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Europe

Isle of Man Implements New State Retirement Pension

On April 6, the Isle of Man (IOM) introduced the single-tier Manx Pension for covered workers who reach the state pension age (SPA) on or after the implementation date. The new flat-rate program replaces the previous two-tier system, which consisted of the basic state retirement pension and the earnings-related state second pension (S2P). The aim of the reform is to ensure long-term pension sustainability while simplifying retirement planning. The changes do not affect current beneficiaries or individuals who reached the SPA prior to implementation (those born before January 6, 1954.) Without reform, the government forecast that the social security trust fund would have been depleted by 2053.

Key features of the new Manx Pension include:

- **Contribution rates:** As under the previous system, employees contribute 11 percent of weekly earnings from £118 (US\$153.48) to £784 (US\$1,019.72) plus 1 percent of earnings above £784, and employers contribute 12.8 percent of the employee's weekly earnings above £125 (US\$162.58). Self-employed persons contribute a flat rate of £5.40 (US\$7.02) a week plus 8 percent of annual profits from £6,500 (US\$8,454.34) to £40,768 (US\$53,025.63) and 1 percent of annual profits above £40,768. (Contributions finance most old-age, disability, and survivors benefits; sickness, maternity, paternity, and adoption benefits; work injury benefits; and unemployment benefits.) The new system also eliminates reduced contribution rates for participants who previously contracted out from the S2P. (Contracted-out parties paid lower contribution rates; the savings were used to secure comparable benefits with an employer-provided plan.)
- **Qualifying conditions:** To receive a full pension, an individual must reach the SPA—age 65 for persons born before December 6, 1953, and gradually rising to age 68 for persons born on April 6, 1979 or

later—and have at least 35 years of paid or credited contributions. A partial pension is paid to those with at least 10 years but less than 35 years of contributions. (Contributions may be credited for periods the insured received certain benefits, such as the incapacity benefit, child benefit [for a child younger than age 12], carer's allowance, and jobseeker's allowance. Contributions under the previous system are also counted.) Under the previous system, the full pension was paid with at least 30 years of paid or credited contributions, and a partial pension was paid with at least 1 but less than 30 years of contributions.

- **Retirement benefits:** The full state pension is £184.15 (US\$239.52) per week and is reduced proportionally for persons with less than 35 years of paid or credited contributions. Benefits are adjusted annually based on changes in national average earnings.
- **Pension supplement elimination:** The reform gradually phases out the pension supplement (paid to pensioners who ordinarily reside in IOM and have at least 10 years of paid or credited contributions) over a 20-year period starting April 2019. Individuals receiving the supplement prior to the reform's implementation are unaffected. The supplement is currently paid to around 80 percent of pensioners and increases the basic pension benefit as much as 44 percent. The scheduled full rate of the weekly supplement paid in 2019 is £53.75 (US\$69.91) at an annual cost of £36 million (US\$47 million).

The IOM's pay-as-you-go public pension system covers employed and self-employed workers and closely resembles the British system (as reformed in 2016). (The IOM is a self-governing British Crown dependency.) Individuals working in both countries are entitled to separate state pensions based on contributions attributed to each country, provided they have at least 10 contribution years between the two jurisdictions.

Sources: "Two Pensions if You Worked in Isle of Man and UK," *Isle of Man Examiner*, October 30, 2015; "The Future Manx State Pension Treasury Proposals," Isle of Man Government—The Treasury, July 2016; "Tynwald Gives Go-Ahead to New Manx State Pension," Isle of Man Government press release, March 21, 2018; "Isle of Man's Pension Supplement to Be Phased Out, Says

Government,” BBC News, March 23, 2018; *Social Security Programs Throughout the World: Europe, 2018*, U.S. Social Security Administration, September 2018; “How Could Changes to the IOM State Pension Affect You,” Thornton Financial Planners, November 8, 2018; “MIL-OSI Europe: Cessation of Contracting Out April 2019,” *Foreign Affairs*, January 23, 2019; “A Guide to the New Manx State Pension (and the Manx Pension Supplement),” Isle of Man Government, April 2019.

Slovakia Introduces Limit on Retirement Age Increases

On April 10, the Slovakian president approved a constitutional amendment that limits further retirement age increases once it reaches age 64 and allows women with children to retire 6 months (with one child), 12 months (with two children), or 18 months (with three or more children) earlier and receive a full pension. The changes will go into effect on July 1. Since 2017, the normal retirement age—age 62 and 6 months for persons born in 1957—has been rising gradually based on increases in life expectancy; it is expected to reach age 64 around 2030. (Previously, there was no upper limit to future retirement age increases and different qualifying conditions applied to women with children.) Critics of the constitutional amendment contend that it will put pressure on future budgets as the population ages. Eurostat, the European Union’s statistical office, projects that Slovakia’s old-age dependency ratio—the population aged 65 or older as a percentage of the working-age population aged 15–64—will increase from 19.7 percent in 2015 to 32.6 percent in 2030, and to 50.9 percent in 2050.

Slovakia’s pension system consists of a pay-as-you-go social insurance program, privately managed individual accounts that are voluntary for new entrants to the labor force, and voluntary private pensions. (The decision to contribute to an individual account must be made before age 35 and cannot be reversed.) The social insurance and individual account programs cover employed persons, and self-employed persons with annual earnings greater than 12 times the minimum monthly assessment basis (€456 [US\$511.54] in 2018). To be eligible for a full old-age pension under each program, an individual must have reached the normal retirement age and have at least 15 years of coverage; an early pension may be paid up to two years before the normal retirement age under certain circumstances. In addition, a guaranteed minimum pension is paid at the normal retirement age to individuals with at least 30 years of coverage but a total monthly pension income (including from social

insurance, individual accounts, and other countries) less than a minimum monthly amount.

Sources: “Social Insurance System in Slovakia,” and “Dôchodkový Vek v Rokoch 2019–2023,” Socialna Poistovna; Population projections database, Eurostat, February 2017; “Country Fiche on 2018 Pension Projections of the Slovak Republic,” Ministry of Finance of the Slovak Republic, October 2017; *Social Security Programs Throughout the World: Europe, 2018*, U.S. Social Security Administration, September 2018; “Slovak Lawmakers Approve Capping Retirement Age at 64,” Reuters, March 28, 2019; “Kiska Podpísal Ústavný Zákon o Dôchodkovom Strope,” Parliament of the Slovak Republic, April 20, 2019.

The Americas

Peru Amends Early Retirement Rules for Mandatory Individual Accounts

On May 3, Peru amended the early retirement rules for its mandatory individual account program (Sistema Privado de Pensiones, or SPP). The reform makes an early retirement option for unemployed persons (Regimen Especial de Jubilacion, or REJA) permanent (with changes) and modifies the qualifying conditions for the ordinary early retirement option (Jubilacion Aticipada Ordinaria, or JAO). Peru’s government first introduced REJA on a temporary basis in 2009, but it then extended the effective period three times (in 2012, 2013, and 2016) through 2018. The reform also calls for the creation of a special commission to evaluate the costs and benefits of early retirement under SPP and examine Peru’s public and private pension programs in general. In 2018, SPP had about 7.06 million contributing participants (or 41.4 percent of the labor force), while the country’s social insurance program (Sistema Nacional de Pensiones, or SNP) had about 1.58 million members (or 9.3 percent of the labor force). (An estimated 8.5 million economically active people [or 49.8 percent of the labor force] were not covered by either program.)

In addition to making REJA permanent, the key provisions of the amended early retirement rules include:

- *REJA qualifying conditions:* To qualify for early retirement under REJA, a participant must have reached age 55 (for men) or age 50 (for women), been unemployed for the last 12 months, and not have income from self-employment exceeding seven reference tax units (Unidad Impositiva Tributaria, or UIT; 1 UIT is currently equal to 4,200 soles [US\$1,272.72]). Previously, there was no limit on self-employment income, but there were

contribution and account balance requirements, which were eliminated under the amended rules.

- *JAO qualifying conditions:* To be eligible for early retirement under JAO, a participant must have reached age 55 (for men) or age 50 (for women) and have an account balance that is sufficient to purchase an annuity with payments of at least 40 percent of the participant's average monthly indexed earnings in the last 120 months. In addition, voluntary contribution amounts exceeding 20 percent of the participant's account balance and contributions made in the last 9 months are disregarded when determining eligibility for early retirement. Previously, there was no minimum eligibility age or restrictions on the qualifying contributions.

Peru's old-age pension system consists of SPP, SNP, and a social assistance pension program (Pensión 65). SPP and SNP operate in parallel to each other, and participation in either of them is mandatory for all public- and private-sector employees and voluntary for self-employed persons. Workers who do not choose to participate in SNP within 10 days of first becoming employed are automatically enrolled in SPP. SNP members can switch to SPP at any time, but generally cannot switch from SPP to SNP (though some exceptions have been made for older workers who voluntarily switched from SNP to SPP and who have not accumulated significant account balances before retirement). The social assistance pension may be paid to residents of Peru who are aged 65 or older, do not qualify for SPP or SNP pensions, and are members of households classified as extremely poor.

Sources: "Peru Adds Disbursement Options to Mandatory Individual Accounts," *International Update*, U.S. Social Security Administration, May 2016; *Social Security Programs Throughout the World: The Americas, 2017*, U.S. Social Security Administration, March 2018; Ley N° 30939, 2019; "Perú: casi el 50% de los trabajadores no está afiliado a ningún sistema de pensiones," *América Economía*, March 26, 2019; "Régimen Especial de Jubilación Anticipada será permanente," *El Peruano*, April 5, 2019; "Peru," IBIS eVisor News, April 30, 2019; "Jubilación Anticipada fue promulgada: ¿Qué condiciones deben cumplirse para acogerse?" *Gestión*, May 3, 2019; "Régimen especial de jubilación anticipada ya es permanente: ¿Cómo acceder?" *El Comercio*, May 3, 2019; "Jubilación Anticipada: Conoce desde cuándo podrás retirar hasta el 95,5% de tu fondo," *La República*, May 17, 2019.

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