International Update

Recent Developments in Foreign Public and Private Pensions

February 2022

Europe

Italy Implements New Benefit Adjustment Formula

On January 1, Italy's government implemented a more generous benefit adjustment formula for old-age pensions and other social security benefits. Under this new formula, annual benefit increases are still applied progressively rather than uniformly—with smaller pensions indexed by a higher percentage than larger pensions—but the increases are now higher for all but the smallest pensions. As a result, the benefit increases effective January 1 are 100 percent of the inflation rate for monthly pensions up to four times the minimum monthly pension, 90 percent of the inflation rate for monthly pensions greater than four times but not exceeding five times the minimum monthly pension, and 75 percent of the inflation rate for monthly pensions greater than five times the minimum monthly pension. (The inflation rate is the annual change in Italy's consumer price index at the end of the previous year. For this year's adjustment, the inflation rate is 1.7 percent and the minimum monthly pension is €515.58 [US$580.54].) Under the previous formula, individuals with monthly pensions greater than four times the minimum monthly pension received benefit increases ranging from 40 percent to 77 percent of the inflation rate, depending on the sizes of their pensions. The government adopted the new formula to ensure that all pensioners would receive a 2022 benefit increase that was more in line with inflation.

Italy's old-age pension system consists of a notional defined contribution (NDC) program, a legacy social insurance program (closed to new enrollees in 1996), and income-tested social assistance programs. Generally, to qualify for an NDC or social insurance old-age pension, an individual must have reached the normal retirement age of 67 and have at least 20 years of contributions. Under normal rules, early retirement is possible (1) at any age with at least 42 years and 10 months (men) or 41 years and 10 months (women) of contributions, or (2) for individuals first insured on or after January 1, 1996, at age 64 with at least 20 years of contributions if the insured's notional account balance is sufficient to provide a monthly pension above a certain amount. Retirees who do not qualify for an NDC or social insurance pension and have resided in Italy for at least 10 consecutive years may qualify for an old-age social allowance if their annual incomes are below certain limits. In addition, low-income pensioners may qualify for a pension supplement at age 70 (age 60 if disabled, or age 65 if certain contribution requirements are met).

Sources: "Italy Announces Early Retirement Changes," *International Update*, U.S. Social Security Administration, November 2021; "Pensions, Check Increases from January 2022," *Italian Post*, December 20, 2021; "Pensions, the Reform Work Is Underway: in 2022 Discussions on Flexibility, Women, and Complementarity," breakinglatestnews.com, December 21, 2021; "Pensioni, Riparte la Perequazione Piena da Gennaio 2022," *Ilsolle 24 Ore*, December 22, 2021; "Social Security Old-Age Pensions Increase with New Revaluation Mechanism," Gallagher GVISOR News, January 31, 2022.

Asia and the Pacific

Malaysia Implements Measures Affecting the Employees' Provident Fund

On January 1, Malaysia's government extended a temporary reduction in the employee contribution rate under the Employees' Provident Fund (EPF) from 11 percent of monthly earnings to 9 percent through June 2022 and expanded eligibility to government matching contributions under i-Saraan (a voluntary EPF retirement program for self-employed persons who do not earn a regular income) to members aged 55 to 59. (Under i-Saraan, the government matches 15 percent of a member's voluntary contributions, up to a maximum of 250 ringgits [US$59.73] per year. Previously, the government only matched contributions for members younger than 55.) The employee contribution rate reduction affects members younger than 60 (there is no employee contribution for Malaysian citizens aged 60 or older) and aims to provide financial relief to members adversely affected by the COVID-19 pandemic. The government had previously reduced the employee contribution rate to 7 percent from April to December 2020, and to

9 percent for all of 2021. (EPF members can choose to keep their contribution rates 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 self-employed persons, household workers, foreign workers, and certain other persons. In addition to employee contributions, employers contribute 13 percent of monthly payroll for members younger than 60 with monthly earnings up to 5,000 ringgits (US$1,194.59); 12 percent for members younger than 60 with monthly earnings exceeding 5,000 ringgits; and 4 percent for members aged 60 to 75. (The employer contribution rate is higher for members aged 60 to 75 who are not citizens of Malaysia.) 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; "Malaysia Further Expands Access to Provident Fund Savings During Pandemic," *International Update*, U.S. Social Security Administration, December 2020; "EPF Supports Budget 2022 Measures to Spur the Economy and Build Resilience, Key to Rebuilding Retirement Savings," KWSP, October 29, 2021; "i-Saraan: Securing Retirement With Voluntary Contribution," KWSP, December 31, 2021; "All About Your Responsibility: Know Your Responsibilities As An Employer," KWSP, January 4, 2022.

The Americas

Chile Introduces Near-Universal Old-Age Pension

On January 29, Chile's government enacted a law creating a new old-age pension (Pensión Garantizada Universal, or PGU) that will be paid to all long-term residents aged 65 or older except the richest 10 percent. This near-universal, government-financed pension replaces a solidarity top-up benefit (Aporte Previsional Solidario de Vejez, or APSV) and a solidarity social pension (Pensión Básica Solidaria de Vejez, or PBSV), which are targeted at retirees belonging to the poorest 60 percent of the population. Although the government started paying some PGU benefits on February 18, the program will not be fully implemented for all eligible individuals until August 1. With the creation of the PGU program, the government is seeking to ensure that all retired Chileans have incomes above the national poverty line. (As of January 2022, Chile's national poverty line in terms of monthly income for one person is 188,338 pesos [US$235.20].) According to the Organisation for Economic Co-operation and Development (OECD), 17.6 percent of Chileans aged 65 or older lived in relative poverty in 2018 compared to an average of 13.1 percent for all 38 OECD countries. (The OECD defines relative poverty as having an income below 50 percent of the median equivalized household disposable income; equivalization involves weighting each household's income based on its composition.)

Other key details of the PGU program (all effective February 1 unless otherwise noted) include:

- *Qualifying conditions:* To receive the PGU once the program is fully implemented on August 1, an individual must have reached age 65; have at least 20 years of residency in Chile since age 20, including at least 4 of the last 5 years before the pension is claimed; be a member of a family unit that is not in the richest 10 percent of the population; and have monthly base pension income below 1 million pesos (US$1,248.81). Before August 1, the PGU will be paid to individuals who meet the qualifying conditions for the APSV or PBSV. (These benefits have the same age and residency requirements as the PGU, but lower financial resource limits—the APSV requires an individual to have monthly base pension income below 520,366 pesos [US$649.84], while the PBSV requires an individual to be ineligible for any other pension and belong to a family unit in the poorest 60 percent of the population.)
- *Benefit amount:* The full monthly benefit amount of 185,000 pesos (US$231.03) is paid to qualified individuals with monthly base pension incomes up to 630,000 pesos (US$786.75). For an individual with monthly base pension income above 630,000 pesos but below 1 million pesos, the full benefit amount is proportionally reduced by multiplying it by the quotient of the difference between 1 million pesos and the individual's base pension income and 370,000 pesos (US$462.06). Special

benefit calculation rules apply to individuals receiving APSV benefits above 185,000 pesos.

- *Benefit adjustment:* The benefit amount will be adjusted on July 1 and every February 1 thereafter based on changes in Chile's consumer price index.
- *Death grant:* Up to 15 Units of Account (UFs) will be paid for the funeral expenses of a PGU beneficiary who is not entitled to any other death benefit or is entitled to other death benefits totaling less than 15 UFs. (The UF is an index adjusted daily based on monthly changes in the consumer price index. As of February 1, 1 UF is equal to 31,220.68 pesos [US$38.99].)
- *Program administration:* Chile's Social Security Institute (Instituto de Previsión Social) will administer the PGU program.

Chile's old-age pension system consists of a mandatory individual account program, a legacy social insurance program, and the PGU program. To finance their individual account old-age pensions, employed and self-employed persons must contribute at least 10 percent of their covered earnings (plus an administrative fee). (Employers do not pay old-age pension contributions.) The normal retirement age for the individual account and social insurance pensions is 65 for men and 60 for women.

Sources: *Social Security Programs Throughout the World: The Americas, 2019*; U.S. Social Security Administration, March 2020; *Pensions at a Glance 2021: OECD and G20 Indicators*, Organisation for Economic Co-operation and Development, December 8, 2021; Ley Nº 21.419, 2022; "Valor de la Canasta Básica de Alimentos y Líneas de Pobreza," Ministry of Social Development and Family, January 2022; "Pensión Garantizada Universal (PGU)," Chile Atiende, February 2, 2022; "Resuelva aquí sus dudas sobre la Pensión Garantizada Universal," Instituto de Previsión Social, February 4, 2022; "Aporte Previsional Solidario de Vejez (APSV)," Chile Atiende, February 8, 2022; "¿Qué es la Pensión Garantizada Universal (PGU)?," Chile Atiende, February 9, 2022.

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