Social Security

International Update:

Recent Developments in Foreign Public and Private Pensions

November 2009

Europe

Portugal

On September 16, a new law entered into force that affects contributions to the pay-as-you-go social security system. This new law, which will be implemented gradually starting January 1, 2010, consolidates multiple laws for different groups of workers and changes the contribution rates for certain groups of workers. At the same time, the law expands the definition of gross earnings to include commissions and fringe benefits such as transportation costs, profit sharing, life insurance, and employer contributions to pension funds and retirement savings plans.

Under the new law, the contribution rates for many employees and employers will remain the same: 11 percent of gross earnings for employees and 23.75 percent for employers. These contributions finance old-age, survivors, and disability insurance (OASDI), sickness and maternity insurance, unemployment compensation, and family allowances. (About two-thirds of the combined total finances OASDI). In addition, to encourage more permanent jobs in the labor force, employers who provide indefinite contracts for their employees will pay 1 percentage-point less in contributions, and those providing fixed-term contracts will pay 3 percentage-points more.

The new law also encourages the employment of older workers and the disabled. For workers aged 65 or older with at least 40 years of contributions, the rates are reduced to 8 percent and 17.3 percent of gross earnings, for employees and employers, respectively. Additionally, for disabled workers with less than 80 percent of normal working capacity, the employer rate is decreased to 11.9 percent of gross earnings, and the employee's rate remains at 11 percent.

Portugal's public pension system provides a retirement benefit to men and women at age 65 with at least 15 years of contributions. A new benefit formula introduced a sustainability factor in 2007, which links initial benefits to average life expectancy. Until 2017, benefits may be calculated according to the "old" formula (the 10 best of the last 15 years of earnings), average-adjusted lifetime earnings, or a combination of the two, whichever is greater. Beginning in 2017, all new pensions will be based on average-adjusted lifetime earnings. Since 2008 pensions are indexed to changes in the consumer price index (CPI) plus growth in the country's gross domestic product. Previously, the adjustment was based on the national minimum wage, which is adjusted to changes in the CPI.

Sources: "Portugal," *International Update*, U.S. Social Security Administration, February 2007; *Social Security Programs throughout the World: Europe, 2008;* "Portugal: Summary of Social Security and Private Employee Benefits, 2008," International Group Programs; Lei n.º 110/2009, de 16 de Septembro.

Asia and the Pacific

Japan

Japan's new government announced on October 8 that it will replace the Social Insurance Agency (SIA) with an independent government corporation, the Japan Pension Agency (JPA), to improve the overall efficiency of public pension administration. The JPA, which will be supervised by the Ministry of Health, Labor, and Welfare (MHLW), assumes the pension-related responsibilities currently performed by the SIA beginning January 2010.

The SIA has in recent years been involved in a public debate set off primarily by the discovery of more than 50 million unidentified public pension records, which compromised its role as the principal administrator for both social security pensions and health insurance. On October 1, 2008, SIA functions dealing with health insurance were transferred to a new National Health Insurance Association. Meanwhile, contribution collections, pension payments, and record keeping functions for social security pensions remained with the SIA.

Establishment of the JPA will result in a 40 percent reduction in personnel from the current level at the SIA. Planned staffing of around 18,000—roughly 11,000 permanent and 7,000 temporary workers—will include transfers from the SIA and new recruits from the private sector. Agency staff will not be considered government employees, and those rehired from the SIA will lose their status as public servants. In addition, certain agency tasks are to be outsourced to the private sector, including screening application forms, staffing call centers, and conducting public awareness campaigns on social security.

To help regain public confidence in the nation's pension system, the MHLW has set up an expert panel to discuss ways to recover lost pension records, and it has allocated 177.9 billion yen (US$2 billion) for that purpose in its budgetary request for fiscal year 2010.

Sources: "Why the Big Fuss about SIA? Some Answers," *The Japan Times*, June 30, 2007; "Pension Record-keeping Problems in Japan," Institute of Economic Research, Hitotsubashi University (Tokyo), July 2009**;** "Pension Agency Job Interviews Delayed Due to Fears Over DPJ," *Yomiuri Shimbun*, September 14, 2009; "Govt to Ease Criteria for Pension Benefits/ Claims to be OK'd unless Obviously Problematic," *Yomiuri Shimbun*, September 20, 2009; **"**Japan to Launch New Pension Agency, Abolish Prior Social Insurance Agency,**"** *Pension & Benefits Daily*, October 13, 2009; "Action Needed Now on Pension Reform," *Yomiuri Shimbun*, October 20, 2009.

Reports and Studies

European Commission

On October 23, the European Commission released its *Sustainability Report 2009*, which assesses the impact of the current economic recession on the European Union (EU) member states' public finances and projects future costs related to aging populations over the next 60 years. Recently, budget deficits have risen in all member states because of increased public expenditures on fiscal stimulus measures and social protection benefits. However, the report expects these increases to have far less impact over the long-run than the projected higher public expenditures on age-related public policies, such as on health care and pensions.

Before the recession, the EU member states found themselves in the best fiscal situation in 30 years, with an average deficit of 0.8 percent of gross domestic product (GDP) in 2007. However, in 2009 deficits are forecast to average 6 percent of GDP and to reach 7 percent of GDP in 2010. The report asserts that governments need to keep supporting the economy and avoid choking off the emerging recovery, while at the same time mapping their strategies to ensure long-term fiscal sustainability. These strategies should focus on three broad policy areas: (1) deficit and debt reduction; (2) increases in employment rates; and (3) the reform of social protection systems, particularly health care and pensions.

With respect to pensions, the report places particular emphasis on the need to increase effective retirement ages in line with gains in life expectancy. Although many governments have taken steps to raise the retirement age or to encourage individuals to work longer, these are judged insufficient to meet the projected changes in life expectancy. Life expectancy at age 62—the age at which most Europeans leave full-time employment—is projected to increase by a full 6 years by 2060, from 20.2 years to 26.2 years. By 2060, the EU as a whole will have to spend 4.75 percent of GDP on pensions, and one in three adults will be retired.

According to the report, the countries that have undertaken comprehensive pension reforms in recent years and consequently find themselves in relatively stronger budgetary positions are Bulgaria, Denmark, Estonia, Finland, and Sweden. In contrast, the Czech Republic, Cyprus, Ireland, Greece, Spain, Latvia, Lithuania, Malta, Romania, Slovenia, Slovakia, and the United Kingdom have the largest sustainability gaps, with budgetary deficits of more than 6 percent of GDP and large projected increases in age-related public expenditures.

The full report is available online at http://ec.europa.eu/economy_finance/publications/publication15998_en.pdf

Source: *Sustainability Report 2009*, European Commission.

International Social Security Association

The International Social Security Association (ISSA) recently released "Dynamic Social Security for Asia and the Pacific: Integrated Responses for More Equitable Growth" in conjunction with the Regional Social Security Forum for Asia and the Pacific. The forum, organized by the ISSA and hosted by the Philippine Social Security Association, was held in the Philippines, October 21–23, 2009. The report analyzes the most recent developments and trends in social security programs in Asia and the Pacific, emphasizing the need for improvements within four policy areas: (1) coverage of social security and health-care programs, particularly in low- and middle-income countries; (2) adequacy and quality of benefits and services; (3) investment policies and performance; and

(4) governance and management. It also examines the challenges facing the region as a result of the current economic crisis and population aging.

The report is the second of a four-volume series examining regional social security programs. The first volume on Africa was released in November 2008, and the remaining two volumes will cover Europe and the Americas. The full text of the report is available online at http://www.issa.int/aiss/Resources/ISSA-Publications/Dynamic-Social-Security-for-Asia-and-the-Pacific-Integrated-Responses-for-More-Equitable-Growth.

Sources: "Dynamic Social Security for Asia and the Pacific: Integrated Responses for More Equitable Growth," International Social Security Association, October 2009.

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