International Update

Recent Developments in Foreign Public and Private Pensions

August 2022

Europe

Spain Enacts Occupational Pension Reform Law

On July 2, Spain enacted an occupational pension reform law that establishes publicly promoted pension funds, introduces simplified pension plans, limits enrollment waiting periods, and modifies tax incentives. The law received parliamentary approval on June 30 and is part of broader government effort to reform Spain's public and private pension programs. The law is intended to increase occupational pension participation and boost individual retirement savings, particularly among those who are employed in small and medium-sized enterprises (including smaller public-sector entities) and those who are self-employed. According to the government, around 2 million Spanish workers (or about 9 percent of the Spanish labor force) currently participate in occupational pension plans.

The key provisions of the reform law (effective immediately unless otherwise noted) include:

- *Establishing publicly promoted pension funds:* The law establishes a new system of publicly promoted pension funds (Fondos de Pensiones de Empleo de Promoción Pública asbiertos, or FPEPPs) that will be offered to occupational pension plans through a common digital platform. Two new public commissions under the Ministry of Inclusion, Social Security, and Migration will oversee the FPEPPs, including the selection of private fund managers and the formulation of investment objectives. FPEPP assets will be managed exclusively in the interest of fund members, and the administrative fees will be capped. (The government still needs to specify the cap.)
- *Introducing simplified pension plans:* The law introduces a new type of defined contribution pension plan (Plan de Pensiones Ample Simplificado, or PPES) that features a streamlined set-up process. PPESs can be formed through sectoral collective bargaining agreements between employers and unions, by public-sector employers on behalf of their employees, by professional groups that represent self-employed persons, and by worker-owned companies and cooperatives on behalf of their members. A PPES must have the same rules and features for all plan members, and the plan's assets can be invested using FPEPPs or private pension funds.
- *Limiting enrollment waiting periods:* The maximum waiting period that new and existing occupational pension plans can impose on new enrollees is 1 month.
- *Modifying tax incentives:* Effective January 1, 2023, employers contributing to qualified occupational pension plans will pay reduced social security contributions, with a maximum annual reduction of around €1,431 (US$1,464.34) per employee. In addition, employers will receive a 10-percent corporate tax deduction for the occupational pension contributions paid on the first €27,000 (US$27,629.10) of each employee's gross annual earnings. Lastly, employees with gross annual earnings up to €60,000 (US$61,398) will be able to make higher annual occupational pension contributions than currently allowed if their employers' annual contributions are less than €1,500 (US$1,534.95). (An employee and his or her employer can currently make combined annual contributions of up to €1,500 plus an additional €8,500 [US$8,698.05] if the employer pays most of this amount. Separate contribution rules apply to self-employed persons.)

In addition to occupational pensions, Spain's old-age pension system consists of contributory and noncontributory public pensions and individual savings plans. To qualify for a contributory old-age pension, an individual must have reached age 66 and 2 months (gradually rising to age 67 by 2027) and have at least 15 years of contributions, including at least 2 years within the last 15 years before retirement. (The normal retirement age is reduced to 65 for individuals with at least 37 years and 6 months of contributions.). The noncontributory old-age pension is paid to individuals who have reached age 65, have resided in Spain for at least 10 years since age 16 (including the last 2 years before retirement), and have household income below certain limits.

Sources: *Social Security Programs Throughout the World: Europe, 2018*, U.S. Social Security Administration, September 2018; Ley 12/2022, 2022; "Spain Implements Pension Reform Law," *International Update*, U.S. Social Security Administration, January 2022; "Aprobada la ley de regulación para el impulso de los planes de pensiones de empleo," Instituto BBVA de Pensiones, June 27, 2022; "La ley de planes de pensiones de empleo entra vigor tras su publicación hoy en el BOE," *El Economista*, July 2, 2022; "La nueva ley para el impulso de los planes de pensiones de empleo en 3 claves," Willis Towers Watson, August 23, 2022.

Asia and the Pacific

South Korea Implements New Investment Option Rules for Defined Contribution Pension Plans

Beginning July 12, South Korea's employer-sponsored defined contribution (DC) pension plans have 1 year to comply with new investment option rules approved by the government in December 2021. Under the new rules, DC pension plans covered by the Employer Retirement Benefit Security Act must select one or more investment options that employees can choose as their default investments. (Employees participating in DC pension plans must now designate default investments for their accounts.) This reform is intended to improve DC pension plans' investment returns by encouraging participants to invest more of their savings in higher-return investment products. According to pension industry figures, over 80 percent of South Korea's DC pension plan assets are currently held in 1-year time deposits that yield low returns—often falling short of inflation.

Key details of the new investment option rules include:

- *Employer-selected investment options:* By July 12, 2023, employers with DC pension plans must update their pension plan documents to include one or more investment options from which plan participants can choose their default investments. Employers must also ensure that their new and existing investment options meet the latest regulatory standards and that their updated plan documents are approved by the Ministry of Employment and Labor.
- *Employee default investment designations:* Employees participating in DC pension plans must designate their default investments from the options offered to them by their plans. The default investment selections are used to invest employees' savings if the employees fail to provide further investment direction, such as after starting employment or after a fixed-term investment reaches maturity.
- *Eligible investment products:* Investment products that can qualify as default investments under the new rules include principal-guaranteed products, target date funds, balanced funds, asset allocation funds, money market funds, and social overhead capital funds.

Employer-sponsored pension plans supplement South Korea's pay-as-you-go National Pension Scheme (NPS)—which provides old-age, survivor, and disability benefits—and social assistance benefits. NPS participation is mandatory for employed and self-employed persons aged 18 to 59, and is voluntary for individuals without income who are younger than 27, married to an insured person, or meet certain other conditions. To qualify for an NPS old-age pension, an individual must have reached age 62 (gradually rising to age 65 by 2033) and have at least 20 years of contributions; an early old-age pension is available from age 57 (gradually rising to age 60 by 2033) with at least 10 years of contributions. The social assistance basic pension is paid to individuals aged 65 or older with income (including NPS pensions) below certain limits.

Sources: *Social Security Programs Throughout the World: Asia and the Pacific, 2018*, U.S. Social Security Administration, March 2019; "DC Plans and Default Investment Options," Korea Capital Market Institute, March 23, 2021; "South Korea Enacts ERSA Pension Reforms," Mercer, April 30, 2021; "Republic of Korea," Gallagher GVISOR Country Manual, July 26, 2021; "South Korea: New Investment Option Rules for DC Retirement Plans," Willis Towers Watson, February 28, 2022; "Default Retirement Fund Option Requirement Introduced," Gallagher GVISOR Compliance Alerts, March 31, 2022; "Default Investment Options Introduced for Defined Contribution Plans," *Global Legislative Update*, Mercer, July/August 2022.

The Americas

Canada Increases Pensions for Older Retirees

Effective July 1, Canada implemented a permanent 10 percent increase to the Old Age Security (OAS) pension for recipients aged 75 or older. As a result, the full monthly OAS pension is now C$666.83 (US$521.85) for individuals aged 65 to 74 and

C$733.51 (US$574.03) for individuals aged 75 or older. (Previously, the OAS pension amount did not vary by age.) This increase represents the first permanent increase to the OAS pension (beyond quarterly cost-of-living adjustments based on inflation) since 1973, and it is expected to benefit around 3.3 million OAS pensioners. The increase follows a one-time bonus of C$500 (US$391.29) paid in August 2021 to OAS pensioners aged 74 or older on June 30, 2021. These measures are intended to improve the economic security of Canada's older retirees. According to the Organisation for Economic Co-operation and Development, 15.7 percent of Canadians older than 75 lived in relative poverty in 2018 compared to 11.6 percent of the total population. (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.)

Canada's public pension system consists of the universal OAS program, the income-tested Guaranteed Income Supplement (GIS) program, and the earnings-related Canada Pension Plan (CPP). (The province of Quebec opted out of the CPP, but it has a similar earnings-related plan called the Quebec Pension Plan.) To qualify for a full OAS pension, an individual must have reached the normal retirement age of 65 and resided in Canada legally for at least 40 years since age 18. (A proportionally reduced OAS pension is paid to those with at least 10 years but less than 40 years of residency.) If an OAS pensioner has an annual income exceeding a certain amount (C$79,845 [US$62,485] from July 2022 to June 2023), their annual OAS pension is reduced by 15 percent of the income above this threshold. An OAS pensioner may qualify for a monthly GIS benefit of up to C$995.99 (US$779.44, if single or if married or partnered to someone not receiving an OAS pension) or C$599.53 (US$469.18, if married or partnered to another OAS pensioner) if their annual household income is below certain limits. To qualify for a CPP old-age pension, an individual must have reached the normal retirement age and have at least one valid annual contribution. (The CPP old-age pension can be claimed as early as age 60 and deferred until age 70.)

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; "Old Age Security: Overview," Government of Canada, July 20, 2022; "Increase to the Old Age Security Pension for Seniors Aged 75 Years and Older Begins Next Week," Government of Canada, July 21, 2022; "Old Age Security to Rise 10 Percent for Canadians 75 and Older," CTV News, July 22, 2022.

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