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Social Security

International Update:

Recent Developments in Foreign Public and Private Pensions

September 2015

Asia and the Pacific

Indonesia: A New Defined Benefit Program Is Introduced

On July 1, a new old-age, survivors, and disability (OASD) program was introduced that supplements the existing provident fund program. Mandatory participation in the new OASD program is being phased in gradually starting with large- and medium-sized companies. In addition, coverage for the provident fund was expanded from companies with 10 or more employees (or a monthly payroll of at least 1 million rupiah [US$70.86]) to all employees.

Under the new OASD program, contribution rates are 1 percent of earnings for employees and 2 percent for employers, up to a ceiling of 7 million rupiahs (US$496) a month. Contribution rates will be reviewed and adjusted a minimum of every 3 years. The ceiling will also be adjusted periodically according to changes in inflation. (The contribution rates for the provident fund remain the same: Employees pay 2 percent of monthly earnings and employers pay 3.7 percent of the employee's monthly earnings.)

The normal retirement age for the new program is currently 56; in 2019, it will increase to age 57 and then rise gradually to age 65 in 2043 (by 1 year every 3 years). At retirement, a monthly benefit is paid with at least 15 years of contributions. (A lump sum is paid with less than 15 years.) The monthly benefit is calculated according to the following formula: 1 percent times the number of years of contributions times the average annual earnings during the contribution period divided by 12. The minimum retirement pension is 300,000 rupiahs (US$21.26), and the maximum benefit is 3.6 million rupiahs (US$255.10). A worker assessed as totally and permanently disabled may also receive a retirement benefit. Benefits will be indexed to inflation.

The new program also provides survivor benefits to the spouse, children, or parents of the deceased, based on the old-age benefit the deceased person received or was entitled to receive: Fifty percent of the deceased's benefit is paid to the spouse who has not remarried; 50 percent of the spouse's pension is paid to children up to age 23 who are not married and not employed; and 20 percent of the deceased's benefit is paid to parents if there is no surviving spouse or child.

Sources: *Social Security Programs Throughout the World: Asia and the Pacific, 2012 and 2014*, Social Security Administration, 2012 and 2014; "New Implementing Regulations on Indonesia's Pension and Old Age Security Programs," makarim.com, 2015; "Global Insight: Indonesia," Deloitte Touche Tohmatsu Limited, January 30, 2015; "Overview of Indonesia's Health and Manpower Social Security System," Makarim & Taira S., February 24, 2015; "BPJS Pension Finally Launched!" Mercer, July 3, 2015; "Indonesia: New Social Security System Has Defined Benefit Feature," Towers Watson, August 26, 2015; "New Mandatory Indonesian Defined Benefit Pension Scheme Takes Effect," Mercer, September 1, 2015.

Africa

World Bank: Report on Pensions in Sub-Saharan Africa Is Released

The World Bank recently released *Pension Patterns in Sub-Saharan Africa,* a report that examines public and private pensions and old-age social assistance programs in 44 Sub-Saharan African countries. The report summarizes the predominant types of programs throughout the region, identifies the key challenges facing those programs, and suggests possible reform options to address those challenges. According to the report, the highest priority for most of the countries surveyed is to expand the coverage of contributory pension programs (particularly to the large number of workers in the informal sector) and noncontributory social assistance programs (to older workers with low incomes).

The report notes that the vast majority of the countries surveyed have mandatory defined benefit public pension systems financed on a pay-as-you-go basis. Of the remaining countries, four have provident funds (the Gambia, Kenya, Swaziland, and Uganda); three have defined contribution pension systems (Ghana, Malawi, and Nigeria); four have no national contributory systems, but have significant occupational programs (Botswana, Lesotho, Namibia, and South

Africa); and two have no established contributory pension program (Somaliland and South Sudan). Nine countries in the region have noncontributory old-age assistance programs (including universal, pension-tested, and means-tested programs) to protect persons who are not covered by a contributory program. Finally, civil service retirement programs are present in all of the countries surveyed.

According to the report, some of the key challenges facing the region include—

- *Increasing coverage.* Contributory pension systems (including mandatory contributory, civil service, and occupational programs) only cover formal-sector workers with steady wage incomes, representing less than 10 percent of the labor force in two-thirds of the countries surveyed. Informal-sector workers and agricultural workers with low or intermittent incomes largely rely on informal family support in retirement. In addition, most countries lack the fiscal resources and delivery systems to provide significant social assistance to low-income older persons.
- *Integrating civil service retirement programs with national contributory schemes.* Only around a fifth of the countries surveyed have integrated civil service and national contributory programs. In the remaining countries, significant portability barriers exist for workers moving between the public and private sectors.
- *Improving benefit adequacy.* Most workers in the region have short work histories caused by long periods outside of the formal sector or unemployment. In addition, in the majority of countries, retirement benefits are not automatically adjusted to reflect increases in the cost of living. As a result, retirement benefits may be insufficient to protect workers from poverty throughout their retirement.

The report suggests a number of possible reform options to address these challenges, including (1) expanding coverage to self-employed, temporary, and informal-sector workers through government-matching contributions or other targeted policies; (2) reducing poverty among the elderly through targeted cash transfer programs; (3) facilitating the portability of pension rights by merging civil service and national contributory pension programs; and (4) improving income security in mandatory contributory pension programs by introducing regular indexation of retirement benefits.

Source: *Pension Patterns in Sub-Saharan Africa*, World Bank, July 2015.

Social Security Programs Throughout the World: Africa, 2015 Is Released

The Social Security Administration has released *Social Security Programs Throughout the World: Africa, 2015*—part of a four-volume series that provides a cross-national comparison of the social security systems in 48 countries in Africa. 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 Europe, Asia and the Pacific, and the Americas.

Changes made since the 2013 Africa volume include the following:

- *New country profile*—Angola.
- *New old-age, survivors, and disability (OASD) laws, rules, or programs*—Cape Verde (new social pension); Kenya (new pension and provident fund); Nigeria (new rules for the mandatory individual account program); São Tomé (new compulsory social security program).
- *New universal health insurance program*—Djibouti; Congo (Brazzaville) (law passed, but not yet implemented).
- *New unemployment programs*—Morocco.
- *New family allowance program*—Libya.
- *Structural changes*—Malawi (new administrative organization for sickness and maternity).

Source: *Social Security Programs Throughout the World: Africa, 2015*. U.S. Social Security Administration, September 2015.

The Americas

Chile: Final Report of the Presidential Pension Advisory Commission Is Released

On September 14, the Presidential Pension Advisory Commission released its final report on the Chilean pension system. Created in April 2014, the Commission evaluated the country's current system of individual accounts after more than 30 years of operation, assessed the impact of the 2008 reform that made some fundamental changes to the rules regarding individual accounts (including providing benefits to previously uncovered groups), and proposed various reforms to strengthen the system for the future. The report highlights the improvements made since the 2008 reform was enacted, such as increased coverage of the population and fewer older adults (aged 65 or older) living in poverty or extreme poverty. However, other issues remain, including low replacement rates (by international standards) for the contributory pensions; a small percentage of workers who regularly contribute to their individual accounts; and gender differences, with higher benefits on average for men than women because women spend less time in the formal labor force and live longer. The President will set up a committee of ministers to review the report.

The report presents 58 specific proposals. (Not all members of the Commission agreed with every proposal; for a proposal to be included in the report, at least 13 of the 24 members must have approved it.) The proposals are divided into different aspects of the pension system including—

- *Strengthening and expanding the first-pillar solidarity (noncontributory) pensions.* Increasing coverage by loosening the qualifying conditions for a pension. Currently, the pensioner's family must be among the poorest 60 percent of the population as assessed by the census; the report proposes raising the qualifying level to 80 percent of the poorest and increasing benefits by 20 percent.
- *Expanding coverage and participation in the second pillar (mandatory contributory).* Continuing the measure in the 2008 law that gradually incorporates the self-employed into the system; eliminating disincentives for participating in the second pillar (such as easily obtaining social assistance benefits); and strengthening and promoting financial education programs.
- *Increasing savings in the second (mandatory contributory) and third (voluntary contributory) pillars.* Gradually introducing employer contributions of 4 percent of a worker's earnings; raising the ceiling on contributions for pensions; increasing the fines on employers who deduct contributions but do not forward them to an employee's pension fund management company (AFP); and changing the rules for the voluntary employer-provided pension plans to promote a higher level of participation among companies.
- *Encouraging workers to remain in the labor force longer and increasing the protection for older workers.* Gradually equalizing the retirement ages between men and women (currently 65 for men and 60 for women); periodically reviewing the retirement age; providing an incentive in the noncontributory old-age benefit for older workers to stay in the labor force beyond the normal retirement age; establishing an older person's subsidy (similar to the one that encourages employers to hire younger workers); and creating a system of integrated protection of older adults.
- *Eliminating gender inequality.* Replacing gender-specific mortality tables with unisex tables; allowing the sharing of individual accounts in the case of divorce and between spouses and common-law partners; creating a benefit for caregivers; and increasing the availability of daycare to make it easier for women to work outside the home.
- *Increasing competition among AFPs.* Creating a state-run AFP, which operates under the same rules as the privately run AFPs.
- *Simplifying the multifund system.* Reducing the number of investment fund types from five to three—by eliminating funds A (highest risk) and E (fixed instruments, mainly).
- *Lowering the level of uncertainty in pension levels.* Abolishing the programmed withdrawal option (periodic withdrawals based on life expectancy).

Source: *Informe Final*, Comisión Asesora Presidencial Sobre el Sistema de Pensiones, septiembre de 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.

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SSA Publication No. 13-11712