International Update

Recent Developments in Foreign Public and Private Pensions

March 2017

Europe

Belarus Increases Retirement Age for Public Pensions

Effective January 1, a presidential decree gradually increases the normal retirement age for men and women under Belarus's public pay-as-you-go (PAYG) pension program. As a result, the normal retirement age will increase by 6 months a year from age 60 to 63 for men and from age 55 to 58 for women. (The first 6-month increase occurred on January 1.) The decree, signed by the president in April 2016, is aimed at addressing rapid population aging in the country. Recent data from the United Nations Population Division projects that Belarus's old-age dependency ratio—the population aged 65 or older divided by the population aged 15 to 64—will increase from 20 percent in 2015, to 26.8 percent in 2025, and to 35.6 percent in 2050.

Belarus's PAYG program covers employed persons residing permanently in Belarus, including priests and other religious organization employees, cooperative members, and farmers. Employees contribute 1 percent of earnings, self-employed persons contribute 29 percent of declared income, and most employers contribute 28 percent of gross payroll. (The employer's contribution rate varies according to industry and business.) In addition to reaching the normal retirement age, workers must have at least 25 years (men) or 20 years (women) of coverage, including at least 15 years and 6 months of paid contributions (men and women), to receive an old-age PAYG pension. A partial pension is possible at the normal retirement age if the insured does not meet the coverage requirements for the full pension. The PAYG program is supplemented by a social assistance program that provides an old-age social pension to nonworking citizens at age 65 (men) or age 60 (women) who are not entitled to a PAYG pension.

Sources: "World Population Prospects: The 2015 Revision," United Nations, Department of Economic and Social Affairs, Population Division, 2015; "Decree No. 137 of April 11, 2016"; "Pensionnyj Vozrast v Belarusi," Novosti Belarusi, April 11, 2016; *Social Security Programs Throughout the World: Europe, 2016*, U.S. Social Security Administration, September 2016.

United Kingdom to Introduce a New Savings Program for Young Adults

On April 6, the British government will introduce the Lifetime Individual Savings Account (LISA), a voluntary privately managed savings program open to individuals aged 18 to 40. Account holders will be able to save up to £20,000 (US$24,624) per year until age 50, with the government providing a 25 percent bonus on the first £4,000 (US$4,925). LISA savings can be used as a source of retirement income when an account holder reaches age 60 or for a first home purchase at any age. LISA savers contribute with after-tax income and generally will not pay tax on any interest, income, or capital gains from cash or investments held in LISA accounts. The government forecasts that more than 200,000 individuals will save with LISA accounts in 2017–2018, and if program participation grows as expected, that figure could exceed 800,000 by 2020–2021.

Other key features of the LISA program include:

- Individuals will be allowed to open multiple LISA accounts during their lifetime, but will only be able to contribute to one LISA each tax year.
- Withdrawals of LISA savings and the government bonus will be allowed prior to age 60 (without penalties) under two circumstances: (1) to purchase a first home worth up to £450,000 (US$554,044), beginning 12 months after the initial contribution date; and (2) upon certification of a terminal illness. All other LISA account withdrawals prior to age 60 will be subject to a 25 percent exit charge as well as forfeiture of the government bonus and any investment return earned on that bonus.
- Account holders may transfer their account balances to another LISA account (or certain other individual savings accounts [ISAs]) without charge.

The LISA is the latest in a series of tax-favored ISAs established by the British government. Unlike other ISAs, the LISA allows savings to be invested in both cash (savings in banks and building societies) and securities (shares in listed companies and mutual funds as well as corporate and government bonds).

Both LISAs and other ISAs share the overall annual contribution ceiling of £20,000 and the option to transfer funds among accounts.

Sources: "Lifetime ISA: Updated Design Note," United Kingdom Government, September 2016; "United Kingdom," IBIS eVisor News, October 31, 2016; "Lifetime ISA and Pensions," House of Commons Library Briefing Paper, November 18, 2016; "United Kingdom," IBIS eVisor News, February 27, 2017.

The Americas

Mexico Adjusts Reference Unit Used in Social Security Calculations

On February 1, Mexico's National Institute of Statistics and Geography (*Instituto Nacional de Estadística y Geografía* or INEGI) adjusted the values of the Adjustment and Measurement Unit (*Unidad de Medida y Actualizacion* or UMA), a reference unit used in many social security calculations. As a result, the UMA now has a daily value of 75.49 pesos (US$3.78, up from 73.04 pesos [US$3.66]), a monthly value of 2,294.90 pesos (US$114.86, up from 2,220.42 pesos [US$111.13]), and an annual value of 27,538.80 pesos (US$1,378.32, up from 26,645.04 pesos [US$1,333.59]). The INEGI is required by law to update the three UMA values in January each year to reflect annual changes in the national consumer price index. Adjustments to the UMA automatically affect several key social security parameters that are calculated based on the UMA, including:

- The maximum earnings used to calculate contributions for both the old (social insurance) and new (mandatory individual account) social security programs: for monthly earnings, the maximum is 25 times the daily UMA times the number of calendar days in a given month. (The minimum earnings used to calculate contributions continue to be the legal minimum wage.)
- The old-age pension calculation under the social insurance program: the pension consists of (1) a basic amount that varies depending on the insured's average covered daily earnings in the last 250 weeks of contributions as a multiple of the daily UMA and (2) a variable increment for each year of contributions exceeding 500 weeks.
- The maximum old-age pension under the social insurance program: the maximum monthly benefit is 25 times the monthly UMA. (The minimum pension continues to be the legal minimum wage.)
- The tax exemptions for payments from employer-sponsored pensions: when a pension is paid as a lump sum, up to 90 times the annual UMA is exempt from personal taxes; for a pension paid in monthly installments, up to 15 times the monthly UMA is exempt from personal taxes. (Employers also receive tax deductions for pension payments based on the payment type and size.)

The Mexican government introduced the UMA in January 2016 to replace the legal minimum wage as the reference unit for calculating many nonwage items, including benefits, taxes, and fines. The change required an amendment to Mexico's constitution and clarification in additional legislation and regulatory decisions. By decoupling the legal minimum wage from social security benefits and other nonwage items, the government aims to make it easier to raise the legal minimum wage. For 2017, the legal minimum wage is 80.04 pesos (US$4.00) a day.

Sources: "Mexico: Replacement of Minimum Wage Linkage in Benefits and Other Nonwage Items Expected," *Global News Briefs*, Willis Towers Watson, January 7, 2016; *Social Security Programs Throughout the World: The Americas, 2015*, U.S. Social Security Administration, March 2016; "Mexico," IBIS eVisor Compliance Alerts, April 29, 2016; "Salario mínimo aumentará a 80.04 pesos diarios en 2017," *El Financiero*, December 1, 2016; "IMSS abandona a salarios mínimos," *El Financiero*, January 29, 2017; "Unidad de Medida y Actualización (UMA)," Instituto Nacional de Estadística y Geografía, accessed March 16, 2017.

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