SOCIAL SECURITY USA ADMINISTRATION

International Update

Recent Developments in Foreign Public and Private Pensions

November 2019

Europe

Poland Approves Draft Law Eliminating Second-Pillar Individual Accounts

On November 6, the Polish cabinet approved a draft law that would eliminate the second pillar of privately managed individual accounts and transfer the account balances of participating workers—currently held by open pension funds (*Otwartych Funduszy Emerytalnych*, or OFEs)—to the public first-pillar notional defined contribution (NDC) program or to third-pillar voluntary individual accounts (*Indywidualne Konta Emerytalne*, or IKEs). The draft law still needs parliament's approval and the president's signature, but it is expected to enter into force in January 2020. (OFE account balances are expected to be transferred in July 2020.) There are currently around 15.8 million participants in the second-pillar program (around 2 million of whom are active contributors), with assets under management of about 162.3 billion zloty (US$42.5 billion).

Key provisions of the draft law include:

- *Default option:* By default, all OFE account balances will be transferred to IKEs. Workers who prefer to transfer their OFE account balances to the NDC program must make the request between January 1 and February 28, 2020. The government anticipates that around 80 percent of workers will take the default option.
- *Taxes and fees:* Workers who transfer their OFE account balances to IKEs will pay the government a conversion fee of 15 percent of their account balances, split over 2 years. As currently, withdrawals from IKEs at retirement will be tax exempt. In contrast, workers who transfer their OFE account balances to the NDC program will not be subject to the conversion fee, but their pensions will be subject to personal income taxes. (Currently, the personal income tax rate is 18 percent of annual income up to 85,528 zloty [US$22,397.94] plus 32 percent of annual income above this amount.) The government expects revenues from the conversion fee will amount to around 12.5 billion zloty (US$3.27 billion) in 2020 and 4.7 billion zloty (US$1.23 billion) in 2021.
- *Benefits:* As is the case for current IKE participants, workers who transfer their OFE account balances to IKEs will be able to withdraw their IKE balances as lump sums or periodic payments. Workers who transfer their OFE account balances to the NDC program will receive higher NDC old-age pensions.
- *Inheritance:* Assets transferred to IKEs will be private and inheritable, while those transferred to the NDC program will not.

In 1999, Poland introduced a multipillar pension system consisting of the first-pillar NDC program, second-pillar individual accounts that were mandatory for persons born after December 31, 1968, and voluntary third-pillar retirement savings accounts. In recent years, the government has implemented a series of reforms affecting the second-pillar program, including a:

- 2011 reform that significantly reduced the second-pillar contribution rate and diverted these contributions to new subaccounts under the NDC program; and
- 2014 reform that made the second pillar voluntary for all new entrants to the workforce, allowed current second-pillar participants to opt out of the program and transfer their account balances to the NDC program, and transferred all OFE government bond investments to the first pillar.

Sources: "Poland," *International Update*, U.S. Social Security Administration, May 2011 and March 2014; "Poland Finalises Abolition of €38bn Second-Pillar System," IPE.com, April 16, 2019; "Poland: Individual - Taxes on Personal Income," PwC, July 8, 2019; "Ostatnie Tchnienie OFE. Rząd Rozbraja Otwarte Fundusze i Pompuje Budżet na 2020 r.," *Business Insider Polska*, November 6, 2019; "Rząd Przyjął Ustawę o Przekształceniu OFE. Co to Oznacza?," *Gazeta Prawna*, November 6, 2019; "Poland Approves Pension Reform, Boosts State Coffers," Reuters, November 6, 2019; "Koniec OFE. 1 lipca 2020 Otwarte Fundusze Emerytalne Przestaną Istnieć. Pieniądze Trafią na Indywidualne Konta Emerytalne albo do ZUS," Głos Wielkopolski, November 11, 2019.

Asia and the Pacific

Singapore Announces Changes Affecting Older Workers

On August 18, Singapore's prime minister announced gradual increases to the country's minimum retirement and reemployment ages and to the contribution rates for certain older workers covered by the Central Provident Fund (CPF). (In Singapore, the retirement age is the minimum age at which employers can require employees to retire; once an employee reaches this age, his or her employer must offer one-year reemployment contracts—provided the employee meets certain conditions—until the employee reaches the reemployment age. Employers may also transfer the reemployment obligation to another employer or provide a special lump-sum payment. These ages are not conditions for receiving old-age benefits under the CPF.) To encourage private-sector employers to adopt retirement and reemployment ages above the current statutory minimums, the government has also announced that it will implement the new minimum ages ahead of schedule for public-sector employees. In addition, the government expects to include a support package in its 2021 budget to help employers adjust to the announced changes. By allowing Singaporeans to work longer and contribute more, the announced changes are expected to help improve retirement security and ease a growing labor shortage caused by population aging. The United Nations estimates that 47 percent of Singapore's population will be aged 65 or older by 2050.

Key details of the changes include the following:

- *Retirement age:* The statutory retirement age will increase from 62 to 63 on July 1, 2022, and gradually to 65 by 2030 (the government has not yet announced the schedule for the increases to age 65).
- *Reemployment age:* The reemployment age will increase from 67 to 68 on July 1, 2022, and gradually to 70 by 2030.
- *CPF contribution rates:* Contribution rates are based on an employee's age and begin to decrease gradually after age 55. Starting on January 1, 2021, contribution rates for workers aged 55 or older will gradually rise over the next 10 years so the full rate of 37 percent (currently for workers up to age 55) is extended to those up to age 60 before tapering off thereafter. The pace of change to reach the target percentage will depend on economic conditions beginning in 2021.

Singapore's retirement system consists of the CPF and a social assistance program. The CPF is a publicly managed provident fund that is mandatory for most workers. CPF contributions are allocated into different individual accounts—an Ordinary Account (OA), a Special Account (SA), a MediSave account, and a Retirement Account (RA)—depending on a fund member's age and the account balances. OA and SA savings are combined and transferred to the RA at age 55 to finance retirement benefits. Funds can be withdrawn for retirement as early as age 55 if the RA balance exceeds a certain minimum; otherwise, the standard payout age for CPF retirement benefits is 65. Funds can also be withdrawn from CPF accounts for other purposes, including home purchases, education costs, medical expenses, and certain investments.

Sources: "Singapore: Singapore Keeps Older Employees Working," Mondaq, October 3, 2018; *Social Security Programs Throughout the World: Asia and the Pacific, 2018*, U.S. Social Security Administration, March 2019; "National Day Rally 2019:

Current and scheduled CPF contribution rates as a percentage of wages, by age group

Contribution source	Current	Effective January 2021	Target
		54 or younger	
Employer	17.0	17.0	17.0
Employee	20.0	20.0	20.0
Total	37.0	37.0	37.0
		55–59	
Employer	13.0	14.0	17.0
Employee	13.0	14.0	20.0
Total	26.0	28.0	37.0
		60–64	
Employer	9.0	10.0	13.0
Employee	7.5	8.5	13.0
Total	16.5	18.5	26.0
		65–70	
Employer	7.5	8.0	9.0
Employee	5.0	6.0	7.0
Total	12.5	14.0	16.5
		71 or older	
Employer	7.5	7.5	7.5
Employee	5.0	5.0	5.0
Total	12.5	12.5	12.5

8 Things to Know about PM Lee Hsien Loong's Speech," *The Straits Times*, August 18, 2019; "Singapore: Tripartite Workgroup on Older Workers Releases Its Recommendations," Singapore Government News, August 19, 2019; "Explainer: How Much Your CPF Contribution Rates Will Increase in about a Decade from Now," *Today,* August 19, 2019; "Phasing in Retirement, Re-employment Changes Helps Businesses Adjust," *The Straits Times*, September 7, 2019; "Singapore: Changes to Employment Laws and Related Regulations for Older Employees," *CNP Law Update*, October 30, 2019; "NTUC to Raise Retirement. Re-employment Ages in 2021, Ahead of National Schedule," *The Business Times*, November 9, 2019.

The Americas

Brazil Enacts Old-Age Pension Reform

On November 12, Brazil's government enacted a constitutional amendment that reforms the country's social insurance old-age pensions by introducing a minimum retirement age, changing contribution rates and requirements, and modifying benefit calculations. The pension reform received final approval from Brazil's Congress on October 23, and it affects the general pension program that covers most employed and self-employed persons and the special pension program that covers certain public-sector employees. The reform is intended to curb public spending on pensions, which is among the highest in the world on a relative basis. In 2018, public pension expenditures accounted for about 8.5 percent of Brazil's gross domestic product (GDP) (or 44 percent of the federal government's total annual budget). Without changes, the government had forecast these expenditures to rise to 17 percent of GDP by 2060. The government estimates that the latest reform will reduce public spending on pensions by 800 billion reais (US$199 billion), or by about 1.2 percent of GDP, over the next decade.

The reform's key provisions affecting the general social insurance pension program—all of which were effective on November 13 unless otherwise noted—include:

- *Minimum retirement age:* There is now a minimum retirement age to qualify for an old-age pension—age 65 for men or age 60 (gradually rising to age 62 by 2023) for women—regardless of an individual's contribution record. Previously, an individual could qualify for an old-age pension at any age if he or she had at least 35 years (men) or 30 years (women) of contributions (or as few as 25 years [men] or 20 years [women] of contributions if disabled, depending on the degree of disability); otherwise, an individual could qualify for an old-age pension at age 65 (men) or age 60 (women) with at least 15 years of contributions. Under the old rules, the effective retirement age (the average age at which old-age pensions were claimed) was 56 for men and 53 for women according to the Organisation for Economic Co-operation and Development.
- *Contribution requirements:* Men who enter the workforce after November 12, 2019, are now required to have at least 20 years of contributions to qualify for an old-age pension. The minimum contribution requirement for other insured persons will continue to be 15 years.
- *Contribution rates:* Starting on March 1, 2020, the employee contribution rate—which varies depending on an employee's monthly earnings—will be applied differently and become more progressive. Under the new rules, a different contribution rate will be applied to each earnings bracket: 7.5 percent of monthly covered earnings up to the legal monthly minimum wage (currently 998 reis [US$248.40]); 9 percent of monthly covered earnings above the legal monthly minimum wage and up to 2,000 reis (US$497.80); 12 percent of monthly covered earnings above 2,000 reis and up to 3,000 reis (US$746.70); and 14 percent of monthly covered earnings above 3,000 reis and up to 5,839.45 reis (US$1,453.44) (the maximum monthly earnings used to calculate contributions). Currently, the same contribution rate is applied to all of an employee's monthly covered earnings: 8 percent if the employee has monthly covered earnings up to 1,751.81 reis (US$436.02), 9 percent with monthly covered earnings above 1,751.81 reis and up to 2,919.72 reis (US$726.72), or 11 percent with monthly covered earnings above 2,919.72 reis and up to 5,839.45 reis. The contribution rate for voluntarily insured persons, self-employed persons, and employers (typically 20 percent of monthly covered earnings or payroll for each of these groups) will remain the same under the new rules.
- *Benefit calculations:* The monthly old-age pension is now 60 percent of the insured's average monthly earnings plus 2 percent of average monthly earnings for each year of contributions exceeding 15 years (women) or 20 years (men). Previously, the monthly pension was 70 percent of the insured's average monthly earnings plus 1 percent of average monthly earnings for each year of contributions. In addition, the average monthly earnings used to calculate the pension are now based on the insured's total covered earnings instead of the best 80 percent of covered earnings.

The new qualifying conditions and benefit calculations do not apply to individuals who qualified for old-age pensions under the old rules before November 13, 2019. For private-sector workers who were nearing retirement but had not yet qualified for old-age pensions under the old rules, there are four transition options that might allow them to retire earlier than would otherwise be possible under the new rules. (Each individual decides which transition option best fits his or her circumstances; the transition options will be phased out during the next 3 to 14 years.) The pension reform also continues to allow rural workers and workers regularly exposed to hazardous conditions to retire earlier than other workers under special rules.

Sources: *Social Security Programs Throughout the World: The Americas, 2019*, U.S. Social Security Administration, forthcoming; "OECD Economic Surveys: Brazil," Organisation for Economic Co-operation and Development, February 2018; Proposta de Emenda à Constituição n° 6, de 2019; "Factbox: Pension Reform: Brazil's Uphill Battle to Save 1 Trillion Reais," Reuters, April 5, 2019; "Brazil's Senate Approves Much-Vaunted Pension Reform," *Financial Times*, October 22, 2019; "Veja como ficaram as regras de transição para a aposentadoria com a reforma da Previdência," *Jornal Nacional*, October 25, 2019; "Novas alíquotas de contribuição à Previdência valem em março de 2020," Senado Notícias, November 11, 2019; "Reforma da Previdência é promulgada e novas regras de aposentadoria entram em vigor," *Gazeta do Povo*, November 12, 2019; "Promulgada Emenda Constitucional da reforma da Previdência," Senado Notícias, November 12, 2019.

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