Social Security

International Update:

Recent Developments in Foreign Public and Private Pensions

August 2015

Europe

Bulgaria: New Pension Reform Legislation

On July 28, parliament passed pension reform legislation that increases the various retirement ages, the contribution rate, and the number of contribution years required for a benefit. The law also changes the status of the second-pillar individual accounts from mandatory to voluntary. These changes are designed to make the public pay-as-you-go pension (PAYG) program more sustainable; the deficit is expected to fall from an estimated 2.4 percent of gross domestic product (GDP) in 2015 to 1.2 percent of GDP by 2037. Annual deficits of the PAYG program, currently around 2.0 billion leva (US$1.12 billion), are subsidized by the state budget. The country's worsening demographic trends continue to put a strain on the program. Emigration and population aging have caused the population to decline by roughly one-fifth since 1990 to 7.25 million. According to a 2013 World Bank report, the old-age population dependency rate (defined as the number of individuals aged 65 or older per 100 working-age persons aged 15–64) is expected to double from 25 percent in 2011 to 51 percent by 2075.

A 2012 law gradually increased the normal retirement ages for men and women (to 65 and 63, respectively) and the number of required contribution years to 40 and 37, respectively, by 2017. However, there were no increases for either measure in 2014 or 2015. Thus, the new law resumes the gradual increases in 2016, at a slower pace (to end by 2029), and it equalizes the retirement ages for men and women (at age 65), by 2037. Thereafter, the retirement age will be linked to the increase in life expectancy. Workers with insufficient contributions are permitted to retire at age 65 and 10 months through 2016. Beginning in 2017, that age will rise gradually to 67. In addition, earlier retirement ages for persons working in hazardous or unhealthy conditions are being raised. At the same time, incentives for remaining in the labor force beyond the normal retirement age have been increased. Analysts predict that this measure will be the most expensive.

The new rules also—

- Increase by 1 percent each year in 2017 and 2018 the overall contribution rates (combined employer/employee) for old-age, survivors, and disability benefits, from 17.8 percent to 19.8 percent of covered earnings. Government forecasts indicate that this change will raise budget revenues by 0.5 percent of GDP each year.
- Allow workers born after 1959 to switch between the second-pillar individual accounts and the first-pillar PAYG program multiple times until 5 years before retirement. New entrants to the labor force who do not make a choice are automatically assigned to the PAYG program. Current second-pillar assets under management are 8 billion leva (US$4.5 billion). Since 2000, participation has been mandatory.

Sources: "Bulgaria," IBIS News, April 2, 2012; "Bulgaria," Pensionfundsonline.co.uk, undated; "Mitigating the Economic Impact of an Aging Population: Options for Bulgaria," World Bank, September 2013; *Social Security Programs Throughout the World: Europe, 2014,* U.S. Social Security Administration, September 2014; "Bulgaria Economy: Pension Reform Aims for Long-Term Stability," *Economist Intelligence Unit*, June 2, 2015; "Bulgaria Raises Retirement Age as Part of Pension Reform," Sofia News Agency, July 2, 2015; Bulgarian Parliament Approves Pension Reforms," Reuters News, July 28, 2015; "Bulgarian Parliament Approves Pension Reform at Second Reading," Sofia News Agency, July 29, 2015.

France: New Rules for Collective Retirement Savings Plans

A new law enacted on July 10 to promote economic growth contains some changes to the rules for employer-provided collective retirement savings plans (PERCOs), effective January 2016. PERCOs are voluntary, defined contribution pension savings plans financed by employer and employee contributions.

Some measures encourage companies to set up PERCOs by lowering the social tax that is paid by employers; it is currently 20 percent of an employee's salary that is exempt from social security contributions, such as profit-sharing and company stock options. (The social tax has been 20 percent since 2012 and was 2 percent in 2003 when it was introduced).

For companies with fewer than 50 employees that set up a PERCO, the social tax will be lowered to 8 percent for a 6-year period. The social tax will be lowered to 16 percent for companies whose PERCOs (1) have at least 7 percent of their portfolio invested in instruments that help finance small and medium businesses; and (2) provide a default option that will gradually lower investment risk as a worker ages.

Other changes include the following:

- The 8.2 percent on the portion of the employer contribution to a PERCO account that exceeds €2,300 (US$2,524) a year will be eliminated.
- Employees will be allowed to contribute to a PERCO account the equivalent of up to 10 days of paid leave that was not taken each year. Currently, up to 5 days are permitted.
- Employers may contribute even if employees do not contribute. Currently, employers provide matching contributions. (The annual limit will be set by decree.)

At retirement, either a lump sum or an annuity is paid from a PERCO account. Withdrawals before retirement are only permitted in certain circumstances: to purchase a house, if a worker becomes disabled or dies, if a worker is unable to pay back his or her debts, or if a worker's unemployment benefits have ceased.

A July 2015 Ministry of Labor study of participation in PERCOs found that in 2013, some 20 percent of private-sector employees had PERCO accounts. While the number of PERCO members nearly quadrupled over the previous 7 years, the percentage of employees who contribute has decreased from 37.6 percent in 2012 to 32.4 percent in 2013.

PERCOs supplement the first- and second-pillar mandatory pensions. The first pillar is made up of the pay-as-you-go public pension program, and the second pillar consists of two pension institutions: (1) AARCO (Association for Employee's Supplementary Schemes)—for all private-sector workers and (2) AGIRC (General Association of Retirement Institutions for Executives)—covering only managerial and executive staff.

Sources: " France," IBIS Compliance Alert, August 31, 2012; *Life-cycle Management of PERCO Workplace Savings Schemes,"* French Asset Management Association, April 2014. "France: Further Pressure to Accelerate Pension Reform," *International Update*, U.S. Social Security Administration, April 2015; "La Loi Macron Modifie à la Marge L'épargne Salariale," *Le Monde*, 13 juillet 2015; "Epargne Retraite: Un Salarié sur Cinq a un Perco," TRETECOM, 24 juillet 2015; "Retirement Program Changes Enacted," *Global Benefits Legislative Update*, July/August 2015; "Loi Macron: Les Nouveautés Concernant L'épargne Salariale," *Theme du Droit du Travail: Rémunération BTP,* 04 août 2015.

The Americas

Brazil: Totalization Agreement with the United States

On June 30, the United States and Brazil signed a totalization agreement to exempt U.S. and Brazilian employers and workers from dual social security tax liability. Before the agreement can enter into force, each country has to complete a review process: The Brazilian Parliament must ratify the agreement; in the United States, the president must transmit the agreement to Congress for a required 60-day review period.

The agreement will exempt U.S. citizens sent by U.S.-owned companies to work in Brazil for 5 years or less from paying social security taxes to Brazil. Brazilian citizens sent to work temporarily in the United States by Brazilian-owned companies will receive similar tax treatment. As a result, the employers of these workers will pay social security taxes only to their home country.

Individuals who have worked in both countries, but currently do not meet the minimum benefit eligibility requirements for either system, may qualify for a benefit based on combined coverage credits from both countries. Combined coverage periods may be used to calculate retirement, disability, and survivor benefits. Once the agreement enters into force, Brazil will be the 27th country with a totalization agreement with the United States.

Sources: E-mail communication with the Office of International Programs, U.S. Social Security Administration, August 2015.

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