International Update

Recent Developments in Foreign Public and Private Pensions

May 2017

Asia and the Pacific

Philippines Increases Social Security Financing to Offset Higher Pensions

Effective May 1, the Social Security System (SSS) raised employee and employer contribution rates and the covered earnings ceiling. The changes address trust fund solvency pressures arising from an increase in monthly pensions implemented early this year for more than 2 million pensioners. (The government increased all old-age, disability, and survivors pensions by 1,000 pesos [US$19.96] to stimulate the economy and improve the financial security of retirees whose benefits had been eroded by inflation over the years; a further increase has been approved and will take effect no later than 2022.) According to government actuaries, failure to take remedial financing steps would have shortened the SSS trust fund's lifespan by several years and possibly resulted in a credit rating downgrade for the country. Both labor and business groups resisted the changes, arguing that higher contributions (via increased rates and a higher covered earnings ceiling) would drive up labor costs and negatively affect labor and economic markets.

Under the new rules, the government increased contribution rates by 1.5 percentage points overall—from 11 percent to 12.5 percent—split equally between employees and employers (0.75 percentage points each). More specifically, the government raised the employee contribution rate from 3.63 percent to 4.38 percent of covered earnings, while raising the employer contribution rate from 7.37 percent to 8.12 percent of covered earnings. The government also raised the monthly covered earnings ceiling from 16,000 pesos (US$319.34) to 20,000 pesos (US$399.17). According to the SSS, the recent rate increase is the first in a series of annual rate increases of 1.5 percent that will end when the total contribution rate reaches 17 percent in 2020. SSS officials have suggested that even this rate could be inadequate to address the long-term SSS trust fund shortfall expected by 2022 (SSS actuaries have recommended an overall contribution rate of 21 percent for long-term solvency).

In addition to the SSS, which covers private-sector employees, household workers, and self-employed persons, the Philippine retirement system includes special systems for military personnel and civil servants. There is also voluntary SSS coverage for citizens working abroad and for individuals no longer eligible for compulsory coverage.

Sources: *Social Security Programs Throughout the World: Asia and the Pacific, 2016*, U.S. Social Security Administration, March 2017; "Philippines: Social Security System Increases Pension Payouts" and "Philippines: Social Security System to Increases Contribution Rates and Salary Ceiling," IBIS eVisor Compliance Alerts, April 26, 2017.

United Nations Releases Report on Population Aging in Asia and the Pacific

On March 8, the United Nations released "Ageing in Asia and the Pacific: Overview," a report that summarizes recent demographic trends and policy developments related to population aging in Asia and the Pacific. In addition to presenting updated statistics on the region's population aged 60 or older, the report identifies the main drivers of population aging, analyzes the gender and health dimensions of aging, and examines the region's responses to these issues. Although the report finds some progress in addressing the needs of older persons in Asia and the Pacific, it concludes that significant gaps remain in the policies, research, and institutions targeted at this rapidly growing population.

Drawing on recent demographic data, the report shows that population aging continues to accelerate across Asia and the Pacific and estimates that the share of the region's population aged 60 or older will rise from around 12.4 percent (or 550 million people) in 2016 to more than 25 percent (or 1.3 billion people) by 2050. Similarly, the report projects that the proportion of the oldest old (those aged 80 or older) will increase dramatically over the same period, rising from 1.5 percent of the region's population (or 68 million people) to 5 percent (or 258 million people). The report's other notable demographic findings include:

- *Fertility and life expectancy changes:* Rapidly decreasing fertility and steadily increasing life expectancy are driving population aging in the region. The steepest declines in fertility have occurred in South, Southwest, and Southeast Asia, with rates falling in these subregions by more than 50 percent in the last 40 years. Life expectancy at age 60 is projected to exceed 20 years in all subregions except North and Central Asia by 2050.

- *Sex differences:* Women are more likely than men in the region to live longer and be unmarried at older ages. On average, women lived around 4 years longer than men in 2015, with the difference highest in South Korea (13.2 years) and Russia (12.7 years). As of 2012, the marriage rate for persons aged 60 or older was as much as 43 percentage points lower for women than it was for men.
- *Health issues:* Although older persons in the region are generally living longer, they are spending many years in ill health or with serious disabilities. In 2013, a person could expect to be unhealthy or disabled for around 25 percent of his or her lifespan after age 60 (or almost 5 years).

After summarizing recent aging trends, the report evaluates how countries are handling the changing demographics. Looking at the region's pension systems, the report finds that less than half of working-age persons in most countries have access to mandatory or voluntary contributory pension programs. Of those who do have access, the report estimates that less than two-thirds are making contributions. Although statutory retirement ages are relatively low in most Asian and Pacific countries (on average, around age 60 for men), the report notes that older persons often must work due to the low coverage and benefits provided by the region's pension systems (in some countries, over half of the population aged 60 or older is in the labor force).

Based on a separate survey of old-age policies and legislation in 30 Asian and Pacific countries, the report also finds that:

- All but three countries have developed national policies to address population aging, and some—such as China and Thailand—have passed laws protecting the rights of older persons.
- Some countries, including Australia, Fiji, and South Korea, have recently reformed their pension systems to improve income support for needy older persons.
- Some countries, including Thailand and Vietnam, have recently introduced universal health care for their older populations, but the availability of mental health services remains low across the region.

The report concludes with recommendations for improving the well-being of older persons in Asia and the Pacific, including making more resources available for the administration of old-age policies, enhancing the technical capacity of agencies and bodies that serve older persons, and expanding the collection of national and regional data on aging.

Source: "Ageing in Asia and the Pacific: Overview," United Nations Economic and Social Commission for Asia and the Pacific, March 8, 2017.

Africa

Organisation for Economic Co-operation and Development Releases Report on Social Protection in East Africa

On April 26, the Organisation for Economic Co-operation and Development (OECD) released "Social Protection in East Africa: Harnessing the Future," a report examining the future of social protection in six East African countries: Ethiopia, Kenya, Mozambique, Tanzania, Uganda, and Zambia. (Social protection is broadly defined as a set of public policies to protect people from an absence or substantial reduction in income.) The report identifies the key demographic, economic, and environmental trends for the next 50 years; discusses the major challenges that these trends pose for social protection programs; and offers policymakers recommendations for addressing these challenges.

According to the report, the region will experience significant changes in the coming decades. Recent projections by the United Nations indicate that the population in sub-Saharan Africa will increase rapidly from around 1 billion in 2016, to 2 billion in 2046, and to around 4 billion in 2100. The report notes that all six countries surveyed will experience this rapid growth, with Zambia growing the fastest and Ethiopia the slowest. Other changes taking place include:

- *Changing age structures*: In 2015, children aged 0 to 14 made up 44.6 percent of the population across the six countries, but this will decrease to 29.2 percent by 2065. In contrast, the population aged 60 or older will expand rapidly starting around 2030: In Ethiopia and Kenya (the countries that will age the fastest), the older population will more than double from 2030 to 2065.
- *Changing health needs:* The demographic transition in East Africa—in combination with other trends

such as changing nutritional habits and rapid urbanization—will increase the size of the older population at risk of chronic diseases. This will significantly increase the demands on the countries' social protection programs to help keep persons with chronic diseases productive.

After examining the demographic, economic, and environmental changes taking place in these six countries, the report highlights the challenges these changes create for social protection programs, including:

- *Reaching the poorest of the poor*. Despite an increase in spending on social assistance programs in recent decades, it often does not reach the poorest households. Across the six countries, social assistance programs currently cover only 11 percent of households in the poorest quintile.
- *Promoting social insurance in countries with a large informal workforce*. Most existing social insurance programs in the region exclude rural and informal sector workers who constitute the vast majority of the workforce in these countries. (Social insurance programs currently cover only around 10 percent of the region's population.) As a result, most workers have no income loss protection during their working years or in old age.
- *Increasing financing for social protection.* Spending on social protection needs to more than double to ensure that the region's social protection systems are adequate and sustainable.

The report's specific recommendations for improving social protection in the region include:

- Establishing an integrated framework for social assistance, social insurance, and labor market policies;
- Ensuring that social protection is adequately financed;
- Placing social assistance at the forefront of poverty-reduction strategies;
- Expanding social insurance programs to protect the growing informal workforce; and
- Improving the statistical basis for policymaking (for example, by conducting regular household surveys and establishing central registries).

Source: "Social Protection in East Africa: Harnessing the Future," Organisation for Economic Co-operation and Development, April 2017.

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