Social Security

International Update:

Recent Developments in Foreign Private and Public Pensions, Social Security, and Retirement

August 2008

Europe

Czech Republic

The Czech parliament approved legislation on July 17, 2008, that raises the retirement age and extends the minimum working period required to receive an old-age pension. The president is expected to sign this pension reform bill shortly. With improved life expectancy and fewer people expected to enter the labor force in the next 10 to 15 years, financial market analysts and the government warn that the portion of the population that is economically active and contributes to the Czech pension system will decline dramatically. Individuals older than age 64 currently make up about 15 percent of the Czech population; this share is expected to grow to about 25 percent by 2030 and exceed 30 percent by 2050, straining public pension system solvency.

Under the reform bill, changes to the public pension system are gradually implemented through 2030, including changes that:

- Raise the normal retirement age to 65 for men, childless women, and mothers of one child. This would replace existing eligibility ages that are gradually increasing to age 63 by 2016 for men and by 2019 for women without children; and to ages 59 to 63 by 2019 for women with more than one child, depending on the number of children. Mothers with two or more children would still be able to retire 2 to 3 years earlier than the normal retirement age.
- Extend the minimum working period required for a full old-age pension from 25 to 35 years.

Sources: "Czech Government Coalition Make No Sense if Pension Reform Fails—Necas," ceskenoviny.cz, June 23, 2008; "Czechs to Raise Retirement Age, More Reform in Doubt," Reuters, June 25, 2008; "Czech Senate Approves Gradual Rise in Retirement Age to 65," CTK Daily News, July 17, 2008; *Social Security Programs Throughout the World: Europe, 2008*, forthcoming.

The Americas

Chile

On July 1, 2008, the Chilean government introduced the Sistema de Pensiones Solidarias or Solidarity Pension System, the cornerstone of the major pension reform law passed in March 2008. This new first pillar, a supplement to the 27-year-old individual accounts system, expands coverage and provides both a noncontributory and a top-up benefit.

The noncontributory basic solidarity pension called pensión básica solidaria (PBS) is a means-tested benefit (old age and disability) paid to those individuals aged 65 or older who are not eligible for any other pension. To qualify for an old-age PBS, an individual must have lived in Chile for at least 20 years, including 4 of the 5 years immediately prior to applying for a benefit. To receive a means-tested disability pension, an individual must be assessed as disabled by a medical commission and have lived in Chile for at least 5 of the 6 years immediately prior to applying for a benefit. The value of the PBS is 60,000 pesos (US$121) per month until 2010 when it will be raised to 75,000 pesos (US$151). The PBS initially covers 40 percent of the poorest individuals in Chile (about 600,000 people); coverage will be extended gradually so that by 2012, 60 percent of the poorest individuals (about 1.3 million people) will be eligible for the PBS.

A top-up (old-age and disability) benefit called aporte previsional solidario (APS) is paid to those individuals who have contributed to an individual account and whose self-financed monthly benefit in 2008 is between 50,000 pesos (US$101) and 150,000 pesos (US$302). The benefit will be gradually increased through 2012 to include individuals with self-financed monthly benefits of up to 255,000 pesos (US$513). The maximum APS benefit in 2008 is about 17,000 pesos (US$34) a month.

Sources: "Comienza la Reforma Previsional en Chile," Biblioteca del Congreso Nacional de Chile, el 30 de junio de 2008; "Chile: Comienza a Regir en Chile la Reforma Previsional Más Importante de la Historia," Europa Press-Servicio Internacional, el 1 de julio de 2008.

Cuba

On July 11, 2008, Cuban President Raúl Castro introduced a social security reform bill to the National Assembly. The proposed changes gradually raise the retirement age from 60 to 65 for men and from 55 to 60 for women. The bill also increases the minimum number of years of work required for a full retirement benefit from 25 to 30 and raises the level of benefits. Under the proposed new rules, retirees would be permitted to return to work to increase their pensions. The National Assembly is expected to approve the bill in December, and the changes would be phased in between 2009 and 2015.

If no measures are taken to keep older workers in the labor force, Cuba's rapidly aging population and declining labor force will further strain social security's finances. Social security and social assistance benefits represent 13.8 percent of the current national budget. In 1970, there were 7.1 workers for every pensioner. By 2007, that figure had declined to 3.1 and is expected to reach 2.3 within the next 17 years. By 2025, 25 percent of the Cuban population is projected to be over age 60, one of the highest rates in the region.

Sources: "Raúl Castro afirma que 'realidad actual' impone elevar edad de jubilación," Agencia EFE, 11 de julio de 2008; "Full Text of Cuban Leader Raúl Castro's speech to National Assembly," BBC Monitoring Newsfile, July 14, 2008.

Reports and Studies

World Bank

On July 2, 2008, the World Bank released a report, *Innovation, Inclusion, and Integration: From Transition to Convergence in Eastern Europe and the Former Soviet Union*, which examines issues facing the countries in Eastern Europe and the former Soviet Union in their effort to maintain economic growth. The report warns that economic growth in the region could slow if policies to address issues arising from the countries' aging populations are not implemented.

The report points out that most Eastern Europe and former Soviet Union countries are projected to have some of the oldest populations in the world by 2025, while their working-age populations (those aged 15 to 64) are expected to decline rapidly. All but eight of the 28 countries in the region are facing a decline in their populations. To counteract the negative impact of the declining workforce on growth and old age pension finances, the report urges Eastern European and former Soviet Union countries to take action to increase productivity and economic growth. This includes reforming the business environment to encourage more women and older workers to participate in the workforce and relaxing national rules currently preventing labor migration across the region. The report suggests that equilibrium of the region's workforce could be achieved by allowing workers from the eight countries in the region with rapid population growth to migrate to the 20 countries with declining populations. The report recommends three specific reforms to help these countries effectively address the difficulties associated with an aging population and shrinking workforce:

- Raising and equalizing the retirement ages for men and women.
- Reducing taxes on labor that make hiring expensive.
- Reforming pension and health care systems to reduce future fiscal pressures that may divert funds from investment in equipment and technology that will increase productivity and economic growth.

Sources: "Innovation, Inclusion, and Integration: From Transition to Convergence in Eastern Europe and the Former Soviet Union," World Bank, July 2008.

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