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Africa

Egypt Implements Extensive Pension System Changes

On January 1, Egypt's government implemented a new law that makes extensive changes to the country's social insurance pension system, including coverage, financing, qualifying conditions, benefit formulas, and benefit adjustments. The new law (Law No. 148 of 2019) replaces many existing social security laws and regulations, and consolidates several different social insurance programs into one. Egypt's president signed the law on August 19, 2019, after the country's parliament approved it on July 15, 2019. The new law is intended to improve social protection in Egypt without undermining the pension system's financial sustainability. According to the government, the share of the population living below the national poverty line increased to 32.5 percent in 2018 from 27.8 percent in 2016 and 16.7 percent in 2000. (In 2018, Egypt classified a person with an annual income of less than 8,282 Egyptian pounds [US$501.03] as poor.)

Key provisions of the new law affecting old-age pensions (effective January 1 unless otherwise noted) include:

- *Covered workers:* The unified program covers 26 categories of workers, including public- and private-sector employees, civil servants, and self-employed persons. Ten of the 26 categories previously lacked social insurance coverage; these 10 categories primarily include irregular and seasonal workers (for example, fishermen, land-transportation employees, and household workers) and small employers (for example, owners of environmental, rural, and family industries).
- *Contribution rates:* The employee and employer contribution rates are 9 percent and 12 percent, respectively, of total monthly earnings or payroll. (Previously, the employee and employer contributions rates were 10 percent and 15 percent, respectively, and were levied on base and variable earnings up to two different monthly earning ceilings.) The employee and employer contribution rates will each increase by 0.5 percent every 7 years until the combined rate reaches 26 percent in 2055. The minimum monthly earnings used to calculate contributions are the monthly minimum wage, and the maximum monthly earnings are 5,710 Egyptian pounds (US$361.85).
- *Qualifying conditions:* While the normal retirement age remains unchanged at 60 for now, it is scheduled to increase to 61 on July 1, 2032, and by an additional year every 2 years thereafter until reaching age 65 in 2040. The minimum months of contributions required to qualify for an old-age pension at the normal retirement age is also set to increase from 120 months to 180 months in 2025.
- *Early retirement:* Starting in 2025, an insured person can claim a reduced old-age pension at any age before the normal retirement age if he or she has at least 300 months of contributions (up from 240 months currently), and is entitled to a monthly pension that is at least equal to the minimum monthly pension or 50 percent of his or her last monthly covered earnings, whichever is greater.
- *Benefit formula:* The old-age pension's replacement rate is still 2.22 percent of the insured's average annual covered earnings for each year of contributions, but the average earnings are now calculated based on the insured's lifetime earnings (adjusted for inflation) instead of his or her last 2 years of earnings before retirement. The new formula only applies to periods of service since the new law's implementation date. (The old formula still applies to periods of service before the implementation date.)
- *Minimum and maximum pensions:* The minimum monthly pension is 65 percent of the minimum monthly earnings used to calculate contributions. The maximum monthly pension is 80 percent of the insured's average monthly covered earnings or 80 percent of the maximum monthly earnings used to calculate contributions, whichever is less.
- *End-of-service benefit:* The new law replaces the social insurance end-of-service benefit with one based on individual accounts. To fund the individual

account benefit, employees and employers each contribute 1 percent of total monthly covered earnings or payroll. When an insured person retires, he or she receives his or her account balance (total employee and employer contributions plus accrued interest) as a lump sum. The new benefit only applies to periods of service since the new law's implementation date. (The old benefit still applies to periods of service before the implementation date.)

- *Benefit adjustment:* The pension amount is automatically adjusted in July of each year based on changes in the national consumer price index, with a maximum annual increase of 15 percent. (Previously, adjustments were made on an ad hoc basis.)

Sources: Law No. 148 of 2019; "Egypt's New Social Insurance and Pensions Law is a Remarkable Step towards Social Security: MPs," *Al-Ahram*, July 22, 2019; "Egypt: A Third of Population Lives in Poverty," Voice of America, July 30, 2019; "32.5% of Egyptians Live in Extreme Poverty: CAPMAS," *Egypt Today*, August 1, 2019; *Social Security Programs Throughout the World: Africa, 2019*, U.S. Social Security Administration, September 2019; "Egypt: New Universal Social Security Law Revamps Pension Benefits," Global News Briefs, Willis Towers Watson, September 3, 2019; "Egypt's New Social Insurance Law," Sharkawy and Sarhan, September 11, 2019; "Egypt Consolidates Pension and Employee Social Insurance Law," Mercer, October 1, 2019; personal communication, International Social Security Association, January 2020.

The Americas

Bermuda Approves Amendments to Mandatory Occupational Pension Program

On December 30, Bermuda's government approved amendments to the National Pension Scheme (Occupational Pensions) Act 1998 that will (among other changes) extend mandatory occupational pension program coverage to foreign workers, change the definition of pensionable earnings, allow for lump-sum payments at retirement, and reduce the vesting period for entitlement to employer contributions. The amendments are effective on various dates in 2020. According to the government, the exclusion of foreign workers from the occupational pension program created an incentive for employers to hire foreigners rather than Bermudian workers.

The key amendments and their implementation dates are as follows:

- *Extension of mandatory coverage to foreign workers:* Effective March 2, all private-sector employees—with the exception of foreign workers on short-term work permits (not lasting more than 12 months) and citizens of the United States of America with qualified 401(k) plans—who are aged 23 or older and have worked at least 720 hours for their current employers in any calendar year will be covered under the program. (Spouses of covered employees may also enroll.) Employee and employer contribution rates for newly enrolled foreign workers will gradually increase from 1 percent of covered earnings/payroll each in 2020 to 5 percent each in 2024, matching the rates for Bermudian workers.
- *Change in the definition of pensionable earnings:* Effective January 2, pensionable earnings (up to B$200,000 [US$200,000] a year) now include all bonuses paid to an employee. Previously, only bonus amounts in excess of 10 percent of an employee's base pay were considered when calculating contributions.
- *Introduction of a lump-sum payment option at retirement:* Upon reaching the retirement age of 65, participants will be able to receive a lump-sum payment of up to 25 percent of their account balance (for defined contribution plans) or up to 25 percent of the commuted value of their benefits (for defined benefit plans). The government has not yet set an implementation date for this provision.
- *Reduction in the vesting period:* Effective March 2, the maximum vesting period for an employee to be entitled to his or her employer's contributions will be reduced from 2 years to 1.

In addition to the mandatory occupational pension program, Bermuda's pension system consists of: (1) a social insurance program for employed and self-employed persons aged 18 or older working more than 4 hours a week, and temporary residents gainfully employed for more than 26 consecutive weeks; and (2) a social assistance program that includes an old-age social pension (for Bermudian workers) and a disability social pension (for all Bermuda residents). The social insurance program is financed through flat-rate contributions by employees and employers (B$35.92 [US$35.92] a week each; none for employees aged 65 or older), and the social assistance program is financed through general revenues.

Sources: National Pension Scheme (Occupational Pensions) Amendment Act 2019; National Pension Scheme (Occupational Pensions) Amendment Act 2019 (No. 2) Commencement Notice 2019; "Bermuda Amends National Pension Scheme," Conyers, January 6, 2020; "Bermuda: Mandated Pension Coverage Extended to Foreign Workers," Global News Briefs, Willis Towers Watson, January 27, 2020; *Social Security Programs Throughout the World: The Americas, 2019*, U.S. Social Security Administration, March 2020 (forthcoming).

International

Organisation for Economic Co-operation and Development Releases Pension Markets in Focus 2019

On October 30, the Organisation for Economic Co-operation and Development (OECD) published *Pension Markets in Focus 2019*, an annual report examining retirement assets in funded and private pensions across 36 OECD member countries and 52 non-OECD jurisdictions. The report draws on a database developed by the OECD in collaboration with the International Organization of Pension Supervisors and the World Bank to examine how pension funds are invested and how they perform. The report also describes pension plan parameters (such as coverage, contribution rates, and benefit structures) and the various types of funded and private pension plans. This year's report includes a special section on the pension gap between men and women and explores its possible causes.

The report's key findings include:

- *Pension assets*
  - Despite a decline in 2018 compared with 2017, pension assets increased over the last decade to reach US$44.1 trillion (US$42.5 trillion in OECD countries and US$1.6 trillion in other jurisdictions).
  - The recent decline was likely due to the downturn in most equity markets in 2018. Declines in the amount of pension assets were recorded in 12 out of 65 reporting countries and jurisdictions, including major markets (the Netherlands [−1.4 percent], the United Kingdom [−0.3 percent], and the United States [−3.2 percent]) and smaller markets (Spain [−4.1 percent] and Poland [−10.1 percent]).
  - Pension assets were not evenly distributed across OECD countries, with 7 of the 36 holding more than 90 percent of total OECD pension assets in 2018: the United States (US$27.5 trillion, or 64.8 percent), the United Kingdom (US$2.8 trillion, or 6.6 percent), Canada (US$2.5 trillion, or 5.9 percent), Australia (US$1.9 trillion, or 4.5 percent), the Netherlands (US$1.5 trillion, or 3.6 percent), Japan (US$1.4 trillion, or 3.3 percent), and Switzerland (nearly US$1 trillion, or 2.3 percent).
- *Pension coverage*
  - Pension plan coverage generally rose over the past decade, particularly in countries with mandatory and auto-enrollment programs. New Zealand had the largest increase, from 32 percent of the working-age population in 2009 to 80 percent in 2018. Bulgaria and Israel also had large increases (by nearly 40 percentage points) over this period by making participation in pension plans mandatory.
  - Mandatory or quasi-mandatory pension plans cover more than 70 percent of the working-age population in 17 out of 31 reporting countries and jurisdictions, with some of the highest coverage rates recorded for Finland (93 percent) and Iceland (88 percent).
- *Investment performance*
  - Real investment rates of return (net of investment expenses) for pension plans in OECD countries were negative on average in 2018 (−3.2 percent) and slightly negative in non-OECD jurisdictions. Overall, pension plans experienced investment losses in 26 out of 31 reporting OECD countries and 14 out of 29 reporting non-OECD jurisdictions.
  - Average annual returns were positive in nominal terms over the last 5, 10, and 15 years, and remained positive in most countries after adjusting for inflation. Average annual returns of pension plans for the past 15 years were positive in 19 out of 22 reporting countries, with the highest returns reported for Colombia (6.2 percent), Canada (4.8 percent), and Australia (4.7 percent), and the lowest returns reported in the Czech Republic (0.0 percent), Estonia (−0.7 percent), and Latvia (−1.0 percent).
- *Plan types*
  - Most countries had defined benefit (DB) plans in 2018, although their size and importance varied. The countries with the most DB assets included Canada (60 percent of all assets) and Switzerland (90 percent). In 32 out of 38 reporting jurisdictions, less than 50 percent of pension assets were held in DB plans.
  - The share of pension fund assets under management for DB plans (versus defined contribution [DC] plans) declined in 17 out of 22 reporting countries, including the United States (from 39 percent in 2009 to 33 percent in 2018) and Israel (from 84 percent in 2008 to 56 percent in 2018).

In a special section on the gender gap in retirement income, the report finds that the gap exists in all reporting OECD countries. On average across the OECD, women aged 65 or older receive 26 percent less income than men from public and private pension programs. This gap is largely attributed to different work histories (such as shorter careers and more part-time work among women than men), lower wages, and the way those differences are transferred through components of pension programs. Moreover, men and women do not receive the same benefits from funded and private pensions in some countries. This difference may result from lower entitlements offered for assets accumulated before retirement, and the types of retirement products available (particularly lower annuities due to longer life expectancy for women).

Source: *Pension Markets in Focus 2019*, Organisation for Economic Co-operation and Development, October 30, 2019.

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