International Update

Recent Developments in Foreign Public and Private Pensions

April 2019

Europe

Italy Introduces New Early Retirement Rules

As part of the 2019 Budget Law, the Italian government recently introduced several changes to the early retirement rules under the country's notional defined contribution (NDC) pension program that will allow more individuals to retire early. The rule changes reverse portions of a 2011 pension reform that linked the normal retirement age and other qualifying conditions to life expectancy. According to the government, the departure of older workers from the labor force should benefit younger job seekers. The government forecasts that the new rules could result in up to 300,000 additional retirees in 2019, 330,000 in 2020, and 355,000 in 2021. Critics of the new early retirement rules contend that they are unsustainable given Italy's aging population and large public debt. Data from the Organisation for Economic Co-operation and Development (OECD) show that Italy's national debt as a percentage of gross domestic product (GDP) in 2018 (132 percent) was the third highest among the 36 OECD countries after Japan and Greece, while its public pension expenditure as a percentage of GDP in 2016 (13.9 percent) was the second highest among the same group of countries after Greece.

To be eligible for a full old-age pension under the NDC program, an individual must be age 67 (gradually rising based on increases in life expectancy) and have at least 20 years of paid or credited contributions. Previously, early retirement was possible: (1) at any age with at least 42 years and 10 months (men) or 41 years and 10 months (women) of contributions, or (2) for workers first insured on or after January 1, 1996, at age 63 and 7 months with at least 20 years of contributions if the insured's notional account balance is sufficient to provide a pension of at least 2.8 times the monthly old-age social allowance (an income-tested social assistance benefit). Under the new rules—effective January 29 unless otherwise noted—individuals can also retire early based on:

- *Age and years of contributions:* From 2019 to 2021, an individual can retire early if the sum of his or her age and years of contributions is at least 100. The earliest that an individual can retire under this option is at age 62 with 38 years of contributions. An employee must wait at least 3 months after meeting these qualifying conditions to claim the pension, and the earliest date of retirement was April 1 for private-sector workers. The annual cost of this measure is forecast to be €4 billion (US$4.5 billion, or 0.2 percent of GDP) in 2019 and more than €8 billion (US$9 billion, or 0.3 percent of GDP) in both 2020 and 2021.
- *Age and years of contributions (women only):* Employed women who have reached age 58 (age 59 if self-employed) can retire 12 months (18 months if self-employed) after they accumulate at least 35 years of contributions. The age requirement for this option will not change in response to future life expectancy increases.
- *Career length and starting age:* From 2019 to 2026, individuals who contributed for at least 12 months before reaching age 19 and have at least 41 years of contributions can retire early. Previously, the contribution requirement for this option was 41 years and 5 months for 2019 and 2020, and it was expected to rise in 2021 in response to increased life expectancy.

Italy has a multi-tiered retirement system for private-sector workers that includes: means-tested social assistance programs comprising an old-age social allowance (for those aged 67 or older with at least 10 consecutive years of residence in Italy who do not receive a social insurance or NDC pension) and a low-income pension supplement (for those aged 70 or older receiving old-age, survivor, or disability benefits); the NDC program (a type of earnings-related pension program financed on a pay-as-you-go basis); supplementary occupational pension plans; and tax-advantaged, voluntary retirement savings plans managed by financial institutions. Public-sector employees have special retirement systems.

Sources: "Factbox: Italian Early-Retirement Option Rolls Back 2011 Pension Reform," Reuters, January 17, 2019; "Roundup: Italy's Cabinet Approves Criteria for Flagship Basic Income, Early Retirement Reforms," Xinhua News Agency, January 17, 2019; "Italy – New Measures to Bring Forward Retirement with a Right to a State Pension Introduced," Lexology.com, February 5, 2019; "Legislation Introduces a Number of Changes To Social Security Retirement," IBIS eVisor News, February 28, 2019; "OECD Economic Surveys: Italy," Organisation for Economic Co-operation and Development," April 2019.

Asia and the Pacific

Hong Kong Implements Changes to Social Assistance Program

On February 1, Hong Kong implemented changes to the Comprehensive Social Security Assistance (CSSA) program that include an increase in the old-age allowance eligibility age, a new employment supplement, and benefit increases. CSSA is a social assistance program funded by general revenues that provides financial support to residents of Hong Kong who meet certain income and asset tests. Benefits include old-age and disability allowances, cash sickness and medical benefits, unemployment assistance, and family allowances. According to the government, the changes are motivated by rising life expectancy and longer working careers. Recent data from Hong Kong's Centre for Health Protection show that life expectancy at birth increased from 67.8 years for men and 75.3 years for women in 1971, to 81.9 years for men and 87.6 years for women in 2017.

Key changes include:

- *An increase in the old-age allowance eligibility age:* The eligibility age for the old-age allowance increased from age 60 to 65. Individuals aged 60 to 64 who were receiving the allowance prior to February 1 are exempt and will continue receiving benefits. (Individuals aged 60 to 64 who were not receiving the allowance prior to February 1 may qualify for certain other CSSA benefits, such as unemployment assistance.)
- *A new employment supplement:* Workers aged 60 to 64 can apply to receive a monthly Employment Support Supplement (ESS) of HK$1,060 (US$135.03). The supplement is aimed at helping workers affected by the increase in the old-age allowance eligibility age to remain in (or join) the labor force.
- *Benefit increases:* Benefit amounts for CSSA benefits and certain other benefits under the universal pension program increased by 2.8 percent. The government estimates the increase will cost about HK$1,253 billion (US$159.6 million) per year and will benefit approximately 1.26 million recipients.

Hong Kong's pension system consists of a universal pension program, a mandatory occupational pension program, and the CSSA social assistance program. The universal and social assistance programs cover all residents of Hong Kong, and the mandatory occupational pension program covers employees under contract for at least 60 days (shorter periods for employees in the catering and construction industries) and most categories of self-employed persons.

Sources: The Government of Hong Kong Special Administrative Region press releases, January 7, 2019 and January 30, 2019; "A Guide to Comprehensive Social Security Assistance," Social Welfare Department, February 2019; "Hong Kong," IBIS eVisor News, March 28, 2019; "Life Expectancy at Birth (Male and Female), 1971–2017," Centre for Health Protection, April 11, 2019.

U.S. Social Security Administration Releases Social Security Programs Throughout the World: Asia and the Pacific, 2018

In March, the U.S. Social Security Administration (SSA) released *Social Security Programs Throughout the World: Asia and the Pacific, 2018*, the second volume of a four-volume series. This volume provides a cross-national comparison of the social security systems in 51 countries in Asia and the Pacific. 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 Europe, Africa, and the Americas.

Notable changes made since SSA released the 2016 volume include:

- *New country:* Cambodia.
- *Newly covered benefits:*
  - Australia (child care subsidy).
  - Azerbaijan (unemployment benefits).
  - Georgia (OADS individual accounts).
  - Hong Kong (social assistance cash sickness benefit).
  - Jordan (disability and survivor settlements, family allowance, and funeral grant).
  - Kuwait (family allowance).

– Kyrgyzstan (funeral allowance).
– Malaysia (unemployment and training benefits).
– Nepal (family allowances).
– Oman (disability and survivor settlements, end-of-service grant, cash sickness and maternity benefits, medical benefits, and income support).
– Philippines (family cash transfer).
– Qatar (family allowances).
– Saudi Arabia (cash sickness and maternity benefits, medical benefits, and family allowance).
– Solomon Islands (cash sickness benefit).
– South Korea (social assistance medical benefits and childcare allowance).
– Sri Lanka (cash sickness benefit).
– Syria (cash sickness benefit).
– Yemen (cash sickness benefit).

- *Major changes to existing benefits:*
  – *OADS:* Armenia, Australia, Azerbaijan, China, Kyrgyzstan, Marshall Islands, Tajikistan, Turkmenistan, and Vietnam.
  – *Sickness and maternity:* Tajikistan, Turkmenistan, and Vietnam.
  – *Work injury:* Fiji, Malaysia, Thailand, and Vietnam.
  – *Unemployment:* Turkmenistan.
  – *Family allowances:* Kyrgyzstan.
  – *Medical benefits:* China.
- *Contribution rate increases for OADS programs*: Georgia, Japan, Kuwait, Malaysia, Marshall Islands, Palau, Taiwan, and Uzbekistan.
- *Contribution rate decreases for OADS programs*: Armenia and Vietnam.
- *Retirement age increases*: Australia, Azerbaijan, Kazakhstan (only for women), Kuwait, and Marshall Islands.
- *Retirement age decrease:* Palau.

Source: *Social Security Programs Throughout the World: Asia and the Pacific, 2018*, U.S. Social Security Administration, March 2019.

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