International Update

Recent Developments in Foreign Public and Private Pensions

September 2020

This issue contains an occasional feature that provides a more in-depth look at recent changes to pension systems abroad. This month, the focus is on International COVID-19 Induced Reforms.

Focus on International COVID-19 Induced Reforms

An Inventory of Social Security Contribution Reforms, April to August 2020

Since the COVID-19 pandemic's start around the beginning of 2020, many countries around the world have adopted social security contribution reforms to help mitigate the pandemic's negative social and economic effects. Some of the contribution reforms implemented from January to mid-April are summarized in an April 2020 *International Update* article on pandemic-related pension reforms. This article builds on the April update by providing an inventory of contribution reforms adopted from late April to late August 2020. These reforms, which are often part of larger economic stimulus packages, can include reductions, suspensions, or deferrals of social security contributions and are usually temporary. These measures are intended to stimulate economies by boosting the take-home pay of workers and lowering labor costs for employers. In June, the International Monetary Fund forecast a 4.9 percent drop in the world's real gross domestic product in 2020, which represents an 8.3 percentage point decrease from its last pre-pandemic estimate.

Social security contribution reforms implemented from late April to late August include:

- *Argentina.* On August 4, Argentina's tax agency issued a resolution that reduces certain employers' July contributions to the country's social insurance pension program (Sistema Integrado Previsional Argentino) by up to 95 percent and allows these employers to defer payment of outstanding July contributions. Argentina has already provided similar reductions and deferrals for March, April, May, and June contributions. To be eligible for this financial relief, employers must qualify for an emergency assistance program introduced in early April and enroll in a payment plan for each month of deferred contributions. Participating employers have up to eight equal monthly installments to pay deferred contributions with accrued interest, each of which must be at least 1,000 pesos (US$13.86); the first payment is due in the month after the payment-plan enrollment period ends. (The enrollment period for the deferral of July contributions is October 1 to November 30.) Argentina's government will cover the cost of the contribution reductions.
- *Brazil.* On June 17, Brazil's government further extended the payment deadline for employer social security contributions originally due in May to November. Under a previous measure, the payment deadlines for April and May contributions had been extended to August and October, respectively.
- *Canada.* Effective May 5, Canada's tax agency suspended a rule requiring employers to contribute at least 1 percent of payroll each year to certain defined contribution (DC) pension plans on behalf of their employees. The rule suspension will remain in effect through the end of 2020 and only applies to employer-sponsored DC pension plans that operate on a money purchase basis. (In Canada, pension plans with money purchase provisions consist of individual accounts for the covered employees.)
- *Colombia.* On April 15, Colombia's government implemented a law that lowered the rates for March and April contributions to the country's old-age, disability, and survivor pension system. See the July 2020 *International Update* for more details.
- *Czech Republic.* On May 27, the Czech Republic's government implemented a measure that lowers the penalty for the late payment of most employer social security contributions for May, June, and July. (The contributions covered by this measure include the 21.5 percent of monthly covered payroll that employers pay for old-age, disability, survivor, and work injury benefits.) As long as an employer

pays the contribution it owes for these 3 months by October 20, any late penalties it incurs will be reduced by 80 percent. To qualify for this penalty reduction, employers must collect and remit their employees' contributions for these 3 months without delay. (Employees contribute 6.5 percent of monthly covered earnings for old-age, disability, survivor, and work injury benefits.)

- *France.* On August 1, France's government enacted an economic relief law that provides contribution reductions for certain employers and contribution payment plans for all employers. Under the law, employers with fewer than 250 employees in economic sectors most affected by the pandemic are exempt from social security contributions owed from February 1 through May 31; employers with fewer than 10 employees in other sectors are also exempt under certain conditions for contributions owed from February 1 through April 30. In addition, contributions owed by these small and micro employers for the remainder of 2020 are reduced by 20 percent. The law also allows all employers to participate in payment plans that spread out the payments of contributions owed before July 1. (Additional conditions apply to some employers with at least 5,000 employees.) Small and micro employers will be automatically enrolled in the payment plans unless they elect not to participate. If small and micro employers enroll in the payment plans and do not qualify for the aforementioned contribution reductions, they may be eligible for up to a 50-percent reduction of any contributions they still owe for February 1 through May 31.
- *India.* On May 18, India's government temporarily lowered the employee and employer contribution rates for pension programs administered by the Employees' Provident Fund Organisation (EPFO). Under the reform, the EPFO contribution rate paid by both employees and employers decreased from 12 percent to 10 percent of basic earnings/payroll in May, June, and July. (Public-sector enterprises, their employees, and certain other persons are not eligible for this rate reduction.) The EPFO also announced on May 15 that it would not penalize employers for late contribution payments during the nationwide pandemic lockdown that lasted from March 25 to May 31. (Normally, employers are required to pay each month of EPFO contributions by the 15th of the following month.)
- *Italy.* On August 14, Italy's government implemented an economic relief package that includes temporary social security contribution exemptions for (a) employers who do not reapply for emergency wage subsidies, (b) permanent hiring in any sector, (c) and temporary hiring in the tourism and spa sectors. In particular, employers who received emergency wage subsidies in May and June are exempt from paying social security contributions for up to 4 months before January 1, 2021, if they do not apply for wage subsidies made available under the latest relief package. In addition, employers are exempt from paying up to 6 months of social security contributions for employees they hire from August 15 to December 31 with open-ended contracts. (Certain exemption maximums and other conditions also apply.) The same exemption is also available to employers for the hiring of fixed-term or seasonal employees in the tourism and spa sector. (The work contracts for these employees must not last longer than 3 months.)
- *Malaysia.* On May 13, Malaysia's Employees Provident Fund (EPF) extended the monthly deadline for payment of contributions due in May, June, and July from the 15th to the 30th of each month. The EPF had previously implemented a similar extension for contributions due in April.
- *Norway.* On June 22, Norway's tax agency announced that the payment deadline for May and June employer contributions would be further extended from August 15 to October 15. The reduction in the employer contribution rate that was previously implemented for May and June (from 14.1 percent to 10.1 percent of gross monthly payroll) remains in effect under these amended rules.
- *Poland.* On April 18 and May 15, Poland's government amended its Anti-Crisis Shield (Tarcza Antykryzysowa) program to expand eligibility for temporary social security contribution reductions. Under the amended program, employers with 10 to 49 employees as of February 29 can receive a 50-percent reduction in the contributions they owe for March, April, and May. In addition, social cooperatives and sole proprietorships are exempt from paying contributions for March, April, and May, and certain self-employed persons with income exceeding 300 percent of the projected average national monthly earnings for 2020 are exempt for April and May. Previously, only micro-enterprises (firms with up to nine employees) and self-employed persons with income up to 300 percent of the projected average national monthly earnings were eligible for the 3 months of contribution relief.

- *Spain.* On June 26, Spain's government amended and extended its short-term work support program (Expediente de Regulación Temporal de Empleoz), which includes temporary employer contribution reductions. Under the amended rules, employers that have furloughed employees because of the pandemic will pay lower social security contributions for these employees from July 1 through September 30. The amount of the contribution reduction depends on an employer's size and whether the employer has resumed operations as of July 1. For employers with fewer than 50 employees that have resumed operations, the contributions are reduced by 60 percent for employees who have been reinstated and 35 percent for employees who remain furloughed. For employers with at least 50 employees that have resumed operations, the reduction is 40 percent for reinstated employees and 25 percent for furloughed employees. For employers with fewer than 50 employees that remain closed, the contribution reduction for the furloughed employees is 70 percent in July, 60 percent in August, and 35 percent in September. For employers with at least 50 employees that remain closed, the reduction is 50 percent in July, 40 percent in August, and 25 percent in September.

Sources: "Registered Pension Plans," Government of Canada, December 8, 2016; Decreto-Legge 14 agosto 2020, n. 104, 2020 (Italy); Loi n° 2020-935 du 30 juillet 2020 de finances rectificative pour 2020, 2020 (France); Portaria ME Nº 245/2020, 2020 (Brazil); Real Decreto-ley 24/2020, de 26 de junio, 2020 (Spain); Resolución General 4734/2020, 2020 (Argentina); Resolución General 4788/2020, 2020 (Argentina); Sbírka zákonů č. 2552020, 2020 (Czech Republic); "An Inventory of Pension Reforms, January to April 2020," *International Update*, U.S. Social Security Administration, April 2020; "April 2020 Contribution Payment Date Further Extended to 30 April," Employees Provident Fund, April 14, 2020; "Nowe rozwiązania przewidziane w ustawie o szczególnych instrumentach wsparcia w związku z rozprzestrzenianiem się wirusa SARS-CoV-2 tzw. Tarcza Antykryzysowa 2.0," Zakładzie Ubezpieczeń Społecznych, April 17, 2020; "Extension of May, June, and July 2020 Contribution Payment Date," Employee Provident Fund, May 13, 2020; "Canada: Minimum Employer Contribution Requirement Waived, Pension Plans (COVID-19)," KPMG, May 14, 2020; "Lockdown: EPFO not Charging Penalty from Cos for Delay in Payment of Provident Fund Dues," *The Economic Times*, May 15, 2020; "Lower Rate of EPF Subscription 10% with EPFO Notified Placing Higher Liquidity in the Hands of Employees and Employers During COVID -19 Pandemic," Indian Ministry of Labor and Employment, May 19, 2020; "Nowe wnioski na PUE ZUS w związku z rozwiązaniami tzw. Tarczy Antykryzysowej 3.0," Zakładzie Ubezpieczeń Społecznych, May 25, 2020; "World Economic Outlook Update, June 2020," International Monetary Fund, June 2020; "Poland: Government and Institution Measures in Response to COVID-19," KPMG, June 17, 2020; "Colombia Implements Temporary Contribution Rate Reductions," *International Update*, U.S. Social Security Administration, July 2020; "Argentina: Employers Can Pay Contributions Due for the Months of March, April and May 2020 Through a Financing Plan," Gallagher GVISOR Compliance Alerts, July 22, 2020; "Spain: Royal Decree Introduces Sliding Scale of Exemptions for Employer-paid Social Security Contributions, As Well as Ban on Termination, Outsourcing Activities, and Overtime Hours," Gallagher GVISOR Compliance Alerts, July 23, 2020; "Law Decree August 14, 2020, n. 104 (so-called 'August Decree')," Dentons, August 17, 2020; "France: Law Provides for Total Exemption, Payment Assistance, Partial Discount, and Payment Plans for Social Contributions," Gallagher GVISOR Compliance Alerts, August 31, 2020; "Redusert arbeidsgiveravgift og kompensasjonsordning for arbeidsgivere i tiltakssonen og på Svalbard," Skatteetaten, September 11, 2020.

Europe

Netherlands Reaches Agreement on Occupational Pension Reforms

On June 22, the Netherlands' government notified parliament that it had reached an agreement on several major occupational pension reforms, which include introducing a new form of collective defined contribution (CDC) plan, transferring members of existing defined benefit (DB) plans to non-DB plans, and eliminating age-based contribution rates. The government negotiated the agreement with its social partners, which consist of three employer associations and three trade union federations that represent most of the Netherlands' economy. This new pension reform agreement builds on one approved by the government and the social partners last June; under this previous plan, the government committed to slowing scheduled increases in the normal retirement age and to introducing an early retirement option for workers in arduous occupations. The latest proposed reforms are intended to improve the occupational pension system's financial sustainability while avoiding significant benefit cuts for current and future pensioners. Since 2013, a number of pension plans in the Netherlands' €1.46 trillion (US$1.75 trillion) occupational pension system have been forced to institute benefit cuts and increase contribution rates to maintain adequate funding levels.

The occupational pension reforms outlined in the new agreement are expected to be enacted into law by the end of 2021 and implemented over a 4-year period beginning on January 1, 2022. The key reforms specified by the agreement include:

- *Introducing a new form of CDC plan:* A new form of CDC plan would be introduced to replace DB plans. (Around 90 of the Netherlands' occupational pension plans currently operate as DB plans. Existing defined contribution [DC] plans would still be allowed to operate under this reform.) Like many current DB plans, the new CDC plan would require employers and/or employees to contribute at fixed rates to collective pension funds, which would then finance members' old-age pensions. Unlike a DB plan, however, the CDC plan would not guarantee members' benefits—a member's pension would not only depend on his or her average career earnings but also the pension fund's investment returns and members' longevity. The social partners would set the target replacement rate for each CDC plan, but the benefits actually paid by a plan could deviate from its target depending on its financial performance. To prevent large fluctuations in CDC pensions over time, each CDC pension fund would allocate up to 15 percent of its assets to a solidarity reserve that would be used to smooth payout amounts. (No more than 10 percent of members' contributions could be used to finance the solidarity reserve.)

- *Transferring members of existing DB pension plans to non-DB plans:* After the new form of CDC plan is introduced, members of existing DB pension plans would be transferred to newly established CDC or DC plans. Employers would be responsible for preparing transition plans that outline available plan options, explain the rationale of the new plans, and provide information on supporting calculations. The social partners would then have to agree on the final design of each plan and decide whether accrued pension rights under the old DB plans would be transferred to the new plans.
- *Eliminating age-based contribution rates:* The contribution rates for the new CDC and DC plans would be fixed and not vary based on a member's age. (Currently, the Netherlands' occupational pension plans can have contribution rates that increase as workers get older. This reform would not apply to existing DC plans with age-based contribution rates.) Annual contributions to occupational pension plans would initially be capped at 30 percent of a member's annual covered earnings. (This contribution rate is projected to generate a pension that replaces 75 percent of a member's average earnings with 40 years of contributions and 80 percent of average earnings with 42 years of contributions.) To compensate members who would be disadvantaged by the switch to new plans, employers and/or pension providers would contribute up to an additional 3 percent of covered earnings for these members over a period not exceeding 10 years. Starting in 2035, the annual contribution ceiling would be reevaluated every 5 years.

In addition to the quasi-mandatory occupational pensions, the Dutch old-age pension system consists of a basic state pension that covers all residents and persons working in the Netherlands and voluntary private pensions. The normal retirement age is currently 66 and 4 months (rising gradually to age 67 by 2024 with subsequent increases linked to changes in Dutch life expectancy).

Sources: "Netherlands Slows Scheduled Retirement Age Increases," *International Update*, U.S. Social Security Administration, July 2019; "Pension Funds in Figures," Organisation for Co-operation and Development, June 2020; "Hoofdlijnennotitie uitwerking pensioenakkoord," Ministerie van Sociale Zaken en Werkgelegenheid, June 22, 2020; "Kamerbrief aanbieding documenten uitwerking pensioenakkoord," Ministerie van Sociale Zaken en Werkgelegenheid, June 22, 2020; "Kamerbreif uitwerking pensioenakkoord," Ministerie van Sociale Zaken en Werkgelegenheid, July 6, 2020; "Netherlands' Proposed Pension Reforms Move Forward," Mercer, August 24, 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.

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250 E Street SW, 8th Floor, Washington, DC 20254

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