# International Update

**Recent Developments in Foreign Public and Private Pensions**

**September 2017**


## Europe

### *Germany to Harmonize Pension Provisions Across East and West*

On July 24, the government finalized a new law that harmonizes pension values (used to calculate old-age, disability, and survivor [OADS] pensions) and covered earnings ceilings for contributions across the East and West federal states. Germany will gradually implement the law starting in July 2018. Since 1992, when the social security systems of the German Democratic Republic in the East and the Federal Republic of Germany in the West were merged, pension values and covered earnings ceilings have been lower in the East than in the West. According to the government, harmonizing these parameters—by increasing pension values and covered earnings ceilings in the East to match those in the West—represents an important step toward completing the German reunification process.

Under Germany's social insurance program, old-age and disability pensions are calculated as the product of: (1) total individual earnings points (individual lifetime earnings divided by average national earnings multiplied by a normal entry factor); (2) the pension factor (typically 1.0, but lower in certain circumstances such as early retirement); and (3) the pension value (the monthly benefit amount for one year of average covered earnings, adjusted according to changes in average national earnings). (A fourth component—the pension access factor—is used to calculate survivor pensions.) At present, the pension value is €31.03 (US$36.99) in the West and €29.69 (US$35.39) in the East. Under the new law, the pension value in the East will increase on July 1, 2018, to 95.8 percent of the value in the West. Subsequent increases of 0.7 percentage points will occur on July 1 each year until the value of the pension point is harmonized across the country on July 1, 2024. (The law allows for flexibility should average earnings in the East rise at a higher rate than anticipated.)

In addition, the new law harmonizes the maximum annual earnings used to calculate contributions (the covered earnings ceiling) under both the OADS and the unemployment insurance (UI) programs. Currently, insured persons contribute 9.345 percent of monthly earnings over €850 (US$1,013.20) for OADS plus 1.5 percent for UI on annual earnings up to €76,200 (US$90,830.40) in the West or €68,400 (US$81,532.80) in the East. (Those with monthly earnings of at least €450 [US$536.40] but less than €850 [US$1,013.20] pay a reduced OADS contribution; OADS contributions are voluntary for those with monthly earnings less than €450 a month.) Employers contribute 9.345 percent of payroll (15 percent for employees with monthly earnings less than €450) for OADS plus 1.5 percent for UI, up to the same covered earnings ceiling. (The covered earnings ceiling is adjusted annually according to changes in average national earnings.) The new law gradually increases the covered earnings ceiling for the federal states in the East over 7 years starting January 1, 2019, until the ceiling equals that in the West in 2025. (Details on the schedule of the increases are not available.)

Germany's OADS program covers employed persons; certain self-employed persons; military personnel; and, under certain conditions, caregivers and unemployment, sickness, and certain other benefit recipients. To qualify for an old-age pension, the insured must reach the normal retirement age of 65 and 6 months (gradually rising to 67 by 2029) and have at least 5 years of contributions. (The normal retirement age may be lower under certain circumstances.) A reduced pension is available at the early retirement age of 63 (gradually rising to age 67 by 2029 when the benefit will be abolished) if the insured has at least 35 years of contributions, subject to specific exceptions. In addition, the pension may be deferred (under certain conditions) up to age 70 for a higher benefit.

**Sources:** *Social Security Programs Throughout the World: Europe, 2016*, U.S. Social Security Administration, September 2016; "Rentenangleichung Ost-West ab 2025 Abgeschlossen," rentenberatung-aktuell.de, July 30, 2017; "Germany," IBIS eVisor News, August 30, 2017; "Änderungen im Rentenrecht," Deutsche Rentenversicherung, September 2017; "Sozialversicherungsbeiträge 2017," lohn-info.de, accessed on September 12, 2017.

## *Portugal Changes Early Retirement Rules for Workers with Long Careers*

On August 24, the Portuguese government amended the early retirement rules for public old-age pensions to allow individuals with 48 years of contributions (or 46 years if they began contributory employment at age 14 or younger) to receive full benefits as early as age 60. Under current rules, the government reduces the pensions of all individuals who retire before the normal retirement age of 66 and 3 months regardless of their contribution histories. Effective October 1, individuals who have paid social security contributions since childhood can claim an early pension without the standard early retirement penalty (a pension is usually reduced by 0.5 percent for each month it is claimed before the normal retirement age) or the financial sustainability factor (an early pension is also typically adjusted to reflect changes in life expectancy since 2000). The government will consider contributions made to both the general social security system and the special system for public-sector employees hired before 2006 when determining an individual's eligibility for the new early retirement option. The government expects around 15,000 individuals to take advantage of the new option at a total annual cost of €50 million (US$59 million).

Portugal's old-age pension system consists of a contributory program for employed and self-employed persons and a noncontributory program for residents not entitled to contributory benefits. To fund the contributory old-age pension and certain other benefits, employees contribute 11 percent of gross earnings, employers contribute 23.75 percent of gross payroll, and self-employed persons contribute up to 34.75 percent of reference income according to occupational category. An individual qualifies for a contributory old-age pension if he or she has reached the normal retirement age and has at least 15 years of paid or credited contributions; the full pension is paid with at least 40 years of contributions. Under the noncontributory program, a Portuguese resident who reaches the normal retirement age, does not qualify for a contributory pension, and has less than €168.53 (US$200.15 for a single person) or €252.79 (US$300.22 for a couple) in monthly gross income, can receive a monthly pension of at least €230.26 (US$273.47 if younger than age 70) or €248.68 (US$295.34 if aged 70 or older). The government finances the noncontributory program with general revenue.

**Sources:** *Social Security Programs Throughout the World: Europe, 2016*, U.S. Social Security Administration, September 2016; "Pensão social de velhice," Segurança Social, March 8, 2017; "Pensões: Governo aprova fim dos cortes para carreiras muito longas," *Jornal de Negocios*, August 24, 2017; "Regime de reforma para muito longas carreiras contributivas," Ministry of Work, Solidarity, and Social Security, August 24, 2017; "New Early Retirement Rules for Ex-Child Workers," The Portugal News Online, August 25, 2017.

# Asia and the Pacific

## *Philippines Delays Increases in Social Security Financing*

The commission that oversees the Philippines' Social Security System (SSS) recently postponed scheduled increases in employer and employee contributions and the covered earnings ceiling until next year, pending legislative approval of the Comprehensive Tax Reform Program (CTRP). The increases were originally scheduled to go into effect on May 1. Although the House passed the CTRP on May 31, the bill is still under consideration in the Senate and expected to become law by the end of the year. According to the commission, passage of the CTRP will help contributors afford higher contributions through lower personal income taxes (for SSS insured individuals) and corporate taxes (for employers). SSS covers private-sector employees, household workers, and self-employed individuals in the Philippines. (Voluntary coverage is available for citizens working abroad and for individuals who previously had compulsory coverage.)

Earlier this year, the government increased all old-age, disability, and survivor pensions by 1,000 pesos (US$19.57)—totaling 33 billion pesos (US$646 million)—to stimulate the economy and improve the financial security of pensioners whose benefits were eroded by inflation over the years. (A further increase has been approved and will take effect no later than 2022.) To offset the fiscal pressure resulting from the benefit increases, contribution rates were scheduled to increase in May from 11 percent to 12.5 percent of covered earnings (split equally between employee and employer) while the covered earnings ceiling was set to rise from 16,000 pesos (US$313.17) to 20,000 pesos (US$391.46). Without the higher contributions, SSS actuaries had forecast a shortening in the actuarial life of the SSS pension fund by 10 years—from 2042 to 2032. The Social Security Commission is also considering additional measures to strengthen the sustainability of the pension fund, including stricter tax compliance rules for employers and other initiatives to improve contribution collections.

**Sources:** "Philippines Increases Social Security Financing to Offset Higher Pensions," *International Update*, U.S. Social Security Administration, May 2017; "SSS Defers Increase in Contributions to 2018," *Manila Bulletin*, June 1, 2017; "Social Security System Delays Planned Increase in Contributions," IBIS eVisor News, July 28, 2017; "CTRP Package 2 to Be Filed in Q4," *The Manila Times*, September 7, 2017.


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