Social Security

International Update:

Recent Developments in Foreign Public and Private Pensions

October 2014

Europe

Romania

Effective October 1, a new law lowered the employer contribution rate for old-age, survivors, and disability benefits by 5 percentage points. The government expects the change to stimulate job growth and investment. The decrease in rates was not endorsed by the International Monetary Fund (IMF), which has provided financial aid to Romania—most recently, a €2 billion (US$2.5 billion) stand-by agreement to protect the country against external shocks and to help further economic reform. The IMF is concerned about the country not being able to make up the budget deficit caused by the lower rates. According to the government, the IMF has introduced some measures to help make up the shortfall—projected to be 850 million new lei (US$243 million) in 2014 and 4.8 billion new lei (US$1.4 billion) in 2015, or close to 1 percent of gross domestic product.

Under the new law, employers now contribute 15.8 percent of an employee's gross earnings, or 20.8 percent and 25.8 percent for arduous and very arduous working conditions, respectively. The employee contribution remains the same, at 10.5 percent of gross earnings. Employers only contribute to the first-pillar, pay-as-you-go (PAYG) program and the government pays for any deficit. Employees in the PAYG program who also have an individual account (mandatory for all new entrants to the labor force and for persons who were younger than age 36 on January 1, 2008) split their contribution between the first pillar (6.0 percent of gross earnings) and second pillar (4.5 percent of gross earnings). Only the employee finances the individual account. The employee contribution to the PAYG program is based on all gross earnings, while both the employer's contribution to the PAYG program and the employee's contribution to the individual account are paid on employee earnings up to 11,490 new lei (US$3,268).

Sources: "Controversies Over the Reduction of Employers' Contribution to the Social Security Fund," Radio România Internațional, July 23, 2014; *Social Security Programs Throughout the World: Europe, 2014,* U.S. Social Security Administration, September 2014; "Fitch Affirms Romania at 'BBB-', Outlook Stable," SeeNews—The Corporate Wire, September 8, 2014; "Romania Parliament Defies President, IMF, to Approve Tax Cut," Reuters, September 9, 2014; "Social Security Law/Romanian President Signs Bill Lowering Social Security into Law," Mediafax News Brief Service, September 19, 2014; "Romania: Country Forecast Summary," *ViewsWire*, Economist Intelligence Unit, October 8, 2014.

Americas

Mexico

CONSAR, the Mexican pension regulator, recently announced the results of the first survey on the saving and consumption habits of self-employed/informal-sector workers. The government divides those workers into two groups: The first group comprises professionals who are licensed and work independently—such as doctors, dentists, and lawyers; the second group comprises own-account workers who are in business for themselves and provide products or other types of services. According to the government's statistical agency, close to 60 percent of the economically active population (nearly 30 million individuals) belong to those categories of workers. The government conducted the survey because since 2005, when the self-employed were first permitted to participate in the individual account program, the take-up rate has been very low, only 260,000 accounts.

The survey covered men and women aged 18–55. Of all survey participants, 60 percent have never had an individual account and 40 percent have an account but have not contributed to that account for at least 6 years. About 30 percent of those surveyed are professional, and the remaining 70 percent are own-account workers; both groups of workers represent a variety of socioeconomic levels. About one-third of the own-account workers have completed secondary education, while nearly all of the professionals are licensed.

Most survey participants (91 percent of professionals and 68 percent of own-account workers) know what an AFORE is—an individual account with a pension fund management company. Most of those individuals want to save to have money when they are not working. However, only about 50 percent are currently saving for an emergency. Saving for retirement is a much lower priority; only 30 percent of the professionals surveyed and 11 percent of own-account workers are saving for retirement. However, the rates of saving, regardless of age, are relatively low and did not differ significantly by the age of the worker.

According to the survey, the most popular way of saving for retirement is putting money into a savings account, compared with about 20 percent of survey participants who are contributing to an AFORE. The reasons given for not setting up an AFORE include—I don't know how; I'm not interested; I don't understand; and, I don't have confidence in the AFOREs. When asked, "What will you live on when you stop working?," the answers include—money from my business; money from my savings; I'll never stop working; my children will take care of me; and, I haven't thought about it.

The following conclusions are based on the results of the survey:

- Very few self-employed/informal-sector workers are saving for retirement.
- Very few workers have asked, "What will I live on and how much will I need?"
- Workers have unrealistic expectations of the type of income they will have in retirement.

Despite the high percentage of self-employed/informal-sector workers that have heard about the AFORE, they are not aware of how it works and that they are permitted to save in an AFORE.

Sources: "Estudios Sobre Trabajadores Independientes/Informales," CONSAR, Agosto 2014; *Boletín de Prensa,* CONSAR, el 18 de Agosto de 2014.

Peru

On September 16, the President signed into law a measure that allows self-employed workers a choice of whether or not to participate in the social security system. According to the World Bank, self-employed workers represent about half of the country's labor force. The new law revokes the provision, just implemented on August 1, that requires certain categories of self-employed workers—born since August 1973 with earnings of at least the monthly minimum wage (750 nuevos soles or US$236)—to either set up an individual account (SPP) or enroll in the pay-as-you-go (PAYG) public pension program (SNP). Following protests from various groups around the country, Congress passed the law to revoke the mandatory provision that was established in the 2012 pension reform law (implementation of that provision was postponed from August 2013 to August 2014).

Between August 1 and September 15, 2014, close to 40,000 self-employed workers chose the SPP (individual account), compared with about 60,000 who enrolled in the SNP (PAYG). The new law allows self-employed workers who had enrolled in one of the social security programs before the mandatory participation provision was revoked to either request a refund of their contributions or remain in the system.

In Peru, when public- and private-sector employees enter the workforce, they may choose between the SPP and the SNP. Insured persons who do not make a choice are automatically enrolled in the SPP. SNP members may switch to the SPP, but may not switch back. (The only exception is for older workers who voluntarily switched to individual accounts and would not have enough time to accumulate a significant account balance before retirement.) Since 2013, all new entrants to the labor force are assigned to the pension fund management company (AFP) that offers the lowest administrative fees in a tender held by the pension fund regulator every 2 years. By the end of September, the four AFPs had combined total assets under management of 111 billion nuevos soles (US$38 billion).

Sources: "Peru," *International Update,* U.S. Social Security Administration, February 2013; Ley 30237, el 7 de septiembre de 2014; *Boletín Semanal del Sistema Privado de Pensions, Año 2014.* Número 39, semana de 22 al 28 de septiembre; "El Gran Reto que Deben Enfrentar las AFP que Operan en Perú," *El Comercio*, el 29 de septiembre de 2014.

Reports and Studies

Social Security Administration

The Social Security Administration has released *Social Security Programs Throughout the World: Europe 2014*—part of a four-volume series that provides a cross-national comparison of the social security systems in 45 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.

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