Social Security

International Update:

Recent Developments in Foreign Public and Private Pensions

August 2013

Europe

Andorra

On July 16, the cabinet approved changes to the country's pay-as-you-go (PAYG) public pension program that will help improve the program's finances. The measures are part of a law that also includes changes to other branches of the country's social security system, including sickness and maternity and work injury. According to a 2009 government report, without any changes the pension program would have a deficit beginning in 2017. The new law will be implemented on January 1, 2014.

Until next year, employees may choose among three contribution rates for an old-age benefit: 2.5 percent, 5 percent, or 7 percent of gross earnings; they also pay 3 percent for disability, survivors, sickness, maternity, and work injury benefits. Employers contribute 7.5 percent for old-age benefits and 7 percent of a worker's gross earnings for the other benefits. (There is no government contribution.) A full retirement benefit is paid at age 65 with 40 years of contributions, and a reduced benefit is paid with at least 13 years of contributions. Early retirement is permitted from age 58 with 40 years of contributions, and deferred retirement is permitted until age 72. The insured person's lifetime contributions are used to calculate the pension amount. An additional benefit, the spouse's supplement, is paid for a spouse aged 65 or older who is not eligible for a pension in his or her own right. Benefits are adjusted annually according to changes in the consumer price index.

Provisions of the new law include the following:

- *Contribution rates.* Employees will no longer have a choice of contribution rates. The old-age rate will be increased by 1 percentage point each for both employees and employers (to 3.5 percent and 8.5 percent, respectively), and the rate for other social insurance benefits will be lowered by the same amount (to 2 percent and 6 percent, respectively).
- *Qualifying conditions.* The minimum number of contribution years will rise from 13 to 15. The age limit for a deferred pension will be abolished, and the early retirement age will increase to 61.
- *Benefit levels.* Pensions greater than 150 percent of the monthly minimum wage—currently 1,443 euros (US$1,914)—will be reduced. Higher benefits will be reduced more than lower benefits, according to a sliding scale for benefits that exceed the maximum. In addition, the spouse's supplement will be eliminated.
- *Government guarantee.* A guaranteed minimum monthly pension equal to the monthly minimum wage—currently 962 euros (US$1,276) a month—will be introduced. The government will also maintain a minimum balance of 890 million euros (US$1,182 billion) in the pension reserve fund.
- *Indexation.* Benefits will be adjusted according to changes in a combination of the consumer price index, wages, and a sustainability factor (the ratio of contributors to pensioners).
- *Noncontributory pension.* The government will create a pension program for people who have lived in Andorra for at least 10 years and are not insured in their own right and are not eligible for the statutory contributory pension program.

Sources: *Proyección de Ingresos y Gastos del Sistema de Pensiones de Andorra, Período 2010–2025*," Gabinete de Asesoramiento Económico y Social SL, septiembre 2009; *Social Security Programs Throughout the World: Europe, 2012*, US Social Security Administration, September 2012; "Salari Mínim," Circular Informativa, Govern d'Andorra, 24 del octubre del 2012; "Projecte de Llei de Modificació de la Llei 17/2008, del 3 d'octubre, de la Seguretat Social," presentacio, Governo d'Andorra, 3 de Juillol del 2013; "Andorra Extends Pension Contribution Period," lawandtaxnews.com, July 8, 2013; "Andorran Cabinet Approves Social Security Reform Bill," Mercer *International Headlines,* July 9, 2013; "Projecte de Llei de Modificació de la Llei 17/2008, del 3 d'octubre, de la Seguretat Social," Butlletí del Consell General, núm 36/2013, 16 de juillol del 2013.

Asia and the Pacific

Kazakhstan

On June 21, Kazakhstan's president signed a pension reform bill into law that will equalize the retirement age for men and women. It also merges assets in the system of mandatory individual accounts—currently managed by 10 private funds and the State National Pension Fund (GNPF)—into the single state-run Centralized Accumulation Pension Fund (CAPF). (The consolidation of the pension funds was first announced in March 2013). According to the government, the new law will improve the long-term sustainability of the pension program, guarantee adequate retirement income for future retirees, and provide more effective and secure management of the country's pension savings.

Under the new law, the retirement age for women will gradually increase from 58 to 63 by 6 months a year starting in January 2018. (The first version of the bill passed by the Kazakhstan Parliament—but ultimately returned for reconsideration by the president—would have started the gradual increase in January 2014.) In announcing the reform, the president cited an independent assessment that found that an increase in the retirement age for women in the 2014–2024 period would reduce budget expenditures on old-age pensions by approximately 3 trillion tenge (US$19.8 billion) over that period.

The law also consolidates the current 11 pension funds (10 private funds and the public GNPF) into a single state-run pension fund, or CAPF. Over the past 5 years, pension fund investment returns have averaged well below inflation partly because of regulations that limit investment options. Government sources indicate that the CAPF will have a more diversified portfolio. The government had initially planned to merge the assets of the private pension funds with those of the GNPF (holding roughly 19 percent of total pension assets) by July 1; however, as of July 26, the consolidation had not yet started. The merger would put the CAPF in charge of the approximately 3.1 trillion tenge (US$20.1 billion) in assets under management (as of December 2012), or around 10 percent of gross domestic product. Existing pension funds managing individual accounts will be permitted to manage voluntary pension fund accounts.

In addition to mandatory individual accounts (implemented on January 1, 1998), Kazakhstan's public pension system includes (1) a solidarity pension for people who worked at least 6 months under the old pay-as-you-go system; and (2) social benefits for individuals with pensions below the minimum pension specified by the government (currently 40 percent of the minimum wage), as well as those ineligible for benefits from the mandatory individual accounts. Employees contribute 10 percent of monthly earnings to the mandatory individual account only (there is no contribution for employers); employers contribute an 11 percent levy on monthly payroll for the solidarity pension and 5 percent of monthly payroll for disability, survivor, and unemployment benefits; and the government pays the total costs of guaranteed minimum pensions (under the mandatory individual account program) and of social benefits.

Sources: *Social Security Programs Throughout the World: Asia and the Pacific 2012*, US Social Security Administration, 2012; "Kazakhstan," International Update, US Social Security Administration, March 2013; "Kazakhstan: Protests Over Plans to Raise Women's Retirement Age," Financial Times, May 13, 2013; "Kazakh President Returns Bill on Reform of Pension System to Parliament," Trend News Agency, June 7, 2012; "Kazakhstan's Parliament Adopts, Passes Pension Reform Counterproposal," Mercer, June 21, 2013; "Kazakhstan Adopts Controversial Pension Reform," CACI Analyst, June 28, 2013.

New Zealand

On July 11, the New Zealand Treasury released *Affording Our Future*, its report on the country's future fiscal challenges. The report finds that the rapid aging of the population—because of declining birth rates and increasing life expectancy—is among the major fiscal challenges. Since 1980, the number of people aged 65 or older has doubled (to currently more than 600,000) and by 2036, Statistics New Zealand projects that number to double in size again. In addition, from February 2012 to February 2013, the number of individuals receiving New Zealand Superannuation (NZS)—the country's flat-rate universal pension, which is funded by general revenues—grew by more than 27,000 beneficiaries (five times the average annual growth rate in the previous decade). By 2020, more than 150,000 new pensioners are projected to join the rolls. As a result, the Treasury estimates that NZS spending will increase from 4.3 percent of nominal gross domestic product in 2010 to 7.9 percent by 2060.

To help put NZS on a more fiscally stable path, the report presents a number of options including the following:

- Gradually raising the retirement age from 65 to 67, or raising the age to 67 and linking further increases to life expectancy.
- Changing the method of indexing benefits from changes in wages (the current method) to one that uses the inflation rate or a mix of inflation and wages.
- Introducing a means test because the first two options would disproportionately affect lower earners.
- Requiring KiwiSaver (a voluntary subsidized retirement savings plan) account holders to annuitize half of their account balances at retirement and providing government subsidies to top up the benefit for people with low account balances.
- Switching NZS from a pay-as-you-go system to a prefunded system.

Source: *Affording Our Future: Statement on New Zealand's Long-term Fiscal Position,* New Zealand Treasury, July 11, 2013.

Reports

Social Security Administration

The Social Security Administration has released *Social Security Programs Throughout the World: Africa, 2013*—part of a four-volume series that provides a cross-national comparison of the social security systems in 47 countries in Africa. It summarizes the five main social insurance programs in those countries: (1) old-age, disability, and survivors; (2) sickness and maternity; (3) work injury; (4) unemployment; and (5) family allowances. The other regional volumes in the series focus on the social security systems of countries in Europe, Asia and the Pacific, and the Americas.

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