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International Update:

Recent Developments in Foreign Public and Private Pensions

February 2010

Europe

Iceland

On December 8, 2009, 16 pension funds established the Icelandic Investment Fund (IIF) to aid Iceland's economic recovery from the recent international financial crisis. The move to use pension fund money to help stabilize the economy was recommended by the International Monetary Fund following the October 2008 collapse of the country's financial system. This brought the financial markets to a standstill and led to dramatic currency depreciation, higher interest rates, and a decline in asset prices. Government projections suggest that a further decline in real gross domestic product (GDP), which fell by 8.4 percent in 2009, is expected until 2011.

Pension funds participating in the IIF, which control roughly 34 percent of the 1.8 trillion kronur (US$14.4 billion) in total assets managed by Icelandic funds, have pledged to contribute approximately 30 billion kronur (US$236 million). IIF investments will target viable domestic companies. Details of the investment policy, including criteria for setting the minimum size of businesses that might receive investment, will be determined by the fund advisory board. Eventually, investors other than pension funds may be allowed to participate in the IIF. The investment fund is expected to invest its capital over the next 3 years and operate for no more than 10 years.

The Icelandic pension system includes three pillars: (1) a tax-financed and means-tested public pension program, (2) mandatory occupational pension funds, and (3) voluntary tax-advantaged savings. According to the Organisation for Economic Co-operation and Development (OECD), assets held by Iceland's mandatory occupational pension funds in December 2008 amounted to more than 100 percent of GDP, ranking them among the highest in OECD countries.

Sources: "The Icelandic Pension System," Iceland Ministry of Finance, March 2007; "Iceland's Crisis Fund," IPE.com, October 1, 2009; "Iceland: First in Line with IMF Deal," Economist Intelligence Unit—Country Monitor, October 20, 2008; "The Icelandic Economy (Autumn 2009): Macroeconomic Forecast, 2009–2014," Iceland Ministry of Finance, October 1, 2009; "Icelandic Property Investment in Jeopardy over Foreign-owned Assets," *Nordic Region Pensions & Investment News*, December 1, 2009; "Icelandic Pension Funds Found Investment Group," Iceland Review Online, December 10, 2009; "Icelandic Pensions Establish Private Equity Fund," IPE.com, December 11, 2009.

The Americas

Argentina

On January 14, the Argentine government issued a resolution that allows pension fund management companies (AFJPs) to administer the voluntary retirement accounts that were part of the former individual account system. According to the new rules, AFJPs have until February 19 to apply to the National Social Security Administration (ANSES)—the agency in charge of the social insurance system—for permission to administer the voluntary accounts.

Under the old system of individual accounts, any contribution above the worker's mandatory 11 percent of earnings was considered voluntary. When the Argentine government eliminated the system of individual retirement accounts in November 2008, it transferred the assets from the mandatory accounts to the new pay-as-you-go (PAYG) social insurance system. A judge ruled that the voluntary funds belonged to the individual account holders and required ANSES to place them in escrow until a decision was made on how to distribute these funds.

Account holders have until March to decide whether to transfer their voluntary accounts from ANSES to an authorized AFJP. At retirement, individuals who have done so will receive a benefit based on their voluntary account balance in addition to their social insurance benefit. The accounts that are not transferred will remain with ANSES and the account balance will be factored into the social insurance benefit. Currently, some 325,000 individuals have voluntary accounts totaling 235 million pesos (US$61.2 million), but most of the accounts have less than 1,000 pesos (US$260).

From 1994 until the government shut down the system in November 2008, workers were allowed to choose between the PAYG earnings-related program and an individual account managed by an AFJP. Under the new PAYG system, workers receive a retirement benefit based on PAYG rules and are credited for the years in which they made mandatory contributions to an account managed by an AFJP.

Sources: "Argentina," *International Update*, December 2008, U.S. Social Security Administration; "Las AFJP Podrán Administrar Aportes de Ex Afiliados," MDZ Diario de Mendoza, el 15 de enero de 2010; "Deben Decidirlo Antes Del 19 De Febrero: Las Ex AFJP Nación y Arauca, Interesadas en Administrar Los Aportes Voluntarios," *Clarín,* el 16 de enero de 2010; "Habilitan a las AFJP a Tomar Aportes Voluntarios," *La Nación*, el 16 de enero de 2010.

Brazil

The National Superintendency of Complementary Social Security (or Previc), a new pension regulator for Brazil's closed pension funds, was created on January 26. Previc—which replaces the previous regulator that was subordinate to the Social Security Ministry—is autonomous, administered by a board, and has its own budget financed mainly through fees paid by the pension funds based on their assets under management. Closed pension funds are sponsored by one or more companies in the same sector or industry, by labor unions, and by professional groups for their employees. At the end of September 2009, there were 372 closed pension funds with 475 billion reais (US$254 billion) in total assets under management.

Open pension funds, the other type of occupational pensions in Brazil, are open to the general public and are run by insurance companies, bank subsidiaries, and nonprofit organizations. The Insurance Supervisory Authority, a semiautonomous agency subordinate to the Ministry of Finance, oversees the open funds, which managed approximately 390 billion reais (US$208 billion) in July 2009. Both types of occupational pension funds supplement the mandatory public pay-as-you-go system.

Sources: "Brazil," *International Update*, U.S. Social Security Administration, October 2009; "Brazil—Regulation and Supervision of Closed Pension Funds," IOPS/OECD Global Forum, Rio de Janeiro, October 2009; "PT e PMDB Vão Fiscalizar Filhões dos Fundos de Pensão," *O Globo*, 25 de janeiro de 2010; Ministério da Previdência Social, Notícias, 26 janeiro de 2010; "New Pension Regulator Previc Ready to Operate After Lula Signs Decree," Business News Americas, January 27, 2010.

Asia and the Pacific

Maldives

On February 1, a new noncontributory pension program went into effect that provides a monthly pension of up to MRF2,000 (US$156) to all resident Maldivian citizens aged 65 or older. (The pension is reduced by an amount equal to 50 percent of all other pension income received). The program, called the Old-Age Basic Pension, represents the first of a two-stage pension reform law ratified by parliament in May 2009. The second stage—which will come into effect in May 2010 for public-sector workers and at a yet-to-be-determined date (expected no later than May 2011) for private-sector workers—will introduce a defined contribution (DC) program called the Maldives Retirement Pension Scheme. Previously, only public-sector workers had a pension program.

The Maldives Retirement Pension Scheme will be mandatory for public- and private-sector workers and voluntary for informal-sector workers. The program will be funded by a total contribution of 14 percent of salary split evenly between employers and employees. (Employers can also choose to contribute the entire amount with no employee contribution). To qualify for a pension, workers must be aged 65 or older, or aged 55 or older with sufficient funds in their accounts to provide for a monthly annuity that is at least twice the amount of the Old-Age Basic Pension. At retirement, a worker's accumulated contributions and investment returns (minus administrative fees) will be converted into an annuity based on projected life expectancy. For public-sector workers aged 62 or younger, the value of their accrued rights under the old public pay-as-you-go system will be calculated as a lump-sum amount and transferred to their account in the new system; public-sector workers aged 63 or older will remain in the old system.

The Maldives Pension Administration Office (Pension Office) is responsible for administering the two new programs. The governing board of the Pension Office, under the supervision of the Pension Supervision Department of the Capital Market Development Authority, is charged with investing the funds from the new DC program.

Sources: “Old-Age Pension,” Maldives Pension Administration Office, 2009; “Retirement Pension,” Maldives Pension Administration Office, 2009; “New Maldives Pension System: Frequently Asked Questions,” Capital Market Development Authority, July 30, 2009.

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