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International Update:

Recent Developments in Foreign Public and Private Pensions

September 2010

Europe

Italy

The Italian parliament increased public- and private-sector retirement ages as part of an austerity plan passed into law on July 29. The austerity plan aims to reduce Italy's public deficit below the European Union's required 3 percent ceiling, to 2.7 percent of gross domestic product (GDP) by the end of 2012, about half of the 5.3 percent of GDP expected in 2010.

On January 1, 2012, the retirement age for women in the public sector will rise immediately from 61 to 65 years, the current age for men. According to the government, the increase in the retirement age will reduce pension expenditures by about 1.45 billion euros (US$1.85 billion) through 2019.

The retirement age for private-sector workers, currently age 65 for men and 60 for women, will be adjusted according to life expectancy projections calculated by the Central Institute of Statistics. The first adjustment will take place on January 1, 2015, and will increase the retirement age by a maximum of 3 months. The second adjustment will occur in 2019, and subsequent adjustments will be every 3 years thereafter. (This new law supersedes a 2009 pension reform law that linked retirement age to changes in life expectancy, adjusted every 5 years beginning in 2015.) Government projections indicate that by 2050, private-sector workers will retire more than 3 years later (than the current normal retirement ages), at a savings of nearly 87 billion euros (US$111 billion). As an additional cost-cutting move, the payment of benefits for new retirees will be delayed by up to 12 months, starting in 2011.

Sources: *Italy: 2010 Article IV Consultation*, International Monetary Fund, May 2010; "Italy Raises Retirement Age," *Straits Times*, June 10, 2010; "Factbox—What's in Italy's Austerity Package," Reuters, July 15, 2010; "Italian Government Sneaks in Retirement Age Rise," Plansponsor.com, July 30, 2010; "Italy: New Budget Increases Retirement Age," *Global News Briefs*, September 2010; "Italian Government Launches Financial Intervention Package," eironline, September 3, 2010.

The Americas

Colombia

Regulations that establish a framework for broadening the individual account system's investment rules entered into force on July 1. Under the new framework, next year each pension fund management company (AFP) will be required to offer three types of funds, or "multifunds," with varying degrees of risk: conservative, moderate, and high. Currently, AFPs are permitted to offer only one type of fund with restricted investments; in mid-2009, almost half of investments were in government debt, nearly one-quarter in stocks, about one-tenth in foreign instruments, and the balance primarily in financial institutions and mutual funds. This existing fund will become the moderate fund, and the multifunds will begin operation by the end of February 2011.

Account holders will be able to choose one of the three types of funds for their contributions beginning in January 2011. Those who do not make a choice will be automatically assigned to the moderate fund. Account holders will be permitted to change from one type of fund to another every 6 months within the same AFP. (They may also change from one AFP to another every 6 months.) In addition, according to the "rule of convergence," a certain percentage of an older worker's individual account will have to be invested in the conservative fund, based on age and sex, ranging from a minimum of 20 percent for women at age 52 and men at age 57, to 100 percent for women aged 56 or older and men aged 61 or older.

To date, other requirements that will be put in place for AFPs have not yet been announced, such as administrative fees, allowable investments, management rules for those investments, and minimum rates of return. The government also intends to require AFPs to implement a financial education plan for its members on the risks associated with each investment alternative.

Colombia is the fourth Latin American country with a system of individual accounts to establish multifunds. Both Chile and Mexico offer five different types of funds and Peru has three. Currently, there is discussion in Peru's legislature to set up a fourth type of fund.

Colombia's social security system, implemented in 1994, allows workers a choice between the public pay-as-you-go program and an individual account managed by an AFP. Workers may switch from one system to the other every 5 years up to the last 10 years before retirement (age 60 for men and 55 for women, rising gradually to 62 and 57, respectively, beginning in 2014).

Sources: "Multifondos: los Casos de Chile, México y Perú," FIAP, diciembre de 2007; *AIOS Boletín Estadístico*, junio 2009; "Colombia," *International Update*, August 2009, U.S. Social Security Administration; Administradoras de Fondos de Pensión AFP deberán garantizar transparencia en multifondos, *Portafolio,* el 11 de abril de 2010; Decreto Número 2373, el 1 de Julio de 2010; "Se Publica Esquema Operativo de los Multifondos en Colombia," FIAP, agosto 2010.

Asia and the Pacific

India

On August 9, the Indian government introduced a new pension initiative, the Swavalamban ("self-reliance") Scheme, to increase participation in the national New Pension Scheme (NPS), aimed particularly at the 300 million workers in the unorganized sector who are generally excluded from formal pension provisions. The initiative, which will run from 2010 through 2014, includes a partial contribution match to encourage participation in the NPS and a 1 billion rupee (US$21.5 million) campaign to raise public awareness about the pension program. The NPS, established in 2004 as a mandatory defined contribution pension system for government employees, was extended on a voluntary basis in May 2009 to nongovernment workers, including those in the unorganized sector. However, the take-up rate for this group has been low.

Under the Swavalamban initiative, the government of India will contribute 1,000 rupees (US$21.47) annually into individual accounts for subscribers in the organized sector who contribute between 1,000 rupees and 12,000 rupees (US$257.68) each year. Participants from the unorganized sector are workers who are not employed by the government and are not covered by any provident fund or social security program. The government hopes to enroll 1 million workers from the unorganized sector, aged 18 to 55, for 4 consecutive years, beginning with the 2010 fiscal year.

Under the general NPS rules for nongovernment workers, individuals may join with a minimum contribution of 500 rupees (US$10.74) a month or 6,000 rupees (US$128.84) annually. NPS participants must contribute at least once a quarter, with no limit on the number of times in a year, and select a fund manager to invest their assets accumulated in the individual account. Allowable investment options include equity investments, which are limited to 50 percent of the portfolio. For those unable to decide on an investment strategy, there is a default option, which modifies the investment portfolio according to the age of the subscriber. At the normal retirement age of 60, retirees must use at least 40 percent of accumulated savings to buy a life annuity from an insurance company and then may take the remainder as a lump sum or in phased withdrawals. For those retiring earlier than age 60, 80 percent of the accumulated savings must be used to buy an annuity.

Sources: "Everything you want to know about the New Pension Scheme," *Business Standard*, May 2, 2009; *New Pension System: Offer Document*, Pension Fund Regulatory Development Authority, 2010. "Operational Guidelines for the Swavalamban Scheme Announced," Government of India, Ministry of Finance, June 18, 2010; "Swavalamban Scheme Announced," fullhyderabad.com, August 9, 2010; "Government Unveils New Pension Scheme for Unorganized Sector Workers," *Financial Express*, August 10, 2010.

New Zealand

On August 24, the government announced the formation of the Savings Working Group to examine ways of increasing economic growth and the country's level of national savings, including retirement and other types of savings. The group is composed of private- and public-sector experts who will report to the Minister of Finance in January 2011. One of the areas to be studied is KiwiSaver, the government subsidized retirement savings plans, set up in 2007. Specifically excluded from study are: (1) New Zealand Superannuation (NZS), the country's flat-rate universal old-age benefit, funded by general revenues; and (2) the New Zealand Superannuation Fund, a separate investment fund to help finance the projected rise in NZS benefits as the country's population ages.

The group will evaluate the role of KiwiSaver in national savings and whether to keep participation voluntary or to make it mandatory. The group will also examine the "fairness and effectiveness" of the NZ$1 billion (US$710 million) in annual government subsidies for KiwiSaver accounts, which include a one-time, tax-free payment of NZ$1,000 (US$710) to each KiwiSaver account and tax credits for account holder contributions.

Currently, employees are automatically enrolled in a KiwiSaver plan, but may opt out if they wish. All individuals younger than age 65, including the self-employed and anyone not in the labor force, are permitted to set up a KiwiSaver account. Employees may choose a contribution rate of 2 percent, 4 percent, or 8 percent of earnings (2 percent is the default rate for those who do not make a choice), and employers must contribute at least 2 percent to an employee's account. Anyone else with a KiwiSaver account may set the contribution amount with their provider. At the end of June, some 1.5 million individuals had a KiwiSaver account, nearly half the labor force, with total assets under management of NZ$5.77 billion (US$4.1 billion).

Sources: "KiwiSaver Performance Survey, June Quarter 2010," Morningstar; "KiwiSaver Statistics as at 30 June 2010," Inland Revenue; "Wide Brief for Expert Group on Savings Options," beehive.govt.nz, August 24, 2010; "KiwiSaver High on Working Party Agenda," *New Zealand Herald*, August 25, 2010; "Fairness of KiwiSaver Top-Ups Considered by Working Group," tvnz.co.nz, August 25, 2010.

Reports and Studies

Social Security Administration

The Social Security Administration has released *Social Security Programs Throughout the World: Europe, 2010*—part of a four-volume series that provides a cross-national comparison of the social security systems in 44 countries in Europe. 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 Asia and the Pacific, Africa, and the Americas. The report is available at http://www.socialsecurity.gov/policy/docs/progdesc/ssptw/2010-2011/europe/index.html.

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