International Update

Recent Developments in Foreign Public and Private Pensions

September 2022

Asia and the Pacific

Cambodia to Start Collecting Social Security Contributions

On October 1, Cambodia will start collecting contributions to finance social insurance old-age, disability, and survivor pensions launched in 2021 and administered through the National Social Security Fund (NSSF). For the next 5 years, employees and employers will each contribute 2 percent (or 4 percent combined) of monthly covered earnings/payroll to the NSSF. (The minimum and maximum monthly earnings/payroll used to calculate contributions will be 400,000 riels [US$97.60] and 1,200,000 riels [US$292.79], respectively.) The combined contribution rate will gradually rise to 8 percent over the next 5 years and increase by 2.75 percentage points every decade thereafter. (The combined rate will continue to be split equally between employees and employers.) As of June 2022, over 2 million employees at around 10,000 firms had been registered with the NSSF as part of the pension program's rollout.

Other key details of the new social insurance pension program include:

- *Covered workers:* All workers who are employed at private-sector firms are required to participate in the program. Voluntary coverage is available for individuals younger than age 60 who are not mandatorily covered (such as self-employed persons).
- *Voluntary contributions:* Employees can continue to contribute to the NSSF after reaching age 60 (the age ceiling for mandatory contributions) to obtain higher benefits. Insured persons younger than 60 who are unemployed or have earnings above the monthly earnings limit for mandatory contributions can also make voluntary contributions.
- *Old-age pension:* A biweekly old-age pension is paid to an insured person who has reached age 60 and has at least 12 months of contributions. (This includes those working for more than one employer.) The pension is calculated based on the insured person's average monthly covered earnings, with a replacement rate of 1.75 percent for each of the first 15 years of contributions, and 1.25 percent for each year of contributions thereafter. If an insured person does not qualify for an old-age pension at retirement, their accumulated inflation-adjusted contributions are paid as a lump-sum benefit.
- *Disability pension:* A biweekly disability pension is paid to insured persons who have at least 5 years of contributions and are no longer able to work because of a disability. The disability pension is calculated in the same way as the old-age pension, with a minimum disability pension of 45 percent of the insured person's average monthly covered earnings.
- *Survivor pension:* A biweekly survivor pension is paid to the eligible dependents of a deceased insured person who was receiving an old-age or disability pension or had at least 5 years of contributions. The benefit amount is 45 percent of the old-age or disability pension the deceased received or was entitled to receive. If there is more than one eligible dependent, 50 percent of the survivor pension is paid to the deceased's spouse and 50 percent to their children.
- *Funeral benefit:* A lump-sum benefit is paid for the funeral expenses of a deceased insured person who received an old-age or disability pension or had at least 5 years of contributions.

In addition to old-age, disability, and survivor pensions, Cambodia's social security system provides work injury, sickness, maternity, and medical benefits, and social assistance cash benefits for vulnerable families with pregnant women and children younger than 2. Civil servants and military personnel receive social security benefits through special systems.

Sources: *Social Security Programs Throughout the World: Asia and the Pacific, 2018*, U.S. Social Security Administration, March 2019; "Sub-decree on Social Security Scheme on Pension for Persons Defined by the Provisions of the Labour Law," Royal Government of Cambodia. March 4, 2021; "Cambodia Establishes Social Insurance Pension Program for Private-Sector Employees," *International Update*, U.S. Social Security Administration, June 2021; "Cambodia *Penh* Introduces New Pension Scheme," *Khmer Times*, October 16, 2021; "Private Firms Set for Pension Payments," *The Phnom Post*, July 5, 2022; "Conditions Set for Private-Sector Worker Pensions," *Khmer Times*, July 6, 2022; "Pension Scheme to Be Implemented on

October 1," *Cambodianess*, July 12, 2022; "Cambodia to Require Pension Contributions from October 2022," Mercer Law and Policy Group, August 25, 2022.

Nepal Lowers Old-Age Allowance Eligibility Age

Effective July 16, Nepal's government lowered the minimum eligibility age for the country's old-age allowance from 70 to 68 as part of its 2022–2023 budget. (The reform does not affect existing special eligibility rules that allow members of the lowest castes [Dalits], single or divorced women, and residents of the poor and remote Karnali province to claim the allowance at age 60.) The change is expected to benefit around 300,000 Nepalis aged 68 or 69 and cost around 15 billion rupees (US$118 million) a year. This change follows last July's increase in the old-age allowance's monthly amount from 3,000 rupees (US$23.65) to 4,000 rupees (US$31.53). These reforms are intended to improve the economic security of Nepal's older citizens as the country experiences more rapid population aging. According to the United Nations' Population Division, the share of Nepal's population aged 65 or older is projected to increase from 6.1 percent in 2022 to 10.7 percent in 2050.

In addition to the old-age allowance program, Nepal's old-age pension system consists of a social insurance program and a provident fund program. Although the government-financed old-age allowance is primarily intended for retirees with limited financial resources, it is available to all Nepali citizens who meet the age requirement. The government created the social insurance program in 2017 to gradually replace the provident fund program as the main source of social protection for employed Nepali residents and their families. To finance this program—which is administered by Nepal's Social Security Fund and provides old-age, disability, survivor, sickness, maternity, medical, and work injury benefits—employees contribute 11 percent of monthly basic earnings and employers contribute 20 percent of monthly basic payroll. (28.33 of the combined 31 percent is allocated to old-age benefits.) The social insurance program's old-age benefits include a lump-sum gratuity benefit paid to insured persons upon retirement or leaving employment and an old-age pension paid to insured persons aged 60 or older with at least 180 months of contributions. Although the provident fund program was closed to new enrollments when the social insurance program was launched, existing members can keep their accrued savings in the program and make lump-sum withdrawals at retirement.

Sources: Contributions Based Social Security Act 2074, 2017; Social Security Scheme Operating Procedure 2075, 2018; *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; "Minimum Eligible Age for Elderly Allowance Reduced to 68 from 70 Years," *Republica*, May 29, 2022; "Move to Lower Eligibility Age for Elderly Allowance to Cost over Rs15 Billion," *The Katmandu Post*, July 5, 2022.

The Americas

Peru Releases Analysis of Pandemic-Related Individual Account Withdrawals

In August, Peru's Superintendent of Banks, Insurance, and AFPs (Superintendencia de Banca, Seguros y AFP, or SBS) released an analysis of how six special withdrawal measures adopted during the COVID-19 pandemic have affected the country's mandatory individual account program (Sistema Privado de Pensiones, or SPP). (SBS oversees the four pension fund management companies [Administradoras de Fondos de Pensiones, or AFPs] that administer the SPP.) The special withdrawal measures allowed SPP participants to make penalty-free early withdrawals, up to certain maximums, from their individual accounts. Three of the withdrawal measures were targeted at certain unemployed participants, while the other three were open to all participants not receiving pensions. (See Table 1 for more details.) According to the analysis, the five special withdrawal measurers implemented in 2020 and 2021 reduced SPP assets by 65.9 billion soles (US$17.2 billion, or around 7.6 percent of Peru's gross domestic product [GDP]) and left 2.3 million participants (or about 28.5 percent of total active participants) without any retirement savings. In addition, the analysis estimates that the sixth special withdrawal measure—approved in May—will further reduce SPP assets by 31 billion soles (US$8.1 billion, or around 3.6 percent of GDP). Peru's government approved the six special withdrawal measures to provide financial relief to Peruvian families during the pandemic and stimulate the country's economy. According to the government, Peru's poverty rate in 2021 (25.9 percent) remained well above its pre-pandemic level in 2019 (20.2 percent) despite a strong rebound in the country's economy after a sharp contraction in 2020. (Peru's poverty rates are calculated as

Table 1.
Special withdrawal measures, 2020–2022

Measure number	Year effective	Eligible participants	Maximum withdrawal amount	Total assets withdrawn
1 and 2	2020	Certain unemployed participants	2,000 soles (US$520.93)	5.1 billion soles (US$1.3 billion)
3	2020	All non-pensioners	4,300 soles (US$1,119.99) to 12,900 soles (US$3,359.98), depending on account balance	19.6 billion soles (US$5.1 billion)
4	2020–2021	Certain unemployed participants	17,200 soles (US$4,479.98)	9.0 billion soles (US$2.3 billion)
5	2021	All non-pensioners	17,600 soles (US$4,584.16)	32.2 billion soles (US$8.4 billion)
6	2022	All non-pensioners	18,400 soles (US$4,792.53)	31 billion soles[a]

a. SBS estimate.

the share of households with monthly incomes below the cost of a basket of basic goods and services, which was equal to 378 soles [US$98.46] a month in 2021.)

The SBS analysis also notes that 3.8 million participants made special withdrawals in 2020 and 3.2 million participants made special withdrawals in 2021. In addition, the analysis finds that another 45.6 billion soles (US$11.9 billion) were withdrawn in 2020 and 2021 for home purchases and lump-sum retirement benefits. (Since 2016, SPP participants have been able to withdraw up to 25 percent of their account balances as collateral for home purchases before retirement and to withdraw up to 95.5 percent of their account balances as lump sums at retirement.) At the end of July, the SPP had around 8.6 million active participants (or about 46 percent of Peru's labor force) and approximately 129 billion soles (US$33.6 billion) in assets.

In addition to the SPP, Peru's old-age pension system consists of a social insurance program (Sistema Nacional de Pensiones, or SNP) and a social assistance program (Pensión 65). SPP and SNP operate parallel to each other, and participation in either of the programs is mandatory for all public- and private-sector employees and voluntary for self-employed persons. To qualify for an SNP pension or an SPP guaranteed minimum pension, an individual must have reached age 65 and have at least 10 years or 20 years of contributions, respectively. (Retirement before age 65 is possible under certain conditions for both programs.) The social assistance pension is paid to residents of Peru who are aged 65 or older, do not qualify for an SPP or SNP pension, and are members of households classified as extremely poor.

Sources: *Social Security Programs Throughout the World, The Americas 2019*; U.S. Social Security Administration, March 2020; "Peru Allows Early Withdrawals from Mandatory Individual Accounts During Pandemic," *International Update*, U.S. Social Security Administration, May 2020; "Peru Allows Second Round of Special Withdrawals from Mandatory Individual Accounts," *International Update*, U.S. Social Security Administration, December 2020; Ley N° 31478, 2022; "Balance General de los Fondos de Pensiones por AFP," Superintendencia de Banca, Seguros y AFP, July 31, 2022; "Número de Afiliados Activos por AFP, Sexo y Edad Actual," Superintendencia de Banca, Seguros y AFP, July 31, 2022; "Informe Técnico N° 03 Empleo Nacional," Instituto Nacional de Estadística e Informática, August 2022; "¿Qué habría sucedido con el ahorro de los afiliados si no se hubiesen hecho retiros extraordinarios?" Boletin Semana N° 30, Superintendencia de Banca, Seguros y AFP, August 2022; "SBS: S/ 111,500 millones salieron de fondos de AFP con fines distintos a pension," *El Peruano*, August 21, 2022.

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