



International Update

Recent Developments in Foreign
Public and Private Pensions

June 2024

Europe

Guernsey Launches Auto-Enrollment Pension Program

On July 1, Guernsey will launch a new auto-enrollment pension program—known as Secondary Pensions (SP)—to supplement the old-age benefits provided by the country’s State Pension program. The SP program will initially apply only to private-sector employers with 26 or more employees and then will gradually extend to all private-sector employers over the next 15 months. Guernsey’s government approved the creation of the SP program in 2022, but delayed its implementation to give employers and pension providers time to establish pension plans and procedures that meet the program’s requirements. The SP program is intended to improve the retirement security of future pensioners and reduce financial pressures on public old-age benefit programs by significantly increasing occupational pension participation. According to government estimates, around 65 percent of Guernsey’s working-age individuals do not currently contribute to an occupational or personal pension plan.

The key features of the new SP program include:

- **Covered employers:** All private-sector employers will be required to provide their employees with qualified occupational plans under the program. (The government already operates special occupational pension plans for civil servants and teachers.) However, program requirements are being phased in gradually based on employer size as of June 30, 2024. According to the current schedule, the requirements will apply to employers with at least 26 employees on July 1, 2024; employers with 11 to 25 employees on October 1, 2024; employers with 6 to 10 employees on January 1, 2025; employers with 2 to 5 employees on July 1, 2025; and employers with 1 employee on October 1, 2025.
- **Employee enrollment:** Covered employers must automatically enroll their employees in qualified occupational pension plans if the employees are Guernsey residents (including residents of the jurisdictions of Herm, Jethou, and Alderney), aged 16 to the State Pension Age (currently 65 and 10 months, but gradually rising to 70 by 2049), not full-time students, and have estimated future annual earnings meeting the minimum for social security contributions (£9,100 [US\$11,568] in 2024). Employees who do not meet the conditions for automatic enrollment can voluntarily join pension plans if they are Guernsey residents and aged 16 to 74. After being enrolled, employees can opt out of pension plans at any time by notifying their employers. If employees opt out within 6 weeks of enrollment, they can request a refund of their employee and employer contributions. Covered employers must reenroll opted-out employees within 3 months of the third anniversaries of their opt-out dates.
- **Qualified pension plans:** Employers can provide their employees with occupational pension coverage by sponsoring their own approved pension plans or participating in the government-sponsored but privately managed Your Island Pension (YIP) plan. Most pension plans are expected to operate on a defined contribution basis, but defined benefit pension plans are also allowed if they meet certain conditions. If employers sponsor their own pension plans and do not make employee participation compulsory, they must allow their employees to participate in the YIP plan if they choose and provide notices comparing their plans with the YIP plan.
- **Program financing:** To finance defined contribution occupational pension plans, employees must contribute at least 1 percent (gradually rising to 6.5 percent by 2032) of covered earnings and employers must contribute at least 1 percent (gradually rising to 3.5 percent by 2032) of covered payroll. Employers can choose to cover part or all the employee share of contributions. The earnings/payroll used to calculate contributions will be the same as those for social security contributions, with a lower earnings limit of £175 (US\$222) a week and an upper earnings limit of £3,459 (US\$4,397) a week.
- **Old-age benefits:** Participating employees can claim old-age benefits under the SP program starting at the State Pension Age unless their employment

contracts specify different retirement ages. Although payment options vary by pension plan, participants can usually withdraw up to 30 percent of their account balances as lump sums at retirement and receive the remaining funds as periodic payments.

In addition to the SP program, Guernsey's old-age pension system consists of the social insurance State Pension program and the means-tested Income Support program. Insured individuals qualify for a State Pension if they have reached the State Pension Age and have at least 156 weeks of paid contributions and an annual average of at least 10 weeks of paid or credited contributions over a 45-year period. (Contributions may be credited for periods insured individuals receive other social security benefits.) The full State Pension is paid to insured individuals who qualify with an annual average of at least 50 weeks of paid or credited contributions over a 45-year period. If retirement-age residents of Guernsey have income and assets below certain limits, they may qualify for benefits under the government-financed Income Support program.

Sources: "Benefit Payment & Contribution Rates for 2024, No. 50," States of Guernsey Social Security; "Benefits: State Pension, No. 15," States of Guernsey Social Security; "Secondary Pensions," States of Guernsey; *Social Security Programs Throughout the World: Europe, 2018*, U.S. Social Security Administration, September 2018; The Secondary Pensions (Guernsey and Alderney) Law, 2022; "Secondary Pensions: Your Island Pension to Be Available from 1st January 2024," States of Guernsey, March 21, 2023; "Guidance for Employers," States of Guernsey Revenue Service, February 2024; "Less than One Month until Secondary Pensions Enrolment," States of Guernsey, June 5, 2024; "Pensions Deadline Approaches for Larger Firms," BBC, June 6, 2024.

Africa

South Africa Enacts Changes to Occupational Pension System

On June 1, South Africa's president signed a law that will introduce a "two pot" arrangement in the country's occupational pension system effective September 1. (The occupational pension system allows South African employers and groups of employers to voluntarily offer various types of defined benefit and defined contribution plans to their employees.) Under this new arrangement, participants' contributions paid from September 1 will be split between a savings pot that can be accessed before retirement and a retirement pot (Participants' savings that have accumulated before September 1 will be transferred to a third pot

known as the vested pot.) that can only be accessed in retirement. The move to a two-pot arrangement is intended to improve the preservation of retirement savings in the occupational pension system by giving participants access to a dedicated source of emergency savings. Under the current one-pot arrangement, participants can only access their occupational pension savings before retirement if they resign their jobs and withdraw their entire account balances. According to estimates from the National Treasury of South Africa and other sources, over 90 percent of South Africans lack the financial resources needed to maintain their standards of living once they retire.

The main features of the new two-pot arrangement include:

- *Covered plans:* The new arrangement will apply to all occupational pension plans that cover public- or private-sector workers in South Africa, except for legacy plans that are being phased out and plans with no active participants. Participants in provident funds (a type of defined contribution occupational pension plan) who were aged 55 or older on March 1, 2021, will continue to be subject to the current rules unless they opt into the two-pot arrangement.
- *Contribution allocations:* Starting on September 1, one-third of each participant's contributions will be allocated to a savings pot and the remaining two-thirds to a retirement pot. On August 31, 10 percent of a participant's existing occupational pension savings or 30,000 rand (US\$1,604), whichever is lower, will be transferred to the savings pot as a one-time deposit. All remaining savings that have accrued by August 31 will be placed in a vested pot that will remain subject to current withdrawal rules.
- *Withdrawal options:* Participants will be allowed to make one-time withdrawals of at least 2,000 rand (US\$107) from their savings pots each tax year. (There is no maximum withdrawal amount.) If participants belong to multiple pension plans, they can make an annual savings pot withdrawal from each plan. By contrast, participants will not be allowed to make any withdrawals from their retirement pots before retirement. When they retire, the total balances of their retirement pots must be used to purchase an annuity. As can be done under current rules, participants will be able to withdraw the total balances of vested pots when they resign or are terminated from employment. At retirement, up to one third of vested pots can usually be withdrawn as

a lump sum and the remaining funds must be used to purchase an annuity.

- *Tax treatment:* Withdrawals from savings pots will be subject to income tax. At retirement, lump-sum withdrawals and annuity payments are also taxable if they exceed certain amounts.

In addition to occupational pension plans, South Africa's old-age pension system consists of a social assistance old-age grant program (Older Person's Grant) and personal savings. The government-financed old-age grant is paid to needy residents of South Africa who are citizens, permanent residents, or refugees. To qualify for the old-age grant, an individual must be aged 60 or older, not be receiving any other social assistance benefit, and satisfy a means test. Under the means test, the maximum annual income allowed is 101,640 rand (US\$5,435) for single individuals and 203,280 rand (US\$10,871) for couples, and the maximum assets allowed are 1,438,800 rand (US\$76,943) for single individuals and 2,877,600 rand (US\$153,886) for couples. The maximum monthly benefit paid under the program is 2,180 rand (US\$117) if aged 60 to 74 or 2,200 rand (US\$118) if aged 75 or older. (In October 2024, the monthly amounts will increase by 10 rand [US\$0.53].) An additional monthly allowance of 530 rand (US\$28) is paid if an old-age grant recipient requires constant attendance.

Sources: "You and Your Grants 2024/25," South African Social Security Agency; "South Africa Implements New Provident Fund Rules" *International Update*, U.S. Social Security Administration, May 2021; Revenue Laws Amendment Bill, 2023; "90% of South Africans Don't Save Enough for Retirement," *News24*, July 1, 2023; "Frequently Asked Questions—Two-Pot Retirement System," National Treasury Republic of South Africa, 2024; "President Signs Law Allowing Emergency Access to Retirement Funds," The Presidency of the Republic of South Africa, June 1, 2024; "What You Need to Know about South Africa's New Retirement System," *BusinessTech*, June 9, 2024; "Explainer: What You Need to Know about the Two-Pot Retirement System," *News24*, June 15, 2024.

The Americas

Venezuela Sets Contribution Rate for New Public Pension Fund

On May 16, Venezuela's government enacted a presidential decree that sets the contribution rate private-sector employers must pay to a new public pension fund at 9 percent of gross payroll. (Private-sector employers are already required to contribute 9 percent to 11 percent of covered payroll, depending on

their risk categories, to Venezuela's social security system.) The country's National Assembly approved the creation of the new pension fund at the beginning of May to bolster the financing of old-age pensions and other public benefits, and it authorized the president to establish an employer contribution rate of up to 15 percent. The decree stipulates that the 9 percent contribution rate is effective immediately, but it exempts employers registered in the National Registry of Businesses (Registro de Nacional de Emprendimientos, or RNE) from paying contributions for 1 year. (Registering in the RNE gives companies up to 2 years of legal status in Venezuela; after 2 years, companies must be registered with applicable commercial registries.) With the new pension fund, the government is seeking to take advantage of an improving economic situation to strengthen public benefits and raise living standards. According to the International Monetary Fund, Venezuela's gross domestic product has increased every year since 2021—with a real annual growth rate of 4 percent in 2023—following nearly a 75 percent decline over the previous 8 years.

The monthly old-age pensions paid by Venezuela's public pension programs have been frozen at 130 bolívares (US\$3.57) since March 2022, while the government has sought to reduce fiscal imbalances and curb high inflation. To compensate for the declining purchasing power of the pensions, the government has issued various cash and in-kind supplements to pensioners, including the Economic War Bonus (currently 1,640 bolívares [US\$45] a month) and food assistance. Despite these measures, most of Venezuela's 5 million residents aged 60 or older continue to live in poverty. Although recent elderly poverty figures for the country are not available, a 2023 survey found that almost 83 percent of Venezuelan households live in poverty and over 50 percent in extreme poverty. (Poverty and extreme poverty were defined as lacking the resources needed to purchase a basic food basket and basic food items, respectively.)

Venezuela's old-age pension system consists of a social insurance program covering public- and private-sector employees and a means-tested social pension program covering needy residents. (Voluntary social insurance coverage is available for self-employed persons.) To qualify for a social insurance old-age pension, insured individuals must have reached the normal retirement age of 60 (men) or 55 (women) and have at least 750 weeks of contributions. (Voluntarily insured individuals must have at least 250 weeks of

contributions in the last 10 years.) Individuals may qualify for the social old-age pension if they have reached the normal retirement age, do not qualify for the social insurance old-age pension, have resided in Venezuela for at least 10 years, and have monthly household income below the legal monthly minimum wage (currently 130 bolívares). The monthly benefit amounts for the social insurance and social old-age pensions are both equal to the legal monthly minimum wage.

Sources: *Social Security Programs Throughout the World: The Americas, 2019*, U.S. Social Security Administration, March 2020; *La Ley para el Fomento y Desarrollo de Nuevos Emprendimientos*, 2021; Decreto N° 4.952, 2024; *Ley de Protección de las Pensiones de Seguridad Social Frente al Bloqueo Imperialista*, 2024; “Encuesta Nacional de Condiciones de Vida (ENCOVI) 2023,” Universidad Católica, March 2024; *World Economic Outlook*, International Monetary Fund, April 2024; “Empresas pagarán 9% de alícuota a Fondo de Pensiones,” *Efecto Cocuyo*, May 18, 2024; “Venezuela’s Maduro Decrees 9% Tax on Companies for Pension Fund,” *Bloomberg*, May 18, 2024; “Bono de Guerra con aumento hoy, 26 de junio 2024: montos, fechas de pago y últimas noticias,” *La República*, June 26, 2024.

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