International Update

Recent Developments in Foreign Public and Private Pensions

February 2023

Europe

Slovakia Reforms Three-Pillar Pension System

On January 1, Slovakia's government implemented reforms to the country's three-pillar pension system that include eliminating the retirement age cap, establishing an early retirement option for long-career workers, creating a parental pension supplement, introducing an automatic enrollment provision, and lowering administrative fees. (Slovakia's three-pillar pension system consists of a first-pillar social insurance program covering most workers, a second-pillar individual account program that was mandatory for most workers until it was made voluntary in 2013, and third-pillar voluntary retirement savings plans.) The changes are intended to improve the financial sustainability of the first-pillar program and boost supplemental retirement savings in the second- and third-pillar programs.

The key changes made to Slovakia's pension system are outlined below and are effective January 1 unless otherwise noted.

First-pillar program changes include:

- *Eliminating the retirement age cap:* In 2017, Slovakia's normal retirement age for individuals born after 1954 was linked to life expectancy changes, but a 2019 amendment stipulated that the normal retirement age could not rise above 64. The latest reforms remove this cap for individuals born after 1966, which will allow further retirement age increases based on life expectancy changes. (As of January 1, the normal retirement age for men and childless women was 63 and set to gradually rise to 64 by 2030.) Women born after 1966 can still qualify for a 6-month retirement age reduction for each child they have raised, with a maximum reduction of 18 months. (Men who raised children can only qualify for this reduction if their women partners do not take it.)
- *Modifying pension value indexation:* When a social insurance old-age pension is claimed, the monthly benefit is calculated by multiplying the insured person's average personal wage point, their years of coverage, and the current pension value (€16.4764 [US$17.95] in 2023). (The personal wage point for a given year is the insured's gross annual earnings in proportion to the national average annual wage.) The reforms lower the rate at which the pension value is adjusted each January from 100 percent to 95 percent of the annual change in national average wages.
- *Establishing an early retirement option for long-career workers:* Individuals can now claim a social insurance old-age pension at any age if they have at least 40 years of coverage and their monthly benefit would be at least 1.6 times the legal monthly subsistence minimum (currently €234.42 [US$255.38]). An old-age pension claimed early under this option is reduced by 0.3 percent for each month it is claimed before the normal retirement age.
- *Creating a parental pension supplement:* Old-age pensioners with one or more adult children (biological or adopted) in covered employment now receive a monthly supplement of 1.5 percent of each child's average monthly covered earnings in the calendar year 2 years before the current calendar year, with a maximum monthly benefit of €21.80 (US$23.75) per child. (Both parents of a child can receive the pension supplement, though a child can choose to exclude a parent from the benefit.) Payment of this pension supplement does not affect a child's social insurance contributions or their future pension entitlement.
- *Extending the duration of survivor pensions:* The standard duration of the survivor pension for surviving spouses increased from 12 months to 24 months. (The duration can still be extended up to life for surviving spouses who do not remarry and have disabilities that reduce their work capacities by more than 70 percent, are caring for dependent children, have raised at least 3 children [2 children if aged 52 or older; 1 child if aged 57 or older], or have reached the normal retirement age.)

Second-pillar program changes include:

- *Introducing an automatic enrollment provision:* Effective May 1, individuals younger than 40 who are entering the workforce for the first time will be automatically enrolled in the second-pillar program, with the option to opt out within 2 years. (Voluntary enrollment will be possible for individuals younger than 40 who are already in the workforce.) Currently, enrollment in the second-pillar program is limited to workers younger than 35, requires opting in, and cannot be reversed.
- *Delaying employer contribution rate increases:* The second-pillar employer contribution rate—which is funded by diverting first-pillar employer contributions to the second-pillar program—will increase from 5.5 percent of monthly covered payroll to 5.75 percent in 2025 instead of 2023 and to 6 percent in 2027 instead of 2024. Second-pillar employee contributions will remain voluntary.
- *Lowering administrative fees:* There are no longer account maintenance or asset appreciation fees. (The account maintenance fee was 1 percent of contributions, and the asset appreciation fee varied by fund type and performance.) The maximum annual fee that pension fund management companies can charge for managing participants' investments increased from 0.30 percent to 0.45 percent of assets in 2023, but it will decrease to 0.425 percent in 2024 and 0.40 percent in 2025.
- *Changing the default investment option:* Effective May 1, the default investment option for new participants and certain existing participants younger than age 54 will change from guaranteed-return bond funds to non-guaranteed-return lifecycle index funds. When participants reach age 50, their assets will gradually be transferred (4 percent of assets a year) from the lifecycle index funds to bond funds.
- *Limiting programmed withdrawals:* Starting in 2024, retired participants can only use half of their account balances for programmed withdrawals (including lump-sum payments). Once this half is exhausted, the remaining half must be converted into a lifetime annuity. Currently, there is no limit on the portion of an account balance that can be used to make programmed withdrawals.

Third-pillar program changes include:

- *Lowering administrative fees:* The maximum annual fee that pension fund management companies can charge participants for managing their investments decreased from 1.2 percent to 1.15 percent of assets in 2023, and it will decrease further to 1.05 percent in 2024 and 1 percent in 2025.

Sources: "Na ktoré poplatky má DDS nárok?" Ministerstvo práce, sociálnych veci a rodiny Slovenskej republiky; "Novela II. Piliera," Ministerstvo práce, sociálnych vecí a rodiny Slovenskej republiky; "Najdôležitejšie zmeny v sociálnom poistení od roku 2023," Sociálna poisťovňa; *Social Security Programs Throughout the World: Europe, 2018*, U.S. Social Security Administration, September 2018; "Slovakia Introduces Limit on Retirement Age Increases," *International Update*, U.S. Social Security Administration, January 2020; "Prehľad zmien v sociálnom poistení a dôchodkoch v roku 2023," Ministerstvo práce, sociálnych vecí a rodiny Slovenskej republiky, December 29, 2022; Act No. 43/2004 on Pension Saving Schemes, with amendments, January 2023; Act No. 461/2003 on Social Insurance, with amendments, February 2023.

Sweden Implements Retirement Age Changes

On January 1, Sweden's government implemented retirement rule changes that include raising the minimum retirement age for contributory pensions, increasing the retirement age for noncontributory pensions and supplemental benefits, and raising the age at which employment protections end. Sweden's parliament approved the retirement age changes in May 2022 based on the terms of a cross-party agreement from November 2017. The changes are intended to improve the sustainability of Sweden's pension system as Swedish life expectancy continues to rise. According to Statistics Sweden, the life expectancy of Swedes at birth reached 81.2 years for men and 84.8 years for women in 2021—up from 77.4 and 82.0, respectively, in 2000.

The key changes implemented by Sweden's government (all effective January 1) include:

- *Raising the minimum retirement age for contributory pensions:* The minimum retirement age for the notional defined contribution (NDC) pension program and mandatory individual account (or premium pension) program rose from 62 to 63.
- *Increasing the retirement age for noncontributory pensions and supplemental benefits:* The retirement age for the income-tested guarantee pension, contributory pension supplement, and housing allowance and the means-tested old-age income support increased from 65 to 66.
- *Raising the age at which employment protections end:* The age at which employees lose the right to remain employed under the Employment Protection

Act (and are protected against age-based dismissals) rose from 68 to 69. (Retirement is usually compulsory at this age unless an employer agrees to extend an employee's work contract.)

Starting in 2026, Sweden's retirement age adjustments will be linked to life expectancy changes through a new parameter called the target age (riktålder). Introduced in 2020, the target age is calculated every year by: (1) subtracting the life expectancy of Sweden's population at age 65 for the 5-year period ending in 1994 from the same figure for the 5-year period ending in the year preceding the calculation year, (2) adding two-thirds of this difference to 65 years, and (3) rounding this sum to the nearest whole year. A new target age becomes effective 6 years after its calculation year, but the target age can increase only once every 3 years. When a target age increase becomes effective, the retirement ages will automatically rise by the same amount. Based on current calculations and projections, the target age will be 67 in 2026 and gradually rise to 71 by 2089.

Sweden's contributory NDC and premium pension programs cover employed and self-employed persons, while its noncontributory guarantee pension program covers residents with limited financial resources. To finance the NDC and premium old-age pensions, employers contribute of 10.21 percent of monthly covered payroll and employees contribute 7 percent of monthly covered earnings. (In 2023, the minimum and maximum annual earnings used to calculate contributions are 22,208 kronor [US$2,132.42] and 599,601 kronor [US$57,573.96], respectively.) To qualify for these contributory pensions, an individual must have reached the minimum retirement age of 63 and have at least 3 years of pensionable earnings. Individuals with low contributory pensions may qualify for a contributory pension supplement when they reach age 66. At this age, retirees with limited financial resources may also qualify for the state-financed guarantee pension and other social assistance benefits, including the housing allowance and old-age income support.

Sources: *Social Security Programs Throughout the World: Europe, 2018*, U.S. Social Security Administration, September 2018; "Sweden Implements Retirement Age Reforms," *International Update*, U.S. Social Security Administration, December 2019; "Sweden Begins Paying Pension Supplement," *International Update*, U.S. Social Security Administration, September 2021; Socialförsäkringsutskottets betänkande 2021/22:SfU25, 2022; "Medellivslängden i Sverige," Statistikmyndigheten, April 8, 2022; "Beslut om justerade pensionsåldrar," Pensionsmyndigheten, May 31, 2022; "Pensionsåldrar och riktålder," Pensionsmyndigheten, January 12, 2023.

Asia and the Pacific

Philippines Introduces New Voluntary Provident Fund Program

In mid-December, the Philippines' Social Security System (SSS) introduced a new voluntary provident fund program called the Workers' Investment and Savings Program (WISP) Plus. The new program replaces two similar voluntary programs—the Personal Equity and Savings Option for SSS members paying the maximum monthly social insurance contribution and the Flexi-Fund Program for overseas Filipino workers—and is intended to provide members of the SSS social insurance program with a flexible tax-free supplemental savings option. WISP Plus is separate from the Workers' Investment and Savings Program (WISP), an SSS-administered supplemental provident fund that was launched in January 2021 and is mandatory for SSS members with monthly covered earnings above 20,000 pesos (US$367.31).

The key details of WISP Plus include:

- *Member eligibility:* WISP Plus is open to all SSS members, including overseas Filipino workers and self-employed persons, who have not claimed a final SSS benefit. (Final SSS benefits include social insurance old-age, total disability, and survivor pensions.) There is no earnings requirement for joining WISP Plus.
- *Account setup:* SSS members can enroll in WISP Plus through their MySSS online accounts. An SSS member can establish only one account, and WISP Plus membership does not expire.
- *Account contributions:* A fund member can contribute to their WISP Plus account at any time as long as they have paid their most recent social insurance contribution (if self-employed or working overseas) or at least one social insurance contribution in the last 3 months (if employed). The minimum contribution is 500 pesos (US$9.18), and there may be a maximum amount depending on the payment method used and other legal requirements.
- *Investment strategy:* The Social Security Commission (SSC) is responsible for ensuring that

WISP Plus assets are invested in accordance with established allocation guidelines, which include investing at least 15 percent of assets in government securities, up to 20 percent of assets in corporate or multilateral institutions or equities, up to 25 percent of assets in short- or medium-term loans to fund members, up to 40 percent of assets in money market funds or similar approved instruments, and up to 70 percent of assets in collateralized loans to SSS pensioners. Income earned from these investments is distributed proportionately to fund members based on the sizes of their account balances. Fund members' investment returns are tax free, and account principals are guaranteed by the government.

- *Account withdrawals:* Account balances are automatically paid to fund members as lump sums when the fund members begin receiving their final SSS benefits. However, a fund member can withdraw part or all of their accumulated savings at any time after 1 year of participation. (Early withdrawals before this 1-year anniversary are allowed for certain hardships, including severe illness, involuntary unemployment, and repatriation from overseas employment.) Partial withdrawals are limited to one a month and must leave at least 500 pesos remaining in a fund member's account.
- *Inheritance provision:* Upon a fund member's death, their account balance is paid to designated beneficiaries on file with the SSS.
- *Program administration:* The SSS will handle WISP Plus operations, and the SSC will oversee the program's investments. To cover the program's operational expenses, fund members must pay an annual management fee of 1 percent of their accumulated savings. The fee will be reviewed every 2 years, and changes will be subject to SSC approval.

In addition to the WISP Plus and WISP provident fund programs, the Philippines' old-age pension system consists of the SSS social insurance program and a means-tested social pension program. (There are also special pension systems for military personnel and civil servants.) To qualify for a social insurance old age pension, an individual must have reached the normal retirement age of 60, have at least 120 months of contributions, and have stopped working (if younger than age 65). Individuals who have reached the normal retirement age, but do not qualify for the social insurance pension, can receive the means-tested social pension if they have no other source of income and are assessed as weak, sick, or disabled by the Department of Social Welfare and Development.

Sources: "Philippines Introduces Supplemental Provident Fund," *International Update*, U.S. Social Security Administration, March 2021; "Philippines Approves Social Pension Reform," *International Update*, U.S. Social Security Administration, June 2022; "Guidelines for the Implementation of the New Voluntary Provident Fund (NVPF) Program for SSS Members," Social Security System Circular No. 2022-032, December 12, 2022; "The Social Security System (SSS) Introduces the Worker's Investment and Savings Program (WISP) Plus, Its Newest Retirement Savings Scheme for SSS Members," Social Security System, December 15, 2022; "What Do You Need to Know about Workers' Investment & Savings Program (WISP) Plus?" Kuripot Pinoy, December 20, 2022; "Philippines: New Voluntary Social Security Savings Program Now Available, Replacing Previous Voluntary Provident Fund Programs," Gallagher GVISOR News, January 31, 2023.

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