International Update

Recent Developments in Foreign Public and Private Pensions

September 2018

## Europe

### *Spain Increases Widow(er)'s Pension for Older Beneficiaries*

On August 1, Spain's government raised the replacement rate for the widow(er)'s pension (pension de viudedad) from 52 percent to 56 percent of the regulatory base for beneficiaries aged 65 or older. (If the deceased was working at the time of death, the regulatory base is the deceased's highest total covered earnings for any 24-month period in the 15 years before death divided by 28; if the deceased was an old-age or disability pensioner, the regulatory base is the same as that used to calculate the deceased's pension.) This increase will be followed by another 4-percentage-point increase in January 2019, with the final adjusted replacement rate being 60 percent of the regulatory base. (The replacement rate is not changing for beneficiaries younger than age 65.) The government first approved the entire 8-percentage-point increase in August 2011 as part of a broader pension reform package, but did not finalize its implementation until July 20 of this year. Once the two-step increase is fully implemented in 2019, the government expects it to benefit around 465,000 people—most of whom are women—at an annual cost to Spain's social security system of about €1.38 billion (US$1.60 billion).

Other key details of the two-step pension increase include:

- *Qualifying conditions:* To qualify for the increase, a beneficiary must be aged 65 or older and cannot be receiving another public pension (either domestic or foreign), employment or self-employment income, annual income from other sources above €7,347.99 (US$8,534.25), or a government-subsidized minimum widow(er)'s pension. (The government subsidizes widow(er) pensions that would otherwise be below a statutory minimum that varies depending on the beneficiary's age, disability status, and family situation; in 2018, the minimum monthly widow(er)'s pension for a beneficiary aged 65 or older is €739.50 [US$858.89, with dependents] or €639.70 [US$742.97, without dependents].) The increase is rescinded if a beneficiary does not continuously meet these conditions.
- *Other increases:* The increase is independent of other benefit adjustments, including the 1.35 percent increase included in Spain's 2018 national budget (retroactively effective January 1, 2018) and the 0.25 percent increase resulting from annual indexation (effective January 1, 2018). If a beneficiary already receives a higher widow(er)'s pension under a 1966 decree (up to 70 percent of the regulatory base), the government applies the increase only if it would result in a more favorable benefit.

Spain's social security system provides survivor benefits to an insured person's surviving spouse or partner, dependent children, and other qualifying dependents. The benefits are paid if the deceased was paying contributions at the time of death and had at least 500 days of contributions in the 5 years before death; had at least 15 years of contributions; or was receiving an old-age or disability pension. (There is no minimum contribution period for a death resulting from an accident or occupational disease.) The widow(er)'s pension is available to a survivor who was married to the deceased for at least 1 year (including a separated or divorced spouse under certain conditions), in a registered partnership for at least 2 years (with at least 5 years of continuous cohabitation), or had at least one child with the deceased.

**Sources:** Ley 27/2011; Real Decreto 900/2018; "Las pensiones de viudedad subirán un 7,7% en agosto y otro 7,1% en 2019," *ABC*, July 20, 2018; "Mejoras en la pensión de viudedad," Seguridad Social, July 20, 2018; "Spain," IBIS eVisor News, August 28, 2018; "El Gobierno advierte de que algunos beneficiarios deberán solicitar la subida de las pensiones de viudedad," eldiario.es, August 29, 2018; *Social Security Programs Throughout the World: Europe, 2018*, U.S. Social Security Administration, September 2018 (forthcoming).

## Asia and the Pacific

### *China Implements Central Adjustment System to Support Underfunded Pension Funds*

On July 1, the Chinese central government implemented a central adjustment system that will provide financial support to underfunded regional and local pension funds. To finance the new system, each of China's administrative divisions (including provinces, autonomous regions, and municipalities) must contribute a portion of its pension assets to a centralized fund, with the contribution amount varying depending on the regional wage level and workforce size. (Employee and employer contribution rates are unaffected by the new policy.) Given recent economic development and aging trends, the central adjustment system is expected to shift pension resources from China's eastern and coastal administrative divisions (which tend to be younger and wealthier) to its western and northeastern counterparts (which tend to be older and poorer). (Official forecasts indicate that the share of the Chinese population aged 60 or older will rise from 13.3 percent in 2010 to approximately 50 percent by 2050.) According to the central government, 13 provincial pension funds currently lack the pension assets needed to finance one year of retirement benefits.

The central adjustment system represents the latest step in unifying China's various pension systems and developing a multi-pillar system. Other recent reforms include:

- *Provincial pension fund asset management:* In 2017, the central government permitted provincial funds to transfer up to 30 percent of their assets to the National Council for Social Security Fund (NCSSF), the public body responsible for managing China's pension reserve fund. Previously, provincial governments could only invest pension assets in low-risk and low-yield investments, such as bank deposits and government bonds.
- *Voluntary occupational pensions:* In 2014, the central government introduced tax incentives for employers to promote voluntary occupational pensions, known as Enterprise Annuity plans. (Employee contributions are voluntary and do not receive tax incentives.)
- *Third-pillar pensions:* In 2018, the central government launched initiatives to develop a third pillar, including a one-year pilot program that offers tax incentives to encourage participation and the introduction of pension target securities investment funds.

China's pension system now consists of: (1) separate first-pillar programs for urban employees and rural and non-salaried urban residents administered at the provincial and local levels; (2) second-pillar occupational pensions that primarily cover employees of large state-run enterprises; and (3) third-pillar pensions for certain employed and self-employed persons. First-pillar programs for urban employees generally include a social insurance pension funded by an employer contribution and a mandatory individual account funded by an employee contribution, while the first-pillar programs for rural and non-salaried urban residents generally include a noncontributory pension funded by the central and local governments, and an individual account funded by personal contributions. The second pillar consists of voluntary defined contribution occupational pensions primarily in the form of Enterprise Annuities. The third pillar includes tax-favored programs that complement traditional voluntary private savings.

**Sources:** "China," *International Update*, U.S. Social Security Administration, January 2014; "China Allows Pension Funds to Invest in Domestic Equities," *International Update*, U.S. Social Security Administration, April 2017; "China Launches One-Year Personal Pension Pilot Program," *International Update*, U.S. Social Security Administration, June 2018; "China Sets Up Centralized Pension Fund to Ensure Payouts," Dow Jones Institutional News, June 13, 2018; "China to Launch Central Adjustment Pool to Support Pension in Less Vibrant Provinces," pionline.com, June 15, 2018; "New Pension Target Securities Funds Get the Green Light," Ecns.cn (chinanews.com), August 8, 2018; "China: New Pension Fund Adjustment Pool Will Relieve Pressure on Underfunded Provincial Funds," IBIS eVisor News, August 28, 2018.

### *Malaysia Eliminates Minimum Voluntary Contribution to the Employees Provident Fund*

Since July 1, voluntary contributors to Malaysia's Employees Provident Fund (EPF)—the primary source of old-age, survivors, and disability benefits in the country—are no longer required to make a minimum contribution of 50 ringgits (US$12.14) each time they contribute to their EPF accounts. (The maximum annual contribution for voluntary contributors remains unchanged at 60,000 ringgits [US$14,573.77].) The change is the latest in a series of measures implemented in recent years to improve retirement savings and prevent old-age poverty in a country that is projected to age rapidly in the coming decades. The United Nations Population Division estimates that Malaysia's old-age dependency ratio—the population aged 65 or older divided by the working-age population aged 15 to 64—will increase from 8.5 percent in 2015, to 24.4 percent in 2050, and to 53.1 percent in 2100. In comparison, the old-age dependency ratio for all of Asia was 11.2 percent in 2015 and is projected to increase to 27.8 percent in 2050 and to 46.3 percent in 2100.

EPF coverage is mandatory for all private-sector employees and public-sector employees not covered by the separate public-sector system and voluntary for certain other workers. Contribution rates for those with mandatory coverage vary depending on the EPF member's age and monthly earnings. If younger than age 60, the employee contribution rate is 11 percent of monthly earnings and the employer contribution rate is either 13 percent (for employees with monthly earnings up to 5,000 ringgits [US$1,214.48]) or 12 percent (for employees with monthly earnings greater than 5,000 ringgits a month). If aged 60 or older, the contribution rates are reduced by half. (These rates apply to Malaysian citizens, permanent residents, and noncitizens who elected to contribute before August 1, 1998; different rates apply for other noncitizens.) The minimum monthly earnings used to calculate contributions for mandatory contributors are 10 ringgits (US$2.43) and there are no maximum earnings used to calculate contributions.

There are three types of voluntary contributions:

- *Self-Contribution:* Available to household workers, pensioners, sole proprietors or business partners who do not receive wages, and Malaysian citizens who withdrew all of their EPF savings upon leaving the country but have returned to Malaysia.
- *I-Saraan (previously named the 1Malaysia Retirement Savings Scheme):* Available to self-employed persons who do not earn a regular income. Workers who participate in this program receive a government match of 15 percent of their annual contributions, up to 250 ringgits (US$60.72) a year.
- *Top-Up Savings Contribution:* Available to all EPF members and allows them to contribute to the EPF account of a family member (including a spouse, child, or parent) who is younger than age 55.

In addition to the EPF, Malaysia's pension system includes a social insurance program for those who are mandatorily covered by the EPF (voluntary coverage under the social insurance program is not possible) and a social assistance program for needy elderly persons. The social insurance program provides disability and survivor pensions to eligible workers; it does not provide old-age pensions.

**Sources:** "Flexible Voluntary Contribution Effective 1 July 2018" and "Benefits As An EPF Member: Account 1 Saving Top-Up," Employees Provident Fund, no date; "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; "Social Protection Insight: A Better Tomorrow," Employees Provident Fund, 2018; "Members' Guide to EPF Services," Employees Provident Fund, September 6, 2018.

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