International Update

Recent Developments in Foreign Public and Private Pensions

March 2023

Europe

Denmark Eliminates Earned Income Offsets

Effective January 1, benefits paid under Denmark's universal state pension (folkepension) program are no longer offset when pensioners or their spouses or cohabiting partners have earned income above certain levels. These changes stem from a cross-party economic reform agreement announced in January 2022. Denmark's parliament approved the elimination of the offset for a spouse/partner's earned income in June 2022, and it is expected to approve the elimination of the offset for a pensioner's own earned income later this year with a retroactive effective date of January 1, 2023. (The elimination of the spousal/partner offset also applies to Denmark's early retirement and senior pension programs.) By eliminating these earned income offsets, the government seeks to encourage more old-age pensioners to remain in the workforce. The government estimates that the reforms will benefit around 130,000 pensioners and increase Denmark's structural labor supply by approximately 1,050 workers over the next 2 years. (In the last quarter of 2022, the country's labor force was comprised of around 3.03 million individuals.)

Under previous rules, both the basic and supplemental components of the state pension were offset for higher levels of earned income. Specifically, the basic component was reduced by 30 percent of a pensioner's annual earned income exceeding 359,200 kroner (US$51,560), while the supplemental component was reduced by up to 32 percent (depending on the pensioner's relationship status) of the pensioner's annual earned and unearned income (including that of a spouse or cohabiting partner) exceeding 91,300 kroner (US$13,105, if single) or 182,900 kroner (US$26,254, if married or partnered). (Up to 122,004 kroner [US$17,513] of the pensioner's own annual earned income could be excluded from the supplemental component's income test.) Under the new rules, the offset to the basic component has been eliminated, and the offset to the supplemental component only applies to a pensioner's unearned income (including that of a spouse or cohabiting partner), such as other pensions and investment income.

The main programs in Denmark's old-age pension system are the noncontributory state pension program and the contributory ATP pension program. To receive a full state pension (currently 14,439 kroner [US$2,073, if single] or 10,657 kroner [US$1,530, if married or partnered] a month), an individual must have reached the normal retirement age of 67 (gradually rising to age 69 by 2035), have at least 40 years of residence in Denmark since age 15, and have unearned income below certain limits. Individuals qualify for a full ATP pension if they have reached the normal retirement age and have worked continuously since age 16 or since 1964, whichever is later. Partial pensions are paid under both programs to individuals who have resided or worked in Denmark, but do not meet the requirements for the full pensions. Although the state pension cannot be claimed early, certain individuals with long work careers or reduced work capacities may be able to receive old-age benefits before the normal retirement age under the early retirement or senior pension programs, respectively.

Sources: "Folkepension," Borger.dk; *Social Security Programs Throughout the World: Europe, 2018*, U.S. Social Security Administration, September 2018; "Regeringen indgår ambitiøse aftaler om reformer," Finansministeriet, January 21, 2022; Lov nr 875 af 21/06/2022; "Pensionens størrelse påvirkes ikke af en ægtefælles eller samlevers arbejdsindtægt fra den 1. januar 2023," Styrelsen for Arbejdsmarked og Rekruttering, June 28, 2022; "Folkepensionister vil ikke længere blive modregnet på grund af arbejdsindtægt," Regeringen, February 8, 2023; "Sæsonkorrigeret arbejdsmarkedstilknytning efter beskæftigelsesstatus og tid," Danmarks Statistik, March 17, 2023.

Asia and the Pacific

Bangladesh Establishes Contributory Old-Age Pension Program

On January 24, Bangladesh's parliament approved a law that establishes a contributory old-age pension program for most Bangladeshi citizens not covered by the country's pension program for public-sector employees. Participation in the new program—known as the Universal Pension Scheme (UPS)—will initially be voluntary, but the government can make it mandatory later. The UPS will begin accepting enrollments after the new agency administering it—the National Pension Authority (NPA)–finishes setting up its operations and determining the final program rules. The creation of the UPS is intended to boost retirement savings among Bangladesh's workers as the country starts to experience rapid population aging. According to the United Nations' Population Division, Bangladesh's old-age dependency ratio (the population aged 65 or older divided by the population aged 15 to 64) is projected to increase from 9.2 percent in 2023 to 23.1 percent in 2050.

Although many details of the UPS (including its launch date) are not yet known, key features of the program specified by the law include:

- *Program administration:* On February 13, the government formed the NPA, with a five-member executive team, to administer the UPS. A 16-member board of directors—comprised of high-level representatives from government, business, and labor—will oversee the NPA.
- *Eligible individuals:* Citizens of Bangladesh aged 18 to 50, including those working overseas, will be allowed to participate in the UPS. (Citizens older than 50 will also be able to join the program under certain conditions.) Although public-sector employees will initially be excluded from the program, the government may extend coverage to this group in the future.
- *Account structure:* Each participant will have an individual account in the UPS. Participants will have access to the same accounts throughout their work careers even if they switch jobs.
- *Account contributions:* Participants can contribute to their UPS accounts on a monthly or quarterly basis, and they will be able to pay their contributions in advance or in installments. The NPA will determine the minimum participant contribution amount. Employers and other institutions can also contribute to the UPS on participants' behalf, and the government may contribute for low-income participants.
- *Pension fund:* Participants' savings will be held in a public pension fund managed by the NPA.
- *Old-age pension:* To receive an old-age pension under the UPS, a participant must have reached age 60 and have at least 10 years of contributions. The old-age pension will be based on the participant's total contributions and accrued interest and be paid monthly for life.
- *Early withdrawals:* A participant can withdraw up to 50 percent of their account balance as a loan before reaching the normal retirement age. The amount withdrawn must be repaid over time through higher contributions.
- *Survivor benefit:* If an old-age pensioner dies before age 75, a designated beneficiary will receive the monthly pension for the time remaining until the pensioner would have turned 75. If a participant dies before he or she has 10 years of contributions, the designated beneficiary will receive the participant's total contributions and accrued interest as a lump-sum payment.
- *Tax treatment:* UPS contributions and benefits will be exempt from income taxes.

In addition to the UPS, Bangladesh's old-age pension system consists of the Old-Age Allowance (OAA), a noncontributory social pension program. To qualify for the OAA, an individual must have reached age 65 (men) or 62 (women), not be receiving any other pension or allowance, and not have an annual income exceeding 3,000 takas (US$28.77). In addition, individuals who are disabled, homeless, widowed, divorced, or lack family are given priority in the program. The monthly OAA benefit amount is 500 takas (US$4.79).

Sources: "Old Age Allowance," Social Security Policy Support (SPSS) Programme; *Social Security Programs Throughout the World: Asia and the Pacific, 2018*, U.S. Social Security Administration, March 2019; *World Population Prospects 2022*, United Nations, Department of Economic and Social Affairs, Population Division, July 2022; Universal Pension Management Act, 2023; "Bangladesh Parliament Passes Universal Pension Scheme for People Aged Between 18–50," bdnews24.com, January 24, 2023; "Universal Pension Scheme: What It Is And How It Will Work," *The Daily Star*, January 31, 2023; "National Pension Authority Formed for Pension Scheme," *Prothom Alo*, February 13, 2023; "Notification Regarding Establishment of National Pension Authority," Bangladesh Ministry of Finance, Finance Division, February 13, 2023.

International

Organisation for Economic Co-operation and Development Releases Pension Markets in Focus 2022

On February 6, the Organisation for Economic Co-operation and Development (OECD) released *Pension Markets in Focus 2022*, the latest edition of its annual statistical report on funded and private pension plans. This year's report includes pension indicators for 90 jurisdictions, including the 38 OECD member countries, over a 20-year period ending in 2021 as well as a special section focusing on the effects of Russia's war against Ukraine on the portfolios of pension providers in OECD countries.

Overall, the report's findings show that pension assets increased approximately 7 percent in 2021, rising from US$56.3 trillion to US$60.6 trillion. Pension funds managed 64 percent, or US$38.5 trillion, of these assets, while the remaining assets were held on companies' books, in insurance contracts, and in other investment vehicles. In addition, 70.4 percent of these assets were held in defined contribution pension plans (up from 56.6 percent in 2001 and 63.7 percent in 2011), reflecting a continued shift away from defined benefit pension plans.

Other key findings from the report include:

- *Pension assets:* OECD countries had pension assets of US$58.9 trillion (or 105 percent of their total gross domestic product [GDP]) at the end of 2021. More than 90 percent of these assets were held by seven OECD countries, including the United States (US$40 trillion), the United Kingdom (US$3.8 trillion), Canada (US$3.2 trillion), Australia (US$2.3 trillion), the Netherlands (US$2.1 trillion), Japan (US$1.5 trillion), and Switzerland (US$1.4 trillion). In contrast, at the end of 2021, 43 non-OECD reporting jurisdictions had pension assets of US$1.7 trillion with China (US$410 billion), Brazil (US$393 billion), Singapore (US$370 billion), Hong Kong (US$198 billion), and Thailand (US$40 billion) having the highest pension assets.
- *Pension asset growth:* Pension assets in OECD countries have grown faster than GDP over the last 20 years, with the ratio of pension assets to GDP for the group rising from 59 percent in 2001, to 64 percent in 2011, and to 105 percent in 2021. At the end of 2021, nine OECD countries had pension assets exceeding their GDP, led by Denmark (233 percent), Iceland (219 percent), and the Netherlands (213 percent). In contrast, pension asset growth in non-OECD jurisdictions over the last 20 years has been mixed. While some jurisdictions accumulated pensions assets exceeding their GDP by 2021 (e.g., Liechtenstein and Namibia), others had pension assets valued at 1 percent or less of their GDP (e.g., Albania and Serbia).
- *Pension plan participation:* Participation in funded and private pension plans has increased worldwide over the last 20 years, with the fastest growth in jurisdictions that recently introduced mandatory or auto-enrollment plans. Among OECD countries, participation has increased the fastest in Estonia (3.5 percentage points a year since 2001), Israel (3.5 percentage points a year since 2001), and New Zealand (3 percentage points a year since 2011).
- *Investment returns:* In 2021, the average real net rates of investment returns for pension assets were 3 percent in OECD countries and -0.9 percent in 37 non-OECD reporting jurisdictions. The average annual investment performance of pension plans was positive in real terms in 41 of the 44 OECD and non-OECD reporting jurisdictions over the last 10 years, and in 16 of the 18 reporting jurisdictions over the last 20 years.

In its special section on the effects of Russia's war against Ukraine, the report finds that pension providers in OECD countries experienced a modest decline in their investment returns and asset values in early 2022. However, with less than 1 percent of these providers' pre-war assets invested in Russia or Russian securities, the direct effects of the war on OECD countries' retirement savings were limited. Instead, the report suggests that the war negatively affected OECD countries' retirement savings by contributing to a worldwide sell-off of non-Russian securities. In addition, the report notes that the war likely affected retirement savings indirectly through macroeconomic channels, including higher inflation, increased interest rates, and slower economic growth. Yet, the report emphasizes it is difficult to isolate the effects of the war from other developments (such as the COVID-19 pandemic and supply-chain disruptions) because of limited data.

Source: *Pension Markets in Focus 2022*, Organisation for Economic Co-operation and Development, February 6, 2023.

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