Asia and the Pacific

**Australia Implements Changes to Superannuation System**

Effective July 1, Australia implemented numerous changes to its superannuation system, including lowering concessional and nonconcessional contribution ceilings, reducing the income threshold for higher contribution taxes, and capping transfers into tax-free retirement plans. (Employees may choose to make concessional contributions with before-tax income [benefits are taxed] or nonconcessional contributions with after-tax income [benefits are not taxed].) The Australian Parliament approved the changes in November 2016 after the government proposed a set of superannuation reforms in its 2016–17 budget released in May 2016. By implementing these changes, the government aims to improve the fairness, flexibility, and sustainability of the superannuation system. The government estimates that these changes, which will affect both current and future retirees, will increase government revenues by A$2.9 billion (US$2.2 billion) over 4 years.

The key changes to Australia’s superannuation system include:

- **Lowering the annual concessional (before-tax) contribution ceiling from A$30,000 (US$22,983) if younger than age 49 or A$35,000 (US$26,814) if aged 49 or older to A$25,000 (US$19,153) regardless of age.**

- **Reducing the annual income threshold at which individuals pay an additional 15 percent contribution tax from A$300,000 (US$229,830) to A$250,000 (US$191,525).** (The standard tax on concessional contributions is 15 percent; concessional contributions up to the ceiling are not subject to other income taxes.)

- **Lowering the annual nonconcessional (after-tax) contribution ceiling from A$180,000 (US$137,898 or six times the concessional ceiling) to A$100,000 (US$76,610 or four times the concessional ceiling).** Starting in July 2018, individuals with superannuation balances of A$500,000 (US$383,050) or less who do not reach the nonconcessional contribution ceiling in a given year can carry their unused nonconcessional contributions forward for up to 5 years.

- **Establishing a A$1.6 million (US$1.2 million) cap on the amount of superannuation funds that an individual can transfer into tax-free retirement plans. Savings above this limit can remain in superannuation accounts (in which returns are taxed at 15 percent) or moved out of the superannuation system.** (At retirement, individuals have the option of transferring assets from their superannuation accounts into retirement plans providing tax-free income.)

Several other notable changes include: introducing a Low Income Superannuation Tax Offset for individuals with taxable annual incomes up to A$37,000 (US$28,346); extending the retirement-phase tax exemption to additional types of income plans (for example, deferred lifetime annuities and group self-annuitization products); and eliminating the tax exemption for returns on assets used to support transition to retirement income streams (which allow individuals to receive superannuation disbursements and continue working past their normal retirement age).

Australia’s superannuation is a mandatory occupational pension system that covers employed persons with monthly earnings of at least A$450 (US$345). Under this system, employers are required to contribute 9.5 percent of employees’ earnings (gradually rising by 0.5 percentage points a year from 2021 until reaching 12 percent in 2025) to privately managed superannuation funds. Employees are not required to contribute, but the government offers tax incentives and matching funds to encourage voluntary contributions, particularly from low- and middle-income workers. To receive retirement benefits from the superannuation system, an individual must be aged 56 or older (gradually rising to age 60 by July 2024) and permanently retired (or participating in the Transition to Retirement program). Individuals aged 65 and 6 months or older (gradually rising to age 67 by July 2023) who meet certain asset, income, and residency requirements may also be eligible for the...
Age Pension, the noncontributory pension funded and administered by the Australian government.


Taiwan Reduces Public-Sector Pensions

In June, Taiwan’s legislature passed laws that will reduce pensions for civil servants and public school teachers covered under the Public Service Pension Fund System (PSPFS), a special system for public-sector workers consisting of separate funds for civil servants, public school teachers, and military personnel. Pension funds for these employees currently pay out more in benefits than they receive in contributions and are expected to become insolvent by 2030 for civil servants and by 2031 for teachers. (Actuaries estimate that the fund for military personnel will become insolvent by 2020, and the government intends to address this problem in a separate reform.) The latest reforms aim to make the pension funds more sustainable, and the government projects a NT$1.4 trillion (US$46 billion) reduction in pension expenditures over the next 30 years.

Taiwan established the contributory PSPFS in 1995 to replace a noncontributory system financed by general revenues. The PSPFS contribution rate is set at a combined 12 percent of covered earnings (7.8 percent from the government employer and 4.2 percent from the employee). Benefits are based on years of service and consist of a lifetime annuity, a lump-sum payment, or a combination of the two payment methods. PSPFS pensioners can currently deposit their retirement benefits (lump-sum and/or annuity payments) into state-run bank accounts earning interest at a subsidized annual rate of 18 percent.

Effective July 1, 2018 (unless otherwise noted), pension reforms affecting both civil servants and public school teachers include:

- Changing the government-subsidized interest rate for retirement benefits deposited into state-run bank accounts. The interest rate for pensioners receiving monthly annuities of NT$32,160 (US$1,057) or more will decrease to 9 percent in July 2018 (from the current 18 percent), with further gradual reductions that will eliminate the rate by the end of 2023. The interest rate for pensioners receiving lump-sum payments will decline to 12 percent in July 2018, and decrease by 2 percent each year until it reaches 6 percent by the end of 2023. The government estimates NT$28.5 billion (US$936.8 million) in savings from the new interest rate policy over the next 50 years.

- Raising the normal retirement age for civil servants and public school teachers. For civil servants, the normal retirement age will increase from 55 to 60 immediately in 2021 and gradually thereafter by 1 year annually until it reaches 65 in 2026. (Civil servants employed in hazardous occupations, such as police officers and firefighters, are exempt.) For public school teachers with at least 15 years of service, the earliest retirement age will increase to 58 (the average retirement age is currently 53) and is expected to rise gradually thereafter based on changes in average life expectancy.

- Adjusting the salary used to calculate pension benefits from the salary in the last month worked to the average monthly salary in the last 5 years, and increasing gradually to 15 years from 2019 to 2028.

- Lowering pension replacement rates gradually over 10 years from 75 percent to 60 percent of preretirement income for pensioners with at least 35 years of service and from 45 percent to 30 percent for pensioners with at least 15 years of service.

- Eliminating benefits for civil service pensioners who choose to work for a government agency or state-run foundation at a monthly salary higher than the legal monthly minimum pension of NT$32,160 (US$1,057.06).

In addition to the PSPFS, Taiwan’s pension system includes a social insurance program, mandatory individual accounts, and a social assistance program.

**Africa**

**Egypt Increases Old-Age Pensions**

On July 1, the Egyptian government significantly increased old-age pensions for all of the country’s approximately 9.4 million old-age pensioners. The monthly increase varies by pension amount, with an increase of 150 Egyptian pounds (US$8.28) for pensions up to 1,000 Egyptian pounds (US$55.20) and an increase of 15 percent, up to a maximum of 551 Egyptian pounds (US$30.42), for pensions exceeding 1,000 Egyptian pounds. The government projects the increase will cost around 23.5 billion Egyptian pounds (US$1.3 billion) in the current fiscal year, which began July 1. The monthly increase is part of a larger, 75 billion Egyptian pound (US$4.1 billion) social package that also includes monthly food subsidies (comprising 50 percent of the package’s expenditures), government employee bonuses, and income tax discounts. According to the government, the social package aims to lessen the effects of recent austerity measures and monetary policy changes on lower-income individuals. Since November 2016, when Egypt moved from a fixed to a flexible exchange rate (as required under the terms of a loan from the International Monetary Fund), the country’s annual inflation rate has risen to around 30 percent (up from around 14 percent in October 2016) and the Egyptian pound has lost almost half its value.

Egypt’s pay-as-you-go (PAYG) pension program covers all employed persons in the country and bases contributions on two components: (1) base earnings, which exclude bonuses, incentives, commissions, and profit shares; and (2) variable earnings, which include all other forms of compensation. Employees contribute 10 percent of covered monthly (base and variable) earnings plus 3 percent of monthly base earnings; employers contribute 15 percent of covered monthly (base and variable) payroll plus 3 percent of monthly base payroll. The government contributes 1 percent of covered monthly payroll plus the cost of any deficit. To qualify for an old-age pension, the insured must reach the normal retirement age of 60 and have at least 120 months of contributions; an early pension is paid at any age with at least 240 months of contributions. Benefits consist of a base pension and a variable pension; the recent pension increase applies to the insured’s combined base and variable pensions.