International Update

Recent Developments in Foreign Public and Private Pensions

September 2021

Europe

Sweden Begins Paying Pension Supplement

Effective September 1, Sweden's pension agency began paying a monthly pension supplement of up to 600 kronor (US$69.54) to individuals aged 65 or older who receive an earnings-related old-age pension and meet certain income and coverage requirements. (Sweden's earnings-related pensions include a notional defined contribution [NDC] pension and a social insurance pension that is being phased out.) The supplement was approved by parliament in December 2020 and is intended to improve the economic security of old-age pensioners who had long careers in low-paying jobs. The government estimates that around 55 percent of Swedes older than 65 will benefit from the supplement, with 62 percent of these beneficiaries being women.

The key details of the new pension supplement include:

- *Qualifying conditions:* To receive the supplement, an individual must have reached age 65, be receiving a monthly earnings-related pension of 9,000 kronor (US$1,043.08) to 17,000 kronor (US$1,970.25), and have at least 1 year of pensionable earnings by age 65. (Pensionable earnings in 2021 are annual earnings of at least 20,135 kronor [US$2,333.59].) To qualify for a full supplement, an individual must have at least 35 years (if born from 1938 to 1944) or 40 years (if born after 1944) of pensionable earnings. (Pensioners born before 1938 may also qualify for a full supplement under certain conditions.)
- *Supplement amount:* The supplement amount varies depending on the monthly earnings-related pension an individual receives or is entitled to receive at age 65. For 2021, the highest supplement of 600 kronor a month is paid to individuals with monthly pensions of 11,000 kronor (US$1,274.87) to 14,000 kronor (US$1,622.56). For individuals with monthly pensions of 9,000 kronor to 10,999 kronor (US$1,274.75) or 14,001 kronor (US$1,622.68) to 17,000 kronor, the supplement ranges from 25 kronor (US$2.90) to 575 kronor (US$66.64) a month. The amount is reduced if an individual has less than 35 or 40 years of pensionable earnings (depending on the individual's birth year), or if he or she receives an earnings-related pension from another country in the European Union or European Economic Area, from Switzerland, or from a country that has a social security agreement with Sweden. (The supplement is paid to qualified pensioners who reside in these countries.)
- *Claiming process:* An individual's eligibility for the supplement is automatically determined when he or she applies for a public old-age pension. If an individual claims an earnings-related pension before age 65, the supplement is not paid until he or she reaches age 65. If an individual waits to claim an earnings-related pension until after age 65, the supplement's amount is calculated based on his or her years of pensionable earnings up to age 65.

Sweden's public old-age pension system consists of the NDC pension program, mandatory individual accounts, a guarantee pension program, and social assistance benefits. To qualify for the NDC and individual account pensions, an individual must have reached age 62 (tentatively rising to age 63 in 2023 and age 64 in 2026) and have at least 3 years of pensionable earnings. (Retirement is usually necessary by age 68 when age-related employment protections end.) The guarantee pension is paid if an individual has reached age 65 (tentatively rising to age 66 in 2023 and age 67 in 2026), has earnings-related pension income below a certain amount, and has resided in Sweden for at least 40 years. (A proportionally reduced guarantee pension is paid with at least 3 years but less than 40 years of residency.) Needy retirees may also qualify for other means-tested benefits, including a housing allowance and old-age income support.

Sources: *Social Security Programs Throughout the World: Europe, 2018*; U.S. Social Security Administration, September 2018; "Sweden Implements Retirement Age Reforms," *International Update*, U.S. Social Security Administration, December 2019; Socialförsäkringsutskottets betänkande 2020/21:SfU2, Utgiftsområde 11, 2020; Riksdagsskrivelse 2020/21:139, 2020; "Höjd pension och sänkt skatt stärker ekonomiska villkor för pensionärer," Ministry of Finance and Ministry of Social Insurance, September 18, 2020; "Så beslutar vi om inkomstpensionstillägg," Pensionsmyndigheten, June 23, 2021; "Inkomstpensionstillägg," Pensionsmyndigheten, September 6, 2021.

United Kingdom Temporarily Modifies Benefit Adjustment Formula

On September 7, the United Kingdom's government announced it will temporarily modify the benefit adjustment formula for State Pensions—the so-called triple-lock formula—by not considering average annual earnings growth when calculating the next benefit adjustment. (The next adjustment will be announced in November and go into effect at the start of the 2022-2023 fiscal year on April 6, 2022.) As a result, State Pensions will be adjusted based on the other components of the triple-lock formula: the annual increase in consumer prices or 2.5 percent, whichever is higher. The government argued that the growth in average earnings of 8.3 percent—based on the July 2021 employment figures—was artificially inflated due to the pandemic. For example, under the Coronavirus Job Retention Scheme, the government subsidized 80 percent of wages for millions of furloughed workers in 2020, but many of these workers went back to full pay in 2021. According to the United Kingdom's Office for National Statistics, average annual earnings growth would be around 3.5 percent to 4.9 percent absent the distortions caused by the pandemic.

The United Kingdom's public pension system consists of a single-tier State Pension (STP) program for individuals retiring on or after April 6, 2016, 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 meet certain conditions. The STP provides a full flat-rate benefit at the State Pension age (SPA) of 66 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 April 2021, the full STP benefit is £179.60 [US$247.18] a week, or £9,339.20 [US$12,853.19] a 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. Individuals who retired before April 6, 2016, are covered by the former two-part State Pension program, which consists of a flat-rate pension (the basic State Pension) and an earnings-related pension (the State Second Pension). (The flat-rate pension is adjusted using the triple-lock formula and is similarly affected by the suspension of the earnings component in 2022-2023.).

Sources: *Social Security Programs Throughout the World: Europe, 2018*, U.S. Social Security Administration, September 2018; Coronavirus (COVID-19): Furlough Guide," Chartered Institute of Personnel and Development, August 2, 2021; "Is the Triple Lock on Pensions about to Become a Casualty of Covid-19?," *The Press and Journal*, August 30, 2021; "UK Will Not Raise State Pension in Line with Wages Next Year–Minister," Reuters, September 7, 2021; "Disappointment for Pensioners as Wage Growth Hits 8.3%," *Financial Times*, September 14, 2021.

Asia and the Pacific

India Extends Individual Account Program Coverage to Older Workers

On August 26, India's Pension Fund Regulatory and Development Authority (PFRDA) announced it will extend coverage of the country's National Pension System (NPS), a voluntary individual account program, to new participants up to age 70. Previously, only individuals up to age 65 could join the program. The new reform aims to increase retirement savings among older workers. According to the National Pension System Trust, there were around 15 million participants in the NPS as of August 31, with assets under management of around 6.3 trillion rupees (US$86.2 billion). (These figures do not include participants of the Atal Pension Yojana defined-benefit program, which targets low-income earners aged 18 to 40 in the informal sector.)

Key provisions of the coverage extension include:

- *Eligibility requirements:* All Indian citizens (including citizens living abroad) up to age 70 may join the NPS, up from age 65 previously. (The minimum participation age of 18 remains the same.) Previous NPS participants who closed their accounts may open new accounts provided they satisfy the revised age requirement.
- *Account withdrawals:* Individuals who join the NPS after age 65 and participate for at least 3 years must use at least 40 percent of the account balance to purchase an annuity and withdraw the remainder as a

lump sum. (If the account balance is 500,000 rupees [US$6,843] or less, the participant may withdraw the entire amount as a lump sum.) For those who participate for less than 3 years, at least 80 percent of the account balance must be used to purchase an annuity and the remainder is paid as a lump sum. (If the account balance is 250,000 rupees [US$3,421] or less, the participant may withdraw the entire amount balance as a lump sum.)

- *Investment options:* Under the NPS, participants have two options for investing assets: (1) an Active Choice option, which allows participants to choose how to allocate their savings among equities, fixed-income instruments, and alternative investment instruments; and (2) an Auto Choice option, which allows participants to choose from three lifecycle funds with varying levels of risk (aggressive, moderate, or conservative) and investments are automatically adjusted as participants age. For workers who join the NPS after age 65, up to 50 percent (Active Choice) or 15 percent (Auto Choice) of their assets may be invested in equities.

Besides the NPS, India's main public programs include: the Employees' Provident Fund (EPF); the Employees' Pension Scheme (EPS), a supplementary social insurance program; and the gratuity scheme. The EPF covers employees working in firms with at least 20 employees in certain covered industries, and certain other employees specified by law. The EPS covers employees who became members of the EPF on or after November 16, 1995. The gratuity scheme covers employees of factories, mines, oil fields, plantations, ports, railways, and businesses with at least 10 employees.

Sources: "Assets Under Management & No. of Subscribers," National Pension System Trust, no date; "India Approves Social Security Code," *International Update*, U.S. Social Security Administration, November 2020; "Circular: Increase of Entry Age Up to 70 Years under NPS," Pension Fund Regulatory and Development Authority, August 26, 2021; "National Pension Scheme: Subscribers Joining NPS After 65 Can Invest Up to 50% of Funds in Equities," *Zee News*, August 29, 2021; "NPS Rules: Know Details about Increased Entry Age, Revised Exit Guidelines," *India Today*, August 31, 2021; "India's National Pension Program Gains Acceptance, but Hurdles Remain," SHRM, September 9, 2021.

International Update is a monthly publication of the Social Security Administration's (SSA's) Office of Retirement and Disability Policy. It reports on the latest developments in public and private pensions worldwide. The news summaries presented do not necessarily reflect the views of SSA.

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SSA Publication No. 13-11712
Produced and published at U.S. taxpayer expense