International Update

Recent Developments in Foreign Public and Private Pensions

February 2024

Asia and the Pacific

Australia Increases Work Incentives for Most Old-Age Pensioners

On January 1, Australia's government amended its Work Bonus policy to encourage retirement-age recipients of means-tested pensions to work more. The Work Bonus incentivizes work by increasing the amount that pensioners who have reached the normal retirement age (currently 67) can earn without affecting their means-tested benefits, including the Age Pension received by around 58 percent of Australians aged 65 or older. Under the policy, the first A$300 (US$196) of pensioners' biweekly incomes from employment or self-employment are exempted from pension income tests, and unused portions of the biweekly exemption accrue in a Work Bonus Income Bank for later use. The new amendment raises the maximum amount that can accrue in each pensioner's income bank from A$7,800 (US$5,083) to A$11,800 (US$7,690) and introduces a starting balance of A$4,000 (US$2,607) for all new eligible pensioners. (Similar measures were implemented in December 2022, but only on a temporary basis.) As of March 2023, the government estimates that around 3.2 percent of Age Pensioners were engaged in paid work, with over 80 percent of them having biweekly earnings exceeding A$250 (US$163).

First introduced in 2009, the Work Bonus augments the standard income exemption provided to all Age Pensioners under the program's income test. Currently, the income test exempts up to A$204 (US$133, if single) or A$360 (US$235, if partnered) of pensioners' biweekly incomes (combined for couples) from sources other than the Age Pension, most other public benefits, or certain other income types. When pensioners' biweekly incomes exceed their exempted amounts, their benefits are reduced by 50 percent (if single) or 25 percent (if partnered) of the excess income. The Age Pension also has an asset test that reduces benefits for pensioners with assets (combined for couples) above A$301,750 (US$196,645, for single homeowners), A$543,750 (US$354,352, for single non-homeowners), A$451,500 (US$294,234, for partnered homeowners), or A$693,500 (US$451,941, for partnered non-homeowners). (Principal residences are excluded from the asset test, and special rules apply to couples separated because of illness.)

The main components of Australia's old-age pension system are the Age Pension program and a mandatory occupational pension (superannuation) program. To finance the superannuation program, employers must contribute at least 11 percent of employees' earnings (rising by 0.5 percentage points every July until reaching 12 percent in July 2025) to private superannuation funds. Employees are not required to contribute to the program, but the government offers tax incentives and matching funds to encourage voluntary contributions, particularly from low- and middle-income workers. To claim a superannuation retirement benefit, participants must have reached age 59 (rising to age 60 in July 2024) and be permanently retired (or participating in the Transition to Retirement program). The Age Pension is financed and administered by the Australian government and is paid to individuals aged 67 or older who have resided in Australia for at least 10 years (including at least 5 consecutive years) and satisfy the program's means test.

Sources: *Social Security Programs Throughout the World: Asia and the Pacific, 2018*, U.S. Social Security Administration, March 2019; Social Security and Other Legislation Amendment (Supporting the Transition to Work) Bill, 2023; "Income Support for Older Australians," Australian Institute of Health and Welfare, September 7, 2023; "Getting More Australians Back Into Work," Australian Treasury Portfolio Ministers, September 25, 2023; "Age Pension," Services Australia, February 1, 2024; "Guides to Social Policy Law: Social Security Guide, Version 1.31," Australian Government, February 5, 2024; "Work Bonus," Services Australia, February 20, 2024.

United Arab Emirates Establishes Alternative End-of-Service Benefits Program

On October 10, the government of the United Arab Emirates (UAE) issued a decree that establishes a voluntary alternative program for end-of-service benefits (EOSBs) called the Savings Scheme. Under this new program, private-sector employers and free-zone employers can choose to fund future EOSBs by contributing to defined contribution individual accounts on behalf of their employees. By contrast, under the standard EOSB program, employers must pay employees lump-sum benefits based on their basic salaries and years of service when employment ends for any reason. According to the government, the Savings Scheme is intended to help UAE's private sector firms attract and retain foreign workers by allowing the firms to offer defined contribution retirement saving vehicles like those found in other countries. As in other Gulf countries, the UAE relies heavily on foreign labor to staff its workforce—as of 2021, around 86 percent of the country's 6.1 million workers were foreign nationals.

Key features of the new Savings Scheme program include:

- *Employer participation:* The program is available to employers in the private sector and free zones, excluding the Dubai International Financial Centre (DIFC) free zone. (The DIFC introduced its own individual account program in 2020.) Employers choosing to participate in the program must enroll with the Ministry of Human Resources and Emiritisation (MoHRE) and select the categories of employees who will participate in the program. Enrolled employers must remain in the program for at least 1 year and preserve their employees' EOSBs accrued under the standard program.
- *Account contributions:* The program requires employers to make monthly contributions to participating employees' individual accounts at rates that vary depending on the employee's length of service. Specifically, employers must contribute at least 5.83 percent of monthly basic salary for employees with less than 5 years of service or at least 8.33 percent of monthly basic salary for employees with 5 years or more of service. (Lengths of service are calculated based on employees' start dates with their employers rather than their program enrollment dates.) Employee contributions are not required under the new program, but participating employees can choose to contribute up to 25 percent of their annual basic salaries to their accounts each year, either as regular installments or lump-sum payments.
- *Investment options:* Participating employees can invest their account savings in professionally managed investment funds with three different profiles: risk-free capital guarantee funds, risk-based funds with varying levels of risk, and Sharia-compliant funds.
- *Account withdrawals:* Participating employees can withdraw any portion of their account balances—which include total employer and employee contributions plus accrued investment returns—within 14 days of terminating employment. Employees can also choose to keep their accounts open and continue their program participation after their departures. If employees have made voluntary contributions to their accounts, these funds can be accessed at any time before employment ends.
- *Program administration:* The individual accounts are managed by investment fund providers licensed by the Securities and Commodities Authority (SCA) and selected by enrolled employers. The SCA is responsible for overseeing investment funds and account management, while MoHRE is responsible for monitoring employer compliance with program rules.

In addition to the standard and alternative EOSB programs, the UAE's old-age pension system consists of social insurance and social pension programs for Emirati citizens. The social insurance program covers public- and private-sector Emirati employees in all 7 emirates that comprise the UAE, except Abu Dhabi and Sharjah. (Separate social insurance programs are operated in Abu Dhabi for all local employees and in 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 contributed for at least 15 years. Although the social insurance program does not cover non-Emirati employees, these employees can qualify for EOSBs after 1 year of continuous service. Non-Emirati employees generally must retire by age 65, and the standard EOSB for these employees is equal to 21 days of basic salary for each of the first 5 years of service, plus 30 days of basic salary for each year of service exceeding 5 years.

Sources: "Everything You Need to Know About the UAE's New End-of-Service Savings Scheme," *The National*, November 2, 2023; "UAE: New End-of-Service Gratuity Scheme Now in Force; Here's What It Offers," *Gulf Business*, November 8, 2023; "End of Service Benefits for Workers in the Private Sector," u.ae, November 28, 2023; "United Arab Emirates Reforms Social Insurance Pension Program," *International Update*, U.S. Social Security Administration, December, 2023; "United Arab Emirates," Gallagher GVISOR Country Manual, February 2024.

The Americas

Cuba Changes Pension Calculations to Reduce Benefits for Higher Earners

On January 4, Cuba's government issued a decree that changes how old-age and total disability pensions paid under the country's social insurance program are calculated for individuals with higher average earnings during their work careers. As a result, Cuban residents retiring on or after January 4 with average monthly earnings above the maximum base wage for public-sector employees (currently 9,510 pesos [US$396] a month) will see their pension entitlements reduced. (It has become increasingly common for employees in Cuba's large public sector to receive extra compensation—including education bonuses, performance incentives, and profit distributions—on top of their base wages.) Cuba's Council of Ministers approved the decree on November 29 to curb a rise in public pension expenditures following the implementation of 2021 reforms that increased profit distributions to state-enterprise employees and eliminated the covered earnings ceiling for social insurance pensions. Cutting public spending has become a priority for the government as Cuba faces a worsening economic situation. According to recent government estimates, the country's gross domestic product (GDP) has contracted by around 10 percent since 2019 and its fiscal deficit exceeds 18 percent of GDP.

The decree reduces new pensions for higher earners by changing the earnings base used in social insurance pension calculations. The new earnings base is the sum of 100 percent of an insured person's average monthly earnings up to 9,510 pesos, 60 percent of average monthly earnings exceeding 9,510 pesos and up to 19,020 pesos (US$793), 40 percent of average monthly earnings exceeding 19,020 pesos and up to 28,530 pesos (US$1,189), and 20 percent of average monthly earnings exceeding 28,530 pesos. Previously, the earnings base was the insured's total average monthly earnings. The insured's average monthly earnings continue to be based on their full years of earnings since 2021 (if retiring before 2025) or their best 5 years of earnings in the last 15 years (if retiring in 2025 or later).

Cuba's old-age pension system consists of the social insurance program for most public- and private-sector employees and a social assistance program for needy residents. To finance the social insurance program, employees and employers pay monthly contributions and the government covers any deficit. Insured persons qualify for the social insurance old-age pension if they have reached the normal retirement age of 65 (men) or 60 (women) and have at least 30 years of employment. (Special rules may apply to those who have performed arduous or dangerous work.) A partial pension may be paid to insured persons with at least 20 years but less than 30 years of employment. Individuals with less than 20 years of employment who are incapable of work and lack family support may qualify for a government-financed social assistance pension.

Source: *Social Security Programs Throughout the World: The Americas, 2019*, U.S. Social Security Administration, March 2020; "Eficiencia empresarial: de la aprobación de las normas a su aplicación efectiva," Ministerio de Finanzas y Precios, May 12, 2021; Decreto 99, 2023; "Cuba's Economy Still Shrinking, Minister Says," Reuters, December 20, 2023; "Cambios en el sistema de pensiones en cuba. ¿Cuánto cobrarán los jubilados a partir de 2024?" elTOQUE, January 9, 2024; "Decreto 99: Modifica reglamento de la ley de seguridad social en Cuba (preguntas y respuestas)," Ministerio de Trabajo y Seguridad Social, January 12, 2024.

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