Europe

Estonia Enacts Individual Account Program Reforms After Court Ruling

On October 20, Estonia’s president enacted a law that reforms the country’s individual account program after the Estonian Supreme Court ruled earlier in the day that the law was constitutional. Among other things, the law will make participation in the program voluntary for all workers, allow participants to manage their own investments, and introduce a lump-sum payment option. Estonia’s parliament had approved the law two times—first on January 29 and again on March 11—but the president refused to sign it because of concerns about its constitutionality and referred it to the Supreme Court for review. (Under Estonia’s constitution, the president can refuse to sign legislation if he or she has concerns about its constitutionality; however, if the parliament passes the rejected legislation a second time without making significant changes, the president must either sign the legislation or refer it to the Supreme Court for constitutional review.) Although the Supreme Court found that the law violated certain rights and freedoms, it ruled that these violations were not severe enough to render the law unconstitutional. Now that the law can be implemented as originally planned, a recent survey of the individual account program’s participants found that 51 percent of participants are planning to remain in the program, 21 percent intend to leave, and 20 percent are unsure about what they will do.

The key provisions of the new law include:

- **Making participation voluntary for all workers:** Effective January 1, participation in the individual account program will become voluntary for all workers. (Currently, all workers born after 1982 must participate in the program; workers born from 1970 to 1982 can voluntarily participate in the program.) At that time, participants can suspend their individual accounts or withdraw from the program entirely. If they choose to suspend their accounts, participants will stop contributing to their individual accounts, but their accumulated savings will remain invested and fund their old-age pensions. If they choose to withdraw from the program, participants must withdraw their entire account balances and pay a 20-percent income tax on the funds. (There are no restrictions on how these funds can be used after they are withdrawn.) Participants who suspend or withdraw their accounts can resume participation in the individual account program after 10 years of inactivity.

- **Allowing participants to manage their own investments:** Starting in September 2021, participants can open pension investment accounts under the individual account program, which will allow them to manage their own investments. (Currently, individual account savings are exclusively held in pension funds managed by professional fund managers.) Participants will be able to transfer savings held in pension funds to their pension investment accounts (and vice versa) and direct new contributions to these accounts. It will be possible to have savings in both pension funds and pension investment accounts.

- **Introducing a lump-sum payment option:** At retirement, participants will have the option of receiving their entire account balances as lump-sum payments. Currently, participants must either use their account balances to purchase lifetime annuities or make programmed withdrawals based on their life expectancies at retirement. The lump-sum payments are subject to a 10-percent income tax, while the periodic payments are not taxed.

As of October 1, the individual account program had 760,020 participants (approximately 65 percent of Estonia’s population aged 15 or older) with €5.04 billion (US$5.92 billion) in assets under management. The individual account program was created to supplement Estonia’s social insurance program. To receive old-age pensions from the individual account and social insurance programs, an individual normally must have reached age 63 and 9 months (rising gradually to age 65 by 2026) and have at least 15 years of service. (Retirement before the normal retirement age is possible under certain conditions.) Individuals who have reached the normal retirement age but do not qualify for the social insurance pension can qualify for...
a government-financed flat-rate pension if they meet certain residency requirements and have financial resources below certain limits.


**United Kingdom Increases State Pension Age**

On October 6, the United Kingdom increased the state pension age (SPA) under the country’s social insurance program to age 66. (The SPA is the earliest age a person can claim the state pension and depends on the person’s date of birth. The new SPA applies to individuals born from October 6, 1954, to April 5, 1960; it is lower for those born before October 6, 1954, and will be higher for those born after April 5, 1960.) The increase is the latest in a series of SPA increases stipulated by the Pensions Act 1995 and its amendments. Previously, the SPA for women gradually increased from age 60 in April 2010 to age 65 in November 2018 so that it matched the SPA for men. Going forward, the SPA for both men and women will gradually increase to age 67 from 2026 to 2028 and then to age 68 from 2044 to 2046. According to the government, SPA increases are necessary to ensure the economic security of pensioners and the financial sustainability of the pension system in the face of rising life expectancy. An SPA review is mandated by law at least once every 6 years to determine if additional changes are needed (with the next review due in 2023).

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. The 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 October 2020, the full STP benefit is £175.20 [US$226.95] a week, or £9,100 [US$11,790] per year.) 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. In addition to the STP, the public pension system includes 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 who retired before April 6, 2016, are covered by the former two-part state pension program, which provides a flat-rate pension and an earnings-related pension.) An auto-enrollment program of qualified workplace pension plans complements the public pension system.


**Australia Announces Additional Lump-Sum Payments for Social Security Beneficiaries**

As part of its 2020–2021 federal budget, Australia’s government recently announced two additional Economic Support Payments for beneficiaries of the country’s social security programs, including the Age Pension, Disability Support Pension, and Widow Allowance. Once passed into law, beneficiaries will receive two tax-free payments of A$250 (US$180.04)—the first in December and the second in March. The payments, which are aimed at providing financial relief to vulnerable beneficiaries during the COVID-19 pandemic, follow two earlier Economic Support Payments of A$750 (US$540.11) that were made in April and July this year.
In addition to the Economic Support Payments, the Australian government has adopted a series of temporary measures in recent months to lessen the pandemic’s economic impact. Other measures include:

- A temporary reduction in the required minimum annual withdrawal under the country’s mandatory occupational pension program (superannuation) by 50 percent for the 2019–2020 and 2020–2021 financial years. (The Australian financial year begins on July 1 and ends on June 30 the following year.) The reduced withdrawal requirement is calculated as a percentage (based on age) of a participant’s account balance.

- Allowing superannuation participants experiencing severe hardship to withdraw up to A$10,000 (US$7,201.42) of their account balances tax free in both the 2019–2020 and 2020–2021 financial years. To be eligible, an individual must either: (1) be unemployed; (2) be eligible to receive certain benefits, such as a JobSeeker Payment or Parenting Payment; or (3) on or after January 1, have been made redundant, had working hours reduced by at least 20 percent, or be a sole proprietor whose business was suspended or met certain other requirements.

The main components of Australia’s old-age pension system are the superannuation program and the means-tested Age Pension. Participation in superannuation is mandatory for employed persons aged 18 to 69 with gross monthly earnings of at least A$450 (US$324.06). To finance the program, employers are required to contribute 9.5 percent of employees’ earnings (gradually rising by 0.5 percentage points a year from 2021 until reaching 12 percent in 2025) to private superannuation funds. Employees are not required to contribute, but the government offers tax incentives and matching funds to encourage voluntary contributions, particularly from low- and middle-income workers. To receive superannuation retirement benefits, a participant must have reached age 58 (gradually rising to age 60 by July 2024) and be permanently retired (or participating in the Transition to Retirement program). Individuals aged 66 or older (gradually rising to age 67 by July 2023) who meet certain asset, income, and residency requirements may also qualify for the Age Pension, which is funded and administered by the Australian government.