International Update

Recent Developments in Foreign Public and Private Pensions

October 2018

Europe

Georgia Approves New Supplemental Pension Program

On September 1, Georgia's government approved the Accumulated Pension System (APS), with implementation set for January 1, 2019. The government created the new mandatory individual account program to supplement the existing flat-rate universal old-age state pension, promote capital market development, and stimulate economic growth. Currently, no qualified retirement vehicles or tax incentives for retirement savings exist in Georgia, and the state pension provides only a subsistence-level benefit (currently, 180 tlari [US$69] per month).

Other key features of the APS include:

- *Coverage*: The APS will cover citizens and noncitizens who are employed in the public or private sectors or self-employed, and will be mandatory for workers younger than age 40. All workers younger than age 60 will be automatically enrolled in the new program. Employed persons who were aged 40 or older on September 1 may opt out of the APS within 5 months of the program's implementation date. All self-employed persons will also be allowed to opt out.
- *Financing*: To fund the individual accounts, employees and employers will each contribute 2 percent of gross monthly earnings up to 60,000 tlari (US$23,000), and the government will contribute 2 percent of earnings up to 24,000 tlari (US$9,200) plus 1 percent of earnings above 24,000 tlari up to 60,000 tlari. For most earners, the total contribution rate will be 6 percent of gross monthly earnings. Self-employed persons who participate must pay both the employee and employer contributions.
- *Benefits*: A participant reaching the normal retirement age of 65 for men or 60 for women will be able to withdraw their full account balance as a lump sum or convert it into a monthly annuity. Account balance withdrawals are also permitted when a participant is assessed with a permanent disability or dies, leaving the balance to designated heirs.
- *Investments*: Participants will be able to choose from three types of funds with varying levels of risk (low, medium, and high). Participants who fail to make a selection will be placed in a default fund on the basis of age: participants younger than age 40 will be placed in a high-risk fund, those aged 40 to 50 in a medium-risk fund, and those older than age 50 in a low-risk fund.
- *Administration*: A newly established Pension Agency of Georgia (PA) will be responsible for the overall administration of the APS. An Investment Board within the PA will carry out risk assessments, oversee the pooling of contributions received, and issue regulations governing investments and the selection of companies that manage APS accounts. The National Bank of Georgia and a Supervisory Board will provide additional supervision of the APS.

Critics of the APS have noted that the program may cover a relatively small portion of Georgia's population. According to 2017 data from the National Statistics Office, around 820,000 persons (or 48 percent) of the country's reported 1.7 million workers reported working for an employer, and among this group only 327,000 were younger than age 40 and therefore covered mandatorily by the APS. The remaining 52 percent of the work force are self-employed, and most of them do not have stable monthly incomes.

Sources: *Social Security Programs Throughout the World: Asia and the Pacific, 2016*, U.S. Social Security Administration, March 2017; "Participation in Accumulative Pension System to Be Obligatory for Employees Below 40 Years Old," Sarke Information Agency, October 31, 2017; "Gov't to Set Up Georgian Pension Agency," *Georgia Today*, January 25, 2018; "Georgia's Divisive Pension Reform Splits Opinion," Emerging-Europe.com, July 28, 2018; "Pension Reform: An Assurance for a Decent Retirement or an Additional Tax Burden," finchannel.com, August 2018; "Creation of the Accumulative Pension in Georgia," *Georgia Today*, September 17, 2018; "Georgia: Compulsory Employer- and Employee-Funded Pension Savings Plans Announced," Willis Towers Watson, October 2, 2018.

Portugal Expands Eligibility for Penalty-Free Early Retirement

On October 1, Portugal's government amended the early retirement rules for public old-age pensions to allow individuals who began covered employment at age 16 or younger and have at least 46 years of contributions to receive full benefits (without any reductions) as early as age 60. Previously, penalty-free early retirement was available only to individuals who had at least 48 years of contributions or at least 46 years of contributions if they began covered employment at age 14 or younger. The government approved the amended rules on August 23, and the changes apply to individuals covered by the general social security system (Segurança Social) or the old special system for public-sector employees (Caixa Geral de Aposentações; this system stopped accepting new members at the beginning of 2006). The government estimates that the latest early retirement changes will initially benefit 1,000 to 2,000 individuals at a total annual cost of €4 million to €5 million (US$4.6 million to US$5.8 million).

Portugal's old-age pension system consists of a contributory program for employed and self-employed persons and a noncontributory program for residents not entitled to contributory benefits. To qualify for a contributory pension, an individual must have reached the normal retirement age of 66 and 4 months and have at least 15 years of contributions; a full contributory pension is paid with at least 40 years of contributions. The contributory pension can be claimed as early as age 60 with at least 40 years of contributions, but it is normally reduced by 0.5 percent for each month it is claimed before the normal retirement age. An early contributory pension is also typically reduced based on a financial sustainability factor, which measures the percentage change in average life expectancy at age 65 from 2000 to the year before retirement. (For pensions claimed in 2018, the financial sustainability factor results in a 14.5 percent reduction.) If a Portuguese resident has reached the normal retirement age, does not qualify for a contributory pension, and has gross monthly income up to 40 percent (for a single person) or 60 percent (for a couple) of Portugal's monthly social benefit rate (€428.90 [US$496.69] in 2018), he or she can receive a government-funded noncontributory pension. Depending on their family, health, and financial circumstances, old-age pensioners may also qualify for various supplemental cash benefits.

Sources: "Portugal Changes Early Retirement Rules for Workers with Long Careers," U.S. Social Security Administration, September 2017; "Governo aprova alargamento das pensões antecipadas sem cortes a mil ou 2 mil pessoas," *Jornal de Negócios*, August 23, 2018; "Reforma antecipada sem penalização só chega a 15 mil," *Diário de Notícias*, August 25, 2018; *Social Security Programs Throughout the World: Europe, 2018*, U.S. Social Security Administration, September 2018; Decreto-Lei n.º 73/2018 de 17 de setembro; "Portugal," IBIS eVisor News, September 28, 2018.

Russia Increases Normal Retirement Ages and Expands Early Retirement Eligibility

On October 3, the Russian president signed into law a pension reform bill that gradually increases normal retirement ages and expands early retirement eligibility under the country's social insurance program. Starting January 1, 2019, the normal retirement ages will increase by 1 year each year, from age 60 to 65 for men and from age 55 to 60 for women. To limit the effect of these changes on certain vulnerable groups, the law will allow men with at least 42 years of coverage and women with at least 37 years of coverage to retire up to 2 years before the normal retirement age (but not earlier than age 60 for men or age 55 for women). In addition, mothers with at least 15 years of coverage who have raised three or four children will be able to retire at age 57 (with three children) or age 56 (with four children). (The law does not affect existing early retirement rules for workers in hazardous or dangerous occupations, mothers of five or more children or children with disabilities, and certain other persons.)

According to the government, the new law aims to reduce the financial burden on the public pension system caused by low statutory retirement ages (currently the lowest in Europe), rapid population aging, and increases in life expectancy. The United Nations Population Division (UNPD) estimates that Russia's old-age dependency ratio—the population aged 65 or older divided by the working-age population aged 15 to 64—will increase from 19.4 percent in 2015, to 36.5 percent in 2050, and to 40.7 percent in 2100. Furthermore, the UNPD projects that life expectancy at birth will increase from 70.3 years in the 2000–2015 period to 83.2 years in the 2095–2100 period.

Russia's social insurance program covers all employed and self-employed persons in the country. Employers contribute 22 percent of payroll and employees contribute nothing to fund the program. (Certain categories of employers pay lower contributions.) Self-employed persons generally pay an annual contribution of 26,545 rubles (US$404.72) for annual earnings up to 300,000 rubles (US$4,573.92) plus 1 percent of annual earnings above this amount. To be eligible for a social insurance old-age pension, an individual must generally have reached the normal retirement age, have at least 9 years of coverage (gradually rising by 1 year each year until reaching 15 years by 2024), and have at least 13.8 pension points (gradually rising by 2.4 pension points each year until reaching 30 pension points by 2025). (The number of pension points is calculated based on the insured's number of contributions and the length of the insured's insurance record.) A social assistance old-age pension is available to individuals at age 65 (men) or 60 (women) who do not qualify for a social insurance pension.

Sources: "World Population Prospects: The 2017 Revision," United Nations, Department of Economic and Social Affairs, Population Division, 2017; "O Vnesenii Izmenenij v Otdel'nye Zakonodatel'nye Akty Rossijskoj Federacii po Voprosam Naznachenija i Vyplaty Pensij," 2018; "Russia Raises Retirement Age to Boost State Budget," *Financial Times*, June 14, 2018; *Social Security Programs Throughout the World: Europe, 2018*, U.S. Social Security Administration, September 2018; "Putin Signs Pension Law to Raise Retirement Age in Russia," *Financial Times*, October 3, 2018; "Russia: Retirement Age Increased and Age Discrimination Law Passed," Society for Human Resource Management, October 12, 2018.

U.S. Social Security Administration Releases Social Security Programs Throughout the World: Europe, 2018

In September, the U.S. Social Security Administration (SSA) released *Social Security Programs Throughout the World: Europe, 2018*, the first volume of a four-volume series. This volume provides a cross-national comparison of the social security systems in 45 countries in Europe. It summarizes the five main social insurance programs in those countries: (1) old age, disability, and survivors (OADS); (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 Asia and the Pacific, Africa, and the Americas.

Notable changes made since SSA released the 2016 volume include:

- *Newly covered benefits:*
  - Albania (funeral grant)
  - Andorra (old-age settlement, spouse's allowance, and unemployment benefits)
  - Austria (paternity benefit)
  - Belarus (certain child care allowances)
  - Belgium (guaranteed family benefits)
  - Croatia (guaranteed minimum income)
  - Cyprus (paternity benefit)
  - Czech Republic (paternity benefit and long-term caregiving allowance)
  - Estonia (work ability allowance and multiple birth allowance)
  - Germany (minimum income support)
  - Ireland (paternity benefit and back to work family dividend)
  - Isle of Man (nursing care contribution)
  - Italy (low-income pension supplement, pregnancy grant, child care voucher, and inclusion income allowance)
  - Liechtenstein (subsistence allowance)
  - Luxembourg (old-age settlement and paternity benefit)
  - Malta (tapering of unemployment assistance)
  - Netherlands (older worker benefit, partially incapacitated older worker benefit, and child care allowance)
  - Norway (mandatory occupational pensions and additional benefit for single parents)
  - Poland (paternity benefit and special nursing benefit)
  - Portugal (social benefit for inclusion)
  - San Marino (extraordinary unemployment benefit)
  - Slovakia (child care allowance, maternal need allowances, one-off benefit, and special allowance)
  - Spain (special family allowance)
- *Major reforms to existing benefits*:
  - OADS: Austria, Belarus, Croatia, Cyprus, Denmark, Finland, France, Greece, Ireland, Italy, Lithuania, Moldova, Poland, Russia, San Marino, United Kingdom
  - Sickness and maternity: France, Germany
  - Work injury: Denmark, Greece
  - Unemployment: Italy, Lithuania, Turkey
  - Family allowances: Denmark, Estonia, Greece, Italy, Serbia
  - Medical benefits: Latvia, Moldova
- *Contribution rate increases for OADS programs*: Andorra, Bulgaria, Finland, France, Guernsey, Ireland, Latvia, Liechtenstein, Monaco, the Netherlands, and San Marino.
- *Contribution rate decreases for OADS programs*: Germany, Hungary, Lithuania, and Romania.
- *Retirement age increases*:
  - For men and women: Belarus, Bulgaria, Czech Republic, Estonia, France, Germany, Latvia, Liechtenstein, Lithuania, Moldova, the Netherlands, Portugal, Slovakia, and Spain
  - Only for women: Albania, Croatia, Greece, Italy, Romania, Serbia, and Ukraine.
- *New administrative organizations:* Greece (all branches) and Hungary (all branches).

Source: *Social Security Programs Throughout the World: Europe, 2018*, U.S. Social Security Administration, September 2018.

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