International Update

Recent Developments in Foreign Public and Private Pensions

January 2020

Europe

Denmark Introduces Early Retirement Pension for Certain Workers

On January 1, Denmark's government introduced an early retirement pension called the Senior Pension (*seniorpension)* for individuals who have worked long careers and have diminished work capacity. In particular, the pension allows individuals who have at least 20 to 25 years of full-time employment (depending on the occupations[s] worked) and are unable to work more than 15 hours a week in their most recent jobs to receive a pension up to 6 years before the normal retirement age (currently age 65 and 6 months and gradually rising to age 67 by 2022 and to age 68 by 2030). Denmark's parliament approved the new pension on December 20, 2019, as a replacement for a similar pension called the Senior Disability Pension (*seniorførtidspension*). (The Senior Disability Pension had stricter qualifying conditions and only allowed individuals to retire up to 5 years before the normal retirement age.) For individuals not eligible for the Senior Pension, early retirement is only possible at age 63 or later if they participate in Denmark's voluntary unemployment insurance system and meet certain other conditions.

Other key details of the Senior Pension include:

- *Employment record:* To qualify for the pension with 20 to 24 years of full-time employment, at least some of the employment must have involved physically or mentally demanding work. (A special assessment is used to determine whether an individual satisfies this requirement.) With 25 years or more of full-time employment, the type of work performed is not considered. Full-time employment is defined as working at least 27 hours a week, and there is a procedure for converting part-time employment into a full-time equivalent.
- *Work capacity:* An individual must be assessed as permanently incapable of working more than 15 hours a week in his or her most recent job lasting at least 12 months to qualify for the pension. The individual's capacity to work other jobs is not considered. After the pension is awarded, it can be suspended if a beneficiary works more than 15 hours a week or has annual earnings exceeding 212,360 kroner (US$31,824.27).
- *Benefit amount:* The monthly pension is up to 19,092 kroner (US$2,861.13, if single) or 16,229 kroner (US$2,432.08, if married or partnered) in 2020. (The amount received may be reduced if income from other sources exceeds certain limits.)
- *Pension administration:* Municipalities will initially be responsible for processing claims and conducting assessments for the Senior Pension. On January 1, 2021, this responsibility will be transferred to a new unit being created within the independent institution that administers Denmark's mandatory earnings-related pension (*arbejdsmarkedets tillægspension*, or ATP).

In addition to the Senior Pension, Denmark's old-age pension system includes a universal state pension (*folkepension*) and the earnings-related ATP pension. The state pension has two components: an earnings-tested basic pension and an income-tested supplemental pension. To receive a full state pension (basic and supplemental), an individual must have reached the normal retirement age, have at least 40 years of residence in Denmark since age 15, and have earnings and other income below certain limits. An individual qualifies for a full ATP pension if he or she has reached the normal retirement age and has worked continuously since age 16 or since 1964, whichever is later. Partial pensions are paid under both programs to individuals who have resided or worked in Denmark but do not meet the requirements for the full pensions.

Sources: "Seniorpension," borger.dk; *Social Security Programs Throughout the World: Europe, 2018*, U.S. Social Security Administration, September 2018; "Danish Government Launches Long-Awaited Pension Reform," *Copenhagen Post*, May 3, 2019; "Folkepensionsalderen nu og fremover," Danish Agency for Labor Market and Recruitment, August 20, 2019; "Efter måneders tovtrækkeri: Fra 1. januar kan man søge om den nye seniorpension," DR, November 12, 2019, "Efterløn," Ældre Sagen, November 26, 2019; "Borgere kan søge om seniorpension fra 1. januar 2020," Danish Ministry of Employment, December 20, 2019; "Seniorpension," 3F, December 20, 2019; Lov nr 1559 af 27/12/2019.

Estonia Allows Certain Workers to Join Individual Account Pension Program

On January 1, Estonia's government implemented a measure that allows workers born from 1970 through 1982 to join the country's individual account pension program. The approximately 30,000 affected workers have until November 30 to opt in to the program, and contributions for those who do so will begin in January 2021. (Employers contribute 4 percent of gross monthly payroll to participating employees' individual accounts, and employees contribute 2 percent of covered earnings plus an administrative fee.) When the government launched the individual account program in 2002, coverage was mandatory for workers born after 1982 and voluntary for workers born from 1942 through 1982; however, the government no longer allowed voluntary coverage starting in 2010. There are approximately 738,000 participants (around three-quarters of the labor force) in the individual account program with total assets under management of around €4.4 billion (US$4.9 billion) (as of August 2019).

Separately, on August 12, 2019, Estonia's coalition government reached an agreement that would make the individual account program voluntary for workers born after 1982, and allow current participants to opt out of the program and transfer their account balances to personal pension accounts. (Employer contributions for those who opt out would be diverted to the social insurance pension program.) However, parliament has not yet drafted accompanying legislation, which was originally expected to be implemented on January 1.

Estonia's pension system consists of the individual account program as well as social insurance, universal, and social assistance programs. The social insurance, universal, and social assistance programs cover permanent residents of Estonia, noncitizens residing temporarily in Estonia, and legal refugees. The social insurance program is entirely employer financed, with a contribution rate of 16 percent of gross monthly payroll. The government pays the total cost of the universal and social assistance programs.

Sources: "Pension Reforms in Estonia: Background Summary," European Trade Union Institute; *Social Security Programs Throughout the World: Europe, 2018*, U.S. Social Security Administration, September 2018; "Estonia Reaches Pension Reform Agreement," *International Update*, U.S. Social Security Administration, August 2019; "Estonia Set to Overhaul €4.4bn Second-Pillar System," IPE.com, August 20, 2019; "Estonia: Persons Born in 1970–1982 Able to Once Again Join 2nd Pension Pillar," Baltic Business Daily, January 2, 2020; "Teise Sambaga Saavad Taas Liituda Aastatel 1970–1982 Sündinud Inimesed," rmp.ee, January 2, 2020.

International

Organisation for Economic Co-operation and Development Releases Pensions at a Glance 2019

On November 27, the Organisation for Economic Co-operation and Development (OECD) released *Pensions at a Glance 2019*, its biennial report examining public and private pension systems in the 36 OECD-member countries and the G20 countries. The 2019 edition covers pension reforms implemented from September 2017 to September 2019, and it includes an in-depth examination of non-standard work and related pension issues. (Non-standard work includes part-time and temporary work, and self-employment.) More specially, this edition discusses why non-standard work can pose a challenge to existing pension systems, analyzes different approaches to designing pensions for non-standard workers, and makes recommendations for improving pensions for these individuals.

In its analysis of recent pension trends, the report finds that many countries have reversed course on implementing austerity measures despite continued population aging. For instance, some countries have limited previously announced retirement age increases or expanded early retirement options (Italy, the Netherlands, and the Slovak Republic). In addition, other countries have reduced contribution rates (Hungary and Lithuania), expanded coverage (Austria, France, Italy, Mexico, and Slovenia), or increased minimum benefits for their first-tier pension programs (Germany). These reforms have been carried out even as the old-age dependency ratio—the population aged 65 or older divided by the population aged 15 to 64—continues to rise across the OECD. The OECD estimates that the average old-age dependency ratio in its member countries increased from 20 percent in 1980 to 31 percent in 2020, and projects that it will reach 58 percent in 2060.

Other notable findings from the report's general analysis of recent pension reforms and trends include:

- After rising in most OECD countries over the past decade, public pension spending is expected to increase in 21 countries and fall in 15 countries over the next 30 years. On average in the OECD, public pension expenditures are projected to increase from 8.8 percent of gross domestic product (GDP) in 2015–2016 to 9.4 percent of GDP in 2050.

- Almost all OECD countries provide targeted benefits, such as guarantee pensions or social assistance, to needy residents at retirement. On average, individuals who do not qualify for contributory old-age benefits in an OECD country can expect to receive 16 percent of the country's average earnings from mean-tested old-age benefits.
- Funded and private pensions are an important source of retirement security in many OECD countries. In 2018, 17 OECD countries had some form of mandatory or quasi-mandatory funded and private pension program in place. In 10 OECD countries, voluntary private pensions (occupational and personal) covered more than 40 percent of the working-age population.
- The total fertility rate is below the replacement level of about 2.1 in 34 of the 36 OECD countries. (The two exceptions are Israel [3.04] and Mexico [2.14].) After falling for much of the second half of the 20th century, fertility rates have increased slightly in most OECD countries since the early 2000s.
- Life expectancy continues to improve across the OECD, but the pace of improvement has slowed. In 2015–2020, life expectancy at birth averaged 78.1 years for men and 83.4 years for women. Life expectancy ranged from 69.9 years (Latvia) to 81.6 years (Switzerland) for men and from 77.8 years (Mexico) to 87.5 years (Japan) for women.
- On average in the OECD, 13.5 percent of individuals aged 65 or older live in relative income poverty (their income is less than half the national median equivalent household disposable income). The old-age poverty rate is lower than that for the population as a whole in 20 of the 36 OECD countries.

In its examination of non-standard work, the report highlights the social risks associated with this phenomenon and discusses how pension systems can be designed to address these risks. Non-standard workers make up a growing share of workers and currently account for more than one-third of employment in OECD countries. These workers typically earn less than standard workers and are often not covered by occupational pensions, leading to less earnings-related pension income and worse pension outcomes in general. The report notes that many existing social protection systems are ill equipped to provide adequate retirement security for non-standard workers because they were designed to accommodate workers with stable working careers, often with one or few employers. In particular, the report underscores that long vesting periods, low portability of occupational pension rights and assets, and high minimum contribution bases are particularly harmful to the retirement security of non-standard workers. To strengthen pension systems for non-standard workers, the report urges countries to consider a comprehensive approach to system design that reduces gaps between standard and non-standard workers in terms of coverage, contributions, and entitlements.

Source: *Pensions at a Glance 2019: OECD and G20 Indicators*, Organisation for Economic Co-operation and Development, November 27, 2019.

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