International Update

Recent Developments in Foreign Public and Private Pensions

July 2024

Asia and the Pacific

Malaysia Restructures Employees Provident Fund Accounts

Effective May 11, Malaysia's Employees Provident Fund (EPF) restructured most of its member accounts so that each member account comprises three accounts instead of two. (The EPF is the primary source of old-age, disability, and survivor benefits in Malaysia.) Under the new arrangement, each member account will consist of Akaun Persaraan (previously known as Account 1) for retirement savings, Akaun Sejahtera (previously known as Account 2) for various lifecycle needs, and Akaun Fleksibel (the new third account) for short-term financial needs. According to the EPF, the main goals of the restructuring are to help its members better balance their short- and long-term financial needs and respond better to labor market changes. This reform comes after the government allowed EPF members to make a series of special account withdrawals to deal with economic hardships during the COVID-19 pandemic. As a result of these measures, EPF members withdrew over 144.5 billion ringgits (US$30.7 billion) and the median member account balance dropped from 16,600 ringgits (US$3,522) in 2019 to 8,100 ringgits (US$1,719) in 2022.

Other key details of the EPF account restructuring include:

- *Covered members:* The new three-account arrangement only applies to EPF members aged 54 or younger. The savings of EPF members aged 55 or older continue to be held in one or two accounts, depending on whether they continue to work at age 55 or beyond. When EPF members turn 55, all their accrued savings are combined into a single account called Akaun 55, and any contributions made after turning 55 are deposited into an account called Akaun Emas. Members can withdraw all or part of their Akaun 55 balances at any time, but they cannot access their Akaun Emas savings before age 60.
- *Contribution allocations:* The new contributions paid by covered EPF members and their employers are allocated to the three accounts as follows: 75 percent of contributions to Akaun Persaraan, 15 percent to Akaun Sejahtera, and 10 percent to Akaun Fleksibel. Under the previous two-account arrangement, 70 percent of contributions were allocated to Akaun Persaraan and the remaining 30 percent to Akaun Sejahtera.
- *Optional transfer:* From May 12 to August 31, covered EPF members can choose to transfer Akaun Sejahtera savings to their new Akaun Fleksibel. The amount of this one-time transfer varies depending on a member's Akaun Sejahtera balance: for members with Akaun Sejahtera balances of at least 3,000 ringgits (US$637), one-third of the balance is transferred to Akaun Fleksibel, one-sixth is transferred to Akaun Persaraan, and the remaining one-half is kept in Akaun Sejahtera; for members with Akaun Sejahtera balances above 1,000 ringgits (US$212) but below 3,000 ringgits, 1,000 ringgits are transferred to Akaun Fleksibel and the remaining balance is kept in Akaun Sejahtera; and for members with Akaun Sejahtera balances up to 1,000 ringgits, the entire balance is transferred to Akaun Fleksibel.
- *Account withdrawals:* EPF members can make withdrawals of at least 50 Ringgits (US$11) from Akaun Fleksibel at any time and for any purpose. As before, Akaun Persaraan savings cannot be accessed before age 55, and Akaun Sejahtera savings can only be withdrawn for certain purposes, such as paying approved housing, healthcare, or education expenses.
- *Account dividends:* The restructuring does not change existing policy on EPF dividends. Like other EPF accounts, Akaun Fleksibel will have a dividend rate of least 2.5 percent that will be reviewed annually.

Participation in the EPF is mandatory for all private-sector employees and public-sector employees not covered by special pension programs, and voluntary for self-employed persons; household workers; foreign workers; and certain other individuals. EPF contribution rates vary depending on an individual's legal status, age, and monthly salary. The standard EPF employee contribution rate is 11 percent of monthly earnings; however, employees can choose to contribute at a higher rate. For employers, the standard contribution rate is 12 percent of monthly payroll for employees earning more than 5,000 ringgits (US$1,061) a month, or 13 percent for employees earning up to 5,000 ringgits a month. In addition to the EPF, Malaysia's pension system includes a social insurance program for individuals with mandatory EPF coverage (voluntary social insurance coverage 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 Implements Measures Affecting the Employees' Provident Fund," *International Update*, U.S. Social Security Administration, February 2022; "Malaysia Says No More Pension Fund Withdrawals; Median Savings for Account Holders Down by Half Since 2019," CNA, February 16, 2023; "EPF Account Restructuring," KWSP/EPF, 2024; "EPF Contribution Rate in Malaysia," KWSP/EPF, 2024; "EPF Account Restructuring Set to Address Members' Life Cycle Needs," KWSP/EPF, April 25, 2024; "EPF Members Can Withdraw Minimum of RM50 from Account 3 at Any Time (Polls Inside)," *The Star*, April 25, 2024; "Malaysia's EPF Revamps Accounts, Adds a Third with Flexible Withdrawal," *Asia Asset Management*, April 26, 2024.

The Americas

Peru Allows Special Individual Account Withdrawal

On April 18, Peru's government enacted a law allowing an additional special withdrawal from the country's mandatory individual account program (Sistema Privado de Pensiones, or SPP). Under the new law, SPP participants can make one-time early withdrawals of up to 4 Reference Tax Units (Unidad Impositiva Tributaria, or UIT; 1 UIT is currently equal to 5,150 soles [US$1,339]) from their individual accounts without penalty. This is the seventh special withdrawal measure implemented by the government since 2020 to provide SPP participants with financial relief and stimulate Peru's economy following a sharp recession triggered by the COVID-19 pandemic. The pension fund management companies (Administradoras de Fondos de Pensiones, or AFPs) that administer the SPP expect the latest special withdrawal measure to result in around 30 billion soles (US$7.8 billion) withdrawn from the 140 billion soles (US$36.4 billion) held in individual accounts. In addition, the agency that oversees the SPP has projected that the withdrawal measure could increase the share of SPP's 9.6 million participants who have zero balances from 26 percent to 89 percent.

SPP participants wishing to take advantage of the special withdrawal option must submit requests to their AFPs on certain dates from May 20 to July 1—depending on their national identification numbers—or any weekday (excluding holidays) from July 2 to August 17. After participants submit requests, they will receive their withdrawals in up to four payments depending on the withdrawal amount. They will receive their first payment of 1 UIT (or the total withdrawal amount if less than 1 UIT) within approximately 18 business days and additional payments of 1 UIT (or the remaining withdrawal amount if less than 1 UIT) every 30 days thereafter until the total withdrawal amount is paid (up to the 4 UIT maximum).

In addition to the SPP, Peru's old-age pension system consists of a social insurance program (Sistema Nacional de Pensiones, or SNP) and a social assistance program (Pensión 65). SPP and SNP operate parallel to each other, and participation in either of the programs is mandatory for all public- and private-sector employees and voluntary for self-employed persons. To qualify for an SNP pension or an SPP guaranteed minimum pension, an individual must have reached age 65 and have at least 10 years or 20 years of contributions, respectively. (The SPP guaranteed minimum pension ensures that pensioners receive at least the monthly minimum old-age pension of 500 soles [US$130].) Retirement before age 65 is possible under certain conditions for both the SNP and SPP programs. The social assistance pension is paid to residents of Peru who are aged 65 or older, do not qualify for an SPP or SNP pension, and are members of households classified as extremely poor.

Sources: *Social Security Programs Throughout the World: The Americas, 2019*, U.S. Social Security Administration, March 2020; "Peru Releases Analysis of Pandemic-Related Individual Account Withdrawals," *International Update*, U.S. Social Security Administration, September 2022; Oficio Nº 58700-2023-SBS, Superintendencia de Banca, Seguros y AFP, October 13, 2023; Ley N° 32002, 2024; Resolución SBS N° 1623, 2024; "Información sobre el retiro de hasta 4 UIT–2024," Asociación de AFP, May 20, 2024; "Balance General de los Fondos de Pensiones por AFP," Superintendencia de Banca, Seguros y AFP, June 30, 2024; “Número de Afiliados Activos por AFP, Sexo y Edad Actual,” Superintendencia de Banca, Seguros y AFP, June 30, 2024; “Retiro AFP: Esta es la fecha exacta en que podrás solicitarlo y sumar el aporte de julio,” *Infobae*, July 23, 2024.

Saint Vincent and the Grenadines Implements Social Insurance Reforms for New Public Pension Fund

On June 1, the government of Saint Vincent and the Grenadines implemented contribution rate increases that are part of a social insurance reform package rolled out in early 2024. Other changes made by the package of reforms to the country’s social insurance program—the National Insurance Services (NIS)—include expanding self-employed coverage, raising the covered earnings ceiling, restricting early pension eligibility, increasing the early pension reduction, modifying the reference earnings period, raising the minimum pension, and establishing a permanent unemployment benefit. The government introduced the reform package in its 2024 budget, which received parliamentary approval on January 10. While the reforms make some improvements to benefit adequacy and program coverage, they are mainly intended to improve the sustainability of the NIS by raising additional revenues and discouraging early retirement. According to an actuarial analysis, the latest changes will extend the year in which the NIS trust fund is expected to be exhausted from 2035 to 2060.

The key changes made by the NIS reform package (all effective March 1 unless otherwise noted) include:

- *Expanding self-employed coverage:* Although the NIS has covered self-employed persons since 1997, program participation among this group of workers has been low. To boost participation, the reforms make work injury benefits available to self-employed persons and authorize the creation of a simpler system for formal- and informal-sector self-employed persons to pay contributions.
- *Increasing contribution rates:* On June 1, the NIS contribution rate increased from 4.5 percent to 5.5 percent of weekly or monthly covered earnings for employees, from 5.5 percent to 6.5 percent of weekly or monthly covered payroll for employers, from 9.5 percent to 11.5 percent of weekly or monthly covered earnings for self-employed persons, and from 8.84 percent to 10.84 percent of monthly or quarterly declared income for voluntarily insured persons. (The declared income of the voluntarily insured is selected from five income categories.) Starting on January 1, 2025, the employee and employer contribution rates will rise by 0.5 percentage points a year until reaching 7 percent and 8 percent, respectively in 2027, and the self-employed and voluntary contribution rates will rise by 1 percentage point a year until reaching 14.5 percent and 13.84 percent, respectively, in 2027.
- *Raising the covered earnings ceiling:* Effective June 1, the earnings used to calculate contributions increased from EC$1,000 (US$370) a week (EC$4,333 [US$1,605] a month) to EC$1,200 (US$444) a week (EC$5,200 [US$1,926] a month).
- *Restricting early pension eligibility:* To claim an old-age pension before the normal retirement age of 63 (gradually rising to 65 by 2028), insured individuals must now have ceased employment or have earnings below 50 percent of the covered earnings ceiling. (As before, insured individuals can qualify for a reduced old-age pension as early as age 60 if they have at least 650 weeks [rising to 700 weeks in 2025 and to 750 weeks in 2028] of paid or credited contributions.) Previously, the early pension did not have any employment or earnings restrictions.
- *Increasing the early pension reduction:* The permanent reduction applied to an insured individual’s old-age pension for each month it is claimed early has increased from 0.5 percent to 0.67 percent.
- *Modifying the reference earnings period:* The reference earnings used to calculate the old-age pension are now based on an insured individual’s best 7 years of covered earnings up from 5 years.
- *Raising the minimum pension:* The minimum weekly pension has increased from EC$70 (US$26) to EC$80 (US$30).
- *Establishing a permanent unemployment benefit:* To provide additional social protection to workers, including those nearing retirement, a permanent unemployment benefit will be introduced in January 2025.

The main components of the old-age pension system in Saint Vincent and the Grenadines are the NIS covering employed and self-employed persons and the means-tested Elderly Assistance Benefit for certain needy residents. (Voluntary NIS coverage is available to citizens no longer in covered employment or living overseas.) To qualify for an old-age pension under the NIS, individuals must have reached the normal retirement age and have at least 500 weeks of paid or credited contributions. A full old-age pension is paid to individuals who qualify with at least 650 weeks of contributions (rising to 700 weeks in 2025 and to 750 weeks in 2028) If insured individuals reach the normal retirement age with at least 50 weeks but less than 500 weeks of paid or credited contributions, they can receive a lump-sum old-age grant. The Elderly Assistance Benefit is paid to individuals who were aged 45 or older on January 5, 1987; were regularly engaged in seasonal or informal work for a significant period before this date (no specific period has been defined); are not currently in paid employment; and meet certain residency requirements and income limits.

Sources: "Age Benefit," National Insurance Services of Saint Vincent and the Grenadines; "Elderly Assistance Benefit," National Insurance Services of Saint Vincent and the Grenadines; "Pension Reform," National Insurance Services of Saint Vincent and the Grenadines; "Pension Reform 2024," National Insurance Services of Saint Vincent and the Grenadines; *Social Security Programs Throughout the World: The Americas, 2019*, U.S. Social Security Administration, March 2020; "2024 Budget Speech," Government of Saint Vincent and the Grenadines, January 8, 2024; "Higher NIS Rates as Pension Reforms Commence on June 1," *St. Vincent Times*, January 9, 2024; "Budget 2024 Gets Stamp of Approval," *Searchlight*, January 12, 2024.

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