International Update

Recent Developments in Foreign Public and Private Pensions

December 2020

Asia and the Pacific

Malaysia Further Expands Access to Provident Fund Savings During Pandemic

On November 16, Malaysia's Employees' Provident Fund (EPF) introduced a new policy (i-Sinar) that allows around 8 million provident fund members aged 55 or younger who have lost their jobs or experienced a significant income reduction because of the COVID-19 pandemic to withdraw a portion of their Account 1 balances. (The EPF provides two types of individual accounts for members younger than age 55: Account 1 that funds retirement and Account 2 that may be accessed before retirement for education, designated critical illnesses, a home purchase, and other approved expenses.) The new policy follows the introduction of another early withdrawal option in April (i-Lestari) that allows fund members aged 55 or younger to withdraw (for any reason) 50 ringgits (US$12.25) to 500 ringgits (US$122.54) a month from their Account 2 balances from April 2020 through March 2021. Both withdrawal options are intended to help EPF members who have suffered significant economic hardship during the pandemic. The EPF estimates that fund members will have access to 70 billion ringgits (US$17.15 billion) in retirement savings under the latest withdrawal option. At the end of June, the EPF had around 929.6 billion ringgits (US$227.8 billion) in assets.

Key details of the new program include:

- *Qualifying conditions:* Fund members must fall into one of two qualifying categories. Category 1 includes certain members—such as, self-employed workers, gig workers, housewives, workers who lost their jobs, and workers who were put on unpaid leave—who had not contributed to the EPF in the last two months before the date of application or experienced a reduction in basic salary of at least 30 percent since March 1. Applications for these members will be automatically approved without supporting documentation. Category 2 includes fund members who have experienced a reduction in overall income (including salary, allowances, and overtime pay) of at least 30 percent since March 1. Members in this category must submit relevant supporting documentation (such as pay slips before and after the income reduction) along with their applications.
- *Application deadlines:* The application period opens on December 21 for Category 1 members and on January 11, 2021, for Category 2 members.
- *Withdrawal amounts:* EPF members with Account 1 balances of 100,000 ringgits (US$24,507) or less can withdraw up to 10,000 ringgits (US$2,450.70), while EPF members with Account 1 balances above 100,000 ringgits can withdraw up to 10 percent of their account balances or 60,000 ringgits (US$14,704.21), whichever is less.
- *Payment schedule:* Payments will be made over a 6-month period starting in mid-January for Category 1 members and in February or March for Category 2 members. EPF members with Account 1 balances of 100,000 ringgits or less may withdraw up to 5,000 ringgits (US$1,225.35) in the first month, while those with Account 1 balances above 100,000 ringgits may withdraw up to 10,000 ringgits in the first month. The remaining payments (of at least 1,000 ringgits [US$234.07] a month) will be issued for up to 5 additional months.

In addition to the two withdrawal options, Malaysia has launched a series of measures to reduce the effects of the COVID-19 pandemic. Other measures affecting the EPF include: (1) an extension of the monthly deadline for payment of EPF contributions due in April, May, June, and July from the 15th to the 30th of each month; and (2) a temporary reduction in the employee EPF contribution rate for fund members younger than age 60 from 11 percent of monthly earnings to 7 percent from April to December and to 9 percent for all of 2021. (Fund members can choose to keep their contribution rate at 11 percent by submitting a form on the EPF website.)

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 only provides disability and survivor pensions.

Sources: *Social Security Programs Throughout the World: Asia and the Pacific, 2018*, U.S. Social Security Administration, March 2019; "i-SINAR," KWSP, 2020; "Malaysia Approves Changes to Provident Fund Program," *International Update*, U.S. Social Security Administration, March 2020; "An Inventory of Pension Reforms, January to April 2020," *International Update*, U.S. Social Security Administration, April 2020; "FAQ i-Lestari," KWSP, April 1, 2020; "An Inventory of Social Security Contribution Reforms, April to August 2020," *International Update*, U.S. Social Security Administration, September 2020; "EPF Records RM15.1 Billion in Gross Investment Income for Q2 2020," EPF Press Release, September 19, 2020; "Statutory Rate for Employee's Share of Contribution to Be Reduced to Nine (9) Per Cent for 2021," EPF Press Release, November 28, 2020; "i-Sinar Open to All EPF Members Whose Income Is Affected by COVID-19," EPF Press Release, December 2, 2020; "i-Sinar: Here's What We Know so Far," *Malaysian Reserve*, December 2, 2020.

The Americas

Chile Introduces Second Early Withdrawal Option for Individual Accounts During Pandemic

To provide financial relief to workers affected by the COVID-19 pandemic, Chile's president approved a law on December 4 that allows participants of the country's mandatory individual account program to make a second early withdrawal of up to 10 percent of their account balances. (The president approved the first early withdrawal option with similar provisions—including allowable withdrawal amounts—on July 24; see the August 2020 *International Update* for more details.) 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 December 1, 1 UF is equal to 29,036.92 pesos [US$38.22].) Participants may submit requests to their pension fund management companies (AFPs) from December 10, 2020, to December 9, 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 10 days of the first withdrawal payment. In contrast to the first withdrawal option, payments are taxable for those with annual incomes above 30 Unidad Tributaria Anuals (UTAs). (The UTA is an annual tax unit that is adjusted monthly based on changes in the consumer price index; for December, 1 UTA is equal to 563,664 pesos [US$741.92] and 30 UTAs is equal to 16,909,920 pesos [US$22,257.60].) According to the Superintendent of Pensions (Superintendencia de Pensiones), up to 10.7 million individual account participants (out of 11 million participants) are expected to use the second withdrawal option, with withdrawals totaling around US$19 billion. (As of November 13, 10.2 million participants have used the first early withdrawal option, with withdrawals totaling around US$17.4 billion.) Chile's 7 AFPs managed approximately US$209 billion in assets at the end of November.

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: "Preguntas y Respuestas sobre el Retiro de tu Segundo 10%," Asociacion AFP Chile, no date; *Social Security Programs Throughout the World: The Americas, 2019*, U.S. Social Security Administration, March 2020; "Chile Introduces Early Withdrawal Option for Individual Accounts During Pandemic," *International Update*, U.S. Social Security Administration, August 2020; "Retiro de Fondos: el 96% de Afiliados ha Recibido los Recursos Solicitados y Superintendencia de Pensiones Instruye a AFP para Acelerar Pago de Retenciones," Superintendencia de Pensiones, November 17, 2020; "Superintendencia de Pensiones Instruye a las AFP Procedimiento y Plazos para Implementar Segundo Retiro de Fondos," Superintendencia de Pensiones, December 4, 2020; "Snapshot: Chile's Best-Performing Pension Funds in Jan-Nov," Business News Americas, December 9, 2020.

Peru Allows Second Round of Special Withdrawals from Mandatory Individual Accounts

On November 18, Peru's government enacted a law allowing a second round of special withdrawals from the country's mandatory individual account program (Sistema Privado de Pensiones, or SPP) in response to the COVID-19 pandemic. Under the law, unemployed SPP participants can withdraw up to 4 Reference Tax Units (Unidad Impositiva Tributaria, or UIT; 1 UIT is currently equal to 4,300 soles [US$1,189.20]) if they did not contribute to their accounts in the 12-month period ending on October 31, 2020, or up to 1 UIT if they did contribute in this 12-month period but not in October 2020. The new law follows a similar law approved in April that allowed SPP participants to make one-time withdrawals of up to 3 UITs from their accounts. According to the four pension fund management companies (Administradoras de Fondos de Pensiones, or AFPs) that administer the SPP, 3.7 million participants made withdrawals totaling around US$5.5 billion under the April law. The government estimates that SPP participants could withdraw around 15 billion soles (US$4.15 billion) from their accounts under the latest law.

Other key details of the new special withdrawal include:

- *Request timeframe:* Starting on December 9, SPP participants have 90 calendar days to submit their withdrawal request to their AFPs.
- *Payment schedule:* After submitting a withdrawal request, a participant will receive one to three payments, depending on the withdrawal amount. An AFP has 30 calendar days after receiving a withdrawal request to pay the first UIT of the withdrawal. The AFP must then pay the next UIT of the withdrawal within 30 days after the first payment and the remaining amount (up to 2 UITs) within 30 days after the second payment.
- *Special rules for individuals with cancer:* SPP participants who have been diagnosed with cancer by a registered medical provider can withdraw up to 4 UITs from their accounts regardless of their employment status or contribution record. These participants' withdrawals are disbursed as single payments within 30 calendar days after being requested.

At the end of October, the SPP had around 7.7 million active participants (or about 49 percent of Peru's labor force) and approximately 160 billion soles (US$44.25 billion) in assets. In addition to the SPP, Peru's old-age pension system consists of a social insurance program (Sistema Nacional de Pensiones, or SNP) and a social assistance program (Pensión 65). SPP and SNP operate parallel to each other, and participation in either of the programs is mandatory for all public- and private-sector employees and voluntary for self-employed persons. To qualify for an SPP guaranteed minimum pension or an SNP pension, an individual must have reached age 65 and have at least 20 years of contributions. (Retirement before age 65 is possible under certain conditions for both programs.) The social assistance pension is paid to residents of Peru who are aged 65 or older, do not qualify for an SPP or SNP pension, and are members of households classified as extremely poor.

Source: Ley N° 31068, 2020; Resolución SBS Nº 2979–2020, 2020; *Social Security Programs Throughout the World: The Americas, 2019*; U.S. Social Security Administration, March 2020; "Peru Allows Early Withdrawals from Mandatory Individual Accounts During Pandemic," *International Update*, U.S. Social Security Administration, May 2020; "Peruanos retiraron USD5 500 millones de fondos de pensiones por la pandemia," *El Comercio*, July 31, 2020; "Balance General de los Fondos de Pensiones por AFP," Superintendencia de Banca, Seguros y AFP, October 31, 2020; "Número de Afiliados Activos por AFP, Sexo y Edad Actual," Superintendencia de Banca, Seguros y AFP, October 31, 2020; "Por retiro de AFP, miles se quedarían sin jubilación," *El Tiempo* (Peru), November 4, 2020; "Informe Técnico N° 04 Empleo Nacional," Instituto Nacional de Estadística e Informática, November 16, 2020; "Liberación de hasta S/ 17,200 de la AFP: quiénes acceden a este beneficio y cómo retirar el dinero," *Gestión*, November 18, 2020; "Peru Enacts Law Allowing Second Withdrawal of Funds from Pension System," Reuters, November 18, 2020; "AFP: Solicitudes de retiro de fondos de pensiones inician el próximo 09 de diciembre," RPP, November 30, 2020.

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