International Update

Recent Developments in Foreign Public and Private Pensions

November 2023

Asia and the Pacific

Georgia Expands Individual Account Investment Options

On August 1, the Pension Agency of Georgia announced that participants in the country's mandatory individual account program—the funded pension scheme (FPS)—had 1 month (from August 6 to September 6) to choose one of three investment portfolios for their savings (low risk, medium risk, or high risk) or have their savings moved to one of the age-based default options. Previously, the savings of all participants, regardless of age, were held in the low-risk portfolio, which primarily invests in bank deposits and bonds. Under the new rules, the aged-based default options are a high-risk portfolio for those younger than 40, a medium-risk portfolio for those aged 40 to 49, and a low-risk portfolio for those aged 50 or older. Going forward, participants will be able to change their investment selection once every 12 months. The changes are intended to boost real investment returns during the current inflationary period by allowing and encouraging participants to invest their savings in riskier portfolios. From its inception in January 2019 to August 2023, the FPS low-risk portfolio generated an average annual real rate of return of 2.2 percent.

The legal framework for the three investment portfolios was established in August 2018 as part of the law creating the FPS, but the rollout of the two riskier portfolios was delayed for 5 years. A key difference between the three portfolios is the maximum percentage of assets they can allocate to foreign securities, with a 20 percent limit for the low-risk portfolio, a 40 percent limit for the medium-risk portfolio, and a 60 percent limit for the high-risk portfolio. By contrast, the allocation limits for cash and cash equivalents are 75 percent for the low-risk portfolio, 50 percent for the medium-risk portfolio, and 25 percent for the high-risk portfolio. There are also varying allocation limits among the three portfolios for fixed-income securities, equities, and other types of assets.

The FPS supplements Georgia's universal state pension program, which pays Georgian citizens and certain non-citizens who have reached age 60 (women) or 65 (men) a monthly benefit of 295 lari (US$109, if younger than 70) or 365 lari (US$135, if aged 70 or older). (Benefit amounts are higher for pensioners who reside in highland communities.) Participation in the FPS is mandatory for all public- and private-sector employees in Georgia who were younger than 40 on August 6, 2018. Voluntary coverage is available for employees who were aged 40 or older on August 6, 2018, and self-employed persons. To finance the FPS individual accounts, employees and employers each contribute 2 percent of gross monthly earnings/payroll, and the government contributes 2 percent of gross annual earnings up to 24,000 lari (US$8,896) plus 1 percent of gross annual earnings above 24,000 lari and up to 60,000 lari (US$22,240). (Self-employed persons must pay both the employee and employer contributions.) When participants reach age 55 (women) or 60 (men), they can withdraw their account balances as lump-sum or programmed payments or convert the account balances into annuities. At the end of September, the FPS had 3.93 billion lari (US$1.46 billion) in assets and 1.45 million participants.

Sources: Law of Georgia on Funded Pensions, 2018; "Georgia Approves New Supplemental Pension Program," *International Update*, U.S. Social Security Administration, October 2018; *Social Security Programs Throughout the World: Asia and the Pacific, 2018*, U.S. Social Security Administration, March 2019; "Georgian Citizens Will Be Able to Choose the Portfolio in Which Their Pension Savings Will Be Invested Beginning August 6," Pension Agency of Georgia, August 1, 2023; "Changes in Pension Scheme Leave Georgians Worried About Their Savings," Eurasianet, August 25, 2023; "Conservative (Low Risk) Investment Portfolio," Pension Agency of Georgia, September 15, 2023; "Statistics from the Pension Agency for September 30, 2023," Pension Agency of Georgia, October 11, 2023.

The Americas

Canada To Start Collecting Additional Contributions for the Canada Pension Plan

Effective January 1, the Canadian government will start collecting additional contributions from employees, employers, and self-employed persons covered by the Canada Pension Plan (CPP). Referred to as second CPP contributions, these additional contributions will be paid on earnings above the base CPP contributions earnings ceiling (now called the first earnings ceiling) and up to a new second earnings ceiling. The second CPP contributions were established in a January 2019 law as part of a government effort to enhance the CPP's earnings-related old-age, disability, and survivor benefits. (Similar enhancements have been made to the Quebec Pension Plan [QPP], which covers workers in Quebec in place of the CPP.) According to the government, the second CPP contributions and other enhancement measures will increase the maximum annual CPP benefit by around 50 percent (from C$15,679 [US$11,308] to C$23,832 [US$17,188] in current dollars) once they are fully in place in 2064.

Under the second CPP contributions provision, employees and employers will each contribute 4 percent of covered earnings above the first earnings ceiling (C$68,500 [US$49,403] in 2024) and up to the second earnings ceiling (C$73,200 [US$52,793] in 2024). (Self-employed persons will pay the combined 8 percent rate.) The second earnings ceiling will be around 7 percent higher than the first earnings ceiling in 2024, but this will rise to around 14 percent for 2025 and beyond. The provision does not affect base CPP contributions, which are 5.95 percent of covered earnings up to the first earnings ceiling for both employees and employers. (Self-employed persons contribute 11.9 percent of covered earnings.)

Canada's public old-age pension system consists of the universal Old Age Security (OAS) pension program, the income-tested Guaranteed Income Supplement (GIS) program, and the contributory CPP. (The province of Quebec opted out of the CPP, but its QPP is similar.) To qualify for a full OAS pension, individuals must have reached the normal retirement age of 65 and legally resided in Canada 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 OAS pensioners have annual net incomes exceeding a certain amount (currently C$81,761 [US$58,968]), their annual OAS pensions are reduced by 15 percent of the income above this threshold. OAS pensioners may qualify for a monthly GIS benefit if their annual household incomes are 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: "Canada Implements Canadian Pension Plan Expansion," *International Update*, U.S. Social Security Administration, January 2019; *Social Security Programs Throughout the World: The Americas, 2019*, U.S. Social Security Administration, March 2020; "Canada Increases Pensions for Older Retirees," *International Update*, U.S. Social Security Administration, August 2022; "Canada Pension Plan (CPP) and the CPP Enhancement," Government of Canada, May 18, 2023; "Canada Pension Plan Enhancement: Second CPP Contribution," Canada Revenue Agency, May 31, 2023; "Canada Revenue Agency Announces Maximum Pensionable Earnings and Contributions for 2024," Canada Revenue Agency, November 1, 2023.

Costa Rica Will Implement Pension Reforms in January

On January 12, Costa Rica's government will implement reforms to the country's Disability, Old-Age, and Death (Invalidez, Vejez y Muerte, or IVM) pension program that were enacted in January 2022. The reforms include eliminating early retirement for men, raising the early retirement age for women, changing the earnings base for calculating pensions, and increasing the number of contributions required for additional pension benefits. The reforms are intended to improve the sustainability of the social insurance program by limiting and discouraging early retirement. According to the Costa Rican Department of Social Security (Caja Costarricense de Seguro Social, or CCSS), around 60 percent of those who are eligible opt for early retirement, which represents a significant expense for the IVM program. The CCSS estimates that the reform will extend the sustainability of the program for a further 15 years until 2050.

The key IVM reforms to be implemented on January 12 include:

- *Eliminating early retirement for men:* Currently, men who have reached age 61 years and 11 months and have at least 462 months of contributions can claim an old-age pension before the normal retirement age of 65. Under the reforms, this early retirement option is no longer available to men.

- *Raising the early retirement age for women:* Women will be eligible for an early pension at age 63 with at least 405 months of contributions instead of at age 59 years and 11 months with at least 450 months of contributions.
- *Changing the earnings base for calculating pensions:* The earnings on which pensions are calculated will change from the most recent 240 months (20 years) of contributions to the highest 300 months (25 years) of contributions over a worker's entire career.
- *Increasing the number of contributions required for additional pension benefits:* Currently, a pension comprises a basic benefit based on 240 months of contributions and an additional benefit for contributions beyond 240 months. The additional benefit is 0.083 percent of the average monthly reference earnings for each month of contributions exceeding 240 months. When the reforms take effect, this additional amount will begin to accrue after 300 months of contributions instead of 240 months.

Costa Rica's old-age pension system consists of the social insurance IVM program for public- and private-sector employees and self-employed persons, a mandatory individual account program for public- and private-sector employees who were younger than 55 in 2005, and a social assistance program for certain individuals who do not qualify for contributory pensions. To qualify for a full IVM old-age pension, insured individuals must have reached the normal retirement age and have at least 300 months of contributions. Insured individuals who do not qualify for a full pension, but have at least 180 months of contributions, are entitled to a proportionally reduced pension. Individuals become eligible for old-age benefits from their individual accounts when they qualify for the IVM old-age pension. (Additional qualifying conditions may apply, depending on the pension contract.) At retirement, individuals can use their account balances to purchase annuities or make programmed withdrawals. (Lump-sum payments may be allowed for small balances.) The social assistance benefit may be paid to individuals aged 65 or older who are not entitled to contributory pensions and have family or individual monthly income below the poverty line (129,038 colones [US$243] for urban areas or 99,537 colones [US$187] for rural areas).

Sources: *Social Security Programs Throughout the World: The Americas, 2019*, U.S. Social Security Administration, March 2020; "Pensions at a Glance 2021: Country Profiles—Costa Rica," Organisation for Economic Co-operation and Development, December 2021; Reglamento del Seguro de Invalidez Vejez y Muerte de la Caja Costarricense de Seguro Social, 2022; "Las reforma al seguro por Invalidez, Vejez y Muerte (IVM) entrará en vigor el 11 de enero del 2024," Delfino, January 11, 2022; "Publican en La Gaceta reforma al sistema de pensiones del IVM que extiende a 63 años pensión anticipada para mujeres," *Semanario Universidad*, January 11, 2022.

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