Social Security

International Update:

Recent Developments in Foreign Public and Private Pensions

May 2012

Ireland

In April, Parliament enacted funding measures for defined benefit (DB) pension plans in the Social Welfare and Pensions Act, 2012. The act establishes new rules for DB pension plans to help ensure plan sustainability and to enhance the security of plan member benefits. Voluntary occupational pensions (including DB plans) supplement the Irish public pension system and cover approximately half of private-sector employees.

Major pension-related provisions of the act restore and amend the minimum funding standard of DB plans as follows:

- Reestablishing the funding standard over a 3-year period, starting June 2012, to protect plan member benefits against future volatility in the financial markets. The funding standard requires that sufficient plan assets be in place to cover plan members' liabilities (chiefly pensions) in the event of a plan closure (typically because of plan cost or sponsor insolvency).
- Mandating DB plans to hold additional assets from January 1, 2016, in a risk reserve intended to help DB plans absorb shocks, such as financial downturns, and to bring increased stability to DB pension provision. Plans that do not have the required level of risk reserves (varying by plan) in place by the deadline must prepare a funding proposal to the Pension Board, which monitors and regulates private pensions in Ireland. The board estimates that providing for the risk reserve will increase overall plan funding requirements by approximately 10 percent.
- Requiring trustees of DB pension plans to periodically submit an actuarial funding reserve certificate to the Pension Board and include a statement in the plan sponsor's annual report indicating whether the pension plan satisfies the additional funding standard reserve requirements. According to the Minister for Social Protection, pension plans will be allowed up to 2022 to satisfy the risk reserve requirement.

In recent years, concerns about the sustainability of pension plans and retirement systems have grown in Ireland because of rising pension and other age-related costs, as well as investment losses and deteriorating public finances. Since 2008, the board extended deadlines for submitting funding proposals several times to allow pension plans to deal with funding deficits. In 2011, the Pensions Board estimated that at least 70 percent of DB plans were in deficit.

Sources: The Pensions Board, press release, October 28, 2011; "The Social Welfare and Pensions Bill 2012," Mercer, April 2012; "Summary of the Key Provisions of the Social Welfare and Pensions Bill, 2012," Towers Watson, April 2012; "Irish Government to Reintroduce Funding Standard for Pension Funds," PlansponsorEurope.com, April 5, 2012.

Portugal

On April 5, the government suspended early retirement for employed workers covered by the public pension system until the end of 2014. The measure is part of Portugal's austerity plan to reduce its budget deficit from 9.1 percent (in 2010) of gross domestic product to below 3 percent by 2014, as called for by a 3-year, 78 billion euro (US$103 billion) bailout agreement with the European Union and the International Monetary Fund. According to the government, the international agreement includes measures to encourage employed workers to retire closer to the normal retirement age of 65 instead of at age 57. Table 1 shows the increasing number of voluntary early retirements since 2009 and the projections for 2012 and 2013 if the program had been allowed to continue.

Currently, only the long-term unemployed and older workers receiving unemployment benefits are permitted to retire early. Insured people who are first unemployed at age 57 or older are eligible for an old-age pension at age 62. Other unemployed people are eligible for a reduced pension at age 57, or at age 52 with at least 22 years of contributions. (The suspended rules for early retirement require at least 15 years of contributions.)

Table 1.
Number and average of new voluntary early retirements, 2009–2013

New early entrants	2009	2010	2011	2012	2013
Number per year	14,843	18,725	26,630	[a] 37,900	[a] 45,900
Average per month	1,237	1,560	2,219	[b] 3,307	--

SOURCE: "Comunicado," Ministério Da Solariedade e Da Segurança Social, 5 de abril de 2012.

NOTE: -- = data not available.

a. Projected.

b. Through March.

Other pension-related measures implemented over the past 2 years to help reduce the budget deficit include the following:

- Freezing public pensions for 2011.
- Introducing a new special contribution levy on pensions of more than 1,500 euros (US$1,985) per month.
- Eliminating the 13th and 14th month payments to pensioners with incomes of more than 1,100 euros (US$1,456) per month.

Portugal's pay-as-you-go public pension system covers private-sector workers and the self-employed who earn more than 2,515 euros (US$3,328) per year. The government is gradually incorporating separate pension systems for certain occupational groups into the general system.

Sources: "Portugal," European Trade Union Confederation, December 21, 2010; "Factbox-Terms of EU/IMF Bailout for Portugal," Reuters News, July 6, 2011; "Portugal," *International Update,* US Social Security Administration, November 2011; "Portugal Adopta un Presupuesto Draconio para 2012," Agence France Presse, 30 de noviembre de 2011; "Portugal's Budget Deficit Below Target," Dow Jones Business News, December 3, 2011; "Background Notes: Portugal," US Department of State, January 9, 2012; Comunicado, Ministério Da Solariedade e Da Segurança Social, 5 de abril de 2012; "Portugal Suspends Early Retirement, Mercer Select News, April 9, 2012; *Social Security Programs Throughout the World, Europe 2012*, US Social Security Administration, forthcoming.

Canada

On March 29, the federal government released its 2012 budget, which includes a number of measures aimed at improving the long-term sustainability of the public pension system and encouraging older workers to remain in the labor force. The budget now awaits approval from Parliament. Among the most significant measures related to pensions is an increase in the normal retirement age, from 65 to 67, under the Old-Age Security (OAS) and Guaranteed Income Supplement (GIS) programs. In addition, the budget includes a proposal to allow workers to delay claiming OAS benefits by up to 5 years after the normal retirement age in return for a higher benefit.

If approved by Parliament, the normal retirement age would gradually increase starting in April 2023 by 1 month every 2 months, until reaching age 67 in January 2029. (Workers aged 54 or older as of March 31, 2012, would be unaffected by the change.) Workers who continue to work after reaching the normal retirement age would—effective July 2013—receive an increase in OAS benefits of 0.6 percent for each month that they delay claiming benefits, up to 5 years after the retirement age.

Canada's public pension system consists of the OAS/GIS programs and the earnings-related Canada Pension Plan (CPP). (The province of Quebec opted out of the CPP, but has a similar earnings-related plan called the Quebec Pension Plan.) OAS is a nearly universal pension paid to almost all Canadians aged 65 or older and financed through general revenue. To be eligible for an OAS pension, a worker must have lived in Canada for at least 10 years after reaching the age of 18. Benefit amounts are based on the duration of residency, with maximum benefits paid to those with at least 40 years of residency. Pensioners with reported incomes greater than a certain amount (C$69,562 (US$70,789) for 2012) must repay some or all of their OAS benefits at a rate of 15 cents for every dollar above this amount. (Around 5 percent of pensioners have their benefits reduced because of this regulation, and around 2 percent lose their entire OAS pension.) Low-income OAS pensioners are eligible for the income-tested GIS.

Sources: "The Repayment of Old-Age Security Pension Benefits," Service Canada, June 9, 2011; "Conservatives' Budget to Reset Retirement Age at Age 67," *The Globe and Mail*, March 29, 2012; "Jobs, Growth, and Long-Term Prosperity: Economic Action Plan 2012," Ministry of Finance, March 29, 2012; "Highlights of the 2012 Federal Budget," *Towers Watson Client Advisory*, March 30, 2012; "Old-Age Security Payment Amounts: April–June 2012," Service Canada, April 4, 2012.

El Salvador

On March 29, the legislative assembly approved changes to the pension law regarding pension fund management company (AFP) commissions, benefit levels, and AFP investment requirements. Those changes aim to lower costs, increase benefits, and help the government fund social security programs. Implementation dates have not been announced. Provisions of the new law that could lower costs and increase benefits include the following:

- Reducing the limit on monthly commissions (combined administrative fees and premiums for survivors and disability insurance) paid to AFPs from 2.7 percent to 2.2 percent of a worker's earnings. This will increase the monthly contribution to an individual account from 10.3 percent to 10.8 percent of earnings—6.25 percent of earnings from the employer and 4.55 percent from the employee. The employer pays the entire commission.
- Allowing workers who reach retirement age (60 for men and 55 for women) with at least 15 years of contributions to continue making contributions until they have the required 25 years. Currently, workers with less than 25 years of contributions at retirement age must stop contributing and take a lump-sum payment of the account balance. According to the government, a large portion of the labor force fits in this category. (Less than 30 percent of account holders make regular contributions.)

Provisions that affect the AFP investment limits in government instruments include the following:

- Increasing the AFP investment limit on Pension Investment Certificates (Certificados de Inversión Previsional or CIP), which are low-yield bonds established in 2006, from 30 percent to 45 percent of assets. CIPs are issued by the government to help fund benefits under the pay-as-you-go public pension system, which was closed to new entrants in 1999 and is being phased out.
- Requiring AFPs to invest in the Social Fund for Housing, which was established in 1973 as part of the social security system to provide financing for purchasing a home. (Until 1998, only workers and employers contributed to the fund. Since then, the government has been subsidizing the fund.) Under the new law, AFPs must invest 3.85 percent of contributions collected over a specified 3-month period; the rate of return will be at least 3 percent per year. The fund will target female workers who are heads of a household.

El Salvador's system of individual accounts was introduced in 1998 to replace the social insurance system. Participation in the individual account system is mandatory for public and private-sector employees (who have entered the labor force since 1998) and voluntary for the self-employed. As of February 2012, the system's two AFPs had some 2.2 million account holders and total assets under management of US$6.2 billion, close to 30 percent of gross domestic product.

Sources: "Historia," Fondo Social para la Vivienda," el 4 de enero de 2010; Resumen Estadístico Previsional, Superintendencia del Sistema Financiero, Febrero 2012; "Dictamen No. 373," Comisión de Hacienda Y Especial del Presupuesto Palacio Legislativo, el 26 de marzo de 2012; "Pleno Legislativo Aprueba Reformas a la Ley de Pensiones, *International Headlines*, Mercer, April 11, 2012. "Reforma a Ley de Pensiones Permite Ampliar Plazo Para Cotizaciones," Diario Co-Latino, el 12 de Abril de 2012.

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