International Update

Recent Developments in Foreign Public and Private Pensions

February 2019

Europe

Croatia Implements Pension Reform Package

On January 1, Croatia implemented a pension reform package that accelerates retirement age increases, changes early and deferred retirement incentives, increases the minimum old-age pension, and modifies mandatory individual account participation rules and incentives. According to the government, the reforms aim to increase benefit adequacy, improve intergenerational fairness, and ensure the long-term financial sustainability of the public pension system. In 2018, Croatia's public pension system had a budget deficit of around 17 billion kuna (US$2.6 billion).

Key reforms that went into effect January 1 (unless otherwise noted) include:

- *An acceleration of scheduled increases to the normal retirement age:* The normal retirement age for women (age 62 and 4 months as of January 1) will gradually rise by 4 months a year until reaching age 65 in 2027, matching the normal retirement age for men. The normal retirement age for men and women will subsequently rise at the same rate until reaching age 67 in 2033. Previously, the normal retirement age for women was scheduled to reach age 65 in 2030, and the age for men and women was scheduled to reach age 67 in 2038. (As before, insured persons must also have at least 15 years of coverage to receive an old-age pension.)
- *An acceleration of scheduled increases to the early retirement age:* In parallel with the increases to the normal retirement age, the early retirement age will gradually increase to allow for retirement (with a reduced pension) up to 5 years before the normal retirement age. As such, the early retirement age for women (age 57 and 4 months as of January 1) will gradually rise to age 60 in 2027, and the age for men and women will subsequently rise until reaching age 62 in 2033. Previously, the early retirement age was scheduled to reach age 60 in 2030 for women, and age 62 in 2038 for men and women.
- *An acceleration of scheduled increases in the required years of coverage for early old-age pensions:* The required years of coverage for women (32 years and 4 months as of January 1) will gradually rise by 4 months a year until reaching 35 years in 2027, matching the coverage requirement for men. Previously, the coverage requirement for women was scheduled to reach 35 years in 2030.
- *Changes to the incentives for early and deferred retirement:* Old-age pensions are now reduced by 0.34 percent for each month they are claimed before the normal retirement age or increased by 0.34 percent for each month of deferral after the normal retirement age. The maximum reduction or increase is 20.4 percent (for workers retiring 5 years before or 5 years after the normal retirement age). Previously, pensions were reduced or increased by 0.15 percent for each month of early or deferred retirement.
- *An increased minimum old-age pension:* In July 2019, the minimum monthly old-age pension under the social insurance program will increase by 3.13 percent. (The minimum monthly old-age pension is currently 63.61 kunas [US$9.84] for each year of coverage.) The increase is expected to affect around 246,000 pensioners.
- *An expanded opt-out provision for mandatory individual accounts:* All workers participating in the mandatory individual account program now have the option of transferring their individual account balances to the social insurance program for a higher social insurance benefit. Previously, only persons born from 1952 to 1961 who were covered by the social insurance program as of January 1, 2002, could opt out of the mandatory individual account program. (Persons born before 1952 are covered by the social insurance program only.)
- *A new pension supplement for old-age pensioners who remain in the mandatory individual account program:* At retirement, workers who choose to remain in the mandatory individual account program will receive a supplement of 27 percent of the social insurance old-age pension accrued prior to 2001, plus 20.25 percent of the mandatory individual account old-age pension accrued from 2002 until

retirement. Previously, the 27-percent supplement was paid to persons receiving a social insurance pension only.

Croatia's pension system consists of a pay-as-you-go social insurance program, mandatory individual accounts, and voluntary private pensions. The qualifying conditions for an old-age pension are the same under the social insurance and mandatory individual account programs.

Sources: *Social Security Programs Throughout the World: Europe 2018*, U.S. Social Security Administration, September 2018; "Portal o Cjelovitoj Mirovinskoj Reformi," Ministry of Labor and Pension System, October 17, 2018; "New Rules and Regulations Coming into Effect Today in Croatia," Total Croatia News, January 1, 2019; "Pension Reform Enters into Force," Total Croatia News, January 2, 2019.

France Merges Private-Sector Occupational Pension Programs

On January 1, France's main occupational pension programs for private-sector employees—the General Association of Retirement Institutions for Executives (AGIRC) and the Association of Supplemental Pension Plans for Employees (ARRCO)—merged to form a single program called AGIRC-ARRCO. As part of the merger, new rules went into effect that harmonize base and special contributions, pension point values, and program administration, and provide new incentives for deferred retirement. France's employers and trade unions first approved the pension program merger in October 2015, and ARRCO and AGIRC announced the final details of the reform on January 15, 2018. The creation of a unified AGIRC-ARRCO program is part of a broader effort to simplify France's supplemental pensions, make pensions fairer across different categories of employees, and improve the programs' financial sustainability.

The AGIRC-ARRCO merger involved changes in these key program areas:

- *Base contributions.* There is one set of rates and two salary bands used to calculate contributions under the merged program. (Previously, there were separate rates and six salary bands for calculating ARRCO and AGIRC contributions.) For earnings up to the social security earnings ceiling (3,377 euros [US$3,868.40] a month in 2019), the contribution rate is 3.15 percent for employees and 4.72 percent for employers. For earnings above and up to eight times the earnings ceiling, the contribution rate is 8.64 percent for employees and 12.95 percent for employers. (The contributions may be reduced or waived for certain lower income employees, and employers can choose to pay a portion of their employees' share of the contributions.)
- *Special contributions.* The merged program includes a new general equilibrium contribution (contribution d'équilibre general, or CEG) that replaces several special contributions under the ARRCO and AGIRC programs. The CEG is collected in addition to the base contributions and used to finance pensions paid to individuals younger than age 67 and certain other program provisions. For earnings up to the social security earnings ceiling, the CEG is 0.86 percent for employees and 1.29 percent for employers. For earnings above and up to eight times the earnings ceiling, the CEG is 1.08 percent for employees and 1.62 percent for employers.
- *Pension points.* For pensions claimed on or after January 1, there is a single account for calculating pension points. (Old-age pensions are calculated by multiplying an individual's lifetime pension points by the value of a pension point at retirement.) Previously, an individual could have two accounts if he or she participated in both the ARRCO and AGIRC programs. With the merger, all ARRCO points have become AGIRC-ARRCO points with no change in value (1 ARRCO point equals 1 AGIRC-ARRCO point); AGIRC points have been converted to AGIRC-ARRCO points by applying a conversion factor (1 AGIRC point equals 0.347791548 AGIRC-ARRCO points).
- *Deferred retirement.* To encourage employees born on or after January 1, 1957 to defer claiming their old-age pensions until after the legal minimum retirement age (currently age 62), the merged program provides age-related incentives for new pensions. (Individuals receiving or entitled to receive a full pension before 2019 and certain other categories of people are not affected.) If an individual claims his or her pension at age 62, the pension is temporarily reduced by 10 percent for 3 years. There is no reduction if the pension is claimed at age 63, and the pension is temporarily increased by 10 percent for each year of deferral from age 64 to age 67 (up to 30 percent).
- *Program administration.* A federation of employers and trade unions is managing the merged program. Previously, the ARRCO and AGIRC programs were each managed by a separate federation.

Before the merger, ARRCO covered all private-sector employees and AGIRC covered only those who were executives or managers. In 2014, ARRCO estimated that it covered around 96 percent of France's working-age population (the population aged 24 to 59), including all employees who also participated in AGIRC. To qualify for an old-age pension from the merged program, an individual must (as was the case before the merger) qualify for France's base social insurance old-age pension. The legal minimum retirement age for the social insurance pension is 62 and the age of automatic entitlement to a full pension is 67; the quarters of coverage required for a full pension range from 163 to 172, depending on the insured person's month and year of birth.

Sources: "Ce qui change au 1er janvier 2019," agirc-arrco.fr; France Changes Rules for Compulsory Employer-Provided Pensions," *International Update*, U.S. Social Security Administration, March 2016; "Les assurés Agirc-Arrco en 2014," Lorraine Felder Zentz, Joris Pinto, and Cécile Simon, January 2018; "Circulaire 2018-03-DC, AGIRC-ARRCO, January 16, 2018; "France," IBIS eVisor News, March 16, 2018; *Social Security Programs Throughout the World: Europe, 2018*, U.S. Social Security Administration, September 2018; "Retraite Agirc-Arrco: les détails du malus entrant en vigueur le 1er janvier," *Le Monde*, December 28, 2018; "Ce que change la fusion des régimes de retraites Agirc et Arrco," *Le Monde*, January 2, 2019.

International

Organisation for Economic Co-operation and Development Releases Report on Social Protection

On November 7, the Organisation for Economic Co-operation and Development (OECD) released *The Future of Social Protection: What Works for Non-Standard Workers?*, a report examining social protection programs (including social insurance, social transfers, and minimum labor standards) in the OECD's member countries and their relevance for workers today. These programs have traditionally been designed for standard workers—full- or part-time workers dependent on a single employer. However, rapid and deep technological changes, driven by globalization, digitalization, and demographic change, are contributing to a rise in non-standard forms of work, such as self-employment, temporary work, and independent contracting. (Among OECD countries, an average of one in six workers is self-employed and one in eight workers is on a temporary contract.) This evolution of work patterns can lead to coverage gaps, with many non-standard workers being unable to meet minimum contribution periods or only eligible for the most basic benefits.

The report presents some case studies examining various aspects of social protection coverage for non-standard workers, including:

- *Government-financed social protection program for non-standard workers:* In Australia, a means-tested program financed by general revenues provides benefits regardless of the employment relationship (standard or non-standard). The report notes that while the program has achieved broad coverage, benefit levels are more modest than under social insurance programs (because of the former's focus on poverty reduction rather than wage replacement).
- *Voluntary social protection programs for self-employed workers:* In Sweden, social insurance coverage for non-standard workers is provided through government-subsidized voluntary programs, including a voluntary unemployment insurance (UI) program. The report notes that the voluntary aspect of UI raises issues for non-standard workers by making access to benefits more difficult than for standard workers (due to the difficulty in establishing that the job loss was involuntary). In addition, voluntary programs often require high levels of government funding to be successful as coverage rates tend to fall as workers' premiums rise.
- *Special rules for non-standard workers:* In Austria, Italy, and the Netherlands, special rules apply to non-standard workers—for example, lower contribution rates and fewer job protections. The special rules encourage employers to hire non-standard workers, but can disadvantage these workers through lower pension benefits and less job security. The report notes that Austria and Italy have introduced reforms in recent years to reduce the scale of non-standard work.
- *Special programs for non-standard workers:* In France and Germany, special programs provide coverage to artists and other persons in the creative industries who often have unstable employment patterns and may struggle to meet the contribution requirements for conventional social insurance benefits. Although these programs have been successful at extending coverage to this group of workers, they can be costly and may not provide an adequate level of benefits to prevent old-age poverty.

Based on these case studies, the report makes several policy recommendations, including:

- *Harmonize social security contributions across different forms of employment:* Harmonizing contribution rates can lead to a reduction in the share of non-standard workers in the labor force, thereby reducing the coverage gap between standard and non-standard workers.

- *Be careful when offering voluntary social protection programs to non-standard workers:* Unless a voluntary program achieves a high coverage rate, adverse selection by non-standard workers (those with the highest risk have a greater incentive to join) could lead to rising premiums and overall declining coverage rates.
- *Make employment-based social protection entitlements portable:* Replacing social protection entitlements based on specific employer relationships with those tied to individual contributions makes it easier for workers to switch jobs.
- *Improve income security for flexible hour workers:* Those working flexible hours often lack the income security provided by regular employment relationships. The report suggests that a wage premium is one approach for improving income security for these workers.

Source: *The Future of Social Protection: What Works for Non-Standard Workers?* Organisation for Economic Co-operation and Development, November 7, 2019.

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