International Update

Recent Developments in Foreign Public and Private Pensions

December 2023

Europe

Romania Enacts Social Insurance Reform Law

On November 29, Romania's government enacted a social insurance reform law that raises the normal retirement age for women, alters retirement age reductions for mothers, slows increases in women's full contribution period, changes early retirement eligibility, modifies the old-age pension benefit formula, and implements cost-of-living adjustments. The reforms are intended to improve the adequacy and sustainability of the country's social insurance program and are a condition for receiving additional financial assistance from the European Union's pandemic recovery fund. According to the National House of Public Pensions, which administers the social insurance program, there were 4.6 million pensioners receiving an average monthly pension of 2,009 lei (US$439) in November.

The key reforms made by the new law—all effective January 1 unless otherwise noted—include:

- *Raising the normal retirement age for women:* The normal retirement age for women will gradually increase from 62 and 1 month to 65 (the normal retirement age for men) by January 2035. Under current rules, the normal retirement age for women is set to rise gradually to 63 by January 2030.
- *Altering retirement age reductions for mothers:* Under the new law, women who have a full contribution period (currently 32 years and 4 months of contributions) can receive a 6-month reduction to their normal retirement age for each child they raise until age 16, with a maximum reduction of 3 years and 6 months. Currently, women who have met the minimum contribution period of 15 years can receive a 6-year reduction for raising three children until age 16 plus a 1-year reduction for each additional child raised.
- *Slowing increases in women's full contribution period:* The contribution period required for women to receive a full old-age pension will gradually increase from 32 years and 4 months to 35 years (the full contribution period for men) by January 2035 instead of January 2030. The minimum contribution period for an old-age pension will remain at 15 years for both women and men.
- *Changing early retirement eligibility:* Insured individuals can claim full old-age pensions up to 5 years before the normal retirement age if their years of contributions exceed the number required for a full pension by at least 5 years instead of 8 years. It will still be possible for insured individuals to claim partial old-age pensions up to 5 years before the normal retirement age if they have completed full contribution periods.
- *Modifying the old-age pension benefit formula:* A new benefit formula will be introduced in September 2024 to ensure that workers in the same jobs for the same number of years receive equal old-age pensions. The benefits received by current pensioners will be recalculated using this new formula, which will continue to be based on a point system. Under the new system, the monthly old-age pension is calculated by multiplying an insured's total pension points by the pension point value. By contrast, under the current system, the monthly pension is calculated by multiplying an insured's lifetime average accumulated score—which is based on pension points—by the pension point value. (Under both systems, pension points are calculated based on an insured's earnings record and years of contributions.) The government estimates that approximately 3 million pensioners will see their benefits rise by an average of 22 percent following recalculation.
- *Implementing cost-of-living adjustments:* Pensions will increase by 13.8 percent in January 2024 by adjusting the pension point value from 1,785 lei (US$390) to 2,032 lei (US$445). From 2025 onward, the pension point value will be adjusted each January based on 100 percent of the annual inflation rate plus 50 percent of the annual change in average real wages.

Romania's old-age pension system consists of the social insurance program and a mandatory individual account program. The social insurance program covers employed persons with individual labor contracts, civil servants, unemployment benefit recipients, certain self-employed persons, and certain other workers. The mandatory individual account program covers employed and self-employed persons born after July 1, 1971. (Voluntary coverage is available for those born from July 1, 1961, to July 1, 1971.) To finance the social insurance program, employees contribute 21.25 percent of covered earnings. Employers do not pay contributions in most cases, but they may be required to contribute up to 8 percent of gross payroll for employees who work in certain arduous or difficult occupations. The individual account program is financed by employee contributions of 3.75 percent of covered earnings.

Sources: *Romania—Old-Age Pensions*, European Commission; *Social Security Programs Throughout the World: Europe, 2018*, U.S. Social Security Administration, September 2018; Lege 127, 2019; Lege 360, 2023; "Indicatorii de pensii de asigurări sociale de stat," National House of Public Pensions, November 2023; "Noua lege a pensiilor, adoptată de Parlament, merge la promulgare," Edupedu, November 20, 2023; "Romania Pension Law Could Pose Medium-Term Fiscal Risk," Fitch Ratings, November 23, 2023; "Romania's Pension Reform Raises Fiscal Risks, Rating Agencies Warn," Reuters, November 27, 2023; "Klaus Iohannis a promulgat legea pensiilor," Digi24, November 29, 2023.

Russia To Launch New Voluntary Individual Account Program

On January 1, Russia's government will launch a new voluntary individual account program—the Long-Term Savings Program (LTSP)—to encourage additional saving for retirement. Enacted by the government on July 10, the program will be open to all Russian citizens and be administered by Non-State Pension Funds (NSPFs) under the oversight of the country's central bank. (There are currently 37 NSPFs registered to operate funded pensions in Russia.) In addition to boosting individual retirement savings, the LTSP is intended to help Russia raise capital after economic sanctions imposed by the United States and other countries limited its access to foreign investment and lending. According to the central bank, around 6.2 million Russians (or about 4 percent of the population) were participating in voluntary pension plans at the end of November.

The key features of the LTSP include:

- *Program enrollment:* Any Russian citizen can enroll in the program by opening an account with a participating NSPF. It is possible for a participant to have multiple active accounts and to switch the NSPF managing an account once every 5 years.
- *Account contributions:* Participants can contribute up to 400,000 rubles (US$4,431) a year to their accounts on a tax-deductible basis. Employers and other individuals can also make contributions to accounts on behalf of participants. In addition, funds held in Russia's frozen mandatory individual account program can be transferred to LTSP accounts. (Russia launched the mandatory individual account program in 2002, but it was effectively frozen in 2014 when the government started diverting all individual account contributions to the country's social insurance program.)
- *Matching contributions:* To encourage saving, the government will provide participants who contribute at least 2,000 rubles (US$22) a year with up to 36,000 rubles (US$399) in annual matching contributions during their first 3 years of participation. The rate at which the government will match participants' contributions will vary depending on their average monthly incomes: 100 percent for participants with average monthly incomes up to 80,000 rubles (US$886); 50 percent for those with average monthly incomes above 80,000 rubles and up to 150,000 rubles (US$1,661), or 25 percent for those with average monthly incomes above 150,000 rubles.
- *Investment strategy:* NSPFs will decide how to invest participants' savings, but they cannot invest more than 10 percent of participants' savings in instruments classified as high risk by the central bank. NSPFs' investment options include government securities, corporate bonds, investment funds, equities, real estate, and other assets.
- *Pension payments:* Participants can receive pensions from their accounts 15 years after opening the accounts or when they reach age 55 (women) or age 60 (men). The account balances can be paid as monthly periodic payments over 10 years or for life. However, if the monthly lifetime benefits would be less than 10 percent of the legal minimum subsistence level for a pensioner (13,290 rubles [US$147] in 2024), the account balances can be paid as lump sums.
- *Early withdrawals:* Participants can withdraw their entire account balances before qualifying for a pension if they experience certain hardships, such as needing expensive medical treatment or losing a household breadwinner. Participants can also

withdraw their contributions, minus tax deductions, from their accounts at any time. (Investment returns, government matching contributions, and funds transferred from other pension accounts cannot be withdrawn in this case.)

- *Death benefit:* If participants die before receiving pensions, their entire account balances will be paid to their designated beneficiaries or legal heirs. If participants die while they are receiving fixed-term monthly benefits, the remaining monthly benefits will be paid to their designated beneficiaries or legal heirs. No death benefits will be paid for participants who die while receiving lifelong monthly benefits.
- *Account insurance:* The government will guarantee up to 2.8 million rubles (US$31,014) of a participant's assets held in an NSPF, if the NSPF becomes insolvent or loses its license.

Russia's old-age pension system consists of a social insurance program covering employed and self-employed persons, the frozen mandatory individual account program covering certain individuals who worked in the 2002–2014 period, and a social assistance program covering needy residents. To qualify for a social insurance old-age pension, an insured individual must generally have reached the normal retirement age of 57 (women, gradually rising to 60 by 2028) or 62 (men, gradually rising to 65 by 2028), have at least 14 years of coverage (rising to 15 years in 2024), and have at least 25.2 pension points (rising by 2.4 pension points a year until reaching 30 pension points by 2025). (The number of pension points is calculated based on the insured's number of contributions and the length of the insured's insurance record.) A social assistance old-age pension is available to individuals who have reached age 60 (women) or 65 (men) and do not qualify for a social insurance pension.

Sources: "The Cost of Living of a Pensioner for the Russian Federation as a Whole," ConsultantPlus; "How Pensions are Formed and Calculated," Social Fund of Russia; *Social Security Programs Throughout the World: Europe, 2018*, U.S. Social Security Administration, September 2018; Federal Law 299-FZ, 2023; "Attempts to Cover Budget Deficit: Russian Federation Proposes to Introduce Savings Programme for Population," Ukrainska Pravda, April 27, 2023; "Long-Term Savings Programme to Be Launched in Russia in 2024," Central Bank of the Russian Federation, June 27, 2023; "How Does the Long-Term Savings Program Work?" fincult.info, November 17, 2023.

Asia and the Pacific

United Arab Emirates Reforms Social Insurance Pension Program

On November 17, the General Pension and Social Security Authority (GPSSA) of the United Arab Emirates (UAE) announced a new law that reforms the country's federal social insurance pension program covering most Emirati employees. (The GPSSA program covers public- and private-sector Emirati employees in all seven emirates that comprise the UAE except Abu Dhabi and Sharjah [only local public-sector employees are excluded].) The new law applies only to Emiratis who first enter the workforce on or after October 31, while those employed before this date are still subject to the previous rules. With the new law, the government is seeking to improve the sustainability of the social insurance program and narrow the benefit differences for Emiratis employed in the public and private sectors. In June, the GPSSA reported that the social insurance program had 104,038 contributors—around 75 percent of whom were in the public sector—and 27,916 pensioners and beneficiaries.

Although the GPSSA still needs to work out many details of the social insurance program changes, the key provisions of the new law include:

- *Increasing contribution rates:* The contribution rate for public- and private-sector employees has risen from 5 percent to 11 percent of monthly covered earnings. While the public-sector employer contribution rate remains at 15 percent, the private-sector employer contribution rate has increased from 12.5 percent to 15 percent of monthly covered payroll. To encourage more private-sector employment of Emiratis. the government will cover a 2.5 percentage-point share of the employer contributions for private-sector Emirati employees with monthly covered earnings below 20,000 dirhams (US$5,446).
- *Changing covered earnings:* The minimum monthly covered earnings for private-sector Emirati employees has increased from 1,000 dirhams (US$272) to 3,000 dirhams (US$817). (There continues to be no minimum covered earnings for public-sector Emirati employees.) At the same time, the maximum monthly covered earnings have increased from 50,000 dirhams (US$13,615) to 70,000 dirhams (US$19,061) for private-sector Emirati employees

and decreased from 300,000 dirhams (US$81,688) to 100,000 dirhams (US$27,229) for public-sector Emirati employees.

- *Allowing contributions during unpaid leave:* Insured Emiratis who take unpaid leave from their jobs to pursue postgraduate studies or care for children as mothers can now choose to pay contributions during their leave periods.
- *Modifying service purchasing rules:* Under previous rules, insured individuals can purchase up to 5 years (men) or 10 years (women) additional service for their contribution records if they have at least 20 years of actual contributions. Under the new rules, insured individuals can purchase up to 5 years (both men and women) of additional service if they have at least 25 years of contributions or have reached age 60 with at least 15 years of contributions.
- *Raising the minimum retirement age and contribution period:* The minimum age for claiming an old-age pension has increased from 50 to 55, and the minimum contribution period for pension entitlement has increased from 20 years to 30 years.
- *Adding preferential retirement conditions for mothers:* The minimum retirement age and contribution period may be reduced for insured women who are married, divorced, or widowed and have at least five children.
- *Harmonizing pension reference earnings:* The old-age pensions for both public- and private-sector employers are now calculated based on an insured person's average covered earnings in the last 6 years (or the entire period if less than 6 years). Under previous rules, the reference earnings are based on the insured's covered earnings in the last 3 years (public-sector employees) or 5 years (private-sector employees).
- *Expanding pensioner work eligibility:* The previous rules do not allow individuals receiving old-age pensions to continue working unless they had at least 25 years of public-sector employment when claiming their pensions. Under the new law, all old-age pensioners, regardless of where they were previously employed, can continue paid work if they have at least 30 years of contributions.

The UAE's old-age pension system for Emiratis consists of the GPSSA-administered social insurance program and a means-tested social pension. (Separate social insurance programs are operated by Abu Dhabi for all local employees and by Sharjah for local public-sector employees.) To qualify for a social insurance old-age pension, an Emirati must have reached the normal retirement age of 60 and have at least 15 years of contributions. Although the social insurance program does not cover non-Emirati employees, who constitute most of the country's private-sector labor force, these employees can qualify for end-of-service gratuity benefits from their employers after 1 year of service. Non-Emirati employees generally must retire by age 65.

Sources: Federal Law No. 7, 1999; Federal Law No. 57, 2023; "Pension and End-of-Service Benefits," u.ae, May 28, 2023; "UAE Pension Authority Sees Sharp Rise in Subscribers," *Gulf News*, July 24, 2023; "GPSSA Explains the Steps Involved in Calculating the Retirement Pension and End-of-Service Gratuity," General Pension and Social Security Authority, October 18, 2023; "General Pension and Social Security Authority Announces Issuance of New Federal Decree Law on Pension," General Pension and Social Security Authority, November 17, 2023; "UAE Announces New Federal Law on Enhancing Flexibility of Social Security Services," *Gulf News*, November 17, 2023; "GPSSA's New Pension Law Applies to Emirati's Joining Work Starting October 31st, 2023," General Pension and Social Security Authority, November 27, 2023.

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.

Editor: Ben Danforth

Writers/researchers: Ben Danforth, Patrick J. Purcell, and David Rajnes.

Social Security Administration
Office of Retirement and Disability Policy
Office of Research, Evaluation, and Statistics
250 E Street SW, 8th Floor, Washington, DC 20254

SSA Publication No. 13-11712
Produced and published at U.S. taxpayer expense