International Update

Recent Developments in Foreign
Public and Private Pensions

October 2024

Asia

China Approves Retirement Age Increases and Other Reforms

On September 13, China's Standing Committee of the 14th National People's Congress approved reforms to the country's main pension program—Basic Pension Insurance (BPI)—that include raising the normal retirement age, increasing the old-age pension contribution requirement, and establishing early and deferred retirement options. (The BPI program primarily covers urban employees. Since 2009, a separate pension program has covered rural residents and nonsalaried urban residents.) In addition, the reforms require employers and the government to strengthen protections and supports for older workers. The reforms are intended to improve the sustainability of China's old-age pension system as the country faces increasing fiscal pressures from slowing economic growth and rapid population aging. According to the United Nations' Population Division, China's old-age dependency ratio (the population aged 65 or older divided by the population aged 15 to 64) is projected to increase from 21.2 percent in 2024 to 52.3 percent in 2050. Given this trend and other conditions, the government-sponsored Chinese Academy of Social Sciences has estimated that country's public pension fund would be exhausted by 2035 without reforms.

The key provisions of the approved reforms—all effective January 1 unless otherwise noted—include:

- *Raising the normal retirement age:* The normal retirement age under the BPI program will gradually increase over a 15-year period from 60 to 63 for men, from 55 to 58 for women in white-collar jobs, and from 50 to 55 for women in blue-collar jobs. The rate of the retirement age increase will be 1 month every 5 months for men and white-collar women and 1 month every 3 months for blue-collar women, with the first increase implemented on January 1, 2025. (Based on birthdate, the retirement age increases are 1 month every 4 months for men born since 1965 and white-collar women born since 1970 and 1 month every 2 months for blue-collar women born since 1975.)
- *Increasing the old-age pension contribution requirement:* Starting on January 1, 2030, the minimum years of contributions needed to qualify for a BPI old-age pension—currently 15 years—will increase by 6 months a year until reaching 20 years in 2039. Retirement-age individuals who fall short of the contribution requirement can continue to work or make lump-sum payments to obtain missing contributions.
- *Establishing an early retirement option:* Individuals can claim a BPI old-age pension up to 3 years before the normal retirement age if they have met the contribution requirement. However, early retirement cannot occur before age 60 for men, age 55 for white-collar women, or age 50 for blue-collar women. A special early retirement option will continue for workers in hazardous or arduous occupations—including occupations involving significant work underground, in extreme temperatures, at high altitudes, or with heavy physical labor—but additional details about changes to this option are not available. (Under current rules, workers in hazardous or arduous occupations can retire as early as age 55 [men] or age 45 [women] if they meet certain conditions.)
- *Introducing a delayed retirement option:* When employees reach the normal retirement age, they can choose to defer claiming the BPI old-age pension and continue working for up to 3 years if their employers consent.
- *Strengthening older worker protections and supports:* Employers must ensure that employees who work beyond the normal retirement age receive the same basic rights to pay, benefits, leave, work injury insurance, and safe working conditions as other employees. The government will also take additional actions to promote the employment of older workers and protect these workers against age discrimination, but the details of these actions still need to be determined.

China's old-age pension system comprises three pillars—the first pillar includes the BPI program and the pension program for rural residents and nonsalaried urban residents, the second pillar includes occupational pension programs that primarily cover employees of large state-run enterprises, and the third pillar includes voluntary private pension accounts. The BPI program has a social insurance component funded by an employer contribution of 16 percent of payroll, and a mandatory individual account component funded by an employee contribution of 8 percent of gross covered earnings. The pension program for rural residents and nonsalaried urban residents has a noncontributory component funded by the central and local governments, and an individual account component funded by personal contributions and government subsidies. To qualify for an old-age pension under this program, participants must have reached age 60 and have at least 15 years of individual account contributions.

Sources: "China," ISSA Country Profiles, January 2022; Decision of the Standing Committee of the National People's Congress on the Gradual Extension of the Statutory Retirement Age, 2024; *World Population Prospects 2024*, United Nations, Department of Economic and Social Affairs, Population Division, July 2024; "Chinese Policymakers Discuss Proposal to Raise Retirement Age," CNA, September 11, 2024; "China's Gradual Retirement Age Delay to Tackle Demographic Shifts," China Briefing, September 13, 2024; "China: National Legislature Adopts Decision to Gradually Raise Retirement Ages," Library of Congress, October 18, 2024.

Kyrgyzstan Implements Old-Age Pension Reforms

On July 1, Kyrgyzstan's government implemented reforms to the country's public old-age pension program that include eliminating the early retirement and partial pension options, lowering the service requirement, and increasing the minimum old-age pension. The government also followed up these reforms with additional benefit increases on October 1. These changes are intended to improve program sustainability by encouraging longer work careers and boost benefit adequacy for lower income pensioners. According to a 2023 Asian Development Bank report, Kyrgyzstan's public pension program has relied heavily on government transfers to remain solvent, with the government covering around 40 percent of the program's expenditures (representing roughly 9 percent of the country's gross domestic product). At the same time, despite these high pension expenditures, government data indicate that pensioners comprise only around 10.9 percent of the country's population of 7.2 million.

The reforms apply to Kyrgyzstan's multipart public old-age pension, which has a flat-rate basic component, a social insurance component, a notional defined contribution (NDC) component, and an individual account component. (These components have the same qualifying conditions and are paid as one combined benefit.) The key provisions of the reforms (all effective July 1 unless otherwise noted) include:

- *Eliminating the early retirement option:* Individuals can no longer claim an old-age pension before the normal retirement age of 63 (men) or 58 (women). Previously, individuals could claim an old-age pension up to 3 years before the normal retirement age if they had at least 40 years (men) or 35 years (women) of covered employment.
- *Ending the partial pension option:* Individuals can no longer claim a partial old-age pension if they lack the years of covered employment required for a standard old-age pension (25 years for men or 20 years for women) when they reach the normal retirement age. Previously, retirement-age individuals with less than 25 years (men) or 20 years (women) of covered employment could receive a proportionally reduced basic benefit.
- *Lowering the service requirement:* Until the end of 2025, the minimum years of covered employment to qualify for an old-age pension with a full basic benefit has been reduced from 25 years (men) or 20 years (women) to 5 years, after which it will gradually increase to 20 years by 2040. (A timetable for these increases is not currently available.)
- *Increasing benefit amounts:* Along with the other changes implemented on July 1, the minimum monthly old-age pension was set at the full basic benefit, which increased from 3,170 soms (US$38) to 3,500 soms (US$42). On October 1, the social insurance and NDC components of existing old-age pensions increased by 18 percent or 1,000 soms (US$11.88), whichever was greater. In addition, it was established that the total amounts of old-age pensions must be at least the minimum subsistence level for the previous year (6,900 soms [US$82]). As a result, the government topped up old-age pensions below this amount after applying the social insurance and NDC adjustments. The benefit increases were made in accordance with Kyrgyzstan's pension law, which require periodic benefit adjustments based on increases in average wages and the consumer price index. With the increases, the government estimates that the average monthly

old-age pension has risen by 1,432 soms (US$17) to 10,547 soms (US$125).

Kyrgyzstan's multipart public pension program provides old-age, disability, survivor, and work injury benefits, and covers employees, self-employed persons, members of cooperatives, and members of state and collective farms. However, participation in the individual account component of the public pension program is voluntary for self-employed persons. To finance the social insurance and NDC components of the program, employees contribute 8 percent (if within 15 years of reaching the normal retirement age) or 10 percent (if more than 15 years from reaching the normal retirement age) of monthly earnings, and employers contribute 15 percent of monthly payroll. (The employer contribution rate may vary for certain categories of employees.) In addition, the individual account component is financed with a 2 percent employee contribution, and the basic component is financed entirely by the government. If Kyrgyz citizens and certain foreign nationals residing in the country do not qualify for the contributory old-age pension when they reach age 65 (men) or 60 (women), they can receive a government-financed social pension of 2,000 soms (US$24).

Sources: *Social Security Programs Throughout the World: Asia and the Pacific, 2018*, U.S. Social Security Administration, March 2019; "Kyrgyzstan," ISSA Country Profiles, January 2022; "ADB: Kyrgyzstan Needs More Systemic and Deeper Pension Reform," 24.kg News Agency, April 4, 2023; "Economic Trends and Prospects in Developing Asia , Caucasus, and Central Asia: Kyrgyz Republic," *Asian Development Outlook*, Asian Development Bank, April 2023; "Kyrgyzstan Cancels Early Retirement Option Starting July 1," Daryo, June 30, 2024; "Early Retirement Abolished in Kyrgyzstan," 24.kg News Agency, September 20, 2024; "Pensions Increased in Kyrgyzstan from October 1," 24.kg News Agency, October 1, 2024; "No Pension to be Paid to Kyrgyzstanis with Less than 5 Years of Work Experience," 24.kg News Agency, October 4, 2024.

The Americas

Peru Enacts Pension Reform Law

On September 24, Peru's government enacted a new pension law that restructures the country's old-age pension system into a four-pillar system that comprises a contributory pillar, a semi-contributory pillar, a noncontributory pillar, and a voluntary pillar. Other key reforms made by the new law include adopting a notional defined contribution model for public pay-as-you-go pensions, requiring all individuals aged 18 or older to enroll in a contributory pension program, establishing a consumption-related supplemental pension, raising the early retirement age, increasing minimum pension amounts, and limiting early and lump-sum individual account withdrawals. Peru's president signed the new law on September 23 after the congress approved it on September 2. With the extensive reforms, the government is seeking to improve the coverage, adequacy, and sustainability of the old-age pension system after a series of special withdrawal measures led to a sharp reduction in Peruvians' retirement savings. According to a survey conducted by Peru's Institute for National Statistics in 2023, less than 36 percent of Peruvians aged 65 or older were entitled to a pension that could cover their basic needs.

The introduction of the four-pillar system under the new law is intended to bring greater clarity to how Peru's pension programs work together in the provision of broad social protection. The main features of the four pillars include:

- *Contributory pillar:* This pillar consists of two existing contribution-financed programs—a publicly administered pay-as-you-go program (Sistema Nacional de Pensiones, or SNP) and a privately managed individual account program (Sistema Privado de Pensiones, or SPP)—that operate in parallel to each other and provide old-age, disability, survivor, and death benefits. Under the new law, the SNP will transition from a social insurance model to a notional defined contribution model by 2030, which will more closely link participants' benefits to their lifetime contributions. As before, individuals can choose whether to enroll in the SNP or the SPP for their mandatory pension coverage. However, under the new system, all citizens of Peru aged 18 or older must enroll in the SNP or SPP, regardless of their employment status. (Previously, contributory program participation was only mandatory for employees.) If citizens do not actively choose a program, they will automatically be enrolled in the SNP when they turn 18 or the SPP if they are aged 18 or older on the effective date of this provision. Under normal rules, an old-age pension is paid to SNP participants when they reach age 65 and have at least 20 years of contributions and to SPP participants who have reached age 65.
- *Semi-contributory pillar:* If SNP participants lack the contributions required for a standard old-age pension or SPP participants have insufficient savings to provide a minimum old-age pension, they may qualify for a government-subsidized guaranteed

benefit under this pillar. Since 2021, the SNP has provided a special partial pension to retirement-age participants with 10 years to 19 years of contributions. Similarly, retirement-age SPP participants can qualify for a guaranteed minimum pension if they have at least 20 years of contributions and have not made any early withdrawals.

- *Noncontributory pillar:* Under this pillar, retirement-age individuals not entitled to a contributory or semi-contributory pension may qualify for a government-financed old-age pension if they lack other financial resources. This social assistance is currently provided through the Pension 65 program, which pays a monthly benefit to Peruvian residents who are aged 65 or older, do not qualify for another pension, and are members of households classified as extremely poor according to a government targeting system. (The targeting system classifies households based on earnings, expenditures, and a quality-of-life index.) The new law calls for the Pension 65 program to be gradually extended to include more older residents living in poverty and other vulnerable groups.
- *Voluntary pillar:* To complement their base old-age pensions, individuals can make additional contributions to their individual accounts (if they are SPP participants) and participate in a range of voluntary retirement plans managed by private financial companies. This pillar also includes a new consumption-related pension program that will provide SNP and SPP participants with privately managed supplemental individual accounts funded through a 1 percent tax on the first 700 soles (US$189) of every purchase of goods or services requiring an electronic receipt, up to an annual total of 8 Reference Tax Units (Unidad Impositiva Tributaria, or UIT; 1 UIT is currently equal to 5,150 soles [US$1,392]). The savings accrued through this consumption tax and investment returns will be paid to participants when they reach age 65.

Although many details of the new four-pillar pension system have not been released yet (the government has 180 days from September 25 to issue implementing regulations), notable policy changes made under the new system include:

- *Raising the early retirement age:* The earliest age at which a SNP or SPP old-age pension can be claimed before the normal retirement age of 65 has risen from 50 to 55. To claim an early pension, SNP participants must still have at least 25 years of contributions, and SPP participants must have at least 72 months of contributions in the last 120 months and sufficient savings to finance a benefit of at least 40 percent of their average indexed earnings in the last 120 months. (Other early retirement rules may apply to participants who are unemployed or have worked in hazardous occupations.)
- *Introducing mandatory self-employed contributions:* Starting on January 1, 2028, self-employed persons must contribute 2 percent of their monthly earnings to the SNP or SPP, depending on which program they have chosen. The contribution rate will increase by 1 percentage point every 2 years thereafter until reaching 5 percent in 2034.
- *Prohibiting early withdrawals:* SPP participants are prohibited from making withdrawals from their accounts before reaching retirement age. This provision also prevents the government from instituting special early withdrawal measures like the seven it approved over the past 4 years in response to widespread economic hardship.
- *Increasing minimum pension amounts:* In 2025, the minimum monthly old-age pension paid to SNP and SPP participants with at least 20 years of contributions will increase from 500 soles (US$135) to 600 soles (US$162). In addition, the special partial pension paid to SNP participants under the semi-contributory pillar will increase from 250 soles (US$68) to 300 soles (US$81) for participants with 10 to 14 years of contributions and from 350 soles (US$95) to 400 soles (US$108) for participants with 15 to 19 years of contributions.
- *Phasing out lump-sum benefit payments:* SPP participants younger than age 40 on September 25 no longer have the option of withdrawing 95.5 percent of their account balances as lump-sum payments at retirement. As a result, these participants must use their account balances to make programmed withdrawals, purchase a personal or joint annuity, or purchase a deferred annuity combined with temporary programmed withdrawals. SPP participants aged 40 or older on September 25 will still have access to the lump-sum withdrawal option at retirement.
- *Expanding pension provider options:* With the aim of reducing individual account administrative fees through greater competition, the new system will allow more financial entities—including traditional banks, municipal savings banks, rural savings banks, investment banks, and insurance companies—to serve as pension providers

for the SPP and the consumption-related pension program. Currently, SPP participants can choose from four pension fund management companies (Administradoras de Fondos de Pensiones, or AFPs) to manage their accounts. The Superintendent of Banks, Insurance, and AFPs (Superintendencia de Banca, Seguros y AFP) will continue to license and supervise the pension providers that manage the individual account programs.

Sources: *Social Security Programs Throughout the World: The Americas, 2019*, U.S. Social Security Administration, March 2020; "Peru Enacts Social Insurance Pension Reforms," *International Update*, U.S. Social Security Administration, August 2021; Ley N° N° 32123, 2024; "Los mayores de 65 años en Perú, una generación condenada a vivir sin pensión," EFE, April 27, 2024; "Peru Allows Special Individual Account Withdrawal," *International Update*, U.S. Social Security Administration, July 2024; "Ley Nº 32123: Se publica la nueva Ley de Modernización del Sistema Previsional Peruano," *El Peruano*, September 24, 2024; "Nueva Ley de Pensiones: Gobierno promulga reforma previsional de las AFP con pensión mínima de S/600 y afiliación obligatoria," *Infobae*, September 30, 2024; "ONP anuncia que aumento de pensiones se pagará desde el 2025 sin necesidad de reglamento," Oficina de Normalización Previsional, October 2, 2024.

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