Social Security

International Update:

Recent Developments in Foreign Public and Private Pensions

April 2013

Europe

Spain

Effective April 1, a new law entered into force that is designed to discourage early retirement under the public, pay-as-you-go (PAYG) pension system. The new law replaces the provisions for early and partial retirement in the August 2011 pension reform law. These measures are part of a larger effort to continue reducing the system's growing pension costs and encourage older workers to remain in the labor force. In 2012, about 42 percent of all retirees retired early, representing a 33 percent increase since the beginning of the global economic crisis. According to the Minster of Labor, these new rules are expected to save close to 5 billion euros (US$6.4 billion) a year.

Several provisions of the August 2011 law went into effect on January 1, 2013, such as gradually raising the normal retirement age from age 65 to age 67 and the required years of contributions from 35 years to 38.5 years for a full benefit. The law implemented on April 1 increases the qualifying conditions for involuntary, voluntary, and partial retirement. The following table lists the changes in qualifying conditions for those types of retirement benefits.

Retirement benefits: Changes to qualifying conditions [a]

Type of retirement benefit	Retirement age		Required number of years of contributions	
	From	To	From	To
Involuntary early	61	63	31	33
Voluntary early	63	65	33	35
Partial	61	65	[b] 30	[b] 33
Normal	65	67	35	38.5

SOURCE: "El Gobierno Redobla las Trabas para la Jubilación Anticipada," *La Nueva España,* el 16 de marzo de 2013.

a. Effective January 1, 2027.

b. 25 years if the worker is assessed as at least 33 percent disabled.

Older workers with longer careers (currently at least 31 years of contributions) may be eligible for involuntary early retirement if they have been unemployed for at least 6 months and their unemployment was the result of restructuring or the closing of a business because of economic conditions or the death, retirement, or disability of a business owner. Voluntary early retirement applies to older workers with longer careers (currently at least 33 years of contributions). Partial retirement applies to workers below the normal retirement age who switch from full- to part-time employment and receive a proportionally reduced pension at the same time. Both types of early retirement pension (involuntary and voluntary) are reduced for each year the benefit is awarded before the normal retirement age, according to the number of years of contributions below the number required for a full benefit.

The partial retirement measures implemented April 1 allow workers close to the normal retirement age to work part time (from 25 to 50 percent of full-time hours) and receive a proportionally reduced pension. However, those workers and their employers must pay social security contributions based on a full-time position. At the normal retirement age, the full benefit replaces the partial benefit.

The new rules also encourage older workers to remain in the labor force. Workers who qualify for a full retirement benefit are permitted to continue working past the normal retirement age on a full- or part-time basis (from 50 to 100 percent of full-time hours) and receive half of their full retirement benefit at the same time. These "active pensioners" and their employers pay two types of social security contributions: a new "solidarity quota" of 8 percent of earnings (employers pay 6 percent and employees pay 2 percent) and 1.60 percent for work injury (employers pay 1.33 percent and employees pay 0.27 percent), compared with 28.30 percent for most social security programs (employers pay 23.60 percent and employees pay 4.70 percent for old-age, survivors and disability, sickness and maternity, and work injury benefits). When these pensioners fully retire, they receive a full benefit. (The August 2011 law also allows workers who qualify for a full retirement benefit to continue working full time. When they stop working, their pension will be between 2 percent and 4 percent higher for each year they defer their retirement.)

Sources: Ley 27/2011, el 1 de agosto de 2011; *Social Security Programs Throughout the World: Europe, 2012,* US Social Security Administration; "Spain," *International Update,* US Social Security Administration, January 2013; "Seguridad Social, Bases y Tipos de Cotización 2013, Ministerio de Empleo y Seguridad Social," marzo 2013; "Real Decreto-Ley de Medidas para Favorecer la Continuidad de la Vida Laboral de los Trabajadores de Major Edad y Promover el Envejecimiento Activo," Gobierno de España, el 15 de marzo de 2013; Ley 5/2013, el 15 de marzo de 2013; "El Gobierno Redobla las Trabas para la Jubilación Anticipada," *La Nueva España,* el 16 de marzo de 2013; "Báñez Asegura que la Reforma de las Pensiones Ahorrará 4.860 Millones al Año," Agencia EFE-Servicio Nacional, el 19 de marzo de 2013; "Así se Jubila la Gente en España," *Cinco Dias,* el 19 de marzo de 2013.

Asia and the Pacific

India

Last month, India's Pension Fund Regulatory and Development Authority (PFRDA) published new investment guidelines for fund managers and relaxed the payout rules for the National Pension Scheme (NPS) plan that covers nongovernment workers. The regulator's goal is to make the system more attractive and encourage a higher level of participation.

According to the new investment guidelines, pension fund managers may now invest directly in the shares of roughly 150 approved companies instead of in an index fund. The increased flexibility provided to pension fund managers is intended to generate potentially higher returns with lower transaction costs. (The regulator expects management fees to decrease by as much as 2 percent.) When the system was initially set up in 2009, investment in equities was limited to an index fund created by the fund manager, with a maximum allocation of 50 percent. (This percentage remains unchanged under the new guidelines.) However, because of the low take-up rate among eligible workers, NPS fund managers were unable to accumulate enough money to establish their own index funds. In response, PFRDA permitted managers to invest in existing index funds (offered by mutual fund companies) and allowed them to charge an additional fee that has risen over time.

PFRDA also issued changes to the payout rules that include the following:

- *A "deferred withdrawal" option:* Participants may withdraw up to 60 percent of the account balance as a lump sum (no partial withdrawals) at any time until age 70. Under this option, once subscribers retire (typically age 60), they are not permitted to make additional contributions. Previously, the participant had to either take the lump sum immediately at retirement or begin receiving payments over a 10-year period.
- *A default annuity service provider:* The state-run Life Insurance Corporation of India has been designated as the default annuity service provider for those subscribers who do not choose an approved provider. According to the NPS rules, at least 40 percent of the account balance must be annuitized at retirement. Providing a default option may help avoid delays in claims processing.

The NPS comprises three plans: (1) a mandatory defined contribution pension plan established in 2004 for government employees, (2) a voluntary plan since 2009 for nongovernment (private-sector) employees, and (3) a government-subsidized plan created in 2010 for workers in the unorganized sector (estimated at about 90 percent of the roughly 470 million workforce). The new rules apply to both the private- and unorganized-sector plans.

Generally, account holders in all three plans can choose from among several pension fund managers, as well as select the proportion of their portfolio invested in equities, government securities, and other fixed-income instruments. Those subscribers who do not make a choice are enrolled in a life-cycle fund. According to PFRDA, as of March 2, 2013, the NPS had nearly 4.5 million subscribers (2.7 million government employees, 0.2 million private-sector employees, and 1.6 million workers from the unorganized sector), with over 284.9 billion rupees (US$5.2 billion) in total assets under management.

Sources: "NPS Fund Managers Can Invest Directly in Equities," INFOIN, March 11, 2013; "PFRDA Sets Limits on Equity Investment by Fund Managers," Diligent Media Corporation, March 12, 2013; "NPS Funds: Direct Equity Investment Gets Nod from Regulator," livemint.com, March 12, 2013; "India's National Pension Scheme May Invest in Equities," *Mercer Select News*, March 12, 2013; "PFRDA Allows Deferred NPS Withdrawals to Subscribers," siliconindia.com, March 15, 2013; "NPS (National Pension Scheme) Replace 'Phased Withdrawal' with Deferred Withdrawal," Simple Tax India, March 20, 2013.

The Americas

Mexico

On March 11, a new noncontributory pension program was introduced that covers adults aged 65 or older who are residents of Mexico and receive no other public pension. The Pension Program for Older Adults (also called the 65 and Over program) replaces and expands upon the 70 and Over program created in 2006. According to the Social Development Secretariat or the Secretaria de Desarrollo Social (SEDESOL), the agency that administers these programs, some 2.5 million new beneficiaries will be added in 2013 for a total of 5.6 million.

The enrollment process has begun and payment of benefits will begin in the second half of this year. The monthly benefit of 525 pesos (US$42.59) will be paid every 2 months. General revenues will finance the program at an annual projected cost of about 0.20 percent of gross domestic product per year from 2013 through 2018. The program regulations permit SEDESOL to use up to 5 percent of the program's budget for administration.

Because the majority of the program's beneficiaries have spent most of their working lives in the informal sector, they have made few or no contributions to any pension system. Currently, 34 percent of the economically active population is covered by a statutory program; the balance is either in the informal sector or unemployed. According to a recent World Bank policy note, less than one-tenth of Mexican workers in the poorest income quintile make contributions compared with two-thirds of the richest quintile. A big impediment for the poor is the minimum 25 years of service required for an earnings-related pension; less than half of lower earners can reach this level.

Sources: "Mexico Policy Note 5," World Bank—Social Protection and Labor, July 28, 2012; "México: Trabajo Informal Engloba 66% de la Población Activa," ANSA, el 9 de noviembre de 2012; "Estimating Future Pension Liability of the Mexican Government," Inter-American Development Bank, December 2012; "Reglas de Operación del Programa de Pensión para Adultos Mayores," Diario Oficial, el 26 de febrero de 2013; "Incorporará Sedesol a 2.6 Millones de Personas a Programa de Pensiones," NOTIMEX, el 7 de marzo de 2013; "Mexico Expands Pension Access to 2.5 Million Elderly," Reuters, March 7, 2013; SEDESOL *Boletín* 1480, el 11 de marzo de 2013.

Reports and Studies

Social Security Administration

The Social Security Administration has released *Social Security Programs Throughout the World: Asia and the Pacific, 2012*—part of a four-volume series that provides a cross-national comparison of the social security systems in 49 countries in Asia and the Pacific. 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 Africa, the Americas, and Europe.

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Editor: Barbara E. Kritzer.

Writers/researchers: John Jankowski, Barbara E. Kritzer, and David Rajnes.

Social Security Administration
Office of Retirement and Disability Policy
Office of Research, Evaluation, and Statistics
500 E Street, SW, 8th Floor, Washington, DC 20254

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