International Update

Recent Developments in Foreign Public and Private Pensions

May 2021

Europe

Ukraine Raises Women's Retirement Age and Increases Some Contribution Requirements

On April 1, Ukraine raised the minimum retirement age for women from 59 and 6 months to 60, and increased the minimum years of required contributions for an old-age pension before age 65 from 27 to 28 (for retirement at ages 60 to 62) and from 17 to 18 (for retirement at ages 63 to 64). (At least 15 years of contributions are required to claim an old-age pension at age 65; this minimum is not changing under current law.) The retirement age increase is the last in a series of 6-month increases initiated in 2012 to gradually eliminate gender-specific retirement ages under the country's social insurance pension program. (Before these increases, the minimum retirement ages for men and women were 60 and 55, respectively.) By contrast, the minimum years of required contributions for retiring before age 65 will continue to increase 1 year each year until reaching 35 years (for retirement at ages 60 to 62) and 25 years (for retirement at ages 63 to 64) in 2028. These changes were enacted in 2011 and 2017, respectively, and are part of a broader government effort to make Ukraine's social security system more financially sustainable. According to the International Labour Organization, declining contributions to the social insurance program since 2016 have required the government to finance over 40 percent of the program's expenditures from general revenues. In 2018, this government transfer to the social insurance program was equal to 4.2 percent of Ukraine's gross domestic product, with one-third of this transfer used to cover the program's deficit.

Ukraine's old-age pension system consists of the social insurance program covering employed and self-employed persons and a social pension program covering needy citizens. To finance the social insurance program, employers contribute 22 percent of covered payroll and self-employed persons contribute 22 percent of the minimum wage. (Employees do not contribute to the program.) An insured person is entitled to a guaranteed minimum pension under this program if he or she has reached age 65 and has at least 35 (men) or 30 (women) years of contributions. (Up to 3 years of these contributions may be credited for periods of higher education, military service, caregiving, and unemployment.) If an insured person aged 65 or older falls short of the minimum years of required contributions, the guaranteed minimum pension is proportionally reduced for each missing year. (However, the guaranteed minimum pension cannot fall below a certain amount set by the government.) The government-funded social old-age pension is paid to Ukrainian citizens who do not qualify for the social insurance old-age pension and have reached age 65 (men) or 63 (women, gradually rising to age 65 by 2025).

Sources: "Ukraine," *International Update*, U.S. Social Security Administration, November 2011; "Ukraine Passes Public Pension System Reforms," *International Update*, U.S. Social Security Administration, November 2017; "Pensia za Vikom – Umovi Priznachennia," Government of Ukraine, May 16, 2018; *Social Security Programs Throughout the World: Europe, 2018*, U.S. Social Security Administration, September 2018; *Future of the Ukrainian Pension System: Adequacy, Coverage and Sustainability*, International Labour Organization, January 20, 2020; "Retirement Age for Women in Ukraine to Increase to 60 in Week," UNIAN, March 24, 2021; "Ukraine: Pension Fund Raises Retirement Age for Women," *Business World Magazine*, April 2, 2021; "Sotsial'ni Pensii," WikiLegalAid, April 20, 2021.

Africa

South Africa Implements New Provident Fund Rules

On March 1, South Africa implemented new rules that require certain members of occupational provident funds to annuitize at least two-thirds of their account balances at retirement. (Previously, there was no annuitization requirement, which allowed retiring fund members to withdraw their entire account balances as lump sums.) The new rules, which were enacted as part of the Taxation Laws Amendment Act 23 of 2020 and only apply to new savings, bring the payment options for provident funds into line with those for other types of occupational pension plans. The government expects this new annuitization requirement to improve the retirement security of future retirees by reducing the chances they will outlive their savings. According to the Organisation for Economic Co-operation and Development, around 21 percent of South Africans aged 65 or older lived in relative poverty in 2016 (had an income below 50 percent of the median equivalized household disposable income; equivalization involves weighting each household's income based on its composition).

Other key details of the new annuitization requirement include:

- *Covered fund members and savings:* The requirement applies to fund members who were younger than age 55 on March 1, 2021, and have at least 247,500 rand (US$17,197.96) in their accounts at retirement. In addition, the requirement applies only to contributions made on or after March 1, 2021, and the investment returns on these contributions. The previous rules, which allow for full withdrawals of savings at retirement, continue to apply in all other cases.
- *Annuitization options:* Fund members must use at least two-thirds of their covered account balances to purchase a life annuity guaranteed by an insurance company or set up a living annuity with programmed withdrawals. The remaining portions of their account balances can be withdrawn as lump sums.
- *Early withdrawals:* Fund members can still withdraw some or all of their account balances before retirement if they separate from their employers before reaching retirement age. (Such an action could result in significant tax liabilities, and the government advises against early termination for that reason.)

South Africa's old-age pension system consists of a social assistance old-age grant financed by general revenues, occupational pension plans, and personal savings. The old-age grant is paid to needy resident citizens and permanent residents of South Africa, and refugees residing in South Africa. To be eligible, an individual must be aged 60 or older, not be receiving any other social assistance benefit, and have income and assets below certain thresholds. The maximum benefit is currently 1,890 rand (US$131.33) per month if aged 60 to 75, or 1,910 rand (US$132.72) per month if aged 76 or older. Employers or groups of employers can voluntarily establish defined benefit or defined contribution occupational pension plans that cover their employees.

Sources: "Old-Age Pension: About the Older Person's Grant," South African Government; "South Africa Implements New Tax Rules for Occupational Pension Plans," *International Update*, U.S. Social Security Administration, March 2016; *Social Security Programs Throughout the World: Africa, 2019,* U.S. Social Security Administration, September 2019; *Pensions at a Glance 2019: OECD and G20 Indicators*, Organisation for Economic Co-operation and Development, November 27, 2019; Taxation Laws Amendment Act 23 of 2020; "South African Provident Funds Annuitisation: Feel It – It Is Here (And No, It Is Not the World Cup)!," Bowmans, October 30, 2020; "South Africa: Compulsory Annuitization of Provident Fund Benefits," Willis Towers Watson, February 26, 2021; "South Africa: Annuitization of Provident Finds Takes Effect," Mercer, March 5, 2021; "South Africa," Gallagher GVISOR Country Manual, May 10, 2021.

International

Eurasian Economic Union Implements Agreement Extending Pension Coverage

Effective January 1, a new international pension agreement requires all Eurasian Economic Union (EAEU) member states to extend mandatory pension coverage (for old-age, disability, and survivor pensions) to workers who are citizens of other EAEU member states. (The EAEU was established in 2015 to ensure the free movement of goods, services, capital, and labor among its member states, and coordinate their economic policies. The current member states include Armenia, Belarus, Kazakhstan, Kyrgyzstan, and Russia.) The new requirement applies to the member states' contributory pension programs, including social insurance, notional defined contribution (NDC), and mandatory individual account programs. According to the EAEU, the aim of the new agreement is to facilitate the equitable treatment of workers within the economic union regardless of citizenship. UN data for 2020 indicate that approximately 7.9 million EAEU citizens (or about 4.3 percent of the economic union's population) reside in an EAEU member state that is not their citizenship state. Among these EAEU migrants, 56.1 percent reside in Russia, 32.4 percent in Kazakhstan, 9.5 percent in Belarus, 1.7 percent in Kyrgyzstan, and 0.3 percent in Armenia.

Key details of the new agreement include:

- *Eligibility requirements:* To qualify for an old-age pension, workers must have at least 12 full months of employment in an EAEU member state and meet the other qualifying conditions in that member state.

(The length of employment requirement does not apply to old-age pensions from individual accounts, or disability or survivor pensions.) Workers with at least 12 months of employment in multiple EAEU member states may be eligible for multiple pensions. If a worker does not have enough years of employment to qualify for a pension in his or her state of residence, past years of coverage in other EAEU members states are considered when determining eligibility.

- *Pension calculation:* Pension amounts are calculated based on the legislation in the country of employment. However, certain benefits—such as the basic flat-rate component of old-age pensions in Armenia and Kyrgyzstan—are only paid if the worker still resides in that member state. (In both of these countries, old-age pensions consist of a basic flat-rate component and a variable component that is based on a worker's career earnings.)

Pension systems vary widely among the EAEU member states. While all member states have a social insurance program, four countries (Armenia, Kazakhstan, Kyrgyzstan, and Russia) supplement this program with mandatory individual accounts and one country (Kyrgyzstan) also has a NDC component. Specific provisions of these programs also vary; for example, total employer/employee contribution rates (for old-age, disability, and survivors pensions) range from 13.5 percent of monthly covered earnings in Kazakhstan to 29 percent in Belarus.

Sources: *Social Security Programs Throughout the World: Europe, 2018*, U.S. Social Security Administration, September 2018; "World Population Prospects 2019," United Nations, Department of Economic and Social Affairs, Population Division, 2019; *Social Security Programs Throughout the World: Asia and the Pacific, 2018*, U.S. Social Security Administration, March 2019; "International Migrant Stock 2020," United Nations, Department of Economic and Social Affairs, Population Division, 2020; "Law Ratifying Agreement on Pensions in the EAEU," Official Internet Resources of the President of Russia, November 9, 2020; "Soglashenie o Pensionnom Obespechenii Trudiashchikhsia Gosudarstv–Chlenov Evraziiskogo Ekonomicheskogo Soiuza," 2021; "Kak Kazakhstantsy Smogut Poluchit′ Pensiiu v Stranakh EEAS. Raz"iasnenie," zakon.kz, February 4, 2021; "Kazakhstan: Agreement on Pension Coverage for Employees of the EEU Member States," GRATA International, February 9, 2021; "Eurasian Economic Union: Mandatory Pension for Employed Citizens," Global News Briefs, Willis Towers Watson, March 16, 2021.

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