International Update

Recent Developments in Foreign Public and Private Pensions

June 2018

Europe

Denmark Approves Reforms to Universal State Pension

On May 8, Denmark's government approved reforms to the country's universal state pension (folkepension) that will change the residency requirement for a full pension and increase the number of payment options for deferral supplements. The government first proposed these changes in June 2017 as part of a larger reform package (commonly referred to as the 2025 Plan), which aims to reduce fiscal pressures on the public pension system by tightening certain qualifying conditions and encouraging longer working lives. According to Statistics Denmark, public expenditures on the universal state pension as a percentage of gross domestic product (GDP) increased by nearly 50 percent from 2000 to 2017, from around 5.25 percent of GDP to around 7.5 percent of GDP.

Effective July 1, the key provisions of the reforms include:

- *Residency requirement:* To qualify for a full state pension, individuals born since July 1, 1958, must reside in Denmark for at least 90 percent of the years from age 15 to the normal retirement age (currently age 65, but rising to age 67 by 2022 and to age 68 by 2030). Under current rules, 40 years of residency is required for a full pension.
- *Deferral supplement:* Individuals who delay claiming the state pension while continuing to work after the normal retirement age will be able to choose how the deferral supplement is paid from three options: a lifetime annuity, a 10-year annuity, or a 10-year annuity plus a lump sum. Currently, a lifetime annuity is the only payment option. Based on 2018 benefit amounts and life expectancies, deferring a full state pension for 5 years would result in a lifetime annuity of 4,158 kroner (US$653.26) a month, a 10-year annuity of 7,266 kroner (US$1,141.56) a month, or a 10-year annuity of 3,775 kroner (US$593.09) a month plus a lump sum of 374,200 kroner (US$58,790.56). The two new payment options only apply to deferral supplements (or portions thereof) earned on or after July 1, 2018. A lifetime annuity is paid to anyone who does not select one of the new payment options when claiming the state pension.

Denmark's universal state pension consists of an earnings-tested basic pension and an income-tested supplemental pension. For 2018, the full pensions paid to individuals with at least 40 years of residency are 6,237 kroner (US$979.90) a month for the basic pension and 6,728 kroner (US$1,057.04) a month for the supplemental pension. Pensioners who have resided in Denmark for at least 3 years but less than 40 years receive proportionally reduced basic and supplemental pensions. The state pension cannot be claimed early, but it can be deferred for up to 10 years after the normal retirement age if an individual works at least 750 hours a year. The government finances the state pension from general revenues.

Sources: *Social Security Programs Throughout the World: Europe 2016*, U.S. Social Security Administration, September 2016; "Aftale om flere år på arbejdsmarkedet," Danish Ministry of Finance, June 20, 2017; "Fakta: Sådan kan du få udbetalt din pension efter ny aftale," *Jyllands Posten*, June 20, 2017; "Denmark Implements Reforms to Voluntary Retirement Savings Program," *International Update*, U.S. Social Security Administration, February 2018; "Fra 1. juli kan du få opsat pension udbetalt hurtigere," Avisken.dk, April 26, 2018; "Notat: Eksempler på udbetaling af opsat pension," Danish Ministry of Labor, April 26, 2018; "Økonomisk Analyse: Udviklingen i de offentlige udgifter fra 2000 til 2017," Danish Ministry of Finance, May 2018; Lov nr 442 af 08/05/2018.

Asia and the Pacific

China Launches One-Year Personal Pension Pilot Program

On May 1, the Chinese government launched a one-year pilot of a voluntary third-pillar pension program that offers tax incentives to encourage participation. The program covers most employed and self-employed persons in three locations: Shanghai (China's largest city); the Fujian province on the southeast coast; and the Suzhou Industrial Park in the eastern Jiangsu province. The program is part of an ongoing government effort to develop a multi-pillar pension system and encourage more retirement savings in the rapidly aging country. The United Nations Population Division projects that China's old-age dependency ratio—the population aged 65 or older divided by the population aged 15 to 64—will increase from a relatively low 13.3 percent in 2015, to 25.3 percent in 2030, and to 54.8 percent in 2060. Without further pension reforms, such rapid population aging is expected to place significant and growing fiscal pressure on the state budget.

Under the new program, participants who purchase eligible commercial insurance-based pension products may deduct their monthly contributions of up to 1,000 yuan (US$155.83) or 6 percent of income, whichever is greater, from their personal income taxes. The pension products and any earnings they generate are not taxed until withdrawals are made at retirement (starting at age 65). Withdrawals are taxed as follows: the first 25 percent of the pension is tax free, and the remaining 75 percent is subject to a 10-percent personal income tax. (Specific details about the pension products, including investment options and pension providers, are not yet available.)

In addition to the new third-pillar program, China's pension system consists of: (1) separate first-pillar programs for urban employees, and rural and nonsalaried urban residents, which are administered at the provincial and local levels; and (2) second-pillar occupational pensions that primarily cover employees of large state-run enterprises. The first-pillar 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 have reached 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 first-pillar 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 have reached age 60 and not be entitled to a pension under the program for urban employees. The second pillar consists of voluntary defined contribution occupational pensions that are primarily in the form of enterprise annuities.

Sources: "China Pensions Outlook: Evolution, Diversification and Convergence," KPMG, 2017; "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; "China Allows Pension Funds to Invest in Domestic Equities," *International Update*, U.S. Social Security Administration, April 2017; "Pension Accounts to See Big Changes," chinadaily.com.cn, April 13, 2018; "Shanghai to Trial Commercial Pension Model," Shine.cn, April 13, 2018; "China Pilots Tax-Deferred Pension Insurance in Shanghai, Two Other Areas," Yicai Global, April 13, 2018; "China's Third-Pillar Pension Market 'Could be Worth €1.4trn,'" IPE.com, May 2, 2018.

India Expands Pension Subsidies for Low-Income Workers

Effective April 1, India's government reformed the Pradhan Mantri Rojgar Protsahan Yojana (PMRPY) program to increase employer subsidies and expand employee eligibility. Implemented in August 2016, PMRPY is the government's latest attempt to incentivize formal-sector employers—specifically those registered with the Employees' Provident Fund Organization (EPFO)—to hire low-income workers, thus providing them access to social security benefits. Almost 90 percent of India's labor force is employed in the informal sector or other sectors where they earn relatively low wages and lack mandatory social security coverage. As of March, the PMRPY program had provided subsidies for approximately 3.1 million employees at a cost to the government of around 5 billion rupees (US$74.5 million).

In most industries in the formal sector, the employer contributes 3.67 percent of monthly payroll (plus administrative costs) to the Employee's Provident Fund (EPF) and 8.33 percent of payroll to the Employees' Pension Scheme (EPS), a supplementary social insurance program. (The employee contributes 12 percent of monthly earnings to the EPF only.) Under the previous PMRPY rules, the government paid the full EPS employer contribution for new employees for up to 3 years, but the employer was still responsible for paying the EPF contribution; in the textile industry, however, the government paid the full employer contribution for both the EPS and EPF. Employees were eligible for the program if they began work after March 31, 2016, earned 15,000 rupees (US$223.50) a month or less, were registered with the EPFO, and worked for the same employer for up to 3 years (until April 1, 2019).

Under the new PMRPY rules:

- Employees must earn 15,000 rupees a month or less and not have worked for any EPFO-registered employer before April 1, 2016 to be eligible;
- The government pays the full employer contribution for both the EPF and EPS (12 percent of monthly payroll) across all economic sectors on behalf of eligible employees hired from April 1, 2018, to March 31, 2019, and for employees already participating in the PMRPY program;
- Employers that have registered with EPFO since April 1, 2016, can apply for the employer contribution subsidy for all eligible employees;
- Employers receive the employer contribution subsidy for eligible employees for up to 3 years following an employee's registration with EPFO or August 9, 2016, whichever is later. The employer contribution subsidy ceases if a participating employee ends EPFO-covered employment, and switching between EPFO-registered employers does not reset an employee's 3-year eligibility period.

India's various pension programs cover about 58 million people (roughly 12 percent of the labor force), including those employed by the government, and in private-sector enterprises with at least 20 employees that are mandatorily covered by EPFO. Besides the EPF and EPS, major retirement programs in India include the National Pension System (an individual account program) and the Atal Pension Yojna Universal Pension (a voluntary defined-benefit program for informal-sector workers aged 18 to 40).

Sources: *Pensions at a Glance*, Organisation for Economic Co-operation and Development, December 5, 2017; "India: Central Government Planning New Social Security Retirement Program," IBIS eVisor News, December 8, 2017; "Cabinet Approves Enhancing the Coverage of Pradhan Mantri Rojgar Protsahan Yojana," Indian Ministry of Labour & Employment, March 28, 2018; "India: Cabinet Approves Expansion of Government EPS Contribution for New Employees," IBIS eVisor News, May 29, 2018; "Eradicating Unemployment? Central Government Implements 'Subsidy' for Employer Social Security Contributions," Kaitan & Company, May 30, 2018.

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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SSA Publication No. 13-11712
Produced and published at U.S. taxpayer expense