Social Security Administration

International Update:

Recent Developments in Foreign Public and Private Pensions

November 2012

Europe

Czech Republic

On September 12, President Klaus approved an amendment to the country's pension law that temporarily changes the method of indexation for old-age, disability, and survivor pensions. From 2013 through 2015, pensions will be adjusted annually by 33.3 percent of the change in the consumer price index (CPI) and by 33.3 percent of average wage growth. (Currently, pensions are adjusted by 100 percent of the change in the CPI and by 33.3 percent of average wage growth.) The government expects this measure to save approximately 48 billion koruna (US$2.47 billion) over the next 3 years, helping to reduce the country's budget deficit. Recent figures released by Eurostat, the European Union's statistical office, show a budget deficit in 2011 of 3.3 percent of gross domestic product, exceeding the 3 percent ceiling required under the European Union's Stability and Growth Pact.

Old-age benefits in the Czech Republic consist of two components: (1) a flat-rate amount of 2,270 koruna (US$116.76), and (2) an earnings-related amount of 1.5 percent of the personal assessment base for each year of coverage. (The personal assessment base is equal to average gross earnings during the insured person's career, with only earnings since 1986 taken into account.) Currently, the average pension is around 10,500 koruna (US$540.07) and is expected to increase by 156 koruna (US$8.02) in January 2013 under the new indexation method (down from 428 koruna (US$22.01) using the old method).

The Czech Republic's social insurance system covers all employed and self-employed workers and is financed by employee contributions of 6.5 percent of monthly covered earnings and employer contributions of 21.5 percent of monthly payroll. (The self-employed contribute 28 percent of declared monthly covered earnings.) Workers with at least 28 years of coverage may retire at age 62 and 6 months (men) or age 61 and 4 months (women). (The retirement age is gradually increasing to age 65 for both men and women by 2030, and the required years of coverage are gradually increasing to 35 years by 2019).

Sources: *Social Security Programs Throughout the World*: *Europe 2012*, US Social Security Administration; "Lower House Approves Lower Pension Growth," *Prague Daily Monitor*, September 5, 2012; "Slowing Down of Pension Growth Takes Effect in Czech Republic," *Prague Daily Monitor*, September 12, 2012; Eurostat: Statistics Database, European Commission, http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/themes.

Monaco

Effective October 1, a new law raises the contribution rates and changes the benefit formula for the country's pay-as-you-go public pension system. The law increases contribution rates for employers and employees from 6.15 percent of covered earnings each to 6.95 percent and 6.55 percent, respectively. The government is permitted to raise the contributions up to an additional 1.3 percent for employers and 0.7 percent for employees, if needed in the future. (Employers continue to pay 0.91 percent (adjusted annually) of covered earnings to finance contributions for periods during which workers received paid sick or maternity leave, disability benefits, or unemployment benefits but paid no contributions.) Moreover, the law effectively reduces benefits with a modified points-based formula and requires a review of the legislation within 7 years to determine if further changes are needed. The government expects the changes to make the system sustainable through 2050 without having to increase the normal retirement age, currently age 65 (age 60 for early retirement).

According to the International Monetary Fund, without any changes to the system, beginning in 2030 employer and employee contributions plus government subsidies (up to a maximum of 25 percent of total employer/employee contributions) would not be sufficient to pay benefits. The main causes of the deficit are the rapid aging of the population and the high level of benefits. Monaco has one of the oldest populations in the world, with close to one-third of the population aged 65 or older. The birth rate is among the lowest in the world and life expectancy among the highest. In addition, the gross replacement rate for public pensions (until the new reform was implemented, 70–80 percent of preretirement earnings) is among the highest in Europe.

Sources: "Republic of San Marino: Selected Issues," International Monetary Fund, March 2010; *The World Factbook*, US Central Intelligence Agency, 2012; *Social Security Programs Throughout the World: Europe, 2012*, US Social Security Administration; "Le Parliament Monégasque Adopte sa Réforme das Retraites," Cote dAzur, 27 Septembre 2012; "Le Régime Monégasque de Sécurité Sociale (Salariés)," CLEISS, Octobre 2012; "Monaco's Parliament Approves Pension Reform Bill," Mercer International Headlines, October 2, 2012; "Retraites: La Réforme est Entrée en Vigeur," Monaco Hebdo, 10 Octobre 2012.

The Americas

Mexico

On October 12, the pension fund regulator announced a reorganization of the family of pension funds (SIEFOREs) within the 15-year-old system of individual accounts. Since 2008, each pension fund management company (AFORE) has been required to offer five different types of funds (SIEFOREs Básicas, or SBs), with varying degrees of risk and restrictions according to age. Account holders aged 60 or older may only enroll in SB1, which is mostly in fixed-income instruments, while younger workers can take on riskier investments.

Effective November 23, each AFORE must combine their two highest risk funds, SB4 (for workers aged 27–36) and SB5 (for workers up to age 26), into one fund—SB4. According to the government, there is not much difference between the two funds (the limit on certain riskier investments is a little higher for SB5), and SB5 holds only a small percentage of total assets under management: 5.8 percent at the end of September, compared with 24.3 percent in SB4. (Total assets under management were 1.85 billion pesos (US$14.1 million) or about 12 percent of gross domestic product.) The table in the next column categorizes each of the four funds according to the new rules.

The government also plans to split SB1 into two separate funds for workers aged 60 or older: SB0 and SB1. SB0 will be designated for account holders that entered the labor force since 1997 (the year the system of individual accounts was implemented) and for retirees currently receiving programmed withdrawals. SB1 will be made up of the transition generation, workers who were contributing to (but not eligible for a pension under) the old pay-as-you-go (PAYG) public pension system in 1997. According to the law, at retirement, members of the transition generation are permitted to choose between a benefit from the old PAYG system and one based on their individual account balance—an annuity or programmed withdrawals. Those who choose the PAYG benefit must transfer their account balance to the federal government.

Characteristics of pension funds (SIEFOREs Básicas)

SIEFORE Básica (fund)	Limits on investment in equities (percent)	Age designation (years)
1	5	60 or older
2	25	46–59
3	30	37–45
4	40	36 or younger

SOURCES: "Disposiciones de Caracter General que Establecen el Régimen de Inversión al que Deberán Sujetarse las Sociedades de Inversion Especializadas de Fondos para el Retiro," el 10 de octubre de 2012; CONSAR Boletín de Prensa, 12 de octubre de 2012.

NOTES: This new structure is effective November 23, 2012. The government also plans to split SB1 into two separate funds—SB0 and SB1.

Sources: *Social Security Programs Throughout the World: Americas, 2011*, US Social Security Administration; "Cambio a Régimen en Afores Empuja BMW," Instituto Mexicano de Contadores Públicos, octubre de 2012; "Disposiciones de Caracter General que Establecen el Régimen de Inversión al que Deberán Sujetarse las Sociedades de Inversion Especializadas de Fondos para el Retiro," CONSAR, el 10 de octubre de 2012; CONSAR Boletín de Prensa, 12 de octubre de 2012; "Cambios en la Estructura de Multifondos y Régimen de Inversion de las Administradoras de Fondos para el Retiro (Afores)," BBVA Research, 22 de octubre de 2012.

Asia and the Pacific

Hong Kong

Beginning November 1, workers have the option under the Employee Choice Arrangement (ECA) to transfer their own contributions and investment returns from employer-designated Mandatory Provident Fund (MPF) service providers to another provider of the employee's choice once each calendar year. (ECA only applies to employee contributions and returns and not those made by the employer.) At the same time, the Mandatory Provident Fund Schemes Authority (MPFA), the system regulator, becomes the sole authority for registering service providers—currently 19 trustees and 40 "schemes" that offer over 500 investment funds—and issuing compliance guidelines.

The MPFA anticipates that the ability for members to choose a provider will increase competition, resulting in lower fees and improved customer service. In that context, the agency recently launched an online system to enable MPF members to better compare management fees and fund performance.

All employers must contribute to a defined contribution account on behalf of their employees—an MPF account or approved occupational pension plan. Under the MPF system, both employer and employee are required to contribute (tax deductible) 5 percent of monthly earnings between HK$6,500 (US$839) and HK$25,000 (US$3,226) to an MPF account. Voluntary additional contributions are permitted. Employees that earn less than HK$6,500 a month are not required to contribute, but may do so voluntarily. Each MPF employee account comprises three subaccounts: (1) employer contributions under current employment, (2) employee contributions under current employment, and (3) employer and employee contributions related to former employment or self-employment. Prior to November, employees could only transfer funds in the third account to another service provider of their choice. A retirement benefit is paid as a lump sum of the funds from all three accounts.

By the end of June 2012, the MPF system included several hundred thousand employers of 2.6 million employees, with an aggregate net asset valued at HK$384 billion (US$50 billion).

Sources: "MPF Employee Choice Arrangement," Actuarial Society of Hong Kong Newsletter, July 2012; "Hong Kong: New MPF Rules Allow Employees to Select Providers for Their Own Retirement Contributions Annually," Towers Watson Global News Briefs, September 2012; "New MPF Flexibility Brings Both Pros and Cons," chinadailyapac.com, September 19, 2012; "Hong Kong: The Facts—Mandatory Provident Fund," Mandatory Provident Fund Schemes Authority, November 2012.

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