International Update

Recent Developments in Foreign
Public and Private Pensions

July 2022

Europe

Gibraltar Continues Extension of Auto-Enrollment Pension Program

Effective July 1, the British overseas territory Gibraltar expanded its auto-enrollment occupational pension program to cover private-sector employers with 101 to 250 employees. Previously, the program only covered private-sector employers with at least 251 employees, but it is gradually being extended to smaller employers until all private-sector employers are covered on July 1, 2027. The government launched the auto-enrollment program in August 2021 following the passage of the Private Sector Pensions Act 2019 to boost retirement savings among private-sector workers. According to the government, there were 23,638 private-sector workers in Gibraltar in October 2021, which represented around 78 percent of the territory's labor force.

Other key features of the auto-enrollment program include:

- *Eligible workers:* Covered employers must automatically enroll their employees in qualified occupational pension plans if the employees are aged 15 or older, have been in continuous employment for at least 1 year, and have gross annual earnings of at least £10,000 (US$12,031.44). (Individuals who work for more than one employer have each employment contract reviewed separately.) Eligible employees can choose to opt out of the program or enroll later by notifying their employers or plan administrators.
- *Program financing:* Enrolled employees and their employers must each contribute at least 2 percent of weekly or monthly earnings/payroll to their occupational pension plans. (Employers can choose to pay the 2 percent minimum employee contribution on behalf of their employees.)
- *Phased implementation:* The program is being rolled out in phases to give smaller employers more time to comply with financial requirements. Now that the program covers large employers (with at least 101 employees), it will be extended to medium-sized employers (with 51 to 100 employees) in July 2025, small employers (15 to 50 employees) in July 2026, and micro employers (14 employees or less) in July 2027. Existing employer-sponsored occupational pension plans can continue to operate under the new program if they meet certain minimum requirements.
- *Program governance:* The Gibraltar Financial Services Commission oversees the program and maintains a register of all covered employers and their employees (including pension plan enrollees, ineligible employees, and employees who have opted out).

In addition to occupational pension plans, Gibraltar's pension system consists of a social insurance program that provides old-age, disability, survivor, maternity, medical, work injury, and unemployment benefits. To finance the program, employees contribute 10 percent of weekly covered earnings and employers contribute 20 percent of weekly covered payroll. (Certain minimum and maximum amounts apply to employee and employer contributions.) To receive a full old-age pension (State Pension) under this program, an individual must have reached age 65 (men) or 60 (women) and have at least 2,250 (men) or 2,000 (women) weeks of contributions. A partial old-age pension is paid if an individual has reached the normal retirement age, does not qualify for a full pension, and has at least 585 (men) or 520 (women) weeks of contributions. Currently, the full monthly old-age pension is £463.75 (US$557.96), and the minimum monthly old-age pension is £120.35 (US$144.80).

Sources: "Guide to Social Security Benefits," HM Government of Gibraltar, Department of Social Security, January 2018; Private Sector Pensions Act 2019; "Gibraltar Legislates for Private Sector Pensions," *Gibraltar Business*, November 6, 2019; "The New Gibraltar Private Sector Pensions Regime: What You Need to Know," Gibraltar Financial Services Commission, August 4, 2021; "'Auto Enrolment' Pensions Finally Underway in Gibraltar," Blog Gibraltar, August 18, 2021. "Employment Survey Report 2021," HM Government of Gibraltar, Statistics Office, October 2021.

Asia and the Pacific

Australia Implements Superannuation Reforms

On July 1, Australia's government implemented changes to the country's superannuation program that increase the minimum employer contribution rate (also known as the Super Guarantee, or SG rate), eliminate the employee minimum earnings requirement to receive the SG, increase the withdrawal limit under the First Home Super Saver (FHSS) measure, and lower the eligibility age for Downsizer Contributions. The contribution rate increase was originally approved in 2012 with an effective date of July 1, 2015, but its implementation was delayed for 6 years. The other reforms are part of a bill passed on February 10, 2022, that aims to improve equity in the Australian pension system.

Key details of the recently implemented reforms include:

- *Increasing the employer minimum contribution rate:* The minimum employer contribution (or SG rate) increased from 10 percent to 10.5 percent of monthly payroll. The rate is set to rise another 0.5 percent next July and each July thereafter until it reaches 12 percent in July 2025.
- *Eliminating the employee minimum earnings requirement:* All employees are now eligible to receive the SG regardless of their monthly earnings. (As before, employees younger than age 18 must work at least 30 hours in a week to receive the SG.) The government estimates that around 300,000 employees (around 3 percent of the total labor force) were affected by the previous minimum earnings requirement (A$450 a month), and they generally were young, lower-income, part-time workers, with a majority (63 percent) being women.
- *Increasing the maximum FHSS withdrawal limit:* Under the FHSS, participants are allowed to withdraw a portion of their voluntary superannuation contributions to help cover the down payment on a first home. The new reform increases the maximum withdrawal amount from A$30,000 (US$20,332.21) to A$50,000 (US$33,887.01).
- *Lowering the eligibility age for Downsizer Contributions:* Under the Downsizer Contribution measure, older participants can contribute up to A$300,000 (US$203,322.06) of the proceeds from selling a home to their superannuation accounts. (For a couple, each qualifying member can contribute up to A$300,000.) The new reform lowers the eligibility age for Downsizer Contributions from 65 to 60.

Australia's superannuation program is a mandatory occupational pension program covering employed persons; voluntary coverage is possible for self-employed persons. Although employees are not required to contribute, the government offers tax incentives and matching funds to encourage voluntary contributions. To receive old-age benefits, an individual must be aged 59 or older (rising to age 60 by July 2024) and permanently retired (or in an approved transition-to-retirement arrangement). Retirees with fewer financial resources may also be eligible for the means-tested noncontributory Age Pension and various supplemental benefits financed and administered by the Australian government.

Sources: "Australia Implements New Superannuation Rules for Home Purchases and Sales," *International Update*, U.S. Social Security Administration, August 2018; Treasury Laws Amendment (Enhancing Superannuation Outcomes for Australians And Helping Australian Businesses Invest) Bill 2021; "Accessing Your Super," AustralianSuper, November 2021; "Get ready for super changes from 1 July," Australian Taxation Office, May 17, 2022.

Brunei Announces New National Pension Program

On May 12, Brunei's government announced that it will launch a new national pension program (National Pension Scheme, or SPK) in 2023 to replace two existing provident fund pension programs (the Employees' Trust Fund, or TAP, and the Contributory Pension Scheme, or SCP). The SPK program will consist of member accounts financed by employee contributions and retirement accounts financed by employer contributions. The new program is intended to improve retirement security in Brunei by extending pension coverage to more workers, increasing old-age benefit amounts (especially for lower-income workers), and reducing longevity risk (the risk of retirees depleting their financial resources before death). This reform comes at a time when Brunei is starting to experience significant population aging. According to the United Nations' Population Division, the share of Brunei's population aged 65 or older is projected to increase from 6.2 percent in 2022 to 20.8 percent in 2050.

Other key details of the SPK program include:

- *Worker coverage:* The new program will cover all employed and self-employed persons who are citizens or permanent residents of Brunei. Currently, the TAP and SCP programs primarily cover employed persons; self-employed persons can only participate in the SCP program on a limited basis.
- *Account contributions:* Employees will contribute at least 8.5 percent of their monthly earnings to their SPK member accounts, with no minimum or maximum dollar amount. To finance the SPK retirement accounts, employers will contribute B$57.50 (US$41.33) a month for employees with monthly earnings up to B$500 (US$359.43), 10.5 percent of monthly payroll for employees with monthly earnings greater than B$500 but not exceeding B$1,500 (US$1,078.28), 9.5 percent of monthly payroll for employees with monthly earnings greater than B$1,500 but not exceeding B$2,800 (US$2,012.79), or 8.5 percent for employees with monthly earnings exceeding B$2,800. (Currently, employees and employers each contribute 5 percent of monthly earnings/payroll to TAP accounts and 3.5 percent to SCP accounts.) Self-employed persons will be required to contribute B$17.50 (US$12.58) to B$40 (US$28.75) a month and will receive B$17.50 a month in matching government contributions. (Details about how these contributions will be allocated between the member and retirement accounts are not currently available.)
- *Early withdrawals:* The SPK program will allow early withdrawals from member accounts but not retirement accounts. Participants will be allowed to withdraw up to 30 percent of their member account balances for any reason at ages 45, 50, and 55. After they reach age 40, participants will also be allowed to withdraw up to 50 percent of their member account balances for the purchase, renovation, or construction of a home. Lastly, if a participant becomes terminally ill or incapacitated, they will be allowed to withdraw up to 100 percent of their member account balances at any age.
- *Retirement benefits:* When they reach the normal retirement age of 60, SPK participants will receive lifetime annuities from their retirement accounts if they meet certain qualifying conditions and lump-sum payments from their member accounts. (More details about the qualifying conditions for the retirement account annuities are not currently available.) The retirement account annuities will be calculated based on participants' average monthly earnings, their contribution records, and other factors, including expected household expenditures, inflation rates, and a government-defined income replacement rate. (More details about the benefit formula are not currently available.) The member account benefit will be a lump-sum payment equal to total employee contributions plus accrued interest minus any early withdrawals. (The annual member account interest rate will start at 2.5 percent.)
- *Survivor benefits:* If a SPK participant dies before age 60, their dependents will receive B$400 (US$287.54) a month or 50 percent of the retirement account annuity the deceased was entitled to receive, whichever is higher, for 15 years. If the deceased has reached age 60 but is younger than 75, their dependents will receive B$250 (US$179.71) a month or 50 percent of the deceased's retirement account annuity, whichever is higher, until the deceased's 75th birthday. Eligible dependents for the retirement account survivor benefit include a spouse who has not remarried, unmarried children younger than age 21, and unmarried parents. For the member account, the total account balance will be paid to the next of kin or named beneficiaries upon a participant's death.
- *Phase-in rules:* When the SPK program is implemented, TAP and SCP members younger than 50 will automatically be transferred to the new program. If TAP and SCP members are aged 50 to 59, they can choose to switch to the SPK program or remain in the TAP and SCP programs.
- *Program administration:* The Employees' Trust Fund Department of the Ministry of Finance will administer the SPK program.

Brunei's old-age pension system consists of a universal pension program and the TAP and SCP programs. Under the government-financed universal program, a flat-rate monthly pension of B$250 is paid to individuals who have reached age 60 and have resided in Brunei for at least 10 years (if born in Brunei) or 30 years (if born outside Brunei) immediately before the pension is claimed. Under the TAP and SCP programs, members can access their savings for retirement at ages 55 and 60, respectively. To receive an annuity up to age 80 under the SCP program, a member must have at least 35 years of contributions; otherwise, the TAP and SCP account balances are paid as lump sums at retirement.

Sources: "Retirement—Frequently Asked Questions," Tabung Amanah Pekerja, no date; "SPK—Frequently Asked Questions," Tabung Amanah Pekerja, no date; *Social Security Programs Throughout the World: Asia and the Pacific, 2018*, U.S. Social Security Administration, March 2019; *World Population Prospects 2019*, United Nations, Department of Economic and Social Affairs, Population Division, August 2019; "The National Retirement Scheme, SPK," Radio Television Brunei, May 12, 2022; "New Retirement Scheme Replaces TAP, SCP," *Borneo Bulletin*, May 18, 2022; "Brunei Darussalam to Launch New National Pension Scheme in 2023," *Asia Asset Management*, May 23, 2022.

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