Social Security

International Update:

Recent Developments in Foreign Public and Private Pensions

February 2015

Europe

Hungary: Totalization Agreement with the United States

On February 2, the United States and Hungary signed a totalization agreement to exempt U.S. and Hungarian employers and workers from dual social security tax liability. Before the agreement can enter into force, each country has to complete a review process: the Hungarian Parliament must ratify the agreement; in the United States, the president must transmit the agreement to Congress for a required 60-session-day review period.

The agreement will exempt U.S. citizens sent by U.S.-owned companies to work in Hungary for 5 years or less from paying social security taxes to Hungary. Hungarian citizens sent to work temporarily in the United States by Hungarian-owned companies will receive similar tax treatment. As a result, the employers of these workers will pay social security taxes only to their home country.

Individuals who have worked in both countries, but currently do not meet the minimum benefit eligibility requirements for either system, may qualify for a benefit based on combined coverage credits from both countries. Combined coverage periods may be used to calculate retirement, disability, and survivor benefits. Once the agreement enters into force, Hungary will be the 26th country with a totalization agreement with the United States.

Sources: E-mail communication with the Office of International Programs, U.S. Social Security Administration, February 2015.

Russia: New Public Pension Law Implemented

Effective January 1, a new public pension law was implemented that gradually increases the required number of contributions for an earnings-related pension and changes the benefit formula to encourage workers to remain in the labor force longer. The normal retirement age remains the same, age 60 for men and age 55 for women. Without any changes, the International Monetary Fund (IMF) projected government spending on pensions to increase from 9 percent of gross domestic product (GDP) in 2010 to 11 percent of GDP by 2030 and to 16 percent of GDP by 2050. In other former Soviet-bloc countries, the IMF expected public pension spending to remain at 9 percent of GDP in 2030 and to increase to 11 percent by 2050 because of recent pension reforms. In all of those countries, population aging has a large impact on public pension finances. The IMF also projected Russia's old-age support ratio—the ratio of workers to retirees—to decline from 5.6:1 in 2010 to 2.8:1 by 2050.

Under the old rules, an old-age pension (called the labor pension) was made up of three components: (1) a flat-rate portion, (2) a notional account, and (3) a mandatory individual account, where a worker had a choice between a government-run pension fund and a privately managed fund (also called the non-state pension fund or NSPF). Currently, NSPFs have some 1.1 trillion rubles (US$16.4 billion) in assets under management, compared with 1.9 trillion rubles (US$28.4 billion) in the government-run fund.

The new system consists of a mandatory first-pillar, earnings-related benefit and a second-pillar benefit based on retirement savings. New entrants to the labor force from 2015 forward are eligible for an earnings-related benefit based entirely on the new rules. Transitional rules apply to workers in the labor force before 2015. Those rules gradually increase the minimum number of years of contributions required for an earnings-related pension, from 6 to 15 by 2024 (previously, 5 years were required). Beginning in 2025, men aged 65 and women aged 60 with less than 15 years of coverage may receive a noncontributory pension.

According to the new rules, the earnings-related benefit is calculated using a point system based on the insured person's age at retirement; the number of contributions made and credited (periods of military service, childcare, or care for citizens older than age 80) throughout the entire working life; and the level of wages on which contributions were made. Every year, the government will assess the value of a pension point based on the contributions that were actually made and the maximum contributions that could have been made; the minimum benefit increase will be the rate of inflation. According to the government, federal government subsidies to the public pension system are projected to decrease gradually by 1 percent of GDP by 2030.

Participation in the second pillar is voluntary; only workers born since 1967 are eligible. Those workers who opt for the second pillar have 6 percent of their earnings directed to an individual pension savings account and 10 percent of their earnings directed to the first pillar. The pension savings benefit is not indexed; it is based on the account balance at retirement and the expected number of months the benefit will be paid, currently 228 months (19 years). Beginning in 2016, that number of months will be adjusted periodically to the average life expectancy of the retirees with pension savings accounts. Workers who remain in the labor force past the retirement age will receive a higher benefit from the pension savings account when they retire.

Under an earlier law, by 2016, NSPFs that operated under the previous system must comply with a number of new rules, including—

- converting from nonprofit to joint stock companies,
- being approved by the Bank of Russia, and
- setting up a guarantee system (a reserve fund and a guarantee fund).

Most of the existing NSPFs are expected to comply; those that do not will be dissolved.

In addition, on December 1, 2014, President Putin signed a bill into law to continue diverting the second-pillar contributions to the first pillar in 2015 to help reduce the public pension deficit. Second-pillar contributions in 2014 and 2015 amount to some 240 billion rubles (US$3.4 billion) and 300 billion rubles (US$4.3 billion), respectively, which together represent 0.5 percent of GDP. Recently, the Labor Minister indicated that Russia is considering continuing this practice in 2016. Also, second-pillar contributions made in 2013—some 550 billion rubles (US$7.8 billion)—were frozen; according to a law passed in November 2014, from 2015 through 2017, those funds are scheduled to be transferred back to the NSPFs that comply with the new requirements stated earlier.

Sources: "Reforming the Public Pension System in the Russian Federation," IMF Working Paper No. WP/12/201, August 2012; "Country Manual: Russia," IBIS Advisors, 2014; "New Pensions Law Goes into Effect in Russia," IPE.com, January 3, 2014; *Russian Federation: 2014 Article IV Consultation—Staff Report*, International Monetary Fund, July 2014; *Social Security Programs Throughout the World: Europe, 2014*, U.S. Social Security Administration, August 2014; "Russian Federation," *IBIS News,* October 18, 2014; "Putin Signs Off on Russian Second-Pillar Pensions Law," IPE.com, December 2, 2014; "Pensions in Central and Eastern Europe: The Freeze Continues," *Investment and Pensions Europe* (magazine), January 2015; "Russia May Again Freeze Defined Pension Contributions in 2016," Reuters News, February 4, 2015.

Americas

Peru: New Noncontributory Benefit

On January 21, the Minister of Women and Vulnerable Populations (MIMP) announced a new noncontributory benefit for people who are assessed with a severe disability and are poor. The benefit will be introduced gradually, beginning with three regions in the country (with close to 75,000 people who have a disability). However, the government must first train some 32,000 medical personnel in the disability certification process. Currently, there are only 228 professionals in the Ministry of Health who have that capacity.

The MIMP will create "mobile disability assessment brigades," that will identify and certify individuals in remote areas and rural zones. The 2012 National Specialized Disability Survey identified some 1.6 million individuals with an impairment, but did not determine the degree of disability or their economic status. The government estimates that nearly 87,000 people will qualify for the new benefit.

A new certification process set up in January 2015 established the assessment guidelines. According to the new rules, an individual must have a severe disability that is permanent and irreversible. That individual must also need assistive devices and the help of another person, at least on a part-time basis, to perform daily activities.

The new benefit will have no age requirement, and the individual must not be eligible for any other benefit from public or private sources. The amount of the benefit will be at least 125 nuevos soles (US$40) a month, equal to the Pension 65, the noncontributory benefit for persons aged 65 or older in extreme poverty. (By the end of December 2014, there were 450,000 Pension 65 beneficiaries.) The Ministry of Finance

(MEF) has guaranteed that part of the 2015 budget is allocated for the gradual implementation of the new program. In addition to the MEF, other government agencies will be involved in the new program: MIMP will administer the program and the Ministry of Development and Social Inclusion (together with the MEF) will provide the necessary funding. MIMP also administers Pension 65.

Sources: “Pensión 65 Cierra El Año con 450,000 Usarios en Todos los Distritos del País,” MIDIS, 31 diciembre 2014; “Aprueban Norma Técnica para la Evaluación, Clarificación, y Certificación de la Discapacidad,” CONADIS, 13 enero 2015; “Ratifican Entrega de Pensión a Personas Pobres con Discapacidad,” Andina, 21 enero 2015; “MIMP: Entrega de Pensión para Personas Pobres con Discapacidad Severa Iniciará en Tumbes, Ayacucho, y Huánuco,” CONADIS, 25 enero 2015; “Sale Pensión para Personas con Discapacidad Severa: ¿Quiénes la Recibirán?”*La República*, 30 enero 2015.

International Update is a monthly publication of the Social Security Administration’s (SSA’s) Office of Retirement and Disability Policy. It reports on the latest developments in public and private pensions worldwide. The news summaries presented do not necessarily reflect the views of SSA.

Editor: Barbara E. Kritzer.

Writers/researchers: 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

SSA Publication No. 13-11712