Asia and the Pacific

Japan Approves Social Security Reform Package

On May 29, Japan’s parliament approved a social security reform package that will increase the maximum deferral age for old-age pensions under the National Pension (NP) program, modify the earnings test under the Employee Pension Insurance (EPI) program, and expand EPI coverage. (It is unclear if the new maximum deferral age also applies to the EPI program.) The changes, which are expected to be implemented in 2021, are part of a government strategy to curb rising pension expenditures and prevent a future labor shortage due to population aging. Nearly 9 million of Japan’s workers (about 13 percent of the labor force) are currently aged 65 or older. According to the Organisation for Economic Co-operation and Development, Japan’s old-age dependency ratio (the population aged 65 or older divided by the population aged 15 to 64) is the world’s highest at around 50 percent and is forecast to exceed 80 percent by 2050.

The main provisions of the new reform package will:

• Increase the maximum age for deferring pension benefits: The maximum age for deferring old-age pensions will increase from the current age 70 (5 years above the normal retirement age of 65) to age 75 (10 years above the normal retirement age). For each month of deferral, pensions are increased by 0.7 percent; as a result, pensions may be increased by up to 84 percent (for those retiring at age 75), compared with 42 percent (for those retiring at age 70) before the reform. (As before, early retirement for a reduced pension is possible starting at age 60.)

• Modify the EPI earnings test: The earnings test that applies to EPI pensioners aged 60 to 64 who continue to work will be changed in 2022. Under current rules, EPI pensions are reduced if a pensioner’s monthly combined earnings and pension income exceed 280,000 yen (US$2,599.15) if aged 60 to 64 or 470,000 yen (US$4,362.86) if aged 65 or older. Under the amended rules, the monthly income threshold for pensioners aged 60 to 64 will rise to 470,000 yen (matching the threshold for those aged 65 or older).

• Expand EPI coverage to more part-time employees: EPI coverage for part-time employees who work at least 20 hours a week will be expanded in two phases: first to part-time employees at firms with more than 100 employees in October 2022, and then to those at firms with more than 50 employees in October 2024. The change could add as many as 650,000 members to the EPI program. Currently, the EPI program covers part-time employees at private-sector firms with more than 500 employees and full-time employees at firms with 5 or more employees. (Part-time workers at companies with 50 employees or less are not covered by the reform legislation.)

Japan’s pay-as-you-go public pension system comprises the flat-rate NP program and the earnings-related EPI program, supplemented by a means-tested program for low-income pension recipients (available as of October 1, 2019). NP covers all residents of Japan aged 20 to 59 and EPI covers employed persons younger than age 70 in covered firms. (For both programs, voluntary coverage is possible under certain conditions.)

Bermuda Introduces Lump-Sum Withdrawal Options for Certain Occupational Pension Plans

On June 1, Bermuda’s government implemented two amendments to the National Pension Scheme (Occupational Pensions) Act 1998 that allow members of defined contribution occupational pension plans to withdraw a portion of their account balances as lump sums. (The amendments also cover local retirement products; no details are available on these products.) Under one amendment, members younger than age 65 (the normal retirement age) who are not yet retired may request one-time withdrawals of up to B$12,000 (US$12,000) from their account balances. The deadline for requests is June 30, 2021, and pension plan administrators must process the withdrawals within 20 business days after approving a request. Under the other amendment, members aged 65 or older who are retired may request one-time withdrawals of up to 25 percent of their account balances. (Previously, retirement benefits were only paid as monthly pensions based on the insured’s average earnings or the amount of the insured’s accumulated capital, depending on the pension plan’s specific rules.)

Bermuda’s pension system consists of: (1) a social insurance program for employed and self-employed persons aged 18 or older working more than 4 hours a week, and temporary residents gainfully employed for more than 26 consecutive weeks; (2) the mandatory occupational pension program for private-sector employees aged 23 or older who have worked 720 hours or more for their current employer in any calendar year, and self-employed persons aged 23 or older with annual earnings greater than B$20,000 (US$20,000); and (3) a social assistance program that includes an old-age social pension (for Bermudian workers) and a disability social pension (for all Bermuda residents). The social insurance program is financed through flat-rate contributions by employees and employers of B$35.92 (US$35.92) a week each (none for employees aged 65 or older); the mandatory occupational pension is financed through employee and employer contributions of 5 percent of gross covered earnings/payroll; and the social assistance program is financed through general revenues.


Chile Introduces Special Cash Transfer Program for Vulnerable Households During Pandemic

On May 20, Chile began implementing a special cash transfer program called Emergency Family Income (Ingreso Familiar de Emergencia, or IFE) for the country’s most socioeconomically vulnerable households, including those with at least one member aged 70 or older receiving an old-age solidarity pension (Pensión Básica Solidaria de Vejez). Under the program, the government will make up to three monthly payments to each qualifying household, depending on the household’s assessed level of vulnerability and existing sources of income. Chile’s government enacted the program on May 16 as part of its ongoing response to the COVID-19 pandemic. The government estimates that around 1.9 million households (or about 4.9 million persons) will receive financial support from the IFE program at a total cost of at least 666 billion pesos (US$830 million).

The key features of the IFE program include:

• **Full benefit qualifying conditions:** Households can qualify in one of two ways for 2 or 3 months of full IFE benefits. Under the first way, a household must (1) be among Chile’s 90-percent most vulnerable households based on the Social Registry of Households (Registro Social de Hogares, or RSH), (2) be among the 60-percent most vulnerable households based on the Emergency Socioeconomic Indicator (Indicador Socioeconómico de Emergencia, or ISE), and (3) have no income from formal sources, such as employment contracts, service fees, or social security benefits. (The RSH is an information system that collects social and economic data on households in Chile and is used to target many government benefits. The ISE is...
Chile’s old-age pension system consists of a mandatory individual account program, a legacy social insurance program, and several noncontributory programs. Employees who have entered the labor force since 1983 are required to participate in the individual account program and contribute 10 percent of their monthly covered earnings (plus an administrative fee) to their accounts. The normal retirement age for the individual account and social insurance pensions is 65 for men and 60 for women; for two social assistance pensions, the normal retirement age is 65 for both men and women.