International Update

Recent Developments in Foreign Public and Private Pensions

November 2018

Europe

United Kingdom Equalizes State Pension Age for Men and Women

On November 6, the United Kingdom increased the state pension age (SPA) for women under the country's social insurance pension program to age 65, matching the SPA for men. The increase was first established in a 1995 pension reform law, which called for a gradual rise in the SPA for women from age 60 in 2010 to age 65 in 2020. Subsequent legislation accelerated the gradual increase in the SPA for women by 2 years; introduced further gradual SPA increases for both men and women to age 66 (by October 2020), age 67 (by March 2028), and age 68 (from 2044 to 2046); and mandated a review of the SPA at least once every 5 years (starting in 2016) to determine if additional changes are needed based on future life expectancy changes. (At present, the government does not anticipate changing the existing timetables for the SPA increases to age 66 or age 67, but the timetable for the increase from age 67 to 68 could change as the result of a future review.) According to the government, the SPA increases are necessary to ensure the financial sustainability of the pension system as people live longer. Data from the United Kingdom's Office of National Statistics show that average life expectancy at birth has increased from 70.8 years for men and 76.8 years for women in the period 1980–1982, to 79.2 years for men and 82.9 years for women in the period 2015–2017.

The United Kingdom's public pension system consists of a single-tier state pension (STP) program for workers retiring on or after April 6, 2016; a means-tested Pension Credit for low-income pensioners aged 65 or older; and an income-tested social assistance benefit for pensioners aged 80 or older who are entitled to less than 60 percent of the full STP benefit and meet a residency requirement. (Workers retiring before April 6, 2016, were covered by the former two-part State Pension social insurance program consisting of a flat-rate pension and an earnings-related pension.) STP provides a full flat-rate benefit at the SPA with at least 35 years of paid or credited contributions; a partial benefit is paid with at least 10 years but less than 35 years of contributions. (As of April 2017, the full STP benefit is £159.55 [US$206.16] a week.) The STP benefit may be deferred beyond the SPA for an increase of 1 percent for every 9 weeks (approximately 5.8 percent per year) of deferral.

Sources: "State Pension Age Timetables," Department for Work and Pensions, May 15, 2014; *Social Security Programs Throughout the World: Europe, 2018*, U.S. Social Security Administration, September 2018; "National Life Tables, UK: 2015 to 2017," Office of National Statistics, September 25, 2018; "State Pension Age Increases for Women Born in the 1950s," House of Commons, November 16, 2018.

Asia and the Pacific

Vietnam to Extend Mandatory Social Insurance Coverage to Certain Foreign Nationals

Effective December 1, Vietnam's government will require employers to enroll certain foreign national employees in the country's social insurance program and pay contributions on the employees' behalf. (Starting in 2022, the same contribution rates that apply to Vietnamese citizens will also apply to foreign nationals.) As a result, many foreign nationals employed in Vietnam will become eligible for old-age, survivor, disability, sickness, maternity, and work injury benefits that were previously only available to Vietnamese citizens. The government officially announced the reform in an October 15 decree as it seeks to harmonize the legal treatment and taxation of Vietnamese and foreign national employees. The government estimates that there were 83,046 foreign nationals working in Vietnam in 2016 (or about 0.15 percent of the labor force), with 73 percent of these workers coming from other Asian countries (particularly China, Japan, and South Korea).

Other key details of the reform include:

- *Affected workers.* The reform applies to foreign national employees younger than the normal retirement age (age 60 for men or age 55 for women) who have a work permit, certificate, or license; have a work contract lasting at least 1 year; and usually work at least 14 days a month.

- *Contribution rates.* Starting on December 1, the employers of affected employees will contribute 3.5 percent of gross monthly payroll to finance disability, sickness, maternity, and work injury benefits; mandatory employee contributions will not begin immediately. On January 1, 2022, the employer contribution rate will rise to 17.5 percent and employees will contribute 8 percent of gross monthly earnings. The additional contributions will finance old-age and survivor benefits, and the higher employer and employee contribution rates will match current rates applicable to Vietnamese citizens. To calculate the contributions, only monthly earnings up to 20 times the legal monthly minimum wage for employees of state-owned companies (currently 1,390,000 dong [US$59.67] a month) will be considered.
- *Available benefits.* The social insurance benefits for foreign national employees will generally be the same as those for Vietnamese employees. However, on January 1, 2022, new old-age and survivor lump-sum benefits for foreign national employees will be implemented. The old-age lump-sum benefit will be paid to foreign national employees if they do not meet the contribution requirements for an old-age pension at the normal retirement age, qualify for a foreign pension, are diagnosed with a terminal illness, permanently leave Vietnam, or lose their legal work authorization. The survivor lump-sum benefit will be paid to eligible survivors who live outside of Vietnam.

Vietnam's social insurance program covers most public- and private-sector employees, and voluntary coverage is available for self-employed persons. To qualify for the program's old-age pension, a person must have at least 20 years of contributions at the normal retirement age. If a person is of retirement age but has less than 20 years of contributions, he or she can generally receive a lump-sum old-age grant instead.

Sources: "Vietnam Implements a Revised Social Insurance Law," *International Update*, U.S. Social Security Administration, January 2016; *Social Security Programs Throughout the World: Asia and the Pacific, 2016*, U.S. Social Security Administration, March 2017; Decree 143/2018/ND-CP, 2018; "Vietnam Social Security Scheme Update for Expatriate Workers," Vietnam Briefing, October 26, 2018; "Vietnam," IBIS eVisor Compliance Alerts, October 31, 2018; "Foreign Workers to Pay Social Insurance," Viet Nam News, November 3, 2018; World Bank Open Data, November 19, 2018.

International

Organisation for Economic Co-operation and Development Releases Pension Markets in Focus 2018

On October 22, the Organisation for Economic Co-operation and Development (OECD) released *Pension Markets in Focus 2018*, an annual report examining retirement assets in funded and private pensions across 36 OECD and 51 non-OECD countries. The report draws on a database of pension funds developed by the OECD in collaboration with the International Organization of Pension Supervisors and the World Bank to examine pension assets, their role in financial markets, and their investment performance in the past decade. The report provides statistics that can assist policymakers, regulators, and market participants in measuring, comparing, and evaluating pension plan arrangements. This year's report includes a special section on defined benefit (DB) plan funding.

Key findings in the report include:

- *Pension assets*
  - Pension assets have increased nearly every year from US$28.2 trillion in 2007 to a record US$43.4 trillion in 2017.
  - Asset amounts varied widely across the 36 OECD countries in 2017, with seven of the OECD countries holding more than 90 percent of the US$43.4 trillion in total pension assets. Countries with more than US$1 trillion in pension assets included the United States (US$28.2 trillion), the United Kingdom (US$2.9 trillion), Canada (US$2.6 trillion), Australia (US$1.8 trillion), the Netherlands (US$1.6 trillion), Japan (US$1.4 trillion), and Switzerland (US$1 trillion).
  - On average, pension assets were worth about 51 percent of gross domestic product (GDP) in OECD countries and about 20 percent of GDP in non-OECD countries reporting in 2017.
- *Pension coverage*
  - Pension plans covered more than 70 percent of the working-age population in most OECD countries mandating participation. Lower coverage rates prevailed in certain OECD and non-OECD countries for various reasons, including high rates of informality and opt-out opportunities in some mandatory plans.

– Automatic enrollment has led to higher coverage rates in New Zealand and the United Kingdom, but has achieved less success in Italy and Turkey.

- *Pension payments*

  – Funded and private pension plan spending, as a percentage of GDP, tended to be the highest in countries with mature pension systems and large asset holdings (above 80 percent of GDP). For OECD countries in 2017, these percentages were largest in Australia (6.9), Denmark (5.5), Iceland (5.8), Switzerland (6.8), and the United States (8.0); among non-OECD countries, the highest spending occurred in South Africa (7.0) and Liechtenstein (5.1).

- *Investment allocation*

  – Investments in government bills and bonds accounted for more than half of pension investments in nearly half the surveyed countries. This high proportion is often attributed to a lack of domestic investment opportunities.

  – Equities represented more than half of pension asset investments in five countries in 2017: Australia and Poland of the OECD countries and Hong Kong (China), Namibia, and Mauritius among non-OECD countries.

- *Investment performance*

  – Invested pension assets achieved positive real net investment returns (after expenses) in most reporting countries in 2017—helped by booming stock markets worldwide.

  – The highest real net investment returns were achieved among countries where pension assets were invested primarily in equities. These countries included Poland, the United States, and Australia among OECD countries; and Hong Kong (China) and Malawi among non-OECD countries.

  – Most countries have achieved positive real average annual net investment rates of return since 2002, including positive nominal returns in 48 reporting countries over the past 5 years.

In a special section on DB plan funding, the report finds that funding ratios (plan assets divided by plan liabilities) have fallen in most reporting countries since 2007, but that they remain (as of 2017) above 100 percent in all reporting countries except Iceland, Indonesia, Mexico, the United Kingdom, and the United States. However, several countries had higher funding ratios in 2017 than in 2007, including Denmark, Finland, Germany, Guyana, Liechtenstein, and Luxembourg. The report notes that multiple factors affect these trends in DB plan assets and liabilities, including the amount of plan contributions, changes in interest rates, and improvements in life expectancy. Given the recent history of declining funding ratios, the report emphasizes the need to monitor them and continue to examine options to protect plan members and sponsors against the risks of underfunded pension plans.

Source: *Pension Markets in Focus 2018*, Organisation for Economic Co-operation and Development, October 22, 2018.

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