Social Security

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International Update:

Recent Developments in Foreign Public and Private Pensions

November 2010

Europe

Hungary

On October 25, Hungary's parliament passed a law that temporarily suspends employee contributions to second-pillar individual accounts and reallocates them to the first-pillar, public pay-as-you-go (PAYG) program. From November 1, 2010, through the end of 2011, employees will contribute 9.5 percent of covered monthly earnings to the PAYG program only. (Previously, 1.5 percent went to the PAYG program and 8 percent to individual accounts.) Employers will continue to contribute 24 percent to the PAYG program only. According to government estimates, the new law will increase government revenues by approximately 420 billion forints (US$2 billion) over the next 14 months, helping Hungary meet the deficit targets set by the European Union of 3.8 percent of gross domestic product in 2010 and 3 percent in 2011.

In addition, a separate bill passed by parliament makes participation in the second pillar voluntary for new entrants to the labor force and allows existing members to opt out of the second pillar and transfer their account balances to the first-pillar PAYG program. (Details on how this transfer will take place have not yet been issued.) The opt-out period will last through the end of 2011. Workers who choose to remain in the second pillar will continue to have their funds managed by their current pension fund management company.

In 1998, Hungary introduced a new pension system consisting of a first-pillar, earnings-related PAYG benefit and a second-pillar individual account. Of the approximately 3.7 million workers currently in the labor force, around 3 million have individual accounts. Second-pillar assets under management total around 2.7 trillion forints (US$13.9 billion).

Sources: *Social Security Programs Throughout the World: Europe, 2010*; "Hungary Passes Bill to Withhold Pension Fund Payments," *Dow Jones Business News,* October 6, 2010; "Hungary Bill to Allow Private Pension Fund Members to Return to State," *Down Jones Newswires,* October 24, 2010; "Hungary Lawmakers Pass Suspension of Private Pension Transfers," *Global Pensions,* October 26, 2010; "Parliament Approves Suspension of Transfers to Private Pension Funds, Ends Mandatory Membership," *MTI – EcoNews,* October 26, 2010.

United Kingdom

On October 20, the government released *Spending Review 2010,* which prioritizes spending budgets for each government department and outlines its plans to balance the budget by 2014–2015 through 83 billion pounds (US$135 billion) in spending cuts. Included in the review are major changes to public-sector pensions, an accelerated increase in the state pension age (SPA), and confirmation that public funding will be available for implementing automatic enrollment of private-sector workers into qualified employer-sponsored retirement plans.

Key pension-related measures contained in the *Spending Review 2010* follow.

- The SPA will rise to 66 for both men and women by 2020, taking effect 6 years earlier than originally scheduled. (The SPA is the qualifying age for the near-universal, contributory flat-rate benefit known as the Basic State Pension.) The increase will be phased in gradually from December 2018 through April 2020. This change is expected to result in savings of 5 billion pounds (US$8 billion) annually. For women, whose SPA is currently increasing from 60 to 65, the rate of increase will accelerate beginning in April 2016, so that it reaches age 65 in November 2018 (rather than 2020).
- The National Employment Savings Trust (NEST), the vehicle for planned automatic enrollment, will be set up as foreseen following the recent public consultation on implementation. The Department for Work and Pensions will receive funding to introduce auto-enrollment in 2012 and to establish NEST a year earlier.
- The government endorses a recommendation in the Independent Public Service Pensions Commission's preliminary public-sector review,

issued on October 7, that employee contributions (from civil servants, teachers, military personnel and other state workers) to public-sector pensions be increased progressively, especially for higher earners. In addition, the government stated that the defined benefit pension plan for members of parliament is not sustainable and that future changes in that plan would be forthcoming.

The *Spending Review 2010* and related documents are available at http://www.hm-treasury.gov.uk/spend_index.htm.

Sources: *Spending Review 2010,* Towers Watson, October 2010; "UK MPs DB Scheme to be Wound Up," PlansponsorEurope.com, October 21, 2010; "UK Spending Review: Plans Outlined for £83 Billion Spending Cuts," Roubini Global Economics, October 21, 2010.

Asia and the Pacific

China

On October 1, Shanghai's Human Resources and Social Security Bureau launched a trial program that allows older workers to defer retirement beyond the mandatory retirement age of 60 (men) and 50 (women). Under the program, employers must sign new employment contracts with workers who elect to defer retirement. In addition, if retirement is deferred, both workers and employers must continue to contribute for pensions and work injury benefits, but may stop contributing for sickness, maternity, and unemployment. The trial program is currently limited to private-sector employees with certain technical skills, but over time will be extended to other groups of employees. The government expects this measure will ease the fiscal burden on the city's pension system from a rapidly aging population; from 1993 through 2009, the ratio of workers to retirees in Shanghai's pension system decreased from 2.8:1 to 1.4:1.

In China, municipal authorities administer and regulate pension programs in accordance with guidelines issued by the central government. Under these guidelines, provincial and certain municipal authorities may introduce regulations (such as contribution rates) that differ from one another.

Demographers and pension experts state that increasing the retirement age is necessary for Shanghai, which has a rapidly aging population and a pension fund with rapidly rising deficits. Shanghai has the largest share of the aged population among Chinese cities, about twice the national average. There are more than 3 million residents older than age 60, more than 20 percent of the city's population. In 2008, the city provided nearly 18 billion yuan (US$2.7 billion) in subsidies to the pension fund—an amount which grew to nearly 25 billion yuan (US$3.7 billion) in 2009.

The pension system in China has been undergoing significant changes; it consists of two parts: (1) a basic pay-as-you-go, social insurance program funded by employer contributions (up to 20 percent of payroll, depending on local government regulations) and government subsidies; and (2) individual accounts funded by employee contributions (8 percent of gross insured earnings) and government subsidies.

Sources: *Social Security Programs Throughout the World: Asia and the Pacific, 2008*; *IBIS Country Manual, China (Shanghai)* 2010; "The Chinese Pension System: First Results on Assessing the Reform Options," *European Economy (Economic Papers)* 412, June 2010; "Shanghai Opens Door to Delayed Retirement," *China Daily,* September 29, 2010; "City Trying to Bridge Pension Gap," *South China Morning Post,* October 9, 2010; "Pressure Grows on Shanghai Pensions," *Shanghai Daily,* October 20, 2010; *CIA World Factbook, China,* October 28, 2010; *IBIS News, China (Shanghai),* October 29, 2010.

Malaysia

On October 1, new legislation went into effect that extends public pension coverage to part-time workers. (Part-time workers are those who work from 30 percent to 70 percent of the hours normally worked by full-time employees of the same company.) The new legislation also grants part-time workers certain benefits, including annual and sick leave, paid public holidays, and overtime. The Ministry of Human Resources estimates that approximately 12 million part-time workers became eligible for coverage under the new regulations. The government expects the legislation will also encourage more Malaysians (including single mothers, homemakers, retired workers, and disabled workers) to reenter the workforce.

Malaysia's public pension system consists of two components: (1) the Employees Provident Fund (EPF), for private-sector employees and certain public-sector employees; and (2) a social insurance program for casual workers and employees up to age 55 earning

3,000 ringgits (US$966) or less a month. The EPF provides two types of mandatory individual accounts that finance old-age, disability, and survivors benefits: Account 1, which can be drawn down before age 55 to purchase approved investments; and Account 2, which can be drawn down before age 55 for the purchase of a house, for education costs, and for designated critical illnesses and prosthetic appliances. (All funds can be withdrawn at age 55 from both accounts.)

Sources: *Social Security Programs Throughout the World: Asia and the Pacific, 2008*; *IBIS Compliance Alert, Malaysia,* September 17, 2010; “New Regulations for Part-Time Workers in Malaysia,” *Asian HR eNewsletter,* September 20, 2010; “Ministry Announces New Rights for Part-Time Workers,” *Free Malaysia Today,* September 29, 2010.

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