International Update

Recent Developments in Foreign Public and Private Pensions

October 2021

Europe

Greece Approves New Mandatory Individual Account Program

On September 2, Greece's parliament approved a law creating the Hellenic Auxiliary Pensions Defined Contribution Fund (TEKA), a new mandatory individual account program for those who join the workforce for the first time on or after January 1, 2022. TEKA will replace the current supplementary pension program—the Unified Auxiliary Social Security and Lump Sum Benefits Fund (ETEAEP)—a mandatory notional defined contribution program. Workers currently covered by ETEAEP who are younger than 35 on January 1, 2022, have the option of transferring to TEKA from January 1, 2022, to December 31, 2022; those who are aged 35 or older on January 1, 2022, must remain in ETEAEP. According to the government, the reform has four main objectives: (1) making the pension system more sustainable in the face of rapid population aging caused by low fertility rates and rising life expectancy; (2) increasing retirement savings, which will be invested in the Greek economy and thereby boost the country's economic growth; (3) improving future pensions for younger workers; and (4) restoring public confidence in the pension system. The National Actuarial Authority of Greece projects that transition costs for moving from ETEAEP (where current contributions finance current benefits) to TEKA will be around €50 billion (US$58 billion) to €70 billion (US$81 billion) over a 50-year period, which the government argues will be largely offset by economic gains from the new program.

Key provisions of TEKA include:

- *Contribution rates:* Contribution rates are the same as those under ETEAEP. Employees and employers each contribute 3.25 percent (declining to 3 percent in June 2022) of monthly earnings/payroll up to €6,500 (US$7,540; increasing to €6,630 [US$7,690] on January 1, 2022).
- *Qualifying conditions:*
  - Old-age pension: To receive an old-age pension, a participant must generally reach the normal retirement age of 67 and have at least 15 years of contributions. For participants with less than 15 years of contributions, a lump-sum benefit is paid. Participants with 12 to 14 years of contributions may purchase missing years of contributions to qualify for a pension.
  - Disability pension: A participant must meet the qualifying conditions for the social insurance disability pension, including having at least a 67 percent assessed level of disability and meeting a contribution requirement that varies based on age and disability onset.
  - Survivor pension: A pension is paid to eligible survivors, including certain widow(er)s, divorced spouses, and dependent children and stepchildren.
- *Benefit payments:*
  - Old-age pension: For participants with at least 15 years of contributions, a lifetime annuity is paid based on the participant's account balance at retirement. For those with less than 15 years of contributions, a lump-sum benefit of total employee and employer contributions (adjusted for inflation and not including any investment returns) is paid.
  - Disability pension: The disability pension is based on the participant's account balance. If the account balance is less than the amount that would have accumulated for a participant with 15 years of contributions and earnings equal to the statutory minimum wage, the government covers the difference through general revenues.
  - Survivor pension: The survivor pension is based on the deceased's account balance or the old-age or disability pension the deceased received if a pensioner at the time of death. As with the disability pension, the government will top up the account balance—provided the deceased was still insured and working at the time of death—if it is less than the amount that would have accumulated in the case of a participant with 15 years of contributions and earnings equal to the statutory minimum wage.
- *Minimum guarantee:* The government guarantees a minimum benefit equal to the participant's total employee and employer contributions (adjusted for inflation).

- *Investment options:* Participants may choose to invest in one of three investment profiles with varying degrees of risk: conservative, balanced, and aggressive. Participants may change investment profiles once every 3 years.

Greece's pension system consists of main and auxiliary pension programs. The main program includes a universal component (national pension) for permanent residents of Greece and an earnings-related social insurance component for employed persons in industry, commerce, and related occupations; self-employed persons; agricultural workers; public-sector employees; and certain other categories of persons. The auxiliary programs are linked to the main programs and share most of the same eligibility criteria.

Sources: *Social Security Programs Throughout the World: Europe, 2018*, U.S. Social Security Administration, September 2018; Law 4826/2021, 2021; "What Will Change in Terms of Age Limits and Pensions from 2022," newsbomb.gr, August 2, 2021; Ministry of Labor and Social Affairs press release, August 31, 2021; "Greece: New Individual Retirement Account System to Start in 2022," *Global News Briefs*, Willis Towers Watson, September 29, 2021.

Moldova Increases Public Pensions

Effective October 1, Moldova amended the country's social insurance law to substantially increase social insurance and social assistance pensions. These increases are intended to provide additional financial support to many of Moldova's neediest residents, especially during the COVID-19 pandemic. Although Moldova has experienced significant economic growth over the past two decades, the World Bank estimates that the country's economy contracted by 7 percent in 2020 and that 13.7 percent of its population lived in absolute poverty (defined as living on less than US$5.50 a day, adjusted for purchasing power parity) in the same year. The government expects the pension increases to benefit around 428,000 pensioners at a cost of around 521 million lei (US$29.7 million) for the remainder of 2021 and 2.1 billion lei (US$119.5 million) in 2022.

The amendments' provisions that increase old-age pensions include:

- *Raising the minimum old-age pension:* The minimum monthly old-age pension for individuals with at least 34 years (men) or 32 years and 6 months (women) of coverage (the minimums for a full pension) increased from 1,188.05 lei (US$67.63) to 2,000 lei (US$113.86). For individuals not entitled to a full pension but who have at least 15 years of coverage (the minimum for a partial pension), the minimum monthly pension is proportionally reduced for each year of coverage less than the amount required for a full pension, but it cannot be less than 1,000 lei (US$56.93, or 50 percent of the full amount). According to the government, around 183,000 pensioners receiving full pensions will receive an average increase of 366 lei (US$20.84) to their pensions, while around 125,000 pensioners receiving partial pensions will see an average increase of 398 lei (US$22.66). (The average monthly old-age pension at the beginning of 2021 was 2,104 lei [US$119.78].)
- *Increasing the social assistance old-age pension:* The monthly social assistance old-age pension paid to retirees who do not qualify for the social insurance old-age pension increased from 594.03 lei (US$33.82) to 1,000 lei (or 50 percent of the full minimum old-age pension under the social insurance program).
- *Indexing benefits:* In addition to base increases to the minimum and social assistance old-age pensions, all social security benefits increased by 3.86 percent on October 1 under a new indexation method adopted in March. Under this new method, benefits are adjusted on April 1 and October 1 of each year based on the average change in inflation in the previous 3 calendar years (for the April adjustment) or the first 6 months of the current year (for the October adjustment). Previously, social security benefits were adjusted on April 1 and October 1 each year based on changes in inflation in the last 6 months of the previous calendar year (for the April adjustment) or the first 6 months of the current year (for the October adjustment).

Moldova's public pension system consists of a social insurance program financed through employer and employee contributions, and a social assistance program financed by the government. The social insurance program covers employed persons, agricultural workers, certain self-employed persons, and most civil servants, and the social assistance program covers residents of Moldova. The normal retirement age for both programs is 63 for men and 59 and 6 months for women (decreasing to 62 for men and 57 for women on January 1, 2022).

Sources: Law Nr. 156, 1998, with amendments through October 1, 2021; *Social Security Programs Throughout the World: Europe, 2018*, U.S. Social Security Administration, September 2018; "Moldovan Government Announced Largest Increase in Pensions in Country's History," Moldova State News Agency, September 6, 2021; "Moldovan Cabinet Approves Indexation of Pensions by 3.86%, Increase of Minimum Pension up to 2,000 Lei," Moldova State News Agency, September 9, 2021; "As of Today, All Pensions to Be Indexed by 3.86%," Moldova State News Agency, October 1, 2021; "The World Bank in Moldova," World Bank, October 13, 2021.

The Americas

Bolivia Introduces Special Individual Account Withdrawal Option

On September 8, Bolivia's president approved a law that allows certain participants in the country's mandatory individual account program to make special, one-time withdrawals from their accounts. Specifically, starting October 5, qualified participants can withdraw up to 15 percent of their account balances if they have account balances of 100,000 bolivianos (US$14,482.01) or less, up to 15,000 bolivianos (US$2,172.30) if they have account balances exceeding 100,000 bolivianos, or their entire account balances if they are aged 50 or older and have account balances of 10,000 bolivianos (US$1,448.20) or less. This special withdrawal option is intended to provide financial relief to participants who have been unemployed for most of the COVID-19 pandemic. According to government figures, Bolivia's urban unemployment rate reached 11.6 percent in July 2020 following a sharp economic downturn caused by the pandemic, but the rate has since fallen to 6.4 percent as of July 2021. The government estimates that up to 1.4 million individual account participants could benefit from the special withdrawal option. (At the end of July, there were around 2.5 million individual account participants.)

Other key details of the special withdrawal option include:

- *Qualifying conditions:* To be eligible, a participant must (1) have not received or been entitled to receive a long-term social security benefit (such as an old-age pension) as of August 31, 2021; (2) have fewer than 10 years of contributions if aged 58 or older; (3) have fewer than 8 months of contributions from March 2020 through July 2021; and (4) have no earnings recorded for July 2021.
- *Claiming process:* Participants can request the special withdrawal by contacting the pension fund management companies that administer their accounts. The special withdrawal can be made up to 90 calendar days after October 5 and is issued as a lump-sum payment.
- *Savings replacement:* Participants who make withdrawals can replace the withdrawn savings plus lost investment returns at any time before retirement. If they do not replace the lost savings, they will be ineligible for a solidarity pension. (Participants usually receive a solidarity pension during retirement if they are entitled to old-age pensions below a legally defined minimum.)

Bolivia's old-age pension system consists of the mandatory individual account program and a universal pension program. All employed persons in Bolivia must participate in the individual account program (voluntary coverage is available for self-employed persons), and they contribute 10 percent of their monthly covered earnings to fund their old-age pensions. (Additional employee and employer contributions are paid to finance disability and survivor benefits and the solidarity pension.) Participants can qualify for an old-age pension at any age if their account balances are sufficient to finance a monthly pension of at least 60 percent of their average monthly earnings in the last 2 years, funeral expenses, and survivor benefits, or if they have reached age 58 (reduced by up to 3 years for women who have children) and have at least 10 years of contributions. (Other rules apply to participants who have worked as miners or contributed to the old social insurance program.) At retirement, participants must annuitize their account balances. The government-financed universal pension covers all resident citizens of Bolivia and is paid starting at age 60.

Sources: *Social Security Programs Throughout the World: The Americas, 2019*, U.S. Social Security Administration, March 2020; Decreto Supremo N° 4582, 2021; Ley N° 1392, 2021; "Número de asegurados registrados en el sistema integral de pensiones por grupos quinquenales de edad y género," Asociación Boliviana de Aseguradores, July 31, 2021; "INE: La tasa de desempleo urbano en Bolivia disminuyó a 6,4% hasta julio de este año," *Correo del Sur*, August 30, 2021; "Presidente promulga ley para la devolución total o parcial de aportes," Bolivian Ministry of the Presidency, September 9, 2021; "Gobierno promulga el Decreto Supremo 4582 que reglamenta la Ley de la Devolución Parcial o Total de Aportes," Bolivian Ministry of Economy and Public Finance, September 16, 2021; "La devolución de aportes de las AFP comienza el 5 de octubre," *Página Siete*, September 16, 2021.

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