International Update

Recent Developments in Foreign Public and Private Pensions

June 2023

Europe

France Enacts Pension Reform Law

On April 15, France's president signed a pension reform law that increases the minimum retirement age, accelerates the rise in the minimum quarters of coverage required for a full old-age pension, modifies the long-career early retirement option, increases the minimum monthly old-age pension, changes parental pension adjustments, and phases out certain special pension programs. The new law is primarily intended to improve the financial sustainability of the country's public pay-as-you-go pension system, which consists of a general program covering most private-sector workers and special programs covering public-sector and certain other workers. According to a recent analysis from France's Pension Advisory Council, the reforms made by the new law will reduce the pension system's projected deficit in 2030 from 0.4 percent to 0.2 percent of gross domestic product. However, the same analysis shows that the system is likely to remain in deficit through at least 2040 without further reforms.

The key provisions of the pension reform law (effective September 1 unless otherwise noted) include:

- *Increasing the minimum retirement age:* The minimum retirement age (currently 62) will gradually increase in 3-month increments for insured persons born after August 1961 until it reaches 64 for insured persons born after 1967. (See Table 1 for more details.)
- *Accelerating the rise in the minimum quarters of coverage required for a full old-age pension:* The minimum quarters of coverage required to claim a full old-age pension before age 67 will gradually increase from 168 quarters (42 years) to 172 quarters (43 years) by 2027 instead of 2035. As a result, the 172-quarter requirement will apply to insured persons born after 1964 rather than those born after 1972. (See Table 1.) As before, insured persons who wait until age 67 or later to retire will automatically qualify for full old-age pensions regardless of their coverage records.
- *Modifying the long-career early retirement option:* Currently, insured persons can claim full old-age pensions at age 58 or age 60 if they satisfy the full-pension coverage requirement and have at least 5 quarters of coverage before the end of the calendar years they turned 16 or 20, respectively. (Only 4 quarters of coverage are required for insured persons with fourth-quarter birth dates.) Under the new law, insured persons born after August 1961 can still claim full old-age pensions at age 58 with at least 5 quarters of coverage before the end of the calendar years they turned 16, but they can also retire at

Table 1.
New pension qualifying conditions by birth date

Birth date	Minimum retirement age	Minimum quarters of coverage required for a full pension before age 67
Jan. 1 to Aug. 31, 1961	62	168
Sept. 1 to Dec. 31, 1961	62 and 3 months	169
1962	62 and 6 months	169
1963	62 and 9 months	170
1964	63	171
1965	63 and 3 months	172
1966	63 and 6 months	172
1967	63 and 9 months	172
1968 or later	64	172

age 60, 62, or 63 if they have at least 5 quarters of coverage before the end of the calendar years they turned 18, 20, or 21, respectively. (As before, only 4 quarters of coverage are required for insured persons with fourth-quarter birth dates.)

- *Increasing the minimum monthly old-age pension:* The minimum monthly old-age pension for an insured person with at least 172 quarters of coverage from full-time work will be set at 85 percent of the net legal monthly minimum wage (currently €1,383.08 [US$1,479.48]). As a result, the minimum monthly old-age pension will increase by around €100 (US$107).
- *Changing parental pension adjustments*: Currently, a mother can receive up to 8 quarters of credited coverage for each child she raises, with up to 4 of these quarters transferable to the father. The new law reduces quarters transferable to the father from 4 to 2. In addition, the new law introduces a pension supplement of up to 5 percent for parents who qualify for a full old-age pension at age 63, have at least 1 quarter of credited coverage for raising a child, and continue working after age 63.
- *Phasing out certain special pension programs:* The law will close special pension programs covering certain public-sector workers—including employees of public utilities, rail systems, notaries, the Bank of France, and the Economic, Social, and Environmental Council—to new enrollments. New employees in these divisions will instead be covered by the general pension program. The law does not affect other special pension programs, including those covering self-employed agricultural workers, lawyers, sailors, and certain theater workers.

Sources: *Social Security Programs Throughout the World: Europe, 2018*, U.S. Social Security Administration, September 2018; Loi n° 2023-270 du 14 avril 2023 de financement rectificative de la sécurité sociale pour 2023, 2023; “Report de l’âge légal de la retraite à 64 ans en France,” Centre des Liaisons Européennes et Internationales de Sécurité Sociale, April 21, 2023; “Le Smic revalorisé de 2,22 % au 1er mai 2023,” Service-Public.fr, April 27, 2023; “Loi du 14 avril 2023 de financement rectificative de la sécurité sociale pour 2023,” Vie Publique, June 5, 2023; “Retraites : pour le COR, la réforme ne tiendra pas ses promesses,” *L’Express*, June 20, 2023.

Netherlands Approves Transition to Defined Contribution Pension Plans

On May 30, the Dutch Senate approved the Future of Pensions Act, which requires defined benefit (DB) pension plans in the country’s quasi-mandatory occupational pension system to transition to defined contribution (DC) pension plans by January 1, 2028. The new law, which takes effect on July 1, was approved by the lower house of parliament in January. Population aging and a sustained period of low interest rates have financially strained the DB pension plans that currently cover about 80 percent of Dutch workers who participate in the occupational pension system. The new law is intended to improve the system’s sustainability by combining the individual pension wealth accrual of DC plans with some investment risk sharing among plan participants and an assurance of lifetime income in retirement.

In addition to requiring the transition from DB to DC pension plans, other key changes in the new law include:

- *Ending age-based contribution rates:* Contribution rates can no longer vary based on participants’ ages. Instead, all participants must pay the same contribution rates to their plans. However, DC plans that have age-based contribution rates in effect before July 1, 2023, are exempt from this change if they are closed to new enrollments by January 1, 2028.
- *Setting a maximum contribution rate:* Tax limits will apply to contributions instead of pension accruals, and the maximum contribution rate for old-age and survivor pensions will be 30 percent of covered earnings.
- *Lowering the minimum entry age:* On January 1, 2024, the minimum entry age for occupational pension plans will be lowered from 21 years to 18 years.
- *Standardizing survivor pensions:* Plans must standardize survivor pension qualifying conditions and express pension amounts as percentages of participants’ covered earnings or old-age benefits. The maximum survivor pension for a spouse or partner will be 50 percent of a participant’s covered earnings (for death before retirement) or 70 percent of

the participant's old-age pension (for death after retirement).

- *Introducing solidarity mechanisms:* DC plans must have solidarity mechanisms to smooth the effects of investment losses on pension benefits and ensure that retirees receive pension income for as long as they live.

Three types of DC plans will be allowed under the new law with varying levels of risk sharing and participant involvement in investment decisions:

- *Solidarity defined contribution plans:* These plans will follow a collective investment policy. Investment results will be allocated among participants according to allocation rules for each age cohort. A solidarity reserve will spread risks over different generations of participants.
- *Flexible defined contribution plans:* These plans will follow an individual investment policy with investment mixes varying across age cohorts. The individual accounts can experience financial gains and losses, but some risk will be shared through a collective reserve. Each mandatory industry pension fund will be required to maintain such a reserve.
- *Defined contribution-capital plans:* This variant is limited to existing plans that combine some characteristics of DB and DC plans. In these plans, starting 15 years before their retirement dates, the accrued pension assets of participants can be used to provide partial DB pensions. The investment risk and longevity risk of the pensions must be assumed by an insurance company or another risk-sharing institution.

The Dutch old-age pension system is based on three pillars—the public General Old Age Pension (Algemene Ouderdomswet, or AOW) that covers all residents and persons working in the Netherlands, quasi-mandatory occupational pension plans that cover the employees of entire sectors or specific companies, and voluntary individual or private pension plans. The normal retirement age for the AOW in 2023 is 66 and 10 months and in 2024 will rise to age 67. Starting in 2025, the retirement age will automatically rise based on increases in life expectancy at age 65.

Sources: *Social Security Programs Throughout the World: Europe, 2018*, U.S. Social Security Administration, September 2018; "Netherlands Reaches Agreement on Occupational Pension Reform," *International Update*, U.S. Social Security Administration, September 2020; Wet toekomst pensioene 36.067, 2023;"Dutch Senators Approve Pensions Overhaul," *Financial Times*, May 31, 2023; "Netherlands: Dutch Senate Has Adopted the Future of Pensions Act," World Law Group, May 31, 2023; "New Dutch Pension Act on 1 July 2023: Major Reform of Pension System," Dentons, June 2, 2023; "The New Pensions Act Has Been Adopted—Now What?" Loyens & Loeff, June 2, 2023.

Poland Requires Occupational Pension Plan Reenrollments

Effective March 1, Polish employees who previously opted out of Employee Capital Plans (Pracownicze Plany Kapitalowe, or PPKs), and failed to submit new opt-out requests, must be reenrolled in the plans by their employers under current policy. (PPKs are employer-sponsored defined contribution occupational pension plans offered to private- and public-sector employees up to age 70. Employees aged 18 to 54 are automatically enrolled in the plans within 3 months of starting employment—with the option to opt out—while employees aged 55 to 70 can enroll voluntarily.) Under the 2018 law that introduced PPKs in 2019, employers must reenroll opted-out employees every 4 years if the employees do not reaffirm their decisions after being given notice. (The next scheduled auto-enrollment renewal wave is set for 2027.) When the PPK program was first implemented, participation was expected to reach 75 percent of eligible employees, but the actual rate has been far less. According to the government, there were 3.3 million active PPK participants (or about 43.7 percent of eligible employees) in March, and they had 14.9 billion zlotys (US$3.51 billion) in total assets managed by 18 pension providers.

Under PPK program rules, participating employees must contribute at least 2 percent of gross earnings to their accounts and their employers must contribute at least 2 percent of gross payroll. However, the employee contribution rate can be reduced to as low as 0.5 percent for employees with gross earnings below 120 percent of the minimum wage (3,490 zlotys [US$822.12] a month in 2023). Additional contributions of up to 2 percent and 2.5 percent of gross earnings/payroll are possible for employees and employers, respectively. To encourage PPK participation, the federal government provides each active participant with a one-time welcome payment of 250 zlotys (US$58.89), and an annual subsidy of 240 zlotys (US$56.54). Participants' savings are invested by their pension providers in life-cycle funds that adjust participants' portfolios based on age-based risk profiles. Upon reaching age 60, participants can access their savings without paying capital gains taxes by withdrawing up to 25 percent of their account balance as a lump sum and the remaining amount in at least 120 monthly installments. Penalty-free early withdrawals

before age 60 are allowed under certain conditions, including for home purchases and if participants or their immediate family members become seriously ill.

In addition to the PPK program, Poland's old-age pension system consists of a public notional defined contribution program, voluntary occupational plans organized by employers in cooperation with employees, and voluntary individual accounts.

Sources: "Employee Capital Plans (PPK)" Polish Development Fund Group; "Poland Approves Law Creating New Occupational Pension Plans," *International Update*, U.S. Social Security Administration, December 2018; "Case Study of Pension Reform: Poland," World Bank, October 31, 2019; "The Polish Pension System," *International Comparison of Pension Systems*, Springer Nature Singapore, 2022; "Automatic Enrollment of Employees in PPK Retirement Plans in Poland, Again," Willis Tower Watson, January 5, 2023; "Employers Must Notify Employees about Automatically Enrolling in PPK Retirement Plan in the Absence of Employee Opt-Out Declaration," Gallagher GVISOR Compliance Alerts, February 28 2023; "3.3 million PPK Participants—Summary of Auto-Save 2023," Pracownicze Plany Kapitalowe, April 27, 2023.

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