International Update

Recent Developments in Foreign Public and Private Pensions

March 2020

Asia and the Pacific

Japan Approves Plan to Expand Pension Coverage to Part-Time Employees in Smaller Companies

On March 3, the Japanese cabinet approved a pension reform plan that would gradually expand coverage under the country's earnings-related Employee Pension Insurance (EPI) program to part-time employees in smaller companies. Currently, companies with at least 501 employees are required to enroll part-time employees who work at least 20 hours a week and have monthly earnings of at least 88,000 yen (US$809.30). If enacted into law by parliament, the new reform plan would extend this requirement to companies with 101 to 500 employees beginning in October 2022, and to companies with 51 to 100 employees in October 2024. (The minimum work hours and earning requirements will be the same.) According to the government, the reform aims to increase the country's retirement savings and boost EPI program participation by around 650,000 new members. (Around 44 million workers out of a total labor force of 57 million workers currently participate in EPI.) The Ministry of Health, Labor, and Welfare intends to submit a legislative bill for consideration by parliament sometime in 2020.

Japan's pay-as-you-go public pension system comprises two major programs—the earnings-related EPI program and the flat-rate National Pension (NP) program—supplemented by a means-tested program for low-income pension recipients (first available October 1, 2019). EPI covers employed persons younger than age 70 in covered firms, with voluntary coverage available under certain conditions to employed persons aged 70 or older. Employees and employers both contribute 9.15 percent of wage class earnings/payroll (on monthly earnings from 88,000 yen to 620,000 yen [US$5,701.86]), based on 31 wage classes, to finance the program. The NP program covers all residents of Japan aged 20 to 59, with voluntary coverage available to certain older workers and Japanese citizens residing abroad. Insured persons contribute 16,410 yen (US$150.92, for April 2019 through March 2020) a month and the government contributes 50 percent of the cost of benefits and the total cost of administration; employers do not contribute to the NP program. The means-tested program pays benefits to recipients of retirement, disability, and survivor pensions who meet certain income and other requirements.

Sources: "Japan," *International Update*, U.S. Social Security Administration, January 2017; *Social Security Programs Throughout the World: Asia and the Pacific, 2018*, U.S. Social Security Administration, March 2019; "Japan: Country Manual," IBIS eVisor News, September 12, 2019; "Japan Mulls Expansion of Pension Coverage to Include More Part-Time Workers," *The Japan Times*, November 27, 2019; "Japan: Draft in Progress to Allow Part-time Employees to Join EPI, Expand NP," IBIS eVisor News, December 16, 2019; "Japan Adopts Pension System Reform Plan," *The Japan Times*, March 3, 2020.

Malaysia Approves Changes to Provident Fund Program

Malaysia's government recently approved a series of reforms to the Employees Provident Fund (EPF), including a temporary reduction in the employee contribution rate, a new withdrawal option, and a provision allowing male participants to divert a portion of their employee contributions to their wives' accounts. The contribution rate reduction is expected to be in effect from April 1 through the end of year and is aimed at reducing the economic impact of the COVID-19 outbreak. The implementation dates for the other reforms, which are part of the Employees Provident Fund (Amendment) Bill 2019 published in the country's official gazette on December 31, are not yet known.

Key details of the new reforms include:

- *Temporary reduction in the employee contribution rate:* On April 1, the employee contribution rate will fall from 11 percent of monthly earnings to 7 percent for fund members younger than age 60. (Fund members aged 60 or older do not contribute to the EPF.) However, fund members can choose to keep their contribution rate at 11 percent by submitting a form on the EPF website. Employer contribution rates remain unchanged at 13 percent of monthly payroll for fund members younger than age 60 with monthly earnings up to 5,000 ringgits (US$1,186.37); 12 percent for fund members younger than age 60 with monthly earnings exceeding 5,000 ringgits; and 4 percent for fund members aged 60 to 75.

- *New withdrawal option:* Under the current rules, contributions made to a fund member's account after he or she has reached the normal retirement age of 55 cannot be withdrawn until the member reaches age 60. The new reform will allow a fund member to withdraw these contributions if he or she: (1) is physically or mentally incapacitated and unable to work, or (2) does not have Malaysian citizenship and is leaving Malaysia. (As before, fund members aged 55 or older may withdraw all contributions made prior to reaching the normal retirement age without restrictions.)
- *New option to share contributions with wives:* Once this reform is implemented, a male fund member can choose to divert 2 percent of his monthly earnings (from the total 11 percent employee contribution rate) into the EPF account(s) of his lawful wife or wives. (It is unclear how the contributions are divided in the case of multiple wives, and whether the recent employee contribution rate reduction will affect this reform.) To be eligible, a wife must be a Malaysian citizen; the male fund member's citizenship status is not considered. According to the government, the reform is meant to increase retirement savings among women. (There are no plans to allow female fund members to divert a portion of their contributions to their husbands' accounts.)

The EPF is the primary source of old-age, disability, and survivor benefits in Malaysia. Coverage is mandatory for all private-sector employees and public-sector employees not covered by the separate public-sector pension system, and voluntary for certain other workers. In addition to the EPF, Malaysia's pension system includes a social insurance program for those who are mandatorily covered by the EPF (voluntary coverage under the social insurance program is not possible) and a social assistance program for needy elderly persons. The social insurance program provides disability and survivor pensions to eligible workers; it does not provide old-age pensions.

Sources: "An Act to Amend the Employees Provident Fund Act 1991," 2019; *Social Security Programs Throughout the World: Asia and the Pacific, 2018*, U.S. Social Security Administration, March 2019; "Dewan Rakyat Approves Bill to Allow Men to Transfer EPF Contributions to Their Wives," *New Straits Times*, December 4, 2019; "Amendments to the Employees Provident Fund Act 1991," Donovan & Ho, January 9, 2020; "EPF to Slash Employees' Contribution to 7%," *The Malaysian Reserve*, February 28, 2020; "Malaysia Slashes Minimum EPF Employee Contribution Rate to 7%," HRM Asia, March 2, 2020.

Africa

Mauritius Reforms Retirement Gratuity Benefit

On January 1, Mauritius made significant changes to the country's retirement gratuity benefit, including its coverage, financing, calculation, and administration. (The retirement gratuity benefit is a lump-sum benefit paid to workers at retirement based on their years of service for employers that do not offer qualified pension plans. To qualify for the benefit, a worker must have at least 1 year of continuous service with an employer.) One of the key changes is a requirement that employers prefund the benefit by paying monthly contributions to the Portable Retirement Gratuity Fund (PRGF), a government-administered system of individual accounts for covered workers. At retirement, a worker's PRGF account balance will be used to pay his or her gratuity benefit. (Previously, employers were responsible for managing the retirement gratuity benefit program and paid benefits directly to their workers.) Mauritius's parliament approved the changes on August 13, 2019, as part of the Workers' Rights Act, a reform law that overhauls much of the country's labor code. The gratuity benefit changes are intended to improve retirement security in Mauritius by making the benefit more portable and financially stable.

The main changes made to the retirement gratuity benefit include:

- *Covered workers:* Citizens of Mauritius employed in the private sector accrue rights to the gratuity benefit if their monthly basic earnings do not exceed 200,000 Mauritian rupees (US$5,257.62) and they are: (1) aged 50 or older and not covered by a qualified employer-sponsored pension plan, or (2) older than age 18 and not covered by a standard employment contract. Voluntary coverage is also available for self-employed persons. Previously, the program did not cover nonstandard workers or allow self-employed persons to participate.
- *Monthly contributions:* To finance the gratuity benefit, employers must make monthly contributions to the PRGF individual accounts for their covered employees. The employer contribution rate is 4.5 percent of monthly payroll, but this rate will be phased in for certain small- and medium-sized employers (SMEs). The SME contribution rate in 2020 ranges from 2.1 percent to 3.5 percent, depending on an SME's annual revenue, and this rate will gradually

increase each year until it reaches 4.5 percent for all employers in January 2023. (The government will pay the difference between the reduced rate and the standard rate to the individual accounts of SME employees during this phase-in period.) Employers have until April 1 to begin paying the PRGF contributions, which started to be collected on January 1.

- *Benefit calculation:* As before, the gratuity benefit will be equal to 15 days of an employee's monthly earnings for each year of covered service. The monthly earnings used to calculate the benefit are still based on the greater of the employee's last monthly earnings or the employee's average monthly earnings in the last 12 months, including commissions (up to 1.2 million Mauritian rupees [US$31,545.74] a year) and any other regular payments. The years of service used to calculate the benefit include service with all employers from January 1, 2020 (including any pre-2020 service with these employers). Previously, only service with the last employer was used to calculate the benefit.
- *Program administration:* The Mauritius Revenue Authority, the country's tax agency, is responsible for collecting contributions, administering the PRGF individual accounts, and paying the gratuity benefit to covered workers at retirement. (The gratuity benefit can also be paid under certain conditions for the permanent disability or death of a worker.)

In addition to the retirement gratuity benefit, Mauritius's old-age pension system includes a universal pension covering the country's residents and a social insurance pension covering private-sector employees. To qualify for the universal pension, a person must have reached age 60 and have at least 12 years of residence in Mauritius since age 18 (if a Mauritian citizen) or have at least 15 years of residence since age 40, including the 3 years immediately before the claim is made (if not a Mauritian citizen). To qualify for the social insurance pension, a person must have reached age 65 with contributions equivalent to at least 150 pension points (there is no contribution requirement for persons insured before January 1, 2012). (The government sets the value of pension points based on actuarial projections.)

Sources: "Monthly Portable Retirement Gratuity Fund (PRGF) Return," Mauritius Revenue Authority; Employment Rights Act 2009; Workers' Rights Act 2019; "Parlement: Chuttoo et Subron s'opposent sur fond de nouvelles législations du travail," *L'Express*, July 16, 2019; *Social Security Programs Throughout the World: Africa, 2019*; U.S. Social Security Administration, September 2019; Workers' Rights (Portable Retirement Gratuity Fund) Regulations 2020; "Mauritius: Law Brings Benefit Entitlements, Mandatory Retirement Funding," Global News Briefs, Willis Towers Watson, January 31, 2020; "Travail: L'introduction du Portable Retirement Gratuity Fund n'avance pas, la faute au secteur privé," Radio One, February 22, 2020; "The Minister of Labour Issues Regulations on the Portable Retirement Gratuity Fund (PRGF)," Appleby, March 6, 2020.

International Update is a monthly publication of the Social Security Administration's (SSA's) Office of Retirement and Disability Policy. It reports on the latest developments in public and private pensions worldwide. The news summaries presented do not necessarily reflect the views of SSA.

Editor: John Jankowski

Writers/researchers: Ben Danforth, John Jankowski, and David Rajnes.

Social Security Administration
Office of Retirement and Disability Policy
Office of Research, Evaluation, and Statistics
250 E Street SW, 8th Floor, Washington, DC 20254

SSA Publication No. 13-11712
Produced and published at U.S. taxpayer expense