International Update

Recent Developments in Foreign Public and Private Pensions

August 2020

Europe

Ireland Proposes Deferring State Pension Age Increases as Part of a Revised Reform Strategy

In June, Ireland's new coalition government issued its "Programme for Government—Our Shared Future," a document that outlines the government's priorities in various policy areas over the next 5 years. The document includes a series of proposed measures relating to pensions, including a deferment of scheduled increases in the state pension age (currently 66, with planned increases to 67 in 2021 and 68 in 2028). Under the new agreement, a Commission on Pensions would be established to examine pension sustainability and eligibility issues, and provide policy recommendations (addressing issues such as eligibility age and contribution rates). The government would defer all scheduled increases in the state pension age until the Commission submits its report, which is expected by June 2021. (The government would aim to respond to the Commission's recommendations within 6 months of the report's issuance.) According to a recent report by the Irish Fiscal Advisory Council, the cost of postponing the state pension age increases will be €575 million (US$681 million) in the first year and rise thereafter.

Other pension changes proposed in the Programme for Government include:

- *Creating an early retirement allowance or pension*: This measure would provide individuals who have reached age 65 and are required (or choose) to retire early with a benefit equal to the jobseeker's benefit for unemployed persons but without having to engage in any work-search activities. (For 2020, the weekly jobseeker's benefit ranges from €91.10 [US$107.94] to €203 [US$240.51] depending on average weekly earnings, plus supplements for dependents.) Currently, early retirees can receive the jobseeker's benefit until the state pension age if they meet certain contribution and work-search requirements.
- *Incentivizing state pension deferrals*: This change would reward individuals who delay claiming their contributory state pensions until after the state pension age with actuarially increased benefits. Currently, there is no benefit increase for those deferring the pension.
- *Allowing contributions beyond the state pension age*: This reform would allow individuals without full social insurance records to continue paying contributions beyond the state pension age to increase their contributory state pensions.

The Programme for Government also reaffirms several reform proposals in a previous pension reform strategy, "A Roadmap for Pensions Reform," including:

- *Moving to a total contribution approach for determining pension entitlement*: This reform would more closely link the contributory state pensions that individuals are entitled to receive with the total number of paid and credited contributions they accrue during their lifetimes. Currently, it is possible to qualify for a full contributory state pension with as few as 10 years of contributions through a yearly average approach.
- *Introducing an auto-enrollment program*: This reform would automatically enroll workers in supplemental retirement savings accounts offering a variety of investment options. Workers, employers, and the government would all contribute to the individual accounts (with workers' contributions phased in over a 10-year period), and workers would be allowed to opt out of the program after being enrolled.

In addition to the contributory state pension, Ireland has a noncontributory means-tested state pension for residents aged 66 or older who are ineligible for the contributory benefit, occupational pensions provided by employers, and voluntary personal savings.

Sources: "Ireland Announces Five-Year Pension Reform Strategy," *International Update*, U.S. Social Security Administration March 2018; "Ireland Announces Keys Elements of New Auto-Enrollment Plan," *International Update*, U.S. Social Security Administration December 2019; "Programme for Government—Our Shared Future," Fine Gael, June 2020; "State

Pension Age Increase Deferred Pending Report," independent.ie, June 15, 2020; "Programme for Government: Rise in Pension Age to be Deferred," *Irish Times*, June 15, 2020; "Comment: How the State Should Reform Its Pension Policy," *Business Post*, June 18, 2020; "Programme for Government Misses Opportunity for Pension Reform," Social Justice Ireland, July 1, 2020; "Ireland's New Government Freezes State Pension Rise," IPE.com, July 7, 2020; "Long-term Sustainability Report: Fiscal Challenges and Risks 2025–2050," Irish Fiscal Advisory Council, July 15, 2020; "State Pension Age Should Be 69 by 2040 – Budget Watchdog," *Irish Times*, July 15, 2020.

The Americas

Chile Introduces Early Withdrawal Option for Individual Accounts During Pandemic

To help provide financial relief during the COVID-19 pandemic, Chile's president approved a law on July 24 that allows participants of the country's mandatory individual account pension program to withdraw up to 10 percent of their account balances; for most participants, the minimum withdrawal amount is 35 Unidad de Fomentos (UFs) and the maximum is 150 UFs. (The minimum is lower for those with account balances under 350 UFs. The UF is an index that is adjusted daily based on monthly changes in the consumer price index. As of August 18, 1 UF is equal to 28,667.43 pesos [US$37.90].) To take advantage of this early withdrawal option, participants must submit requests to their pension fund management companies (AFPs) from July 30, 2020, to July 30, 2021. AFPs must then distribute 50 percent of a participant's requested withdrawal amount within 10 business days from the date of submission and the remainder within 30 days of the first withdrawal payment. According to the Superintendent of Pensions (Superintendencia de Pensiones), around 81 percent of individual account participants—or about 9 million out of 11 million participants—have used this early withdrawal option to request funds from their accounts as of August 17. Of these participants, around 7 million have received their first payments for a total of around US$9 billion.

Chile's old-age pension system consists of the mandatory individual account program, a legacy social insurance program, and several noncontributory programs. Employees who have entered the labor force since 1983 are required to participate in the individual account program and contribute 10 percent of their monthly covered earnings (plus an administrative fee) to their accounts managed by one of seven AFPs. The normal retirement age for the individual account and social insurance pensions is 65 for men and 60 for women; for two social assistance pensions, the normal retirement age is 65 for both men and women.

Sources: *Social Security Programs Throughout the World: The Americas, 2019*, U.S. Social Security Administration, March 2020; "Superintendencia de Pensiones Instruye a las AFP Procedimiento para Entregar Fondos a los Afiliados que Soliciten Retirar el 10%," Superintendencia de Pensiones, July 23, 2020; "Presidente de Chile Promulga Histórica Ley de Retiro Anticipado de Pensiones," AFP, July 24, 2020; "Pagos por Retiros de Fondos Superan los US$9.100 Millones y Casi Siete Millones de Personas Han Recibido sus Recursos," Superintendencia de Pensiones, August 17, 2020.

Mexico Announces Agreement on Pension Reforms

On July 22, Mexico's government announced an agreement to reform the country's mandatory individual account pension program, which includes increasing employer contributions, adjusting government contributions, reducing the minimum contributions required for an old-age pension, and boosting the guaranteed minimum pension. The government negotiated the agreement with Mexico's largest private-sector employer and trade union organizations—the Business Coordinating Council (Consejo Coordinador Empresarial) and the Confederation of Mexican Workers (Confederación de Trabajadores de México), respectively. Mexico's congress still needs to approve the agreed-upon reforms, but the government expects this to happen by early 2021. The reforms are intended to increase participation in the individual account program—particularly among lower income workers—by improving the adequacy of pensions provided by the program. According to a 2019 analysis from the Organisation for Economic Co-operation and Development (OECD), Mexico's individual account old-age pension replaces 25.7 percent (for men) or 24 percent (for women) of an average worker's earnings, which is well below the 49-percent average for all OECD member countries. Mexico's government estimates that the reforms will ultimately increase individual account old-age pensions by an average of 40 percent. (The pension increase could be as high as 103 percent for lifelong minimum-wage workers.)

The key provisions of the reform agreement (effective when the agreement becomes law unless otherwise noted) include:

- *Increasing employer contributions*: Starting 2 years after the agreement's enactment, the employer contribution rate for the individual account old-age pension will gradually increase from 5.15 percent to 13.875 percent of daily covered payroll over the following 8 years. (The employee contribution rate will remain unchanged at 1.125 percent of daily covered earnings.)

- *Adjusting government contributions*: The government's total contributions to the individual account program will remain unchanged, but they will be targeted more at low-income workers. Currently, the government contributes 0.225 percent of daily covered earnings for all workers plus a flat-rate daily amount for workers with earnings up to 15 Units of Measure and Adjustment (Unidad de Medida y Actualización, or UMA; the daily UMA is currently equal to 86.88 pesos [US$3.92]). Under the new agreement, the government will increase its flat-rate daily contributions but only pay them for workers with earnings up to 4 UMAs.
- *Reducing minimum required contributions*: The minimum weeks of contributions required to qualify for an old-age pension will decrease from 1,250 to 750 and then gradually increase to 1,000 over the following 10 years.
- *Boosting the guaranteed minimum pension*: The guaranteed minimum pension will increase from 3,289 pesos (US$148.29) a month (equal to 80 percent of the legal monthly minimum wage) to an average of 4,345 pesos (US$195.90) a month. The actual guaranteed minimum pension paid under the new rules will depend on an insured person's age, weeks of contributions, and covered earnings, and could be as high as 220 percent of the legal monthly minimum wage for some insured persons.

Mexico's old-age pension system consists of the mandatory individual account program, a legacy social insurance program, and a universal program. Both the individual account and social insurance programs cover private-sector employees and cooperative members, but the social insurance program was closed to new enrollees on July 1, 1997, when the individual account program was introduced. (Individuals who were covered by the social insurance program before this date can choose to receive a social insurance old-age pension at retirement.) The normal retirement age for the individual account and social insurance programs is 65. The universal program covers all residents of Mexico and can be claimed at age 65 (for indigenous persons) or age 68 (for other covered individuals).

Sources: *Pensions at a Glance 2019: OECD and G20 Indicators*, Organisation for Economic Co-operation and Development, November 27, 2019; *Social Security Programs Throughout the World: The Americas, 2019*; U.S. Social Security Administration, March 2020; "Subcuentas y Aportaciones IMSS," Comisión Nacional del Sistema de Ahorro para el Retiro, April 3, 2020; "México Anuncia Reforma de Pensiones para Aumentar 40% el Monto Recibido al Jubilar," *Diario Financiero*, July 22, 2020; "¿De Qué Trata la Propuesta de Reforma al Sistema de Pensiones?" *El Economista*, July 22, 2020; Communication No. 061, Government of Mexico, July 22, 2020; "Mexico to Boost Worker Pensions, Strikes Deal with Employers," Reuters, July 22, 2020: "Reforma a las Pensiones en México: 3 Claves para Entender la Iniciativ," CNN Español, July 23, 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