Social Security

# International Update:

Recent Developments in Foreign Public and Private Pensions

March 2013

## Europe

### *Isle of Man*

In the Budget 2013 speech, the Treasury Minister announced an extension of the national insurance holiday scheme, which exempts private-sector employers from national insurance contributions (NICs) on behalf of new hires for up to 2 years. The exemption, introduced in April 2012 and scheduled to end in April 2014, was extended through April 2015 because of its apparent success (new jobs created as a result of this measure represent close to 1 percent of the country's labor force). According to the rules, an employee may not be employed by or provide services to the employer or anyone connected to that employer at any time during the 2 years before the new employment begins. In addition, the job must—

- Be located in the Isle of Man and begin on or after April 6, 2012, and prior to April 5, 2015.
- Require at least 30 hours of work per week.
- Last for at least 12 months. However, if the employee does not meet the requirements for probation and is terminated before the 12 months are over, the employer is not required to pay NICs for the period of employment.
- Represent a net addition to the employer's number of employees relative to the preceding tax year.

The Isle of Man has a pay-as-you-go, public pension system that covers employed and self-employed workers. NICs finance old-age, survivors, and disability benefits in addition to other social insurance benefits such as sickness/maternity and health. Employees contribute 11 percent of earnings and employers contribute 12.8 percent. According to the 2013 Budget, the social security budget represents close to 30 percent of the government's gross spending. About 70 percent of expenses are financed by NICs, and about 30 percent come from general revenues.

**Sources:** *Social Security Programs Throughout the World: Europe 2012*, US Social Security Administration; "Employer National Insurance Holiday Scheme," Treasury Department, February 21, 2012; "Budget Report and Estimates, 2013–14," Treasury Department, February 2013; "Extension to Employer National Insurance Holiday Scheme," Treasury Department, February 19, 2013; "2013 Budget, Firm Foundations," Treasury Minister, February 19, 2013; "Isle of Man Extends National Insurance Waiver for Employers," *Mercer*, February 25, 2013.

## The Americas

### *Curacao*

On March 1, a new law went into effect that immediately increased the retirement age and required years of coverage for a full pension under Curacao's public, pay-as-you-go pension program (or AOV). As a result, the retirement age for workers aged 55 or younger as of March 1 is now age 65, up from age 60 prior to the reform. Workers older than age 55 on March 1 may retire at age 60, though it is not yet clear if they will receive a reduced pension if they retire before the full retirement age of 65. In addition, the new law increases the years of coverage required for a full pension, from 45 years of coverage to 50 years of coverage. (The amount of the pension is based on the number of years of coverage, with the full pension paid to workers with coverage in all years from age 15 to the full retirement age.)

The AOV is a basic state pension that covers everyone who lives and works in Curacao, regardless of nationality. Employers contribute 7 percent of payroll and employees contribute an additional 6 percent of earnings. According to the Minister of Finance, the new law is necessary to address the fiscal imbalance of the pension program; with no change, the government estimated that it would have been unable to cover the full cost of AOV pensions by August 2013. A December 2011 report from the International Monetary Fund projected deficits (in the absence of this reform) in the AOV fund of 0.2 percent of gross domestic product in 2013, increasing to 0.5 percent by 2016.

Curacao is one of the four constituent countries of the Kingdom of the Netherlands, with autonomy in all areas except for defense and foreign policy. The other constituent countries are Aruba, the Netherlands, and Sint Maarten.

**Sources:** *Kingdom of the Netherlands—Curacao and Sint Maarten: 2011 Article IV Consulation—Staff Report*, International Monetary Fund, December 2011; "Pensioenleeftijd Verhoogd," *Antilliaans Dagblad*, 27 februari 2013; "Pensioenleeftijd Curacao naar 65," *NOS*, 27 februari 2013; "Algemene Ouderdomsverzekering," Sociale Verzekeringsbank, accessed March 1, 2013.

# Asia and the Pacific

## *Kazakhstan*

On January 23, Kazakhstan's president announced plans to merge assets in the system of mandatory individual accounts—currently managed by 10 private funds and the State National Pension Fund (GNPF)—into one state-run Centralized Accumulation Pension Fund (CAPF) by July 1. According to the government, the consolidation will provide more effective and secure management of pension savings and easier government access to long-term financing for the country's economic development. Supporters of the policy also claim that a single fund would save on administrative costs for individual accounts.

Pension fund investment returns over the last 5 years have averaged well below inflation, making the state guarantee a significant budget expense. (The state guarantees accounts with values that fall below the level of contributions when adjusted for inflation.) That is due in part to current regulations that limit investments. More than 50 percent of assets are invested in low-yielding government securities, and around 9 percent is invested abroad. In addition, a recent joint World Bank-Kazakhstan government study concluded that these pension funds are not effective in managing savings of individual accounts, citing irregularities in fund record-keeping practices.

Before the new policy can be implemented, assets of the 10 private funds must be merged with those of the state-run GNPF (holding roughly 19 percent of total pension assets). CAPF operations will be modeled after the GNPF, which is run by the National Bank of Kazakhstan, and will then serve as overall custodian bank and CAPF asset manager. An investment council will be created to set limits on investments and approve certain types of investments, such as public infrastructure projects. Government sources indicated that the CAPF will have a more diversified portfolio including increased investments in domestic securities and those outside the country. Existing pension funds managing individual accounts will be permitted to manage voluntary pension fund accounts.

The contribution rate, 10 percent of gross monthly income to an individual account (paid by employees), will remain unchanged. At the end of 2012, there were 8.4 million account holders with total assets under management of approximately 3.1 trillion tenge (US$20.2 billion), or 10 percent of gross domestic product.

In addition to mandatory individual accounts (implemented on January 1, 1998), Kazakhstan's public pension system includes (1) a solidarity pension for those who worked at least 6 months under the old pay-as-you-go system and (2) social benefits for individuals with pensions below the minimum pension specified by the government (currently 40 percent of the minimum wage), as well as those ineligible for a contributory pension.

**Sources:** "International Organisation of Pension Supervisors (IOPS) Country Profiles—Kazakhstan," Organisation for Economic Co-operation and Development, December 2009; "Kazakh Pension 'Nationalisation' Plan Worries Fund Managers," *Financial Times*, January 25, 2013; "Kazakhstan's Pension System Thrown Into Turmoil," ipe.com, January 25, 2013; "Labor Minister Comments on Suggested Single Pension Fund," tengrinews.kz, January 25, 2013; "Retirement Savings To Be Consolidated Into Centralized Pension Fund Until July 1, Official," Interfax-Kazakhstan, February 6, 2013; "Kazakh Central Banker: Watching for Signs of Overheating, Ready to Act," Dow Jones Top Global Market Stories, February 22, 2013; "Kazakh Central Bank to Manage Country's Single Pension Fund," ipe.com, February 25, 2013; "Kazakhstan's Pension Nationalization Plan On Track" *Select News*, February 27, 2013.

## *New Zealand*

On April 1, the minimum contribution rate for a KiwiSaver account will increase from 2 percent to 3 percent of an employee's gross salary or wages. As a result, employees may now choose a contribution rate of 3 percent, 4 percent, or 8 percent of income, and employers must contribute at least 3 percent to an employee's account. The increase also applies to employees who had been contributing at the 2 percent rate and those who do not make a choice. In 2012, close to 90 percent of employers and 60 percent of employees contributed at the minimum rate. Of the remainder, most employees contributed 4 percent, while a very small percentage of both employees and employers contributed 8 percent.

At the same time, new disclosure rules will require all KiwiSaver providers to post certain information on their websites each quarter (instead of annually), including performance, returns, fees, portfolio, and key personnel. This information must be presented in a standardized format to make it easier to compare the more than 50 providers.

KiwiSaver is a type of subsidized retirement savings plan that supplements the country's flat-rate universal pension known as New Zealand Superannuation (funded by general revenues). New entrants to the labor force and new employees who do not have a KiwiSaver account are automatically enrolled in a KiwiSaver plan, but may opt out. Employees are assigned to either an employer-provided KiwiSaver plan or one of the six default providers and may switch to another provider at any time. From 2007, when KiwiSaver was introduced, to 2012, the percentage of members who made an active choice (of providers) rose from 49 percent to 65 percent. In 2012, there were 2 million KiwiSaver members (about half of the eligible population) with some NZ$12.5 billion (US$10.4 billion) in total assets under management.

**Sources:** "Focus on New Zealand," *International Update,* July 2012, US Social Security Administration; "Dunne: KiwiSaver Hits Two Million Member Milestone," Scoop.co.nz, August 30, 2012; *KiwiSaver Evaluation: Annual Report, July 2011 to June 2012*, Inland Revenue, September 2012; "KiwiSaver Contribution Rate Increases From 1 April 2013—What Do They Mean for Employers?" lexology.com, February 19, 2013.

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