International Update

Recent Developments in Foreign Public and Private Pensions

October 2023

Europe

United Kingdom Extends Coverage of Automatic Enrollment Pension Program

On September 18, royal assent was given in the United Kingdom to a law that extends coverage under the country's automatic enrollment pension program by lowering the entry age from 22 to 18 and eliminating the lower qualifying earnings threshold of £6,240 (US$7,646) per year. (Currently, employee and employer contributions are only paid on earnings above the lower qualifying earnings threshold.) The £10,000 (US$12,253) annual earnings threshold that triggers automatic enrollment is unaffected by the new law, and workers can still choose to opt out of the program after they are enrolled. The increased coverage is expected to boost the retirement savings of younger workers and lower income workers, who are disproportionately women. The schedule for implementing the changes will be determined after the Department for Work and Pensions conducts a public consultation.

Under the automatic enrollment pension program, employers in the United Kingdom must offer workplace pension plans to their employees, automatically enroll eligible employees in the plans, and make contributions on their employees' behalf. Currently, employers must automatically enroll employees who are at least 22 years of age but younger than the State Pension Age (SPA) of 66 and have annual earnings of at least £10,000. The minimum employee and employer contribution rates for participating employees are 5 percent and 3 percent respectively, of annual earnings exceeding £6,240 and up to £50,270 (US$61,598). Both employees and employers can choose to contribute more than their respective minimums, and employees can choose to contribute less if their employers contribute more than 3 percent. The government contributes 1 percent of covered earnings in the form of tax relief.

According to the Department for Work and Pensions, after automatic enrollment was introduced, participation in workplace pension plans rose from 55 percent of eligible employees in 2012 to 88 percent in 2021. The proportion of eligible women in a workplace pension increased from 59 percent in 2012 to 89 percent in 2021, while the proportion of eligible 22- to 29-year-old workers rose from 35 percent in 2012 to 86 percent in 2021.

In addition to employer-based pension plans, the United Kingdom's old-age pension system consists of a single-tier State Pension (STP) program for individuals retiring on or after April 6, 2016. The STP provides a full flat-rate benefit at the SPA with at least 35 years of paid or credited contributions. A partial benefit is paid to individuals who have reached the SPA and have at least 10 years but less than 35 years of contributions. Pensioners with limited financial resources may qualify for a means-tested Pension Credit if they have reached the SPA or an income-tested social assistance benefit if they have reached age 80 and meet certain other conditions.

Sources: *Social Security Programs Throughout the World: Europe, 2018*, U.S. Social Security Administration, September 2018; Pensions (Extension of Automatic Enrolment) Act, 2023; "What Is Pension Auto-Enrolment?," *The Times*, September 26, 2023; "Pension Saving Boost for Millions Receives Royal Assent," U.K. Department for Work and Pensions, September 29, 2023; "New Act Requires Employers to Auto-Enroll Qualified Employees 18 Years or Older in Pension Plans and Removes Lower Earnings Threshold for Contributions," Gallagher GVISOR News, September 29, 2023.

Africa

Egypt Launches New Pension Program for Citizens Living Abroad

On August 14, Egypt's government launched a new voluntary pension program—Tomorrow's Pension—for Egyptian citizens living abroad. Under the new program, eligible citizens can make contributions in U.S. dollars to qualify for dollar-denominated benefits at selected retirement ages. Besides providing Egypt's estimated 8.9 million expatriates with a new retirement savings vehicle, the new program is intended to bolster the country's foreign exchange reserves, which have declined sharply in recent years amidst rising food and commodity prices and disruptions to tourism and trade. Along with other financial measures targeted at Egyptian expatriates—including high-yield dollar-denominated certificates of deposits and new domestic investment opportunities—the government expects the new pension program to help it reach its goal of attracting US$191 billion in dollar liquidity by 2026.

Key details of the Tomorrow's Pension program include:

- *Program eligibility:* The program is open to Egyptian expatriates aged 18 to 59, who must enroll for a minimum of 5 years.
- *Contribution rules:* Participants must make initial contributions of at least US$500 to purchase their desired pension coverage. Additional pension coverage can be obtained through further voluntary contributions, with a minimum installment of US$50 and an annual maximum of US$10,000.
- *Old-age benefit:* The guaranteed dollar-denominated benefit is calculated based on the ages at which participants make their contributions and their chosen retirement ages (either age 50, 55, 60, or 65). The benefit can be paid as a lump sum or in monthly installments over a period of 10 or 15 years.
- *Death and disability benefits:* If participants die or become totally disabled before reaching their selected retirement ages, the guaranteed dollar-denominated benefits can be paid out immediately to the participants or their heirs.
- *Early termination:* Participants can liquidate their pension policies starting 1 year after paying their initial contributions. If they choose liquidation, participants receive a percentage of their contributions that is based on the number of years their policies were in effect.
- *Program administration:* The program is administered by the state-owned Misr Life Insurance in cooperation with the National Bank of Egypt, the country's central bank. Enrollments, contributions, and benefits are fully managed through an online system.

In addition to the Tomorrow's Pension program, Egypt operates a social insurance old-age pension program covering 26 categories of workers, including private-sector employees, civil servants, and self-employed persons. (Since September 2021, all foreign nationals employed in Egypt are also required to participate in the program.) Employee and employer contribution rates are 9 percent and 12 percent of monthly covered earnings/payroll, respectively. (The employee and employer contribution rates are gradually increasing until the combined rate reaches 26 percent in 2055.) To qualify for a social insurance old-age pension, insured persons must have reached the normal retirement age of 60 (rising to age 61 in 2032, and then by 1 year every 2 years thereafter until it reaches age 65 in 2040) and at least 120 months (increasing to 180 months in 2025) of contributions. Insured persons can claim a reduced social insurance old-age pension at any age before the normal retirement age if they have at least 240 months (rising to 300 months in 2025) of contributions.

Sources: *Social Security Programs Throughout the World: Africa, 2019*, U.S. Social Security Administration, September 2019; "Egypt Implements Extensive Pension System Changes," *International Update*, U.S. Social Security Administration, March 2020; "Egypt Requires Foreign Employees to Participate in the National Social Security Scheme," Lockton Global People Solutions, April 20, 2022; "Egypt's Misr Life Insurance, NBE Launch First USD Pension Certificates for Expats," Ahram Online, August 14, 2023; "Egypt Launches US Dollar-Denominated Pension Plan for Expatriates," *Daily News Egypt*, August 15, 2023; "The Financial Regulatory Authority Hosts the Activities of Misr Life Insurance Company's Announcement of the First Dollar Pension Policy for Egyptians Abroad," Financial Regulatory Authority, August 15, 2023; "To Raise Scarce Dollars, Egypt Looks to Pension Plans, Draft Evaders," Reuters, August 15, 2023.

Asia and the Pacific

Thailand Adds Means Test to Old-Age Allowance

On August 11, Thailand's interior minister signed a regulation that adds a means test to the country's old-age allowance. Previously, the old-age allowance was paid to all Thai citizens aged 60 or older, regardless of their incomes, if they were not entitled to public-sector pensions. (Thailand has special public-sector pension programs for civil servants, judges, and state-enterprise employees.) Under the new regulation, citizens claiming the old-age allowance on August 12 or later must also have household income below a limit set by the National Commission for the Elderly to qualify for the monthly benefit, which is currently 600 baht (US$16.43) for beneficiaries aged 60 to 69, 700 baht (US$19.17) for those aged 70 to 79, 800 baht (US$21.91) for those aged 80 to 89, or 1,000 baht (US$27.39) for those aged 90 or older. The stricter qualifying conditions are intended to reduce public expenditures on the old-age allowance program by around 100 billion baht (US$2.74 billion) annually after 2024 as Thailand experiences rapid population aging. According to the United Nations' Population Division, the country's old-age dependency ratio (the population aged 65 or older divided by the population aged 15 to 64) is projected to increase from 25.3 percent in 2023 to 35.5 percent in 2030, and to 59.9 percent in 2050.

When Thailand launched the old-age allowance in 1993, it was only paid to elderly citizens determined to be needy by local governments. However, in 2009, the government expanded the program to cover all elderly citizens who were not public-sector pensioners. As a result, the number of beneficiaries has grown substantially, reaching 11 million people this year. (Thailand's population is currently around 71.8 million people.) If the new means test had been applied to all beneficiaries and not just those who enrolled on August 12 or later, an estimated 6 million beneficiaries would have become ineligible for the old-age allowance.

In addition to the old-age allowance program, Thailand's old-age pension system consists of a mandatory social insurance program (Social Security Fund, or SSF) for formal private-sector employees, a voluntary social insurance program (also part of SSF) for informal workers, and a voluntary provident fund program (National Savings Fund, or NSF) for informal-sector workers. To qualify for the formal-sector SSF old-age pension, insured individuals must have reached age 55 and have at least 180 months of contributions. If insured individuals have at least 12 months but less than 180 months of contributions at retirement, they can receive their total employee and employer contributions plus accrued interest as a lump-sum old-age settlement. (With less than 12 months of contributions, only the employee contributions are paid as a lump sum.) Under the informal-sector SSF program, insured individuals who contribute at least 100 baht (US$2.74) a month can receive a lump-sum benefit at age 60 that depends on the amount and duration of their contributions. The NSF program provides participants who have reached age 60 with a monthly pension that is calculated based on their total contributions and accrued interest. (The minimum monthly contribution for this program is 50 baht [US$1.37].)

Sources: *Social Security Programs Throughout the World: Asia and the Pacific, 2018*, U.S. Social Security Administration, March 2019; *World Population Prospects 2022*, United Nations, Department of Economic and Social Affairs, Population Division, July 2022; Ministry of Interior Regulations Concerning the Criteria for Paying Living Allowances for the Elderly of Local Government Organizations, 2023; "Pension Rule Change Draws Fire," *Bangkok Post*, August 15, 2023; "New Pension Rule: Stumbling Block for New Government," Khaosod English, August 15, 2023; "Govt Blames Cost for New Payout Rules on Pensions," *Bangkok Post*, August 18, 2023; "Aging Thailand Agonises Over Welfare State as Elderly Subsidy Cut," Thai PBS World, August 18, 2023; "Thailand Population 2023," World Population Review, October 18, 2023.

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