International Update

Recent Developments in Foreign Public and Private Pensions

July 2018

Europe

Armenia Extends Individual Account Program Coverage and Changes Contribution Rates

On July 1, the Armenian government extended coverage of the country's mandatory individual account program to private-sector workers born after December 31, 1973, and temporarily changed the contribution rates for employees and the government. Since 2014, participation in the individual account program has been mandatory for public-sector workers born after December 31, 1973, and voluntary for public- and private-sector workers born before January 1, 1974. (Once a worker has chosen to participate, the decision cannot be reversed.) According to the government, the aim of the program is to spur economic development, improve the long-term financial sustainability of the public pension system, and raise the country's relatively low levels of retirement savings.

The individual account program's overall contribution rate is 10 percent of the employee's gross monthly earnings. Under the temporary measure, effective July 1, the government contributes 7.5 percent of the employee's gross monthly earnings up to 500,000 drams (US$1,037.10) and the employee contributes 2.5 percent of the same earnings. (There is no employer contribution.) Previously, the government and employee each contributed 5 percent of the employee's gross monthly earnings up to 500,000 drams. As before, the employee pays the full 10 percent contribution rate on gross monthly earnings above 500,000 drams. (There is no information on when the temporary rates will expire.)

Other key provisions of the program that remain unchanged include:

- *Investment rules:* Participants must choose a pension fund management company (there are currently two licensed in the country) to manage their individual accounts and the specific pension fund where their assets will be invested. Participants may choose from one of three pension funds with varying levels of risk: (1) a fixed-income fund, with no equity exposure; (2) a conservative fund, with up to 25 percent of the fund's assets invested in equities; and (3) a balanced fund, with up to 50 percent of the fund's assets invested in equities. Participants who do not make an active choice default into the conservative fund of a randomly selected pension fund management company.
- *Retirement benefit payments:* After reaching the normal retirement age of 63, participants may convert their account balances into an annuity, programmed withdrawals, and/or a lump sum. The program also guarantees that participants will receive at least the total amount of contributions (adjusted for inflation), minus administrative fees.

In addition to the individual account program, Armenia's pension system includes a social insurance program and a social assistance program. To receive a social insurance old-age pension, a worker must have reached age 63 with at least 25 years of covered employment. (The qualifying conditions are reduced for those employed in arduous or hazardous work.) The social assistance old-age pension is paid to workers aged 65 or older with less than 10 years of covered employment.

Sources: "Armenia," *International Update*, U.S. Social Security Administration, January 2014; *Social Security Programs Throughout the World: Asia and the Pacific, 2016*, U.S. Social Security Administration, March 2017; "Compulsory Component of Funded Pension System Will Become Mandatory for All Citizens of Armenia Starting from 1 July, 2018," ARMINFO News, June 20, 2018; "Prime Minister: In Armenia, From July 1, 2018, Wages of About 200 Thousand Citizens Will Increase," ARMINFO News, July 2, 2018.

Iceland Implements Changes to Mandatory Occupational Pension Program

On July 1, the contribution rate paid by private-sector employers under Iceland's mandatory occupational pension program rose from 10 percent of an employee's gross earnings to 11.5 percent. The increase is the last of three rate increases approved by the Icelandic Confederation of Labor and the Confederation of

Icelandic Employers (which represent private-sector workers and employers, respectively) in a 2016 collective agreement. The previous rate increases were from 8 percent (the statutory minimum) to 8.5 percent in July 2016, and from 8.5 percent to 10 percent in July 2017. The rate increases are intended to raise additional revenues for Iceland's pension funds and to harmonize occupational pensions for public- and private-sector employees; the 11.5-percent contribution rate paid by private-sector employers now matches the rate paid by the government for its employees. Gamma Capital Management, an Icelandic assets management company, estimates that the additional employer contributions will delay the year in which the pension funds have net outflows from 2034 to 2050.

In addition to the recent contribution rate increases, Iceland's government has sought to improve the financial sustainability of the pension funds by encouraging workers to claim smaller occupational pensions. On January 1, the government introduced a "half-and-half" pension that allows a qualified individual to receive 50 percent of the full universal old-age pension without an income test if he or she opts to receive 50 percent of his or her occupational old-age pension. Normally, the universal old-age pension is reduced or eliminated if a beneficiary's annual taxable income from employment, capital, and other pensions (including occupational pensions) exceeds certain limits.

To receive a half-and-half pension, an individual must meet the usual qualifying conditions for the universal and occupational old-age pensions. For the universal pension, an individual must have reached age 67 with at least 40 years of residence in Iceland from age 16 to age 67 to receive a full monthly benefit of up to 239,484 kronur (US$2,270.00). (The benefit is proportionally reduced if the individual has less than 40 years of residence.) To receive a full occupational pension, an individual must have reached age 65 with at least 32 years of contributions (public-sector workers insured as of June 1, 2017) or age 67 with at least 40 years of contributions (all other workers). As with the standard pensions, it is possible to claim a half-and-half pension as early as age 65 or defer it after the normal retirement age for an adjusted benefit. Three additional conditions for the half-and-half pension are: (1) all compulsory pensions to which an individual is entitled must allow half pensions, (2) the payments of the half pensions must begin at the same time, (3) and the combined monthly pension income must be at least 239,484 kronur.

Iceland's old-age income system consists of the universal pension, the mandatory occupational pensions, and private savings. Individuals receiving the universal old-age pension may also qualify for a number of supplemental benefits, including a supplement for single persons, a supplement for certain living expenses, and a supplement for dependent children younger than age 18. Except for the child supplement, these benefits are reduced or eliminated if a beneficiary's income exceeds certain limits.

Sources: "Ellilífeyrir," Social Insurance Administration; "Hálfur ellilífeyrir og hálfur lífeyrissjóður," Social Insurance Administration; "Lífeyrisréttindi ríkisstarfsmanna," Ministry of Finance and Economic Affairs; "Mótframlag í lífeyrissjóði hækkar um 3,5% til 2018," Confederation of Icelandic Employers, June 15, 2016; *Social Security Programs Throughout the World: Europe, 2016*, U.S. Social Security Administration, September 2016; "Ellilífeyrir–janúar 2018," Social Insurance Administration, January 2018; "Ekki tilbúnir að greiða hálfan lífeyri," Lifðu núna, February 15, 2018; "Iceland: Preparing for a second wave," IPE.com, May 1, 2018.

Turkey Extends Mandatory Auto-Enrollment of Private Pensions to Small Employers

Effective July 1, Turkish employers with 10–49 employees in both the public and private sectors must automatically enroll their citizen employees younger than age 45 into a defined contribution pension plan under the country's Private Pension System (Bireysel Emeklilik Sistemi, BES). (The BES consists of a voluntary program and an auto-enrollment program.) Implemented in 2017, the auto-enrollment program aims to increase long-term domestic savings and improve retirement options for employees. According to the Organisation for Economic Co-operation and Development, the number of BES participants increased from 6.6 million in 2016 to 10.3 million in 2017, out of a labor force of approximately 31 million persons. As of June 2018, total assets under management in BES accounts equaled 84 billion Turkish liras (US$18.3 billion).

The BES system began in 2003 with a voluntary savings program open to all individuals aged 18 or older regardless of employment status. Under this program, participants contract directly with pension companies to establish their individual accounts and determine their contribution rates. The auto-enrollment program was introduced on January 1, 2017, and originally required auto-enrollment for companies with 1,000 or more employees. Coverage was gradually extended to employers with 250–999 employees (April 2017), 100–249 employees (July 2017), and

50–99 employees (January 2018). The final implementation stage will occur in January 2019 for employers with 5–9 employees.

Key features of the auto-enrollment program include:

- *Opt-out period:* Employees can opt out of the auto-enrollment program within 2 months of enrollment and have any savings refunded. Employees who withdraw from the BES system may be automatically re-enrolled every 2 years.
- *Contribution rates*: Employees must contribute at least 3 percent of covered earnings to an authorized private pension provider selected by the employer; employer contributions are optional. To encourage participation, the government credits participant accounts with 1,000 liras (US$218.38) at the time of enrollment (not payable if the employee terminates or withdraws from the pension plan within the 2-month grace period) and matches 25 percent of employee contributions up to the monthly minimum wage of the current calendar year (2,029.50 liras [US$443.19] for 2018).
- *Investment choices*: Employers collect contributions on behalf of their employees and transfer them to the pension providers, which must offer several funds with varying degrees of investment risk.
- *Account transfer:* If an employee switches employers, the existing contract can be transferred to the new workplace. If there is no auto-enrollment plan at the new employer, the employee can choose to keep contributing under the existing contract; if the employee chooses not to continue paying the contribution, then the existing pension account is terminated.
- *Old-age benefit:* If an employee chooses to receive a monthly annuity payment for 10 or more years rather than a lump-sum payment at retirement, the employee is entitled to a state subsidy of 5 percent of the accumulated savings in their account. If the employee leaves the program before retirement, the state subsidy is prorated, subject to certain vesting requirements.

The BES system supplements the public pay-as-you-go (PAYG) pension program that covers all employees, including civil servants, self-employed persons, and full-time household workers. Employees contribute 9 percent of their monthly earnings to the PAYG program; employers contribute an additional 11 percent. Generally, public old-age pensions are paid as follows: at age 60 for men (gradually rising to age 65 from 2036 to 2044) or age 58 for women (gradually rising to age 65 from 2036 to 2048) with at least 7,200 days of paid contributions (9,000 days for civil servants and self-employed persons); or at age 63 for men (gradually rising to age 65 from 2036 to 2044) or age 61 for women (gradually rising to age 65 from 2036 to 2048) with at least 5,400 days of paid contributions.

Sources: "Turkey Introduces Automatic Enrollment for Private Pensions," *International Update*, U.S. Social Security Administration, September 2016; *Social Security Programs Throughout the World: Europe, 2016*, U.S. Social Security Administration, September 2016; "Regulation on Auto Enrolment to the Private Pension System," Mercer, December 2016; "Turkey: Automatic Enrolment of the Employees into Individual Pension System," Mondaq, January 11, 2017; "Turkey Implements New Pension Fund Management Rules," *International Update*, U.S. Social Security Administration, March 2018; "Turkey's Small Employers Must Provide Pension Autoenrollment from 1 July," Mercer, March 26, 2018; "Turkey," IBIS eVisor Compliance Alerts, May 25, 2018; "Turkey: 2018," OECD Economic Surveys, July 2018.

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