Europe

Austria Implements Pension Reforms

On January 1, Austria’s government implemented reforms to the country’s social insurance pension program that restore an early retirement penalty and create the Early Starter Bonus (Frühstarterbonus) for pensioners who began contributing at early ages. The early retirement penalty—which was eliminated in January 2020—reduces the social insurance old-age pension by 4.2 percent for each year it is claimed before age 65 (the normal retirement age for men). (Under this provision, individuals can claim the old-age pension as early as age 62 if they have at least 540 months of paid or credited contributions. This provision currently only applies to men because the normal retirement age for women is 60. However, the women’s retirement age will gradually rise to 65 from 2024 to 2033.) The Early Starter Bonus is a monthly supplement paid to old-age pensioners who have at least 300 months of paid contributions, including at least 12 months of paid contributions before age 20. The bonus amount is €1 (US$1.12) for every month of contributions paid from age 15 to 19, up to a maximum of €60 (US$66.97). These reforms are intended to encourage workers to retire later and boost the retirement incomes of individuals who entered the workforce as teenagers. According to the Organisation for Economic Co-operation and Development (OECD), Austria’s average effective retirement ages in 2020 were 62 for men and 60.7 for women compared to averages of 63.8 and 62.4, respectively, for the 38 OECD member countries.

Austria’s social insurance pension program covers wage earners and salaried employees with monthly earnings of at least €485.85 (US$542.31), and apprentices. To finance old-age, disability, and survivor benefits under this program, employees contribute 10.25 percent of monthly covered earnings and employers contribute 12.55 percent of monthly covered payroll. The minimum required contributions for an old-age pension vary depending on an insured person’s birth year and first contribution date: a person born before 1955 must have at least 180 months of paid or credited contributions in the last 30 years, a total of at least 300 months of paid or credited contributions, or a total of at least 180 months of paid contributions; a person born in 1955 or later without any contributions before 2005 must have at least 180 months of paid or credited contributions, including at least 84 months of paid contributions; and a person born in 1955 or later with at least 1 contribution before 2005 must meet the most favorable of the two preceding requirements. The government may credit contributions under certain conditions, such as for periods spent caregiving, in military service, or receiving sickness, maternity, or unemployment benefits.


Turkey Approves Changes to the Private Pension System

On January 21, the Turkish government approved changes to the country’s Private Pension System (Bireysel Emeklilik Sistemi, or BES) that increase the government’s matching contribution rate, allow pre-retirement withdrawals, and allow older workers to enroll in the auto-enrollment program (Otomatik Katılım Sistemi, or OKS). (The BES consists of a voluntary program and the OKS. Individuals may have accounts under both programs.) According to the government, the changes are aimed at increasing BES participation and retirement savings. As of March 4, the voluntary program had 7.2 million participants with 246 billion liras (US$17.7 billion) in total assets and the OKS had 6.2 million participants with 18.1 billion liras (US$1.3 billion) in total assets.
Key details of the changes (all effective January 22) include:

- **Increasing the government’s matching contribution rate:** The government increased its matching contribution rate (under both BES programs) from 25 percent to 30 percent of participants’ annual contributions, with the maximum annual match rising from 25 percent to 30 percent of the annual gross minimum wage. (For 2022, the maximum government match is 18,014.40 liras [US$1,293.02].) Participants lose 40 percent to 100 percent of their government matching contributions (depending on their years of contributions) if they leave a BES program for reasons other than retirement, disability, or death.

- **Allowing pre-retirement withdrawals:** BES participants may withdraw up to 50 percent of their account balances (excluding government matching contributions) before age 56 if they meet certain conditions. (The specific qualifying conditions have not yet been announced.) Previously, withdrawals were only allowed if a participant withdrew the entire account balance and left the voluntary or OKS program.

- **Allowing older employees to enroll in the OKS:** Employees aged 45 or older can now choose to enroll in the OKS by notifying their employers. (These younger employees are automatically enrolled by their employers when they start employment, but they can opt out of the program within 2 months of enrollment.)

The BES was first launched in 2003 with the voluntary savings program open to all individuals aged 18 or older regardless of employment status. (Since May 2021, parents and guardians of children younger than 18 may create voluntary accounts for their children.) Under this program, participants contract directly with pension companies to establish their individual accounts and determine their contribution rates. The OKS was introduced in 2017 and requires all public- and private-sector Turkish employers to enroll their covered employees in private pension plans. Under this program, employers select the pension plans and collect contributions on behalf of their employees, and employees must contribute at least 3 percent of covered earnings. (Employer contributions are voluntary.) In addition to government matching contributions for participants of both BES programs, the government contributes 1,000 lira (US$71.78) for OKS participants after 2 months of participation and 5 percent of the account balance at retirement (if the account balance is used to purchase an annuity paid over at least 10 years).


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**United Kingdom Publishes Draft Code for Collective Defined Contribution Plans**

On January 25, The Pensions Regulator (TPR) published its draft code regulating collective defined contribution (CDC) plans, a new type of occupational pension plan that is expected to be available in the United Kingdom (UK) starting in August. (TPR is the UK’s regulator of occupational pension plans. Private-sector employers are required by law to automatically enroll all employees aged 22 to 65 with annual earnings of at least £10,000 [US$13,401.37] into qualified occupational pension plans.) The Parliament approved the creation of CDC plans in a 2021 law (the Pension Schemes Act 2021) to give employers and employees an alternative to the defined contribution (DC) and defined benefit (DB) plans that currently comprise the UK’s occupational pension system. CDC plans are designed to be attractive to both employees and employers by combining key features of DC and DB plans. Like a DC plan, a CDC plan limits an employer’s financial risk because it is funded with employee and employer contributions paid at fixed rates and does not provide guaranteed benefits. However, by pooling its members’ assets and setting a target benefit level, a CDC plan can—like a DB plan—provide employees with predictable (and potentially more generous) pensions at retirement. According to a 2019 government survey, the UK occupational pension system had 22.4 million individuals enrolled in DC plans and 18.3 million individuals enrolled in DB or hybrid plans.

Although many aspects of the UK’s CDC framework still need to be worked out, several key features of the plans include:

- **Plan formation:** To establish a CDC plan, an employer (or group of connected employers) must submit a detailed application to TPR for approval that discusses the plan’s governance structure, administrative systems and processes, financial sustainability, member communications, continuity strategy, and other features.
• **Plan funding:** CDC plans must be fully funded. If a plan becomes underfunded (when contributions are insufficient to fully fund benefits), cuts to the plan’s target benefit level may be required to return the plan to financial balance. To ensure that this funding requirement is met, plan administrators will be required to produce actuarial reports at least annually.

• **Member communications:** To ensure that CDC plan members are aware of the real and potential effects of investment performance and risks on their pension benefits, plan administrators will be required to issue quarterly statements to members.

In addition to occupational pension plans, the UK’s old-age pension system consists of a single-tier State Pension (STP) program for individuals retiring on or after April 6, 2016, and means-tested benefits. 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. Pensioners with limited financial resources may qualify for a means-tested Pension Credit if they have reached SPA or an income-tested social assistance benefit if they have reached age 80 and meet certain other conditions.