Social Security

International Update:

Recent Developments in Foreign Public and Private Pensions

November 2008

Europe

Greece

On October 1, 2008, the Greek government completed the merger of its 133 separate public pension funds into 13 new funds to streamline public pensions, cut operating costs, and shore up smaller pension funds. The consolidation was the last phase of a larger social security reform that began in November 2007 and will affect about 1 million fund members and 800,000 current pensioners. Earlier this year, the government equalized the full retirement age to 65 for both men and women and established age 55 as the early retirement age with at least 15 years of employment. Previously, early retirement could occur at any age with 15 years of employment and full retirement began as early as age 53 for some occupations.

Prior to the reforms, pension expenditures were more than 12.5 percent of GDP, about €32.75 billion (US$40.8 billion) and were projected to double by 2050 without any changes. According to the Organization for Economic Cooperation and Development, the Greek public pension system has one of the highest replacement rates in the world (about 95 percent of pre-retirement earnings) and is financed with contributions from employees (13.33 percent of salary), employers (6.67 percent), and government (10 percent).

Sources: *OECD Pensions at a Glance 2007; Social Security Programs Throughout the World: Europe, 2008*; "New Pension Reforms to Go Ahead," *The Express*, September 29, 2008; "Greece Begins Final Phase of Pension Fund Mergers," IPE.com, September 30, 2008; "Government Sets New Investment Rules for Pension Funds," Athens News Agency, October 10, 2008.

Sweden

Sweden's 2009 budget bill, announced September 22, 2008, contains measures that provide tax relief for pensioners and encourage employers to increase employment. These measures would:

- Reduce taxes for pensioners, aged 65 or older, with annual incomes (including pensions) below 363,000 kronor (US$55,200). Pensions from social security in Sweden are considered deferred salary and treated as taxable income. Single pensioners with taxable income less than 130,000 kronor (US$16,882) would benefit most under the rule change. The new policy is projected to cost the Swedish government roughly 2 billion kronor (US$262 million) each year and affect more than 1.5 million (90 percent) of the country's pensioners.
- Lower employers' social security contributions by 1 percent to create a more favorable environment for hiring and retaining workers. The reduction would be expected to reduce annual labor costs by more than 9 billion kronor (US$1.2 billion).

The bill requires legislative approval. If passed, the changes would take effect in January 2009.

Sources: "Country Profile: Sweden 2008," IGP-John Hancock Financial Services, 2008; "Government Proposes Tax Cuts for Pensioners, thelocal.se, September 3, 2008; "Budget Statement and Summary from the Budget Bill for 2009," Government Offices of Sweden, September 22, 2008; Government Offices of Sweden press release, September 22, 2008; "Sweden's 2009 Budget Plan Extends Tax Relief for Low-Income Pensioners," *Pension & Benefits Daily*, September 26, 2008.

Asia and the Pacific

Australia

In October 2008, the government of Australia announced that it would provide a one-time payment in December to pensioners as part of a A$10.4 billion (US$6.3 billion) stimulus package to counteract the recent economic downturn. The government will pay single pensioners A$1,400 (US$855) and married pensioners A$2,100 (US$1,279). The total cost of these extra payments to the 280,000 pensioners affected is approximately A$4.8 billion (US$2.9 billion). The Australian government is also considering an increase in the old-age pension from 25 percent to 35 percent of average weekly earnings or about A$120 (US$73) per week. The old-age pension is funded from general revenue and is payable to women from age 63 and to men from age 65. Although the old-age pension is means tested, about 84 percent of age-eligible Australians receive some payment with about two-thirds receiving full benefits and one-third receiving reduced benefits. Australia also has a mandatory occupational pension, the Superannuation Guarantee, which is funded by mandatory employer contributions of 9 percent of wages and voluntary employee contributions and is usually payable in a lump sum at age 55 or older.

Sources: *Social Security Programs Throughout the World: Asia and Pacific 2006*; "Four Million Australians to Get Lump Sum," *Australia News*, October 14, 2008; "Nick Sherry Takes Stock of Australian Superannuation," *Global Pensions*, October 15, 2008; "Rudd Government Moves to Stimulate the Economy," *Global Pensions*, October 15, 2008.

Hong Kong

Two new rules regarding contributions to the Mandatory Provident Fund (MPF) went into effect November 1, 2008, to help increase the overall level of contributions. First, housing allowances and other housing benefits must now be included as "relevant income" when calculating contributions. Relevant income includes wages, salary, leave pay, commission, gratuity, and bonuses. The initial exclusion of these housing benefits was intended to minimize the contribution burden on employees, who are faced with high housing costs in Hong Kong. Employers and employees each contribute 5 percent of an employee's relevant income to the MPF.

The second change is a reduction in the amount of time that employers and the self-employed are given to submit contributions to the MPF. Under the new rules, mandatory contributions are due by the 10th day of each month, a decrease of 20 days from the original 2000 law.

Violations of the new rules will result in significant penalties, including fines up to HK$5,000 (US$645) and a surcharge up to 5 percent of outstanding contributions. Non-compliant employers are also subject to prosecution with a maximum penalty of 6 months imprisonment and an additional HK$100,000 (US$12,900) fine for a first offense.

Sources: *Social Security Programs Throughout the World: Asia and the Pacific, 2006*; "Mandatory Provident Fund Schemes (Amendment) Ordinance 2008," Watson Wyatt Worldwide, *Global News Briefs*, June 2008; "Benefit News From Around the World," *Employee Benefit News*, September 15, 2008.

New Zealand

On October 22, 2008, New Zealand's Inland Revenue Department released its first *KiwiSaver Annual Report* prepared by the interagency KiwiSaver evaluation project. KiwiSaver, a type of subsidized retirement savings plan, was introduced in July 2007 to supplement the country's flat-rate universal public pension known as New Zealand Superannuation. New entrants to the labor force are automatically enrolled in a KiwiSaver plan but may opt out between the second and eighth week of their employment. Anyone younger than age 65 may opt in with the KiwiSaver provider of their choice. Workers who are automatically enrolled are assigned to a KiwiSaver plan in one of three ways:

- They can choose a provider.
- If they don't make a choice, they are assigned to their employer's preferred plan.
- If their employer does not have a preferred plan, they are randomly assigned to one of the six default plans.

KiwiSaver members may select from a number of different types of investment portfolios with varying degrees of risk. Those enrolled in a default plan are assigned to a conservative investment portfolio. Members may switch portfolios and providers at any time.

By the end of the first year of operation, about 700,000 individuals were enrolled in one of the 54 KiwiSaver plans offered by 31 providers. About two-thirds of these plans are open to anyone and the rest are limited to employees of specific companies or industries. Six of the 54 plans have about three-quarters of the market share; none of the six are default plans.

The majority of the 54 plans are small with fewer than NZ$5 million (US$2.7 million) in contributions. About one-third of the KiwiSaver members were automatically enrolled in a default plan, close to 50 percent opted in directly with a provider, and the rest opted in with their employers. Younger individuals are more likely to be automatically enrolled while those who opt in are generally older, with close to 50 percent over age 45.

Sources: "KiwiSaver: New Zealand's New Subsidized Retirement Savings Plans," *Social Security Bulletin* 67(4) 2007; Ministers of Finance and Commerce media statement April 2, 2007; "Annual Report 1: 1 July 2007-30 June 2008," KiwiSaver Evaluation, Inland Revenue, September 2008; Inland Revenue Department press release, October 22, 2008.

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