International Update

Recent Developments in Foreign Public and Private Pensions

February 2018

Europe

Denmark Implements Reforms to Voluntary Retirement Savings Program

On January 1, Denmark implemented reforms to the voluntary old-age savings program (aldersopsparing) that include adjusting annual contribution limits, expanding payment options, raising minimum and maximum pensionable ages, and eliminating public benefit reductions or cessations. The Danish parliament passed the reforms on December 19 after the government agreed on a basic outline of the reforms in June. These reforms represent the first part of a larger reform agenda (commonly referred to as the 2025 Plan) aimed at reducing financial pressures on the public pension system by encouraging longer working lives and more private savings. According to the Organisation for Economic Co-operation and Development, Denmark's public expenditures on old-age and survivor benefits increased by around 26 percent from 1990 to 2013 (from 6.1 percent of gross domestic product [GDP] in 1990 to 8.0 percent of GDP in 2013).

The key provisions of the old-age savings reforms include:

- *Adjusting the annual contribution limits.* Under the amended rules, old-age savings participants with more than 5 years until the normal retirement age (currently 65) can contribute up to 5,100 kroner (US$850.00) a year to their accounts. For participants who have 5 or fewer years until reaching the normal retirement age, the annual contribution limit is 46,000 kroner (US$7,666.67; gradually rising to 51,000 kroner [US$8,500] by 2023). Previously, the annual contribution limit was 29,600 kroner (US$4,933.33) regardless of the participant's age. As before, all contributions must be made with after-tax income.
- *Expanding the payment options.* Participants who opt to receive programmed payments can now receive those payments up to 30 years after their normal retirement age (up from 25 years). As before, the minimum payout period for programmed payments is 10 years, and payments are not subject to income taxes. (The other payment option is a lump-sum payment of the entire account balance.)
- *Raising the minimum and maximum pensionable ages.* For old-age savings accounts established on or after January 1, participants can claim their pension benefits no sooner than 3 years before their normal retirement age. Previously, the earliest age for claiming benefits was 5 years before the normal retirement age (the old rules still apply to accounts opened before January 1). Participants can also delay claiming benefits up to 20 years after their normal retirement age (up from 15 years).
- *Eliminating the effects of old-age savings on public benefits.* The income received from old-age savings accounts will no longer affect the participant's entitlement to public benefits. Previously, old-age savings payments could result in a reduction or loss of means- or earnings-tested benefits.

The old-age savings program complements Denmark's two mandatory pension programs, the universal basic pension (folkepension) and the earnings-related pension (arbejdsmarkedets tillægspension, or ATP). To qualify for a full universal basic pension, an individual must be aged 65 or older and have at least 40 years of residence since age 15. An individual qualifies for a full earnings-related pension if he or she is aged 65 or older and has worked continuously since age 16 or since 1964, whichever is later. Partial benefits are paid under both programs to individuals who have resided or worked in Denmark but do not meet the requirements for full benefits. There is also a supplemental pension benefit available to old-age pensioners with annual incomes below certain limits.

Sources: *Social Security Programs Throughout the World: Europe, 2016*, U.S. Social Security Administration, September 2016; "L 16 Forslag til lov om ændring af pensionsbeskatningsloven og forskellige andre love," 2017; "Overblik: Her er hovedpunkterne i den nye aftale om pension," *Dagbladet Politiken*, June 20, 2017; *Pensions at a Glance 2017*, Organisation for Economic Co-operation and Development, December 5, 2017; "Nye pensionsregler pr. 1. januar 2018," Willis Towers Watson, December 21, 2017.

Asia and the Pacific

Macau (China) Implements Voluntary Central Provident Fund System

On January 1, Macau launched the Central Provident Fund (CPF), a government-regulated, mixed (public and private) managed voluntary retirement system. (Macau is an autonomous Special Administrative Region [SAR] of China.) The CPF builds on an existing framework of provident fund accounts created in 2010 and managed by the Social Security Fund (FSS). According to the Macau government, the CPF aims to strengthen the financial security of future retirees through higher returns on individual account savings.

Under the CPF, all Macau residents aged 18 or older (younger if already enrolled in the SAR's social insurance system) automatically become CPF account holders. Funding for CPF accounts comes from two sources: (1) a one-time government contribution of 10,000 patacas (US$1,242) plus additional annual contributions based on the government's budget surplus; and (2) contributions made jointly by employers and employees, or individually by residents. Each CPF account consists of three subaccounts, including:

- A government-managed subaccount for government contributions. This subaccount also includes any funds previously held under the old provident fund program.
- A contribution subaccount for contributions made jointly by employers and employees or individually by residents.
- A preserved subaccount for funds transferred from the contribution subaccount at the termination of employment or if an individual contributor terminates contributions.

The FSS manages the government-managed subaccount, and approved pension fund management companies manage the other two subaccounts.

Other key features of the CPF include:

- *Contributions:* Contributions to the CPF contribution subaccount can be made either jointly by the employer and employee (the Joint Scheme), or individually by a resident of Macau (the Individual Scheme).
    - — Under the Joint Scheme, the employer chooses an approved pension fund management company (five companies are currently approved). Both the employer and employee contribute 5 percent of the employee's basic wage each month, ranging from a minimum of 6,569 patacas (US$816) up to a maximum of 31,200 patacas (US$3,874). Employees earning less than the earnings floor are not required to contribute, but employers must still contribute 5 percent of the employee's basic wage on their behalf.
    - — Under the Individual Scheme, individuals can choose to contribute from 500 patacas (US$62) a month to 3,100 patacas (US$385) a month in incremental blocks of 100 patacas (US$12.42). Individuals already contributing in the Joint Scheme may also participate in the Individual Scheme. (Public-sector workers can also participate in the Individual Scheme.)
- *Transfers:* Transfers between the government-managed subaccount and the other two subaccounts can only occur once a year (subject to FSS approval). There is no limit on transfers between the contribution and preserved subaccounts.
- *Withdrawals:* An account holder aged 65 or older can withdraw all or part of his or her account balance, but only once per year. Early withdrawals are allowed if the account holder has significant medical expenses or becomes unemployed after age 60; however, the amount that can be withdrawn depends on the reason and is subject to FSS approval.
- *Investing:* Under the Joint Scheme, employers and employees select pension funds (there are currently 26 licensed funds) and investment allocations for their respective contributions; after full vesting (10 years), the employee can control how the employer contributions are invested. The FSS determines the investment allocation of the government-managed subaccount.

The CPF supplements a social insurance system administered by the FSS. To qualify for a social insurance old-age pension, an individual must be aged 65 or older and have at least 5 years of contributions. It is possible to receive the old-age pension as early as age 60 if the insured has at least 5 years of contributions and has resided in Macau for at least 7 years. The government is the primary source of funds for the social insurance program, but it also receives contributions from employees and employers. A separate social assistance program provides benefits to needy individuals who have no other source of economic support.

Sources: “Non-Mandatory Central Provident System: Brief Introduction,” Social Security Fund of Macau, no date; “AIA Macau Non-Mandatory Central Provident Fund (‘AIA Macau CPF’),” AIA Macau Retirement Fund Services, October 16, 2015; “Non-Mandatory Central Provident Law to Enter into Force on January 1 Next Year,” Social Security Fund of Macau, June 19, 2017; “Macau: Voluntary Central Provident Fund to Launch in 2018,” Willis Towers Watson, July 26, 2017; “Macau Non-Mandatory Central Provident Fund,” Social Security Fund of Macau, October 2017; “Non-Mandatory Central Provident System: Five Fund Management Entities Join the Non-Mandatory Central Provident Fund System to Provide 26 Fund Products,” Social Security Fund of Macau, January 10, 2018.

Vietnam Changes Benefit Formula for Old-Age Pensions

On January 1, Vietnam implemented a change to the benefit formula for social insurance old-age pensions that equalizes one component of the formula for men and women. As a result, old-age pensions are now calculated as 45 percent of the insured’s average covered monthly earnings for the first 16 years (men, rising to 20 years in 2022) or 15 years (women) of contributions plus 2 percent (men and women) of average covered monthly earnings for each year exceeding this minimum contribution period. (Average covered monthly earnings are based on the whole contribution period for private-sector employees and on the last 5, 6, 8, or 10 years of contributions for public-sector employees, depending on when the insured began contributing.) Previously, women received 3 percent of their average covered monthly earnings for each year of contributions exceeding 15 years. The maximum pension remains at 75 percent of average covered monthly earnings (men and women). The change to the benefit formula is part of a 2014 social insurance law that included various reforms (including increases in the minimum contribution period for men and in social insurance contributions) primarily aimed at improving the long-term fiscal sustainability of the country’s pension system. According to a 2012 report by the International Labour Organization, Vietnam’s social security reserves will be exhausted by 2027 without these reforms.

Vietnam is projected to have one of the most rapidly aging populations in Asia over the coming decades. The United Nations Population Division estimates that Vietnam’s old-age dependency ratio—the population aged 65 or older divided by the population aged 15 to 64—will increase from 9.6 percent in 2015 to 34.9 percent in 2050 and to 51.6 percent in 2085. In comparison, the old-age dependency for all of Asia was 11.2 percent in 2015 and is projected to increase to 27.8 percent in 2050 and to 42.0 percent in 2085. Along with other factors (including low statutory retirement ages and relatively high replacement rates), this demographic change is expected to put significant strain on the country’s social insurance program.

Vietnam’s social insurance program covers most private- and public-sector employees. The old-age pension is generally paid at age 60 (men) or age 55 (women) with at least 20 years of contributions; the normal retirement age is lower for certain workers, including those who work in hazardous or arduous conditions. An old-age grant is paid to those with less than 20 years of contributions at the normal retirement age. In addition, a social assistance (social pension) program covers needy persons aged 60 to 79 who are living alone without family support, or aged 80 or older and not receiving any contributory pension.

Sources: “Vietnam Implements a Revised Social Insurance Law,” *International Update*, U.S. Social Security Administration, January 2016; “World Population Prospects: The 2017 Revision,” United Nations, Department of Economic and Social Affairs, Population Division, 2017; *Social Security Programs Throughout the World: Asia and the Pacific, 2016*, U.S. Social Security Administration, March 2017; “Vietnam,” IBIS eVisor News, December 21, 2017

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