International Update

Recent Developments in Foreign Public and Private Pensions

January 2024

Europe

Austria Increases Deferred Retirement Incentives

On January 1, Austria's government implemented two reforms to the country's social insurance pension program to encourage older Austrians to defer claiming old-age pensions and remain in the workforce longer. The first reform increases the pension bonus for each year of pension deferral after the normal retirement age (60.5 for women and 65 for men) from 4.2 percent to 5.1 percent, with a maximum bonus of 15.3 percent for 3 years of deferral. Under the second reform, retirement-age individuals who defer claiming old-age pensions and continue working are exempt from paying pension contributions on the first €1,037 (US$1,146) of earnings each month for up to 2 years. (Employers must still pay pension contributions on these earnings.) To increase awareness of these incentives, Austrian law requires employers to inform employees about the effects of retiring at different ages—including beyond the normal retirement age—on their pension benefits. These deferred retirement changes coincide with the start of the gradual increase in the women's retirement age from 60 to 65 (the current retirement age for men) by 2033. The government has stated that the social insurance pension program is sustainable only if workers begin to retire later. According to the Organisation for Co-operation and Development, the average age of labor market exit in Austria is 61.6 for men and 60.9 for women.

Austria's social insurance pension program covers wage earners and salaried employees with monthly earnings of at least €518.44 (US$573) in 2024, and apprentices. Employees contribute 10.25 percent of monthly covered earnings and employers contribute 12.55 percent of monthly covered payroll to finance the program. To qualify for an old-age pension, insured persons must have reached the normal retirement age and have a minimum number of contributions that vary depending on their birth year and first contribution date. In general, insured persons born in 1955 or later are entitled to an old-age pension if they have at least 180 months of contributions, 84 of which must come from employment. The remaining 96 months of contributions can come from employment or be credited for time spent caregiving; serving in the military; or receiving sickness, maternity, or unemployment benefits. Insured persons who have at least 540 months of contributions before reaching the normal retirement age can claim a reduced old-age pension as early as age 62. (This provision currently only applies to men, but it will also apply to women starting in 2028. Special rules apply to persons who engaged in at least 120 months of arduous work in the last 240 months.)

Sources: *Social Security Programs Throughout the World: Europe, 2018*, U.S. Social Security Administration, September 2018; Allgemeines Sozialversicherungsgesetz, Gewerbliches Sozialversicherungsgesetz u.a., Änderung (3743/A), 2023; "Austria–Old-Age Pensions and Benefits," European Commission, 2023. "Pensions at a Glance 2023: Country Profiles—Austria," Organisation for Economic Co-operation and Development, December 2023; "Federal Government Announces Incentives for Older Employees to Work Beyond Retirement Age in 2024," Gallagher GVISOR Compliance Alerts, December 22, 2023; "What's Changing About Pensions in Austria: Raising the Retirement Age for Women Will Take Effect for the First Time in 2024," *Austrian News*, December 25, 2023.

Ireland Begins Implementing State Pension Changes

On January 1, Ireland's government began implementing changes to the country's contributory State Pension program that include introducing deferred retirement incentives, establishing contribution credits for long-term caregivers, raising contribution rates, and phasing in a total contributions approach to pension entitlement. Most of the changes were signed into law on December 14 after the government proposed them in its 2024 budget. (The contribution rate increases still need to be codified.) The changes are intended to improve the financial sustainability of the contributory State Pension program and make it fairer and more flexible for workers with longer careers.

Before the changes were implemented, an actuarial review projected that the social insurance fund used to finance the State Pension and other public benefits would have a deficit by 2035 and be depleted by 2045.

The key changes made to the contributory State Pension program include:

- *Introducing deferred retirement incentives:* Effective January 1, individuals born after 1957 can receive actuarially adjusted higher pensions if they defer claiming the pensions when they reach the normal retirement age of 66. (Benefit increases were not previously granted for deferred retirement.) Under this provision, pensions can be deferred up to 4 years after the normal retirement age, and the maximum weekly benefit (based on 2024 figures) of €277.30 (US$306) for normal retirement at age 66 increases to €290.30 (US$321) for retirement at age 67, €304.80 (US$337) for retirement at age 68, €320.30 (US$354) for retirement at age 69, and €337.20 (US$373) for retirement at age 70. Individuals can also continue to pay contributions while they are deferring retirement to boost their pension entitlements or meet the minimum qualifying conditions. (Individuals must have at least 10 years of contributions to qualify for a contributory State Pension.)
- *Establishing contribution credits for long-term caregivers:* Effective January 1, individuals who have provided at least 20 years of full-time care to persons needing constant attendance can receive credited contributions for the periods of care work. To qualify for the credited contributions, the care work must have been performed while the caregivers were permanent residents of Ireland; aged 16 to 65; not receiving social benefits other than those for caregivers; and not engaged in more than 18.5 hours a week of other work (paid or voluntary), training, or education.
- *Raising contribution rates:* On October 1, contribution rates for employees, self-employed persons, and employers will increase by 0.1 percentage points. As a result, the employee contribution rate will rise to 4.1 percent of weekly covered earnings, the self-employed contribution rate to 4.1 percent of annual covered income, and the employer contribution rate to 8.9 percent (for employees with weekly earnings up to €441 [US$487]) or 11.15 percent (for employees with weekly earnings exceeding €441) of gross weekly payroll.
- *Phasing in a total contributions approach to pension entitlement:* Starting in January 2025, the program will gradually shift over a 10-year period to an entitlement model based on the total number of years an insured person pays contributions. Currently, pension entitlement is based on a yearly average of contributions, and it is possible to qualify for a full pension with as few as 10 years of contributions. Under the total contribution approach, individuals must have at least 40 years of contributions to receive a full pension. Both approaches allow up to 20 years of credited contributions for periods of full-time caring of children younger than age 12 and persons needing increased care, and up to 10 years of credited contributions for periods of social benefit receipt, education, training, military service, and certain other activities.

The State Pension program is the primary source of retirement income in Ireland and provides contributory and noncontributory old-age pensions. To qualify for the contributory pension under the yearly average method being phased out, Irish residents must have reached the normal retirement age and have an annual average of at least 10 weeks of paid or credited contributions since entering the workforce (or since 1979), whichever is later. The full pension is paid to individuals who have annual averages of at least 48 weeks of contributions. Individuals may qualify for the means-tested noncontributory pension if they do not meet the contribution requirements for a contributory pension or receive small contributory pensions.

Sources: *Social Security Programs Throughout the World: Europe, 2018*, U.S. Social Security Administration, September 2018; "Ireland Approves State Pension Reform Package," *International Update*, U.S. Social Security Administration, October 2022; "Actuarial Review of the Social Insurance Fund as at 31 December 2020," KPMG, September 28, 2022; "Advance Notice for 2024: PRSI Changes Announced in Budget 2024," Ireland Department of Social Protection, 2023; Social Welfare (Miscellaneous Provisions) Act, No. 37, 2023; "Long-Term Carers Contribution Periods," Ireland Department of Social Protection, September 29, 2023; "Minister Humphreys Announces Major Pension Reform to Take Effect From 1st January," Ireland Department of Social Protection, December 29, 2023; "Changes to the State Pension (Contributory) in Ireland," Ireland Department of Social Protection, January 2, 2024; "A More Flexible Contributory State Pension," Ireland Department of Social Protection, January 4, 2024; "State Pension (Contributory)," Ireland Department of Social Protection, January 5, 2024.

International

Organisation for Economic Co-operation and Development Releases Pensions at a Glance 2023: OECD and G20 Indicators

On December 13, the Organisation for Economic Co-operation and Development (OECD) released *Pensions at a Glance 2023: OECD and G20 Indicators*, its biennial report examining public and private pension systems in the 38 OECD-member countries and the G20 countries. This 10th edition covers pension reforms legislated from September 2021 to September 2023, and provides updated comparative information on pension design, generosity, and financing; the well-being of older persons; and demographic and economic trends. The report also includes special sections examining the effects of high inflation on pension systems and the design of pension provisions for individuals engaged in hazardous or arduous work.

According to the report, over half of OECD countries fully protect earnings-related pensions from inflation by indexing the benefits to prices or to a combination of prices and real-wage growth. The indexation strategies used by OECD countries include price indexation at or above price inflation (22 countries), price indexation below price inflation (1 country), wage indexation at or above wage inflation (2 countries), wage indexation below wage inflation (1 country), a mix of price and wage indexation (5 countries), and no indexation (7 countries). Based on recent experience with surging inflation, the report notes that price indexation can be more favorable to pensioners than wage indexation in the short term when real wages fall. However, from a financial perspective, these economic conditions can make price indexation more costly than expected in the long run. The report emphasizes that indexation is most effective in preserving pensioners' purchasing power when it is applied frequently and consistently to benefits.

Other notable findings from the report's general analysis of recent developments and trends include:

- Normal retirement ages are scheduled to increase in 23 of the 38 OECD countries, with the OECD averages reaching 66.3 for men and 65.8 for women. Normal retirement ages may rise to 70 or more in Denmark, Estonia, Italy, the Netherlands, and Sweden, should life expectancy gains materialize as projected and legislated links between retirement ages and life expectancy remain in place.
- Life expectancy at age 65 has continued to rise since 2021, following a slight decline in 2020, but the rate of increase has slowed compared to previous periods. Across the OECD, life expectancy at age 65 in 2022 averaged 83.0 years for men and 86.2 years for women. The figure was highest for men in Australia, New Zealand, and Switzerland (at 85.3 years or more) and women in Japan (89.9 years), and lowest for men in Lithuania (78.1 years) and women in Colombia, Hungary, and Slovakia (below 83.0 years).
- Older worker employment is becoming increasingly important for maintaining pension system sustainability and avoiding labor shortages with the share of the population aged 65 or older in OECD countries projected to increase from 18 percent in 2022 to 27 percent in 2050. Fortunately, older worker employment has increased markedly across the OECD over the past decade, with the employment rate of individuals aged 55 to 64 increasing by nearly 8 percentage points to a record 64 percent.
- Average disposable incomes of individuals older than 65 as a share of the average for the total population grew from 81 percent in 2000 to 88 percent in 2020. Among OECD countries, this figure ranges from around 70 percent or less in Estonia, Latvia, Lithuania, and South Korea, to around 100 percent or more in Costa Rica, France, Israel, Italy, Luxembourg, and Mexico.

In its examination of special provisions for individuals in hazardous or arduous jobs covered by mandatory or quasi-mandatory pension programs, the report finds that 11 OECD countries have no special provisions for such workers. In the other 27 OECD countries, 15 have special provisions for many jobs considered hazardous or arduous, 8 have special provisions for a limited number of jobs, and 4 restrict the special provisions to certain public safety and military jobs. Although these special provisions typically give workers access to early retirement based on their occupations—either through occupation-specific programs or special rules within general pension programs—the report suggests that the provisions could be better targeted at individuals with little to no work capacity. For example, over the past 2 decades, some countries—including Finland and France—have reformed eligibility for their special provisions to be based on specific job characteristics (such as nighttime work) rather than occupations. The report also contends that countries could do more to address hazardous and arduous work outside of old-age pension policy, including through workplace safety regulations; reskilling and upskilling programs; and benefit programs covering work injury, sickness, and disability.

Source: *Pensions at a Glance 2023: OECD and G20 Indicators*, Organisation for Economic Co-operation and Development, December 13, 2023.

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