International Update

Recent Developments in Foreign Public and Private Pensions

October 2022

Europe

Ireland Approves State Pension Reform Package

On September 20, Ireland's cabinet approved a reform package designed to improve the long-term sustainability of the country's State Pension program by rewarding deferred retirement, increasing contribution rates, and adopting a total contribution approach to pension entitlement. The reform package still requires parliamentary approval, but it is expected to be finalized and implemented by 2024. According to the government, the reform package is needed to relieve the growing financial pressure on the State Pension program caused by population aging. Although Ireland has a relatively young demographic profile compared with other European Union countries, its old-age support ratio—the number of working-age people (aged 18 to 65) to the number of retirement-age people (aged 66 or older)—is expected to fall sharply in the next 3 decades, from about 4.5 in 2020 to 3.5 in 2031, and to 2.3 in 2051.

The key provisions of the reform package (all of which are expected to be effective in January 2024 unless otherwise noted) include:

- *Rewarding deferred retirement:* The State Pension program will move to a flexible retirement model that provides higher benefits to individuals who wait to claim their pensions after the normal retirement age of 66. (Currently, the program offers no incentives for deferred retirement.) Under this new model, individuals can defer the State Pension up to age 70 and receive an increase in the standard weekly benefit amount of €253 (US$246.62). Individuals who defer will receive €266 (US$259.30) for retiring at age 67, €281 (US$273.92) at age 68, €297 (US$289.52) at age 69, or €315 (US$307.06) at age 70 or later. (These benefit amounts are based on current payment rates and are likely to change by 2024.)
- *Increasing contribution rates:* The contribution rates for employees, employers, and self-employed persons will gradually rise and be reviewed every 5 years based on the findings of an actuarial review.
- *Adopting a total contributions approach:* The State Pension program will gradually shift over a 10-year period to an entitlement model based on the total number of years an insured person works and pays contributions. Currently, State Pension entitlement is based on a yearly average of contributions, and it is possible to qualify for a full contributory State Pension with as few as 10 years of contributions.
- *Offering early retirement to long-career workers:* The government will explore redesigning the Benefit Payment for 65 Year Olds program to provide early retirement benefits to individuals in their early 60s who have worked at least 40 years and are unable to continue working. (The Benefit Payment for 65 Years Olds program was introduced last year to provide early retirement benefits to 65-year-old residents who have ceased working and meet certain contribution requirements.)
- *Supporting long-term caregivers:* Individuals who leave the labor force to provide long-term care to a relative will receive credit toward the State Pension for their time spent as caregivers. (The exact details of this provision still need to be worked out.)
- *Providing annual statements:* Individuals will receive annual statements informing them of their social security contributions and entitlements.

The State Pension program is the primary source of retirement income in Ireland and provides contributory and noncontributory old-age pensions. To qualify for the contributory pension, an Irish resident must have reached the normal retirement age and have an annual average of at least 10 weeks of paid or credited contributions since entering the workforce (or since 1979), whichever is later. (Contributions may be credited for periods the insured person received certain social security benefits.) A means-tested noncontributory pension is paid at the normal retirement age to those who do not meet the contribution requirements for a contributory pension or who receive a reduced contributory pension. Earlier this year, the government published details of an auto-enrollment pension program that is expected to be operational by 2024 and is intended to provide benefits that supplement those paid by the State Pension program.

Sources: "Government Announce Major Changes to Pensions in Ireland in 'The Roadmap for Pensions Reform 2018-2023,'" Department of Social Protection, February 28, 2018; "Ireland Introduces Early Retirement Benefit," *International Update*, U.S. Social Security Administration, April 2021; "Report of the Commission on Pensions," Department of Social Protection, October 8, 2021; "Ireland Publishes Details of Proposed Auto-Enrollment Program," *International Update*, U.S. Social Security Administration, April 2022; "Ireland to Increase State Pension for Those Who Work Beyond 66," Reuters, September 20, 2022; "Minister Humphreys Announces Landmark Reform of State Pension System in Ireland," Department of Social Protection Press Release, September 22, 2022.

Switzerland Approves Women's Retirement Age Increase

In a national referendum held on September 25, Swiss voters approved an amendment to the country's social insurance old-age and survivor pension law that will gradually increase the normal retirement age for women from 64 to 65, matching the normal retirement age for men. Under the amendment, the women's retirement age will increase by 3 months a year starting in 2025 until it reaches 65 in 2028. In addition, to reduce the increase's effects on women nearing retirement, the amendment will allow women born from 1961 to 1969 to retire early under more favorable rules or receive a monthly pension supplement if they retire at the normal retirement age or later. Switzerland's government passed the amendment earlier this year to ensure that the country's social security fund for old-age and survivor pensions remains in financial balance through at least 2030. The change also follows a broader movement among affluent countries toward eliminating gender-specific retirement ages. Among the 38 countries belonging to the Organisation for Economic Co-operation and Development, nine countries currently have different retirement ages for men and women, and four of these countries (including Switzerland) have approved legislation to phase out the gender differences.

Other key details of the approved amendment (all expected to be effective in 2024) include:

- *Special early retirement rules:* Women born from 1961 to 1969 will still be able to claim their old-age pensions as early as age 62 when the normal retirement age increase is implemented, and they will be subject to smaller early retirement penalties. Depending on their average annual incomes, these women will see their pensions reduced by up to 3.5 percent for retiring at age 64, by up to 6.5 percent for retiring at age 63, or by up to 10.5 percent for retiring at age 62. Normally, early retirement is only possible up to 2 years before the normal retirement age, and the pension reduction rate is 6.8 percent for each year the old-age pension is claimed early.
- *Compensatory pension supplement:* If women born from 1961 to 1969 choose to claim their old-age pensions at the normal retirement age or later, they will receive a monthly pension supplement that varies by income and birth year. The base monthly supplement will be 160 francs (US$163.13) for women with average annual incomes up to 57,360 francs (US$58,481.88), 100 francs (US$101.96) for women with average annual incomes greater than 57,360 francs but not exceeding 71,700 francs (US$73,102.35), and 50 francs (US$50.98) for women with average annual incomes exceeding 71,700 francs. These base amounts are further adjusted based on a women's birth year, with the full amounts paid to women born in 1964 and 1965 and partial amounts (ranging from 25 percent to 81 percent of the full amounts) paid to women born in other qualifying years. This pension supplement will not count toward pension maximums or affect eligibility for other supplemental benefits.
- *Amended older worker contribution rules:* Currently, individuals who continue working after reaching the normal retirement age either stop paying contributions (if their gross monthly earnings are up to 1,400 francs [US$1,427.38]) or continue paying contributions without increasing their pension entitlements (if their gross monthly earnings exceed 1,400 francs). To make work at older ages more financially attractive, the amendment will allow all individuals (men and women) who work past the normal retirement age to continue paying contributions for higher pensions.
- *Value-added tax increase:* The value-added tax (VAT) that partially finances old-age and survivor pensions will increase from 7.7 percent to 8.1 percent. (In addition to the VAT, a casino revenue tax and social insurance contributions are used to finance old-age and survivor pensions.)

Switzerland's old-age pension system consists of the social insurance pension program covering all residents regardless of employment status, a mandatory occupational pension program covering employees, and voluntary individual savings arrangements. To qualify for a full social insurance old-age pension, an individual must have reached the normal retirement age and have contributions for each year from age 20 to the normal retirement age. A partial old-age pension is paid if an individual does not meet the contribution requirements for a full pension but has at least 1 year of contributions.

Sources: *Social Security Programs Throughout the World: Europe, 2018*, U.S. Social Security Administration, September 2018; *Pensions at a Glance 2021: OECD and G20 Indicators*, Organisation for Economic Co-operation and Development, December 8, 2021; "AHV 21: Die Abstimmungsvorlage," Bundesamt für Sozialversicherungen, June 13, 2022; "Women's Retirement Age to Be Voted on Again," Swissinfo, July 29, 2022; "Stabilisierung der AHV (AHV 21)," Bundesamt für Sozialversicherungen , October 20, 2022.

The Americas

Argentina Implements Pension Increases

In September, Argentina's National Social Security Administration (Administración Nacional de la Seguridad Social, or ANSES) implemented a permanent 15.53 percent increase to all public pensions and began paying a monthly bonus of up to 7,000 pesos (US$47.40) to lower-income old-age pensioners. The monthly bonus will be paid through November and is intended to boost the real incomes of 6.1 million pensioners until the next scheduled pension adjustment in December. (ANSES adjusts public pensions quarterly based on changes in Argentina's consumer price index and the average wage growth for formal-sector workers.) The full bonus of 7,000 pesos is paid to pensioners receiving the minimum monthly old-age pension (currently 43,353 pesos [US$293.57]), and a partial bonus of at least 4,000 pesos (US$27.09) is paid to pensioners receiving up to twice the minimum monthly old-age pension. When taken together, these and other pension increases implemented in 2022 have resulted in a 73.3 percent rise in the minimum monthly old-age pension since the start of the year. These measures are intended to help Argentina's pensioners cope with the country's high and accelerating inflation, which reached 82.9 percent on an annual basis in September (up from 51.7 percent in September 2021).

Argentina's old-age pension system consists of a contributory (social insurance) pension program and a noncontributory pension program (Pensión Universal Adulto Mayor). The contributory pension has three components: a basic flat-rate pension, a compensatory pension based on years of contributions before July 1, 1994, and a supplemental pension based on years of contributions since July 1, 1994. To qualify for a full contributory pension, an individual must have reached age 65 (men) or 60 (women) and have at least 30 years of contributions. An individual with less than 30 years of contributions can qualify for an "advanced age" partial pension (equal to 70 percent of the basic pension plus any compensatory and supplemental pensions) if he or she has at least 10 years of contributions, including 5 years in the 8 years before retirement. Resident citizens of Argentina (and certain resident naturalized citizens and foreign nationals) aged 65 or older who do not qualify for any other pension can receive the noncontributory pension, which pays 80 percent of the minimum monthly old-age pension under the contributory program.

Sources: "15,53% de aumento para jubilaciones, pensiones y asignaciones," Administración Nacional de la Seguridad Social, no date; *Social Security Programs Throughout the World: The Americas, 2019*, U.S. Social Security Administration, March 2020; "Índice de Precios al Consumidor (IPC)," Instituto Nacional de Estadística y Censos de la República Argentina, September 2022; "ANSES: Aumento para jubilados y pensionados en octubre: fecha y monto de cobro," *El Cronista*, September 23, 2022; "Jubilados ANSES: bono de $7.000 y cinco beneficios en octubre cuándo cobro," *Ámbito Financiero*, September 28, 2022.

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