International Update

Recent Developments in Foreign Public and Private Pensions

June 2017

Europe

Finland Introduces Pension Assistance for the Older Long-Term Unemployed

On June 1, Finland introduced a pension assistance benefit that provides income support for the country's older long-term unemployed until their old-age pensions begin. The new benefit is aimed at reducing high levels of long-term unemployment among older persons. Although the unemployment rate for Finland's population aged 60 to 64 was lower than for those aged 15 to 59 in 2016 (7.2 percent and 9.2 percent, respectively), Eurostat figures show that unemployed persons aged 60 to 64 were more than twice as likely as their younger counterparts to be without work for more than 12 months. The government estimates that around one-third of unemployed persons aged 60 to 64 are eligible for the new benefit.

To qualify for pension assistance, a person must have reached age 60 before September 1, 2016; been entitled to unemployment benefits on August 31, 2016; and collected unemployment benefits for at least 1,250 days from September 1, 2010, to August 31, 2016. Current old-age or disability pensioners are not eligible for the new benefit. Those who qualify receive a monthly benefit equal to Finland's guaranteed minimum pension (€760.26 [US$854.22] for 2017). The benefit ceases when a beneficiary begins receiving an old-age pension or reaches age 65 (the normal retirement age for Finland's universal old-age pension). General government revenues finance the program and the Finnish Social Insurance Institution administers it and the universal old-age pension program.

Finland's old-age pension system consists of a universal flat-rate pension, an earnings-related pension, and several kinds of social assistance. To qualify for the universal flat-rate pension, a person must have resided in Finland for at least 3 years and be 65 or older (63 for a reduced benefit). The earnings-related pension has a flexible retirement age ranging from 63 to 68 (gradually rising to 65 by 2027 and to 70 by 2032, respectively) and no minimum contribution requirement. There are housing and income allowances for retirees with limited financial resources and a care allowance for those with severe functional impairments.

Sources: *Social Security Programs Throughout the World: Europe, 2016*, U.S. Social Security Administration, September 2016; "Eduskunta hyväksyi eläketukilain sisällön," Eduskunta, December 7, 2016; "Eläketukilaki," December 29, 2016; "Finland Implements Reform to Earnings-Related Pension Program," *International Update*, U.S. Social Security Administration, January 2017; "Long-Term Unemployed Eligible for New Early Pension Assistance," Yle Uutiset, May 28, 2017; Labor Force Survey, Eurostat, accessed June 14, 2017.

France Relaxes Earnings Test for Old-Age Pensioners Receiving Employment-Related Income

Effective April 1, a new French decree relaxes the earnings test for old-age pensioners who receive both employment-related income (including employment earnings and certain supplementary retirement benefits) and a first-pillar pay-as-you-go (PAYG) public pension. The amended earnings test was part of a larger pension reform law passed in January 2014, but its implementation required an official decree (on March 29). It applies to most of France's first-pillar PAYG programs, including the general scheme that covers around 72 percent of the workforce. According to the Ministry of Social Affairs, around 481,000 people—or 3.5 percent of old-age pensioners aged 55 or older residing in France—were working while receiving a pension in 2015. The government anticipates that the amended earnings test will encourage more pensioners to combine work and retirement.

Under the new rules, old-age pensioners who receive partial pensions and have employment-related income above a certain threshold will have their pensions reduced by the amount of income above this threshold. The threshold is the greater of the pensioner's last pre-retirement wage or 160 percent of the statutory minimum wage of €2,368.43 (US$2,657.14) per month. Previously, the government fully suspended old-age pensions if employment-related income exceeded this threshold. As before, the earnings test only applies to pensioners who receive partial pensions; those receiving full pensions may receive income above the threshold with no pension reduction. To qualify for a full pension, the insured must have reached the legal minimum retirement age (ranging from 60 to 62) and have the required quarters of coverage (ranging from 150 to 172), or have reached the automatic entitlement age (ranging from 65 to 67). (The legal minimum retirement age, the required quarters of coverage, and the automatic retirement age vary according to the insured's birth month and year.)

The French pension system's first pillar consists of a large number of separate PAYG pension programs organized by occupation. The general scheme is the largest, covering the vast majority of private-sector workers. A second pillar of mandatory, complementary schemes supplements the first-pillar public programs. Two pension institutions manage the second pillar: (1) the Association for Employees' Supplementary Schemes (ARRCO) for all private-sector workers and (2) the General Association of Retirement Institutions for Executives (AGIRC) for managerial and executive staff.

Sources: "Décret N° 2017-416 du 27 mars 2017 Relatif au Plafonnement du Cumul d'une Activité Rémunérée et d'une Pension de Retraite," March 29, 2017; "Cumul Emploi Retraite: Les Règles Enfin Assouplies," *Capital*, April 22, 2017; "France," IBIS eVisor News, May 26, 2017; "Peut-on Être à la Retraite et Travailler: Le Cumul Emploi-Retraite," toutsurmesfinances.com, May 26, 2017; "Cumul Emploi–Retraite: Conditions et Plafonds," Droit-finances.net, June 2017.

Asia and the Pacific

Organisation for Economic Co-operation and Development Issues Report on Social Protection in Asian Countries

On May 11, the Organisation for Economic Co-operation and Development (OECD) released "A Decade of Social Protection Development in Selected Asian Countries," a report that examines various socioeconomic and demographic trends in 24 Asian countries from 2005 through 2015, and the issues facing social protection programs (including social insurance, social transfers, and minimum labor standards). The release follows a similar report on East Africa (see *International Update*, May 2017) and includes both OECD and non-OECD countries. The report notes that the region has experienced improvements over the past decade (for example, increased jobs, reduced poverty rates, and increased life expectancy), but cautions that challenges remain (for example, high informal employment, additional population aging, and low social expenditures).

The report's initial chapter notes that robust economic growth (averaging 4.2 percent annually across the region since 2005) has led to a decline in absolute poverty (defined as the number of individuals with incomes less than US$2 a day), especially in China, Indonesia, and Vietnam. At the same time, economic growth has contributed to fertility rate reductions and life expectancy gains, which raises concerns about population aging. The total fertility rate in Asia now averages 2.2 children per woman (slightly above the replacement level of 2.1) and life expectancy at birth averages 73 years. Both factors are expected to contribute to a decline in the old-age support ratio—the number of working-age population aged 15 to 65 per elderly person aged 65 or older—from 10.5 in 2015 to 6.6 by 2030. Although economic growth has helped create jobs, the report notes that most workers in the region are in the informal sector and lack social security coverage (this is especially the case for women).

The concluding chapter analyzes key regional trends in social protection expenditures and coverage, including:

- *Social expenditure levels:* Social expenditures (mainly social insurance and social assistance programs) have increased to roughly 7 percent of Asia's gross domestic product (GDP), but remain far below the OECD average of 21 percent of GDP. The report attributes the region's relatively low levels of social expenditures to its limited social security coverage, limited formal-sector employment, small elderly population, and strong reliance on family support networks.
- *Social protection laws:* Old age, survivor, and disability protections exist in all Asian countries except Cambodia and Myanmar (where public pension laws have been passed but not yet implemented). Some Asian countries have established non-contributory pension programs as the major (and sometimes only) system providing retirement income.
- *Long-term pension coverage:* Efforts to extend pension coverage across the region have met with mixed success. A few countries (for example, China) have extended coverage, but most have found it difficult to do so for practical reasons,

such as limited administrative capacity. Given the region's expected population aging, long-term pension coverage (particularly for the elderly) remains a challenge. Only around 40 percent of those eligible for coverage typically contribute, which often means that only 20 percent or less of the working-age population effectively participates.

- *Social expenditure composition*: Around two-thirds of Asia's social expenditures is for general health care and protections for the older population (including pensions), with relatively low spending on working-age individuals and children. For more developed economies, public pension spending varies from high (Japan) to low (Australia, Korea, and New Zealand) depending on the size of the older population and the importance of private pension arrangements.

The report also highlights several future challenges for the region, including:

- Improving job quality, including earning levels, labor market security, and work environment;
- Extending social insurance and social assistance programs to reduce poverty and support the increasing health and income needs of the elderly Asian population; and
- Expanding the role for non-contributory programs (old-age allowances and pensions).

Source: "A Decade of Social Protection Development in Selected Asian Countries," Organisation for Economic Co-operation and Development, May 2017.

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
Produced and published at U.S. taxpayer expense