International Update

Recent Developments in Foreign Public and Private Pensions

April 2021

Europe

Ireland Introduces Early Retirement Benefit

On February 8, Ireland's government introduced the Benefit Payment for 65 Year Olds, an early retirement benefit for the country's 65-year-old residents who have ceased regular employment or self-employment and meet certain contribution requirements. Payment of the benefit stops when a beneficiary reaches the normal retirement age of 66 and begins receiving an old-age pension under the State Pension program. (It is not possible to claim an early pension under the State Pension program.) The new benefit is intended to replace the Jobseeker's Benefit (JB)—an unemployment benefit for individuals aged 18 to 65—as the main source of income support for residents who retire at age 65, either voluntarily or involuntarily. (Employment contracts in Ireland often require employees to leave their jobs at age 65.) Although the Benefit Payment for 65 Year Olds is similar to the JB, it does not require beneficiaries to register as jobseekers, be available for employment, actively search for full-time work, or participate in workforce activation programs. The government estimated in February that around 2,000 JB recipients would immediately be eligible to switch to the new benefit if they desired. (The JB remains available to 65-year-olds, but it cannot be combined with the new benefit.)

Other key details of the Benefit Payment for 65 Year Olds include:

- *Contribution requirements:* To qualify for the benefit, 65-year-old residents must meet the same contribution requirements as the JB. Residents who were previously employed must have at least 104 weeks of paid contributions since starting work, and at least 39 weeks of paid or credited contributions (of which at least 13 must be paid) in the governing contribution year (GCY) or at least 26 weeks of paid contributions in the GCY and at least another 26 weeks in the year immediately before it. (The GCY is the second to last complete tax year at the time the benefit is claimed.) Residents who were previously self-employed must have at least 156 weeks of paid contributions since starting work and 52 weeks of paid contributions in the GCY.
- *Subsidiary employment:* Although residents must cease regular employment or self-employment to qualify for the benefit, they can continue subsidiary employment that began before claiming the benefit. (Subsidiary employment is part-time work in one job that coincided with full-time work in another job for at least 6 months.) An individual cannot begin new employment or self-employment while receiving the benefit.
- *Benefit amount:* The weekly benefit is €203 (US$238.44), which is the same amount as the JB. If a beneficiary has qualifying dependents, the weekly amount is increased by up to €38 (US$44.63) for each child younger than age 12, €45 (US$52.86) for each child aged 12 to 18 (until age 22 if a full-time student), and €134.70 (US$158.22) for each adult.

In addition to the Benefit Payment for 65 Year Olds, Ireland's old-age benefits include the contributory and noncontributory pensions provided under the State Pension program. To qualify for the contributory pension, a resident must have reached age 66 and have an annual average of at least 10 weeks of paid or credited contributions since entering the workforce or since 1979, whichever is later. (Contributions may be credited for periods the insured person received certain social security benefits.) If a resident is of retirement age but does not qualify for the contributory pension, he or she may be eligible to receive the means-tested noncontributory pension. Ireland does not have a mandatory or quasi-mandatory supplemental pension program, but the government is currently developing an auto-enrollment occupational pension program that would cover nearly all employees.

Sources: *Social Security Programs Throughout the World: Europe, 2018*, U.S. Social Security Administration, September 2018; "Ireland Announces Key Elements of New Auto-Enrollment Plan," *International Update*, U.S. Social Security Administration, December 2019; "Ireland Proposes

Deferring State Pension Age Increases as Part of a Revised Reform Strategy," *International Update*, U.S. Social Security Administration, August 2020; "New Benefit Payment for 65 Year Olds Now Available," gov.ie, February 8, 2021; "Retirees Aged 65 No Longer to be Required to Sign On," RTÉ, February 8, 2021; "New Weekly Payment of €203 Introduced for 65-Year-Olds After Rise of Pension Age," theJournal.ie, February 8, 2021; "Benefit Payment for 65 Year Olds," gov.ie, March 5, 2021.

Italy Amends Contribution Relief and Early Retirement Measures

Effective January 1, provisions of Italy's 2021 Budget Law modified and extended several contribution relief and early retirement measures under the country's social security system. The measures are intended to provide short-term stimulus to Italy's economy during the COVID-19 pandemic while addressing certain long-term age, gender, and regional employment disparities. According to the Organisation for Economic Co-operation and Development, Italy's gross domestic product fell by almost 9 percent in 2020 and its unemployment rate was nearly 10 percent at the end of the year.

The key provisions of the new budget law affecting social security contributions and early retirement include:

- *Waiving employer contributions for certain younger hires:* Employers are exempt from paying up to €6,000 (US$7,048) in annual contributions for each new employee aged 35 or younger who is hired under an open-ended employment contract in 2021 or 2022. The exemption lasts for 3 years (4 years for new employees in certain economically depressed regions) from a qualifying employee's hiring date.
- *Waiving employer contributions for certain women hires:* Employers are exempt from paying up to €6,000 in annual contributions for each unemployed woman they hire in 2021 and 2022. To qualify for the exemption, the new employee must have been unemployed for at least 6 months immediately before being hired, and her employer must demonstrate that the new hiring results in a net increase in its employee count. The exemption lasts for 12 months from a qualifying employee's hiring date for a fixed-term employment contract or 18 months for an open-ended employment contract.
- *Reducing employer contributions in economically depressed regions:* Private-sector employers operating in 7 economically depressed regions of southern Italy—Abruzzo, Basilicata, Calabria, Campania, Molise, Puglia, Sardinia, and Sicily—pay reduced contributions for their employees in these regions through 2029. The contribution reduction is 30 percent from 2021 to 2025, 20 percent from 2026 to 2027, and 10 percent from 2028 to 2029.
- *Waiving contributions for certain self-employed persons:* Self-employed persons are exempt from paying contributions in 2021 if they earned €50,000 (US$58,730) or less in 2019, experienced at least a 33 percent drop in earnings in 2020 compared to 2019, are value-added-tax holders or members of professions affected by the COVID-19 pandemic, and satisfy certain other conditions.
- *Expanding access to early retirement through expansion contracts:* The minimum firm size needed to qualify for an expansion contract has been reduced from 1,000 employees to 250 employees. Expansion contracts are agreements between employers and unions that promote investments in new technologies and create high-skilled jobs at the expense of lower-skilled positions. The government allows employees covered by an expansion contract to retire up to 5 years before the normal retirement age of 67 if they meet certain conditions.
- *Extending an early retirement option for women:* Women can continue to retire early in 2021 if they were aged 58 or older by the end of 2020 (aged 59 or older if self-employed) and have at least 35 years of contributions.
- *Extending the Early Retirement Allowance program:* Under this program, workers can receive an old-age pension as early as age 63 if they are unemployed, disabled, a caregiver, or a hardship worker, have at least 30 years of contributions (36 years for hardship workers), and meet certain other conditions that vary by category. This program remains in effect through 2021.
- *Extending an early retirement option for restructuring:* Employees of overstaffed firms can retire up to 7 years before the normal retirement age if the firms have negotiated special agreements with their unions and the government to restructure. This option will remain available through 2023.

Italy has a multi-tiered retirement system that includes: a notional defined contribution (NDC)

program (a type of earnings-related pension program financed on a pay-as-you-go basis); means-tested social assistance programs comprising an old-age social allowance (for those aged 67 or older with at least 10 consecutive years of residence in Italy who do not receive a social insurance or NDC pension) and a low-income pension supplement (for those aged 70 or older receiving old-age, survivor, or disability benefits); supplementary occupational pension plans; and tax-advantaged, voluntary retirement savings plans managed by financial institutions. Public-sector employees are covered under special retirement systems.

Sources: "Italy Introduces New Early Retirement Rules," *International Update*, U.S. Social Security Administration, April 2019; Legge di Bilancio 2021; "End of Year Legislative Provisions: The Main Measures Regarding Employment and Social Security in the Budget Law and Decree 183 of 3 December 2020," Clifford Chance, January 2021; "Italy: Budget Law 2021 Incentivizes Employment Through Social Contribution Wavers," GVISOR News, January 29, 2021; "Italy: Covid-19 – The Italian Budget Law Has Entered Into Force – New Employment-Related Provisions," Lexology, February 4, 2021; "Italy: 2021 Budget Law," KPMG Tax & Legal Alert, February 5, 2021; "G20 GDP Growth - Fourth Quarter of 2020," Organisation for Economic Co-operation and Development, March 15, 2021; "Italy: Access to Wage Integration Funds Extended," GVISOR News, March 30, 2021, Unemployment rate (indicator), Organisation for Economic Co-operation and Development, April 26, 2021.

Asia and the Pacific

Malaysia Expands Eligibility to Early Withdrawals under Provident Fund Program

On March 8, Malaysia's Employees Provident Fund (EPF) started allowing all provident fund members younger than age 55 to withdraw a portion of their Account 1 balances under an early withdrawal option (i-Sinar) introduced in November 2020 in response to the COVID-19 pandemic. (The EPF provides two types of individual accounts for members younger than age 55: Account 1 funds retirement and Account 2 may be accessed before retirement for education, designated critical illnesses, a home purchase, and other approved expenses.) Previously, i-Sinar was only available to certain fund members who had lost their jobs or experienced significant reductions in income due to the pandemic. According to the government, the change is meant to provide financial relief to more fund members who have been affected by the pandemic. As of February 18, around 3.3 million provident fund members have withdrawn close to 18.5 billion ringgits (US$4.46 billion) through i-Sinar. (At the end of 2020, the EPF had around 1.02 trillion ringgits [US$246 billion] in assets under management.)

Other key details of i-Sinar include:

- *Withdrawal amounts:* EPF members with Account 1 balances of 100,000 ringgits (US$24,122.56) or less can withdraw up to 10,000 ringgits (US$2,412.26), 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$14,473.54), whichever is less.
- *Payment schedule:* Payments will be made over a 6-month period. EPF members with Account 1 balances of 100,000 ringgits or less may withdraw up to 5,000 ringgits (US$1,206.13) 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$241.23] a month) will be issued for 5 additional months.

In addition to i-Sinar, Malaysia has implemented other EPF-related measures to reduce the COVID-19 pandemic's economic effects, including: (1) an extension of the monthly deadline for payment of EPF contributions due in April, May, June, and July 2020 from the 15th to the 30th of each month; (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 2020 and to 9 percent for all of 2021; and (3) the introduction of another early withdrawal option (i-Lestari) in April 2020 that allowed fund members aged 55 or younger to withdraw (for any reason) 50 ringgits (US$12.06) to 500 ringgits (US$120.61) a month from their Account 2 balances from April 2020 through March 2021.

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; "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; "An Inventory of Social Security Contribution Reforms, April to August 2020," *International Update*, U.S. Social Security Administration, September 2020; "Malaysia Further Expands Access to Provident Fund Savings During Pandemic," *International Update*, U.S. Social Security Administration, December 2020; "Simplified Approval For i-Sinar Beginning 8 March 2021," KWSP, February 18, 2021; "Malaysian Pension Fund EPF Assets Grow to Value of RM1.02 Trillion in 2020," *The Business Times*, February 27, 2021; "Payment for Current i-Sinar Applications to Begin 2 March 2021," KWSP, March 2, 2021.

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