International Update

Recent Developments in Foreign Public and Private Pensions

April 2017

Europe

Austria Implements Reforms to Public Pension Program

Effective January 1, an Austrian pension reform law introduces incentives for delayed retirement and changes the rules for pension splitting, which allows a working parent to transfer a portion of his or her pension rights to a partner caring for a child. The delayed retirement incentives are intended to encourage older workers to remain in the labor force, while the change to the pension splitting rules is aimed at increasing old-age benefits for parents who reduce their working hours to provide childcare. Recent Organisation for Economic Co-operation and Development (OECD) data show that Austria has one of the lowest effective retirement ages (defined as the average age of labor force exit during a 5-year period) among OECD countries. From 2009 to 2014, Austria's effective retirement age was 62.2 for men and 60.2 for women, compared with the OECD average of 64.6 for men and 63.2 for women. (The normal retirement age in Austria is 65 for men and 60 for women.)

The key provisions of the law include:

- *Annual deferred retirement bonus*: For each year the insured meets the qualifying conditions for an old-age pension but defers retirement, the pension will be increased by 4.2 percent. (Details are not available on the maximum limit of this increase.)
- *Reduced contributions:* For workers who defer retirement and continue working after the normal retirement age, employee and employer contributions are reduced by 50 percent for up to 3 years (until age 68 for men and age 63 for women). The Pension Insurance Institution (*Pensionsversicherungsanstalt*)—the organization that administers 85 percent of all pensions in Austria—is responsible for financing the 50 percent contribution reduction. At retirement, the pension will be based on the full contribution base.
- *Pension splitting rule changes*: A working parent may voluntarily transfer up to 50 percent of his or her pension contributions to a partner for the first 7 years of the child's life; previously, such transfers were allowed only for the first 4 years.

Austria's social insurance pension system covers all wage earners and salaried employees earning at least €415.72 a month (US$444.45), and apprentices. Employees contribute 10.25 percent of covered earnings and employers contribute 12.55 percent of payroll. In addition to reaching the normal retirement age, the insured must meet the coverage requirements for an old-age pension: at least 180 months of coverage in the last 30 years; a total of at least 300 months of coverage; or a total of at least 180 months of contributions, including at least 84 months of paid contributions. (The government may credit contributions under certain circumstances, such as for periods spent caregiving; serving in the military; or receiving sickness, maternity, or unemployment benefits.)

Sources: *Pensions at a Glance 2015: OECD and G20 Indicators*, Organisation for Economic Co-operation and Development, December 2015; *Social Security Programs Throughout the World: Europe, 2016*, U.S. Social Security Administration, September 2016; "Gesetzliche Änderungen ab 1.1.2017," Pensionsversicherungsanstalt, January 2, 2017; "Entlastungen für die Wirtschaft: Das kommt 2017," Wirtschaftskammer Tirol, January 10, 2017; "Halbierung der Pensionsversicherungsbeiträge bei Pensionsaufschub ab 1.1.2017," PwC Österreich, March 15, 2017.

Asia and the Pacific

China Allows Pension Funds to Invest in Domestic Equities

The Chinese government has recently started to allow provincial pension funds to invest a portion of pension assets in the domestic equity market. Under the new investment option, pension funds operated by provincial governments can transfer up to 30 percent of pension assets to the National Council for Social Security Fund (NCSSF), the public body responsible for managing China's 1.9 trillion yuan (US$275 billion) pension reserve fund. The NCSSF invests the transferred assets in domestic equities through its network of 21 approved pension fund management companies. After the Ministry of Human Resources and Social Security

first announced the policy change at the end of 2016, seven of China's 23 provinces, including Beijing and Shanghai, agreed to have the NCSSF manage over 360 billion yuan (US$52.1 billion) in pension assets. The government expects other provinces to transfer some of their pension assets to the NCSSF on a rolling basis over the next 5 years.

By shifting provincial pension assets into the domestic equity market, the government aims to boost the long-term performance of China's provincial pension funds. Previously, provincial governments could only invest pension assets in low-risk and low-yield investments, such as bank deposits and government bonds. As a result, provincial pension funds generated average annual returns of just 2.3 percent from 2000 to 2014. By contrast, the NCSSF generated average annual returns of 8.8 percent for the same period overseeing the investment of China's public pension reserves. (The government permits NCSSF to invest up to 40 percent of the pension reserves in equities and stock funds.) Now that the NCSSF is involved in managing the investment of provincial pension assets, the government expects the sustainability of China's pension system to improve even as the country confronts rapid population aging.

China's pension system consists of separate programs for urban employees, and rural and nonsalaried urban residents, which are administered at the provincial and local levels. The programs for urban employees generally include a social insurance pension funded by an employer contribution of up to 20 percent of payroll, and a mandatory individual account funded by an employee contribution of 8 percent of gross covered earnings. To qualify for old-age benefits under the urban employee programs, an individual must be age 60 (men and professional women), age 55 (nonprofessional salaried women), or age 50 (other categories of women) with at least 15 years of coverage. The programs for rural and nonsalaried urban residents generally include a noncontributory pension funded by the central and local governments, and an individual account funded by personal contributions. To qualify for old-age benefits under these programs, an individual must be age 60 and not be entitled to a pension under the program for urban employees.

Sources: "China Pension Readies $300 Billion Warchest for Market Foray," *Bloomberg*, July 10, 2016; "China Pension Reform to Send Flood of Cash into Domestic Equities," *Financial Times*, October 26, 2016; "China," IBIS eVisor News, February 17, 2017; "Pension Funds of Seven Chinese Regions Entrusted for Investment," *China Daily*, February 21, 2017; *Social Security Programs Throughout the World: Asia and the Pacific, 2016*, U.S. Social Security Administration, March 2017; "China," IBIS eVisor News, March 31, 2017.

Hong Kong Launches Default Investment Strategy for Mandatory Provident Fund

Effective April 1, Hong Kong's government introduced the Default Investment Strategy (DIS) for members of the Mandatory Provident Fund (MPF)—the country's mandatory occupational pension program—who do not select an investment strategy for their accounts. The government designed the DIS framework to reduce investment risk, lower fund-related fees, and help diversify investment portfolios. DIS also standardizes existing default investments offered by MPF providers, affecting 610,000 of the 9.3 million MPF accounts.

In Hong Kong, every salaried worker aged 18 to 65 who is employed (full- or part-time) for at least 60 days, has monthly earnings above HK$5,000 (US$654), and is not covered by another approved retirement plan is required to join an MPF plan selected by the employer. An outside provider (trustee) operates each MPF plan and offers its members a range of investment options. Plan members who fail to select an investment option have their assets automatically invested in a default fund.

Before DIS, MPF providers had no specific guidelines for investing member contributions held in default funds. As a result, providers' default fund offerings varied according to their investment targets, risks, fee levels, and performance. The DIS aims to standardize MPF default fund offerings by establishing:

- A Core Accumulation Fund (CAF) with roughly 60 percent of assets invested in riskier assets (mostly global equities) and the remainder in less risky assets (mostly global bonds).
- An Age 65 Plus Fund (A65F) with about 20 percent of assets invested in riskier assets and the rest in low-risk assets.
- Annual limits on fund-related expenses and administrative fees, including:
    - DIS management fees (including trustee, administrator, custodian, and investment management) capped at 0.75 percent of assets; and
    - DIS administrative costs not included in management fees (such as audit costs) capped at 0.2 percent of assets.

Under the DIS, the government requires providers to reduce the investment risk of default funds gradually

as members approach retirement age (65), according to the following age-based schedule:

- *Younger than age 50*: Providers invest all contributions (and any funds rolled over from another account) in the CAF.
- *Aged 50–64*: Providers gradually reallocate CAF funds to the A65F every year to reduce the share of riskier investments in the member's portfolio by approximately 6.7 percent each year.
- *Older than age 64*: Providers invest all member account funds in A65F.

All MPF members may choose to invest a portion of their MPF assets in the DIS or in its two component funds to take advantage of potentially lower investing fees.

The MPF is a privately managed, fully funded occupational retirement system that serves as the second pillar of the territory's social security system, which also includes a universal old-age allowance and a social assistance program. In the MPF, both the employer and employee are required to contribute 5 percent of qualified earnings up to a monthly maximum of HK$30,000 (US$3,861). Employees with monthly earnings less than HK$7,100 (US$914) do not have to contribute, but their employers must. At the end of January 2017, 14 providers managed 32 approved plans in the MPF system, with assets of nearly HK$673 billion (US$87 billion).

Sources: Mandatory Provident Fund Schemes (Amendment) Bill 2015; "A New MPF Choice: A New Way Forward," Mandatory Provident Fund Schemes Authority, February 2017; *Social Security Programs Throughout the World: Asia and the Pacific, 2016*, U.S. Social Security Administration, March 2017; "MPF and Retirement Protection," Mandatory Provident Fund Schemes Authority, March 31, 2017.

U.S. Social Security Administration Releases Social Security Programs Throughout the World: Asia and the Pacific, 2016

In March, the U.S. Social Security Administration (SSA) released *Social Security Programs Throughout the World: Asia and the Pacific, 2016*, the second volume of a four-volume series. This volume provides a cross-national comparison of the social security systems in 51 countries in Asia and the Pacific. It summarizes the five main social insurance programs in those countries: (1) old age, survivors, and disability (OASD); (2) sickness and maternity; (3) work injury; (4) unemployment; and (5) family allowances. The other regional volumes in the series focus on the social security systems of countries in Europe, Africa, and the Americas.

Changes made since SSA released the 2014 volume include:

- *New country:* Bhutan.
- *New benefits:* Armenia (maternity allowance), Bahrain (cash sickness and maternity benefits, and universal medical benefits), Brunei (cash sickness and maternity benefits, and universal medical benefits), Indonesia (social insurance OASD benefits), Iraq (social welfare OASD benefits and family allowance), Jordan (cash sickness benefit), Kuwait (old-age remuneration pension, and cash sickness and maternity benefits), Papua New Guinea (cash sickness benefit), Samoa (cash sickness and maternity benefits, and universal medical benefits), Singapore (old-age social assistance benefit), Thailand (voluntary OASD benefits for the informal sector), and Vietnam (caregiver support).
- *Major reforms to existing benefits*: Armenia (unemployment repealed and family allowances), China (OASD, and sickness and maternity), Kazakhstan (work injury), Qatar (medical benefits), and Singapore (medical benefits).
- *Contribution rate increases for OASD programs*: Fiji, Indonesia, Japan, Jordan, Kazakhstan, Samoa, Singapore, Taiwan, Uzbekistan, Vietnam, and Yemen.
- *Contribution rate decreases for OASD programs*: Armenia, Iran, and Malaysia.
- *Retirement age increases*: Azerbaijan (only for women), Indonesia, Kuwait, Palau, and Qatar (only for women).

Source: *Social Security Programs Throughout the World: Asia and the Pacific, 2016*, U.S. Social Security Administration, March 2017.

International Update is a monthly publication of the Social Security Administration's (SSA's) Office of Retirement and Disability Policy. It reports on the latest developments in public and private pensions worldwide. The news summaries presented do not necessarily reflect the views of SSA.

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Social Security Administration SSA Publication No. 13-11712
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500 E Street, SW, 8th Floor, Washington, DC 20254

Produced and published at U.S. taxpayer expense