual salary), until December 31, 2012, and 100 percent of the contribution rate thereafter. Currently, employers with five or more employees must establish some type of tax-favored retirement plan. To encourage small companies to establish pension plans rather than the more traditional severance pay plans (offering lump-sum payments at retirement), the government has designated the Workers' Compensation and Welfare Service as a low-commission pension provider. According to projections by the quasi-public Korea International Labour Foundation, an estimated 1.5 million (1 million full-time and 500 thousand part-time) workers with a minimum of 1 year of service in over 900 thousand companies could be affected by the policy change.

Employer-sponsored retirement plans supplement the pay-as-you-go National Pension Scheme, which serves as a basic social security (old-age, survivors, and disability) safety net. When introduced in 1961, employer plans covered companies with 30 or more employees and provided mandatory severance payments, which consisted of lump-sum benefits of at least 1-month average pay per year of service. Coverage was gradually extended by 1989 to include employers with five or more employees. Under the Employee Benefit Retirement Security Act, implemented on December 1, 2005, employers are encouraged to adopt a tax-advantaged defined benefit (DB) plan or defined contribution (DC) plan, or convert their existing mandatory severance plan (with the consent of employees) to one of these pension plan designs. Alternatively, employers with fewer than 10 employees may choose to make tax-favored contributions to an individual retirement account on behalf of their employees instead of creating a DB or DC plan. Current tax incentives for severance plans will expire by the end of 2010.

Sources: *IGP Country Profile: The Republic of Korea*, Samsung Life Insurance, 2010; "Korean Retirement Benefit Scheme to be Extended to Workplaces with Four Workers or Fewer on 1 December," *Select News*, July 5, 2010; *Republic of Korea, 2010*, IBIS eVisor Country Manual, July 29, 2010; "Retirement Benefit System to Cover All the Workplaces from December 1, 2010," Korea International Labour Foundation, September 16, 2010; "South Korea's Cabinet Approves Change Requiring All Employers to Provide Retirement Benefits," *Select News*, September 29, 2010.

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