Social Security

International Update:

Recent Developments in Foreign Public and Private Pensions

March 2016

Europe

France Changes Rules for Compulsory Employer-Provided Pensions

On January 1, changes to France's mandatory occupational pensions went into effect that delay the annual adjustment of benefits and increase the value of points used to calculate pension benefits. Those changes are part of an October 2015 agreement between French employers and trade unions to help improve the finances of the country's two employer-provided pension institutions: (1) Association for Employees Supplementary Schemes (ARRCO) for private-sector workers and (2) General Association of Retirement Institutions for Executives (AGIRC) for managerial and executive staff. Other measures, including incentives for working longer and penalties for retiring early, will take effect in 2019.

A 2015 report released by the French General Accounting Office found that in 2013, the annual combined deficit of those two retirement schemes was €4.4 billion (US$4.8 billion), and that without any changes those institutions would be unable to meet their pension obligations as early as 2018 for AGIRC and 2025 for ARRCO. However, implementing the new measures could save some €6 billion (US$6.5 billion) by 2020 and the financial reserves of the two schemes are expected to cover the balance of the deficit.

Beginning in 2016, the new rules change the timetable for adjusting mandatory occupational pensions (old-age and survivors benefits) from April to November each year and extend the formula (the rate of inflation minus one) for adjusting pensions for another 2 years (a "safeguard clause" prevents the benefit level from decreasing). A 2013 agreement between employers and trade unions required this formula in 2014 and 2015.

In addition, the agreement temporarily (from 2016 through 2018) increases the value of a point used to calculate an individual's pension benefits by 2 percentage points annually. Each year, individual contribution amounts are converted to points based on the value of a point for that particular year. An old-age benefit depends on the number of points accrued during the insured person's career and the value of those points at retirement. As of April 2015, the value of a point for ARRCO was €1.2513 (US$1.36) and for AGIRC €0.4352 (US$0.47).

Additional measures that will be implemented for compulsory employer-provided pensions in 2019 include the following:

- The introduction of a "solidarity coefficient," which reduces pension benefits by 10 percent for the first 3 years of retirement for workers who were born after 1957 and who retire at or before the legal retirement age (age 62 in 2017). Those who continue working for an additional year are not subject to the reduction.
- Workers who remain in the labor force longer than one additional year will receive a bonus for the first year of their pension benefits—10 percent for working eight additional quarters, 20 percent for 12 additional quarters, and 30 percent for 16 additional quarters. A recent survey published by ARRCO and AGIRC found that almost all respondents preferred to retire at age 62 and be subject to the penalty, rather than wait 1 year and retire at age 63.
- ARRCO and AGIRC will merge in 2019 per the French General Accounting Office's recommendations. Administrative costs are projected to decrease by 4 percent following the consolidation. The merger will also require pension plan rules to be harmonized between the two institutions, such as contribution rates.

ARRCO has 18.1 million contributors and 12.2 million pensioners; AGIRC has 4.1 million contributors and 2.9 million pensioners. These plans do not cover the self-employed who contribute to other pension funds.

Sources: *Social Security Programs Throughout the World: Europe 2014,* U.S. Social Security Administration, September 2014; "France: Further Pressure to Accelerate Pension Reform," *International Update,* U.S. Social Security Administration, April 2015; "France's Agirc-Arrco: Reform of Last Resort," *Investment and Pensions Europe*, May 2015; "Réforme des Retraites Complémentaires: Ce Qui Va Changer," *Capital*, November 1, 2015; "France to Reform Pension Schemes, Merger Slated for 2019," *Mercer Select*, November 6, 2015; "La

Revalorisation des Retraites Complémentaires Mal Engagée," Toutsurelaretraite.com, 7 décembre 2015; "France: Changes Expected to Mandatory ARRCO/AGIRC Pension Plans," *Global News Briefs*, Towers Watson, December 10, 2015; "AGIRC-ARRCO, Versement Garanti, Ce Qui a Changer pour les Retraites en 2015," Toutsurelaretraite.com, 22 décembre 2015; "The French Social Security System III: RETIREMENT," CLEISS, 2016; "Retraites Complémentaires: 95% des Salarieés Vont Opter pour le 'Malus,'" Toutsurelaretraite.com, 19 février 2016.

Asia and the Pacific

Malaysia Temporarily Reduces Worker Contributions to the Employee Provident Fund

The Malaysian government has enacted a new policy aimed at stimulating economic growth and increasing private consumption by reducing the mandatory employee contribution rates for the Employee Provident Fund (EPF)—the primary source of old-age, survivors, and disability benefits in the country. The government forecasts that the reduced rates could boost annual consumption by as much as 8 billion ringgits (US $1.9 billion). The new policy is effective from March 2016 through December 2017 and was one of several economic measures announced in the revised budget 2016.

The new EPF policy affects all age-based contribution rates, reducing them from 11 percent to 8 percent for individuals younger than age 60 and from 5.5 percent to 4 percent for individuals aged 60 or older. Employer contribution rates remain unchanged at 12 percent for employees with monthly earnings greater than 5,000 ringgits (US$1,204) and at 13 percent for employees with monthly earnings of 5,000 ringgits or less. Younger employees paying the higher contribution rate have the option of retaining the existing rate (thereby contributing more toward their retirement) by submitting a completed "Notice to Contribute More than Statutory Rate" to their employer.

Economists had expected the Malaysian government to lower the contribution rates to increase the disposable income of citizens struggling to cope with the rising cost of living. The country's recent economic slowdown—coupled with its currency depreciation and the introduction of a value-added tax in April 2015—has caused a rise in prices and a decline in consumer spending. During 2009 and 2010, the government implemented a similar reduction in the employee-contribution rate as an economic stimulus following the 2008 economic crisis.

Sources: *Social Security Programs Throughout the World: Asia and the Pacific, 2014,* U.S. Social Security Administration, March 2015; "Experts: EPF Contribution May be Cut in Budget 2016," *Malaysian Reserve*, October 8, 2015; "Putrajaya Cuts Workers' EPF Contribution, Tax Exemption in Budget 2016 Review," *The Malaysian Insider*, January 28, 2016; "Revised Budget 2016: Workers' EPF Contribution Cut 3%," *The Malaysian Insider*, January 28, 2016; "EPF Contributors Can Stay at 11%," *The Star*, January 29, 2016; "Malaysia: Employee Social Tax Contributions Reduced," *Pension & Benefits Reporter,* February 1, 2016.

United Arab Emirates Raises Early Retirement Age for Its Citizens

On February 28, the early retirement age for United Arab Emirates (UAE) citizens covered under the public old-age pension system rose from age 48 to 49. This was the ninth increase in the early retirement age in a series of 1-year increases mandated by a law enacted in 2007. The final increase (to age 50) will take place on February 28, 2017. In addition to meeting the age requirement, a UAE citizen must have at least 20 years of contributions to qualify for an old-age pension. The age requirement is waived for UAE women who meet the 20-year contribution requirement and have one or more children younger than age 18. UAE citizens who retire at the mandatory retirement age of 60 need only 15 years of contributions to qualify for a pension.

Although it is possible for UAE citizens to qualify for an old-age pension with only 15 to 20 years of contributions, the benefit formula rewards those who have longer contribution records. Based on that formula, a citizen who has contributed for 15 years is entitled to a pension equal to 60 percent of his or her average pensionable salary for the last 5 years (3 years for a public-sector employee). By contrast, a citizen who has contributed for 35 years is entitled to a pension with a 100 percent replacement rate. UAE pays a lump sum on top of this benefit to citizens who have contributed for more than 35 years to the public old-age pension system.

The recent increases in the early retirement age only apply to the public old-age pension system managed by the UAE's General Pension and Social Security Authority. That system covers UAE citizens in six of the seven emirates; Abu Dhabi has its own pension system. A separate set of social security provisions covers the foreign nationals who constitute most of the country's private-sector labor force (95 percent). According to those provisions, foreign-national workers may work until age 65. They are also eligible for a lump-sum gratuity payment after 1 year of service. There are also special provisions for workers from five other Arab countries as part of a regional agreement on social security.

Sources: "Challenge Across GCC to Integrate Nationals into Private Sector Workforce," *The National*, February 26, 2015; "United Arab Emirates 2015," *IBIS Country Manual*, April 26, 2015; "United Araba Emirates," *Swiss Life Employee Benefits Reference Manual*, 2015–2016; "UAE Retirement Age Set to Go Up By One Year From February-end," *Emirates 24/7*, February 25, 2016; "Pension Overview," UAE General Pension and Social Security Authority, March 2, 2016.

Africa

South Africa Implements New Tax Rules for Occupational Pension Plans

On March 1, new tax rules went into effect that harmonize the tax treatment of contributions to South Africa's various types of employer-sponsored and personal pension plans (including pension funds, provident funds, and retirement annuity funds). The rules are part of the Taxation Laws Amendment Act of 2013, which was originally scheduled to go into effect in March 2015. That date was postponed for 1 year to address the concerns raised by stakeholders. An additional provision of the act required provident fund members to use two-thirds of their account balances to purchase annuities at retirement. That provision was also scheduled for March 1, but was postponed for 2 years until March 1, 2018. (Members of pension funds and retirement annuity funds are already required to annuitize.) According to the South African government, the new rules will make the tax system more equitable as high-income workers currently benefit from relatively high tax deductions. Those rules will also encourage workers to save more for retirement.

The key provisions of South Africa's new tax rules include—

- Employer and employee contributions to pension funds, provident funds, and retirement annuity funds are now tax deductible at a rate of 27.5 percent of the greater of a member's taxable income or remuneration—salary or wages, bonuses, gratuities, commissions, fringe benefits, and so forth—up to a maximum of 350,000 rand (US$22,120.17) a year. Previously, the treatment of contributions varied by the type of pension fund, with provident fund members not receiving a tax deduction on their employee contributions.
- Employer contributions are now considered a taxable fringe benefit for employees and those contributions must be reported on employees' individual income tax returns. This measure is particularly aimed at provident funds where employer contributions were previously nontaxable, leading to high-income workers with remuneration packages structured to reduce their tax liability (for example, high-income workers who were not making any contributions, but who were receiving employer contributions equal to 20–30 percent of their earnings).
- For members of pension funds and retirement annuity funds, the "de minimis threshold" increased from 75,000 rand (US$4,740.04) to 247,500 rand (US$15,642.12). Members with account balances below that threshold may withdraw their entire account balance as a lump sum at retirement. Those with account balances at or above that threshold are required to annuitize at least two-thirds of their balance and can withdraw the remaining funds as a lump sum.

The South African pension system consists of a noncontributory, means-tested, old-age grant financed by general revenues and supplemented by employer-sponsored and personal pension plans. In 2015, the old-age grant provided up to 1,430 rand (US$90.38) monthly to individuals who meet certain asset and income tests. An employer or a group of employers establishes occupational pension plans on a voluntary basis, which consist of both defined benefit and defined contribution programs.

Sources: "South Africa," *International Update*, U.S. Social Security Administration, May 2014; *Social Security Programs Throughout the World: Africa, 2015,* U.S. Social Security Administration, September 2015; "Explanatory Memorandum on the Taxation Laws Amendment Bill, 2015," Republic of South Africa National Treasury, December 4, 2015; "10 Things You Should Know About New Tax Laws in South Africa," *BusinessTech*, January 14, 2016; "South Africa Delays Annuity Requirement, Makes Other Benefit Changes," *Mercer Select*, February 29, 2016.

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