Social Security

International Update:

Recent Developments in Foreign Public and Private Pensions

January 2016

Europe

Austria Introduces a New Partial Pension

On January 1, legislation establishing a new partial pension (*Teilpension*, also referred to as *Erweiterte Altersteilzeit* or "extended semi-retirement") for employees aged 62 or older went into effect. The legislation, which amends the Unemployment Insurance Act of 1977, was passed by both chambers of the Austrian Parliament in July 2015 and incorporated into federal law in August 2015. By providing older employees and their employers with new financial incentives, the amendment aims to increase the number of Austrians who remain in the labor force until the full retirement age. Given that the statutory retirement age in Austria is currently age 65 for men and age 60 for women (increasing for women to age 65 from 2024 to 2033), the partial pension is initially only available to men. According to recent Organisation for Economic Co-operation and Development (OECD) calculations, the average effective retirement age in Austria from 2007 through 2012 was age 61.9 for men and age 60.2 for women.

Under the new legislation, employees aged 62 or older with at least 780 weeks of unemployment insurance contributions in the prior 25 years are eligible to reduce their working hours by 40 to 60 percent without experiencing a similar reduction in their earnings. As a result, a worker would receive 70 to 80 percent of his or her average salary in the 12 months before the reduction in working hours began. For example, if an employee opts to reduce his or her working hours by 50 percent, that employee will receive a salary equal to 75 percent of his or her average salary for the preceding 12 months. The partial wage compensation that employees receive under this arrangement is not considered pension income, so it does not affect their eligibility for full pension benefits. Employees who qualify for this arrangement must obtain employer approval to participate.

To make the partial pension attractive to employers, the government has set up a system to compensate employers through a mix of direct payments and reduced social insurance contributions. In particular, the Unemployment Insurance Fund reimburses employers for all wage compensation provided to employees under the program; employers with staff receiving partial pensions do not have to pay social insurance contributions on any wage compensation.

In addition to the partial pension, the Austrian system has two existing programs with some similar features: (1) the semi-retirement (*Altersteilzeit*) program, and (2) the corridor pension (*Korridorpension*). The semi-retirement program also allows older employees to reduce their working hours by 40 to 60 percent and receive compensation for 50 percent of lost earnings, but has a lower age to qualify (age 58 for men and age 53 for women) than the partial pension and does not provide employers with a reduction in social insurance contributions. The corridor pension has the same eligibility age as the partial pension, but was designed to provide individuals aged 62 to 65 with a reduced pension benefit rather than to extend employment. (To be eligible for the corridor pension, individuals must also have at least 462 months of coverage and monthly earnings of at least 395.31 euros (US$430.37).)

Sources: *Social Security Programs Throughout the World: Europe, 2014,* U.S. Social Security Administration, September 2014; "Was sich hinter der Teilpension versteckt," *Der Standard*, March 26, 2015; "Spätere Pension wird teuer erkauft," *Die Presse*, July 23, 2015; "Änderung des Arbeitslosenversicherungsgesetzes 1977, *Bundesgesetzblatt für die Republik Österreich*, August 13, 2015; *Pensions at a Glance 2015: OECD and G20 Indicators,* Organisation for Economic Co-operation and Development, December 2015; "Austria," *IBIS News*, December 28, 2015.

Asia and the Pacific

Vietnam Implements a Revised Social Insurance Law

On January 1, a new social insurance law went into effect that expands coverage, increases contributions, gradually raises the required number of contributions for an old-age benefit for men, changes the benefit formula, and improves protection of employee rights. The law was passed in November 2014 and represents the first phase of the Revised Law on Social Insurance; the second phase will be implemented in 2018. According to a 2012 report by the International Labor Organization (ILO), without reform, the social security reserves would be exhausted by 2027. The ILO report indicated the factors that contributed to this situation include rapid population aging (because of declining fertility rates and rising life expectancy), low retirement ages, relatively high replacement rates, underreporting of wages, and low coverage rates (about 20 percent of the labor force).

Provisions of the new law cover old-age, survivors, and disability insurance (OASDI); and sickness, maternity, and work injury benefits. The new rules covering OASDI include the following:

- *Expanded coverage*—Under the old rules, workers who were covered included public- and private-sector employees with at least a 3-month contract; household workers; employees in agriculture, fishing, and salt production; civil servants; employees of cooperatives and unions; and police and military personnel. The new law expands coverage to part-time workers in communes, wards, and townships. Beginning in 2018, short-term (generally seasonal) workers with contracts ranging from 1 to 3 months and employees who are foreign citizens with work permits or licenses will be incorporated into the system.
- *Increased contributions*—Social insurance contributions are now based on employees' basic earnings plus other allowances. (Employees contribute 8 percent and employers contribute 14 percent.) Any bonuses are excluded. Previously, contributions were based on employees' basic earnings.
- *Increased years of contribution*—From 2018 through 2022, the minimum number of contribution years required for men to receive an old-age benefit will increase from 15 to 20 years. The minimum number of contribution years for women remains at 15 years.
- *Benefit formula*—Persons retiring in 2016 and 2017 are not affected by the new law. Under existing rules, a minimum of 45 percent of average monthly salary is paid, plus 2 percent (for men) and 3 percent (for women) for each year exceeding 15 years, up to a maximum of 75 percent of monthly salary. Beginning in 2018, the rate for women will decrease to 2 percent.
- *Improved protections of employee rights*—Beginning in 2016, every 6 months, employees are permitted to ask employers for information on the payment of social insurance contributions; once a year, employees can ask social insurance agencies to verify the payment. Social insurance agencies will also publicize the names of employers who fail to comply with the rules. At the same time, various offenses (failure to pay or delaying contributions, falsifying social insurance documents, and so forth) are now considered criminal (previously, they were civil). In addition, trade unions are allowed to sue employers for violations of the social insurance law. According to the new law, by 2020, a national electronic database on social insurance management will be in operation.

Sources: "Actuarial Valuation of the Public Pension Scheme of the Viet Nam Social Security Fund," International Labor Organization, 2012; "Vietnam Social Insurance Law 2014," Vietnam National Assembly, November 20, 2014; *Social Security Programs Throughout the World: Asia and the Pacific, 2014,* U.S. Social Security Administration, March 2015; "Vietnam's New Law on Social Insurance on Horizon," *Vietnam Economic Times*, May 7, 2015; "Revised Law on Social Insurance," Vietnam Law & Legal Forum, August 5, 2015; "Changes to Vietnamese Social Security Start January 2016," Mercer, August 18, 2015; "VN Workers to Enjoy More Benefits Under New Social Insurance Law," VIETNAMNET Bridge, January 3, 2016.

International

World Bank Releases Report on Population Aging in East Asia and the Pacific

The World Bank recently released *Live Long and Prosper: Aging in East Asia and the Pacific,* which examines the phenomenon of rapid population aging in East Asia and the Pacific and the challenges it presents for labor markets, public pension systems, health care, and long-term care programs. According to the report, the region as a whole already has a large population of older people—around 187 million individuals aged 65 or older as of 2010, or 36 percent of the global population in that age group—and the population is projected to age more rapidly in coming years than any other region in history. The main causes of this rapid aging are (1) a substantial decline in fertility across the region, which fell from 5.91 children per women in 1960 to 2.46 in 2005; and (2) a significant increase in life expectancy at birth, from less than 45 years in 1950 to 74 years today.

In addition, the report notes that the pattern of aging varies significantly across the region, with countries falling into one of three categories:

1. *High-income countries* that already have a large share of older people (around 14 percent of the population was aged 65 or older in 2013). Countries in this category include Hong Kong (Special Administrative Region), Japan, Singapore, and South Korea.
2. *Middle-income countries* that have a relatively young population (around 6 percent was aged 65 or older in 2013) that is aging very quickly. Countries in this category include China, Indonesia, Malaysia, Mongolia, Thailand, and Vietnam.
3. *Low-income countries* that still have a very small share of older people (around 4 percent of the population was aged 65 or older in 2013) but is projected to age rapidly in the coming decades. This category includes Cambodia, Laos, Burma (Myanmar), Papua New Guinea, the Philippines, and East Timor.

While the report finds that all of these countries face significant challenges related to rapid population aging, it also argues that current trends across the region—including long working lives, high savings rates across all ages, and relatively modest entitlements to pensions, health care, and long-term care programs—put them in a strong position to address these challenges through proactive structural reforms.

The report provides a comprehensive review of the types of public pension systems throughout the region; assesses their performance based on their financial sustainability, pension coverage, and adequacy; and presents various policy options to address the challenges facing these systems. Key challenges identified by the report regarding pensions include the following:

- For *high-income countries*, the most significant challenge is to ensure pension adequacy and financial protection in old age. These countries have already achieved high levels of pension coverage and generally have more financially sustainable pension systems than high-income countries in other regions of the world.
- For *middle-income countries*, the most significant challenges are to improve the sustainability of their pension systems, while at the same time expanding coverage to large informal sectors.
- For *low-income countries*, the key challenge is to choose a pension model that can achieve significant coverage over time, while recognizing that programs financed through payroll taxes have often proved ineffective in doing so in other developing countries.

To address these challenges, the report recommends that countries adopt various reforms, including those that would (1) improve sustainability through parametric changes to their systems, such as equalizing retirement ages, linking those ages to increases in life expectancy, and changing the benefit formulas from final salary to lifetime earnings; (2) expand coverage through social pensions, targeted social assistance programs, or matching contributions for informal-sector workers; and (3) integrate parallel pension programs (such as those covering civil service employees) with national programs.

Source: *Live Long and Prosper: Aging in East Asia and the Pacific,* World Bank, 2016.

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