

UNITED STATES



DEMOGRAPHICS AND MACROECONOMICS

Nominal GDP (USD bn)	13 776.5
GDP per capita (USD)	43 800.7
Population (000s)	299 398.5
Labour force (000s)	148 893.2
Employment rate	94.5
Population over 65 (%)	12.4
Dependency ratio ¹	24.4

Data from 2007 or latest available year.

1. Ratio of over 65-year-olds the labour force.

Source: OECD, various sources.

COUNTRY PENSION DESIGN

STRUCTURE OF THE PENSION SYSTEM

Public pensions

- Publicly provided pension benefits, known as social security, has a progressive benefit formula.
- There is also a means-tested top-up payment available for low-income pensioners.

Private pensions: occupational (voluntary)

- Private pension funds: defined benefit
- Private pension funds; defined contribution
- State and local government employee retirement accounts
- Federal government retirement funds: defined benefit plans
- Federal government retirement funds : defined contribution plans

Private pensions: personal (voluntary)

- Individual retirement accounts (IRAs)
- Roth Individual retirement accounts (Roth IRAs)
- Annuity reserves at life insurance companies

Source: OECD Global Pension Statistic.

PENSION FUNDS DATA OVERVIEW

	2003	2004	2005	2006	2007
Total investments (AUD bn)	537.8	602.7	720.6	874.4	1 100.4
Total investments as a % of GDP	68.9	71.6	80.4	90.4	105.4
Total contributions as a % of GDP	6.849	7.2	7.8	8.8	11.7
Total benefits as a % of GDP	4.3	3.6	3.7	3.9	3.9
Total number of funds	264 614	290 917	306 553	324 789	366 567

UNITED STATES: THE PENSION SYSTEM'S KEY CHARACTERISTICS

PUBLIC PENSION

The PAYG system covers all gainfully occupied persons, including self-employed persons. There are special systems for railroad employees, federal government employees and state and local government workers.

Insured persons and employers each contribute 6.2% of earnings/payroll, with maximum earnings for 2008 capped at \$102,000 for PAGY contribution and benefit purposes. The self-employed pay 12.4% of earnings; the same maximum earning applies. The government pays the total cost of means-tested old age benefits.

An old-age pension is available for workers retiring at age 66 (2008). The full retirement age will increase gradually over the period from 2012 to 2027 to age 67. Forty years of coverage are required for a full pension. At least 10 years of contributions are required for a partial pension. The pension is based on the insured's average covered earnings since 1950 (or age 21, if later) and indexed for past wage inflation, up to age 62, excluding the 5 years with the lowest earnings. The benefit formula is progressive, with different replacement rates for different earnings bands.

The maximum monthly pension for workers retiring at the full retirement age is \$2,185 (2008). There is no minimum pension for insured persons reaching age 62 after 1981. Upon the insured person's retirement, a dependant's allowance of 50% of the insured's primary insurance amount (derived from the insured's covered lifetime earnings) is paid to his/her spouse or to each child under 18.

A reduced early pension is available from age 62, with benefits reduced by 0.5% for each month of receipt before the full retirement age. The pension may also be deferred, in which case it is incremented every month up until age 70.

A means-tested old age supplemental income benefit is available to those aged 65 or older with low income and limited resources. The means test is based on earned and unearned income, including benefits. The maximum benefit is \$637 for an individual and \$956 for a couple, respectively. State administrations may increase these federal benefits.

Benefits are indexed in line with changes in the cost of living.

OCCUPATIONAL VOLUNTARY

Coverage

Single employers, or a group of employers, may voluntarily establish a complementary occupational pension plan for their employees. The plan sponsor decides what type of plan to establish (see below). If a private employer offers a DB plan, participation is automatic and thus compulsory for covered employees. In the case of DC plans, participation may be automatic or voluntary for covered employees, depending on the type of plan and/or plan rules. Employers are, in no event, required to cover all employees, although they must meet minimum employee coverage and non-discrimination rules.

It is estimated that 61% of private-sector workers have access to company-sponsored pension plans. Twenty-one per cent of private-sector workers have access to DB plans and 55% to DC plans.

Typical Plan Design

A typical DB plan would offer 1.5% of final average earnings for each year of service. Plans are sometimes subject to a service maximum of 30-35 years.

A typical DC plan would offer employer-matching contributions of 50% of any employee contributions up to 6% of earnings.

All types of private plans are usually non-contributory for employees, but 401(k) plans give employees the right to make employee contributions, limited in 2008 to USD 15 500 or USD 20 500 for employees aged 50 and over. Employers are required to contribute to all types of plans, except 401(k) plans, where levels of employer contributions often depend on the level of employee contributions (employers match employee contributions). There are maximum limits on contributions.

Earnings and contributions are subject to tax-qualification limits.

Normal retirement is typically at age 65.

Taxation

Employee contributions to all plans, except 401(k) plans, are subject to income tax and social security contributions. For 2008 employee contributions to 401(k) plans are exempt from income tax up to a yearly ceiling of USD 15 500 (USD 20 500 for employees age 50 or older). Employer contributions to all DB plans in 2008 are tax-exempt up to a level that allows an annual pension of USD 185 000. Total employer and employee contributions to DC-type plans for 2008 are limited to USD 46 000 a year or, if lower, to 100% of salary. Employer contributions are not subject to social security contributions. Investment income is tax-deferred in all cases. Benefits in retirement from all types of plans are taxed as income (except those benefits financed through taxable employee contributions).

PERSONAL VOLUNTARY

Coverage

Eligibility rules vary by type of IRA. Eligibility criteria include the annual income of the saver (expressed as the Modified Adjusted Gross Income, or MAGI), membership of an occupational plan, and the family

situation of the saver. For a traditional IRA plan, the only requirement is to have an income that is sufficient to make contributions.

Contributions

IRAs (traditional and Roth) allow contributions up to USD 5 000 per person in 2008. The maximum limit is USD 6 000 for those who are age 50 or older in 2008. In addition, assets from a traditional IRA can be transferred to a Roth IRA, though income tax must be paid over the transferred sum.

Benefits

Savers must start withdrawing benefits by age 70.5. The required minimum withdrawal for each year is calculated by dividing the IRA account balance as of 31 December of the prior year by the applicable distribution period or life expectancy.

For IRAs, benefits withdrawn before age 59.5 are subject to a 10% income tax penalty, unless withdrawn for various reasons, such as first-time home purchase, higher education costs, or in the event of death or disability.

Taxation

Contributions to traditional IRAs are often tax-deductible – the phrases “money is deposited before tax” or “contributions are made with pre-tax assets” are often used. Transactions and earnings within the IRA have no tax impact, while withdrawals at retirement are taxed as income (except for those portions of the withdrawal corresponding to contributions that were not deducted).

Contributions to Roth IRAs are made with after-tax assets. No transactions within a IRA have any tax impact, and withdrawals are usually tax-free. Investment income and benefits are generally tax-exempt.

MARKET INFORMATION

Occupational voluntary

Plans are implemented under a written trust agreement or through an insurance contract. The trustees may manage the contribution and benefit administration or contract it to a pension management or insurance company. Under an insurance contract, the insurance company manages the contribution and benefit administration.

At the end of December 2007, total assets managed by occupational pension plans amounted to USD 10.2 trillion. The total number of participants in occupational voluntary plans was 142.5 million in 2005.

Personal voluntary

It is possible to have both a traditional IRA and a Roth IRA, but the maximum overall contribution limits apply to the saver.

IRAs managed assets worth USD 6.8 trillion at the end of 2007. They covered 50.9 million participants in 2005.

POTENTIAL REFORM

Recent reforms have increased contribution limits to those described above. Automatic enrollment and investment in 401(k) plan has recently been encouraged.

REFERENCE INFORMATION**KEY LEGISLATION**

2006: The Pension Protection Act, which is to be implemented over the course of the coming years, sets new funding requirements for DB plans, and lays down additional rules for underfunded DB plans. It further clarifies the status of cash balance and hybrid plans, and provides for automatic enrolment and a default investment option for 401(k) plan members.

2001: The Economic Growth and Tax Relief Reconciliation Act (EGTRRA) relaxes constraints on the conversion of IRAs into other types of plans.

1978: The Revenue Act of 1978, which establishes 401(k) plans.

1974: The Employee Retirement Income Security Act (ERISA) is the most important complementary occupational pension plan law in the United States. It has been amended on several occasions.

KEY REGULATORY AND SUPERVISORY AUTHORITIES

The Social Security Administration: administers the public pension system;

www.socialsecurity.gov.

The Treasury Department: supervises the collection of social security taxes through the Internal Revenue Service and supervises the payment of benefits and the management of social security funds;

www.treasury.gov.

The Internal Revenue Service (IRS): administers the Internal Revenue Code and determines the tax-qualified status of plans. It has jurisdiction over eligibility, vesting, and funding requirements under ERISA. The IRS is part of the Treasury;

www.irs.gov.

The Employee Benefits Security Administration (EBSA): enforces ERISA's standards concerning reporting, disclosure, and fiduciary matters. It is part of the Department of Labor;

www.dol.gov/ebsa.

The Pension Benefit Guaranty Corporation (PBGC): administers plan termination rules and an insolvency insurance program for private DB plans;

www.pbgc.gov.

SELECTED KEY STATISTICAL REFERENCES

Department of Treasury

www.ustreas.gov/

Federal Reserve Bank

www.federalreserve.gov/.

OECD, Global Pension Statistics project, www.oecd.org/daf/pensions/gps.



