International Update

Recent Developments in Foreign Public and Private Pensions

May 2023

Europe

Spain Enacts Reforms to Improve Pension System Sustainability

On April 1, Spain enacted a pension reform law that increases the maximum monthly covered earnings and contributory pension, introduces a solidarity contribution for high earners and their employers, establishes a new sustainability mechanism, and changes the reference earnings used to calculate the contributory old-age pension. Spain's parliament approved the law on March 30 with the aim of improving the sustainability of the country's old-age pension system. The law is the third major pension reform law implemented by Spain since its government reached a pension reform agreement with unions and employers in 2020. The reforms law's passage was also a condition for Spain to receive additional financial assistance from the European Union's pandemic recovery fund. (Spain has already received €37 billion [US$41 billion] in assistance from the recovery fund.)

The key provisions of the latest pension reform law include:

- *Increasing the maximum monthly covered earnings and contributory pension:* The law increases the maximum monthly earnings used to calculate contributions by 1.2 percentage points above the annual change in Spain's consumer price index (CPI) from 2024 to 2050. The current monthly covered earnings ceiling is €4,495.50 (US$4,936.51). The maximum monthly contributory pension will also increase over the same time period, but at a lower rate of 0.115 percentage points above the annual change in CPI. The current maximum monthly contributory pension is €3,058.81 (US$3,358.88).
- *Introducing a solidarity contribution for high earners and their employers:* From January 1, 2025, a solidarity contribution will be levied on employees with earnings above the monthly covered earnings ceiling and their employers to help finance the social security system. (This new contribution will not increase contributors' future pension benefits.) The solidarity contribution rate will be 0.92 percent on monthly earnings exceeding 100 percent, but less than 110 percent of the monthly covered earnings ceiling; 1.0 percent on monthly earnings from 110 percent to 150 percent of the earnings ceiling; and 1.17 percent on monthly earnings exceeding 150 percent of the earnings ceiling. These rates will gradually rise to 5.5 percent, 6.0 percent, and 7.0 percent, respectively, by 2045. The employee and employer shares of the solidarity contribution will be proportional to those based on current contribution rates. (Employees and employers currently contribute 4.7 percent and 23.6 percent of monthly covered earnings/payroll, respectively.)
- *Establishing a new sustainability mechanism:* A new reserve fund referred to as the Intergenerational Equity Mechanism has been established to ensure that annual increases in retirement, survivor, and disability benefits can continue to be indexed to increases in the consumer price index. To finance the reserve fund, employees and employers pay a special contribution from January 1, 2023, until December 31, 2050. The employee and employer special contribution rates are 0.1 percent and 0.5 percent of monthly covered earnings/payroll, respectively, and will increase gradually to 0.2 percent and 1.0 percent, respectively, by 2029.
- *Changing the reference earnings used to calculate the contributory old-age pension:* The law will increase the number of years of covered earnings used to compute career-average earnings for the contributory old-age pension. Currently, the contributory old-age pension is calculated based on an insured person's covered earnings in the last 25 years. From 2037, the reference earnings used to calculate old age pensions will be based on the highest 27 of the last 29 years of an insured person's covered earnings. From 2026, the 25-year standard will increase by 2 months annually until it reaches 27 years in 2037. Until 2040, claimants can choose the method that yields the higher pension. (Other transitional rules apply for claims made from 2041 to 2043.)

Spain's old-age pension system consists of contributory and noncontributory public pensions and supplemental occupational and individual savings plans. To qualify for a contributory old-age pension, an individual must have reached age 66 and 4 months (gradually rising to age 67 by 2027) and have at least 15 years of contributions, including at least 2 years within the last 15 years before retirement. (The normal retirement age is reduced to 65 for individuals with at least 37 years and 9 months of contributions.). The noncontributory old-age pension is paid to individuals who have reached age 65, have resided in Spain for at least 10 years since age 16 (including the last 2 years before retirement), and have household income below certain limits.

Sources: *Social Security Programs Throughout the World: Europe, 2018*, U.S. Social Security Administration, September 2018; Real Decreto-ley 2/2023, de 16 de marzo, 2023; "Reforma de las pensiones desde abril: ¿en qué consiste la nueva cuota de solidaridad?," *La Informacion*, March 30, 2023; "Pension Reform: What Are Its Keys and Who Benefits From It?," Government of Spain, March 31, 2023; "Spain: State Pension Reforms—Cost Versus Sustainability," Willis Towers Watson, April 28, 2023; "Spain's 2023 Pension Reform," Asinta, May 18, 2023.

Africa

Kenya Implements New Contribution Rules After Court Ruling

On February 3, Kenya's government implemented new contribution rules under the country's individual account program—the National Social Security Fund (NSSF)—after an appeals court affirmed they are legal. In particular, the new rules increase employee and employer contribution rates, raise the covered earnings ceiling, and introduce two contribution tiers. Kenya's parliament and president approved the new rules in 2013 as part of a pension reform law, but their implementation (originally set for January 10, 2014) was suspended after a group of employee and employer organizations challenged their constitutionality. Now that the legal challenge has been rejected, the new rules are expected to boost contributions to the NSSF and improve the adequacy of future benefits provided under the program. According to Kenya's Retirement Benefit Authority (RBA), 73 percent of Kenya's current retirees lacked adequate savings when they reached retirement age, and only around 20 percent of the country's workers participate in the NSSF.

The key provisions of the new contribution rules (effective starting with February contributions paid in March) include:

- *Increasing employee and employer contribution rates:* The minimum contribution rate that employees and employers must each pay to the NSSF has increased from 5 percent to 6 percent of monthly covered earnings/payroll. Self-employed persons who choose to participate in the NSSF must contribute at least 200 shillings (US$1.47) a month and at least 4,800 shillings (US$35.23) a year. (Participation in the NSSF is mandatory for public- and private-sector employees and voluntary for self-employed persons.)
- *Raising the covered earnings ceiling:* The maximum monthly earnings/payroll used to calculate NSSF contributions for each employee (also known as the upper earnings limit) has risen from 4,000 shillings (US$29.36) to 18,000 shillings (US$132.11), or 50 percent of the national average monthly wage. As a result, the maximum monthly contribution for both employees and employers has increased from 200 shillings to 1,080 shillings (US$7.93). The upper earnings limit will continue to rise gradually over the next 4 years until it reaches four times the national average monthly wage.
- *Introducing two contribution tiers:* Under the new rules, contributions paid on monthly earnings/payroll up to a lower earnings limit (currently 6,000 shillings [US$44.04], but gradually rising over the next 4 years until reaching the average monthly minimum basic wage) are considered Tier I contributions, and contributions paid on monthly earnings/payroll above the lower earnings limit and up to the upper earnings limit are considered Tier II contributions. Employers must remit Tier I contributions to the NSSF, but they can choose to redirect Tier II contributions from the NSSF to private pension plans registered and approved by the RBA.

Kenya's old-age pension system consists of the NSSF individual account program and a universal pension program (Inua Jamii 70+). To qualify for an NSSF old-age pension, a participant must have reached age 60 and ceased employment. (Retirement as early as age 50 is possible.) For individuals with mandatory NSSF coverage, the old-age pension can be structured in one of three ways: (1) the entire account balance is converted into a lifetime annuity, (2) part of the account balance is paid as a lump sum and the remainder is converted into a lifetime annuity, or

(3) part of the account balance is paid as a lump sum and the remainder is paid as programmed withdrawals. (The maximum lump-sum payment is the entire Tier I balance plus one-third of the Tier II balance.) By contrast, for individuals with voluntary NSSF coverage, the old-age pension is paid only as a lump-sum benefit. Individuals may qualify for the government-financed universal old-age pension if they are citizens of Kenya, have reached age 70, and are not receiving any other pension.

Sources: National Social Security Fund Act No. 45, 2013; *Social Security Programs Throughout the World: Africa, 2019*, U.S. Social Security Administration, September 2019; "Most Kenyans Lack a Saving Scheme - RBA," *The Star*, February 1, 2023; "Press Release on the NSSF Act 45 2013 Ruling," National Social Security Fund, February 7, 2023; "NSSF Guide Book," National Social Security Fund, February 9, 2023; "Kenya: Kenyan Employers Required to Immediately Comply With New National Social Security Fund Contributions," Mondaq, March 1, 2023.

Zambia Allows One-Time Withdrawal of Social Insurance Contributions

On April 17, Zambia's president signed a bill enacting a law that allows members of the country's social insurance program—the National Pension Scheme Authority (NAPSA)—to make one-time pre-retirement withdrawals of up to 20 percent of their indexed contributions with accrued interest. This pre-retirement withdrawal benefit is paid as a lump sum and reduces recipients' future social insurance benefits accordingly. To qualify for the benefit, members must have at least 60 months of contributions or be aged 45 or older. The government expects the infusion of withdrawn NAPSA funds into the economy to generate additional job growth and economic development. According to the government, a total of 3.9 billion kwacha (US$219 million) in pre-retirement lump-sum benefits were paid to nearly 128,000 NAPSA members (out of an estimated 600,000 eligible members) as of May 15.

NAPSA covers employees, including agricultural workers, household workers, apprentices, and employees of the national public service and local authorities who began work on or after February 1, 2000. Voluntary participation in the program is possible for self-employed persons and certain informal-sector workers. (Special rules apply to self-employed informal-sector workers participating in a voluntary program introduced in 2019.) To finance the old-age, disability, and survivor benefits provided by NAPSA, employees and employers each contribute 5 percent of monthly covered earnings/payroll. (Voluntarily insured members contribute 10 percent of monthly covered earnings.) The NAPSA old-age pension is normally paid to members who have reached age 55 (age 60 for members first insured after August 14, 2015), have at least 180 months of contributions, and have ceased employment. However, it is possible for members to claim a reduced old-age pension as early as age 50 (age 55 for members first insured after August 14, 2015) and to defer claiming the old-age pension until age 60 (age 65 for members first insured after August 14, 2015). Members who reach the normal retirement age with less than 180 months of contribution can receive their total indexed contributions plus accrued interest as a lump-sum retirement benefit.

Sources: *Social Security Programs Throughout the World: Africa, 2019*, U.S. Social Security Administration, September 2019; "NAPSA Benefits Guide," National Pension Scheme Authority, 2022; National Pension Scheme (Amendment) Act No. 1, 2023; "The Pre-Retirement Lumpsum Benefit Is Here," National Pension Scheme Authority, April 19, 2023; "Over K1 Billion Paid as Pre-Retirement Benefits, National Pensions Scheme Authority Says," Zambia Monitor, May 2, 2023; "Pre-Retirement Lumpsum Benefits Update," National Pension Scheme Authority, May 8, 2023; "NAPSA Has Sufficient Liquidity to Meet Its Pre-Retirement Lumpsum Benefit Payment," National Pension Scheme Authority, May 15, 2023.

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