International Update

Recent Developments in Foreign Public and Private Pensions

February 2025

Europe

Finland Ends National Pension Payments to Individuals Residing Abroad

Effective February 1, Finland's social insurance agency (Kansaneläkelaitos, or Kela) has ceased paying the national pension to individuals living in other countries covered by the European Union's social security regulations. (These countries include the other 26 members of the European Union [EU], Iceland, Liechtenstein, Norway, Switzerland, and the United Kingdom.) However, this change does not affect pensioners residing in certain countries that have bilateral social security agreements with Finland (including Australia, Canada, Chile, Israel, and the United States) or overseas recipients of survivor benefits. In addition, Kela will use minimum benefit rules to recalculate the national pensions of Finnish residents with prior periods of residency in other European countries. Finland's parliament approved the changes on December 11 as part of an effort to recategorize the income-tested national pension as a minimum benefit under EU rules and reduce public pension expenditures by €38 million (US$39.5 million) a year. The government estimates that the changes will affect nearly 20,000 pensioners living outside Finland and up to 32,000 pensioners residing in Finland who have prior residence abroad.

The national pension changes come after a 2017 European Court of Justice ruling on Sweden's income-tested guarantee pension affirmed that EU countries could restrict the payment of old-age benefits to their residents if the benefits were classified as minimum benefits. (The EU defines minimum benefits as non-contributory, means-tested benefits that help residents of a country maintain a minimum standard of living.) Following the ruling, Sweden ended payments of its guarantee pension to nearly 58,000 pensioners residing in other European countries on January 1, 2023. Finland's decision to classify the national pension as a minimum benefit and stop payments to individuals living outside of Finland will also end these individuals' entitlement to certain other Finnish social security benefits, including health insurance and housing allowances.

In addition to the national pension program, Finland's old-age pension system consists of an earnings-related pension program, a guarantee pension program, and several kinds of social assistance. To qualify for the national pension, individuals must generally have resided in Finland for at least 3 years since age 16, have reached age 65, and have monthly income from other pensions below €1,617.12 (US$1,681, if single) or €1,449.12 (US$1,506, if partnered). The full national pension is paid to individuals who have monthly income from other pensions below €66.29 (US$69) and have resided in Finland for at least 80 percent of the time from age 16 to the pension start date. The earnings-related pension has a flexible retirement age ranging from 64.5 to 69 (gradually rising to 65 by 2027 and to 70 by 2032, respectively) and no minimum contribution requirement for former employees. (Former self-employed persons must have at least 4 months of contributions.) If individuals aged 65 or older with at least 3 years of residency in Finland since age 16 have total monthly pension incomes below €978.33 (US$1,017), the guarantee pension tops up their incomes to this amount. There is also a housing allowance for pensioners with limited financial resources and a care allowance for those with severe functional impairments.

Sources: "Nearly 58,000 Swedish Expats to No Longer Receive Guaranteed Pension," *European Pensions*, September 28, 2022; "Finland," ISSA Country Profiles, July 2023; "Finland to End National Pension Payments Abroad in 2025," *Helsinki Times*, December 13, 2024; "Old-Age Pension—Your Retirement Age Is Based on Your Year of Birth," Työeläke.fi, January 16, 2025; "Old-Age Pension," Kela, January 22, 2025; "Guarantee Pension," Kela, January 28, 2025; "Kela No Longer Pays National Pensions to Recipients Living Abroad—The Amount of Pension Paid to Recipients Living in Finland May Be Affected by the Change as Well," Kela, February 6, 2025.

Spain Starts Levying Solidarity Contribution

On January 1, Spain's government started levying an additional social security contribution for solidarity (cotización adicional de solidaridad) on employees with earnings above the ceiling for standard contributions (currently €4,909.50 [US$5,102] a month). (Self-employed persons are exempt from the measure.) The solidarity contribution rate is 0.92 percent of earnings above 100 percent and up to 110 percent of the earnings ceiling, 1 percent of earnings above 110 percent and up to 150 percent of the earnings ceiling, and 1.17 percent of earnings above 150 percent of the earnings ceiling. The three rates will gradually increase each year until they reach 5.5 percent, 6 percent, and 7 percent, respectively, in 2045. Employers pay 83.39 percent of the solidarity contribution and employees pay the remaining 16.61 percent, and payment of the contribution will not entitle employees to higher social security benefits. The government approved the solidarity contribution in March 2024 as part of an effort to boost Spain's €9.4 billion (US$9.8 billion) social security reserve fund as the country faces further population aging. According to the United Nations' Population Division, Spain's old-age dependency ratio (the population aged 65 or older divided by the population aged 15 to 64) will increase from 32.9 percent in 2025 to 68.8 percent in 2050.

The solidarity contribution is paid along with standard social security contributions and special contributions under the Intergenerational Equity Mechanism (Mecanismo de Equidad Intergeneracional, or MEI). For standard contributions, employees and employers generally pay 4.7 percent and 23.6 percent, respectively, of monthly covered earnings/payroll. (In addition to financing old-age, disability, and survivor benefits, the contributions fund sickness, birth, and childcare benefits.) Self-employed persons generally pay the combined rate of 28.3 percent of monthly declared earnings. Under the MEI—which was introduced in 2023 to bolster the social security reserve fund—employees contribute 0.13 percent of monthly covered earnings and employers contribute 0.67 percent of monthly covered payroll. The combined MEI contribution rate of 0.8 percent will rise by 0.1 percentage points a year until it reaches 1.2 percent in 2029—where it is supposed to remain until 2050.

Spain's old-age pension system consists of contributory and noncontributory public pensions and supplemental occupational and individual savings plans. To qualify for a contributory old-age pension, an individual must have reached age 66 and 8 months (gradually rising to age 67 by 2027) and have at least 15 years of contributions, including at least 2 years within the last 15 years before retirement. However, the normal retirement age is reduced to 65 for individuals with at least 38 years and 3 months of contributions (rising to 38 years and 6 months in 2027). The normal retirement age may also be reduced for individuals who work in arduous or hazardous occupations or have assessed disabilities of at least 65 percent (45 percent under certain conditions). The noncontributory old-age pension is paid to individuals who have reached age 65, have resided in Spain for at least 10 years since age 16 (including the last 2 years before retirement), and have household income below certain limits.

Sources: "Spain Enacts Reforms to Improve Pension System Sustainability," *International Update*, U.S. Social Security Administration, May 2023; "Spain," ISSA Country Profiles, July 2023; *World Population Prospects 2024*, United Nations, Department of Economic and Social Affairs, Population Division, July 2024; Boletín 07/2024 de Noticias RED, Gobierno de España, September 12, 2024; "El Fondo de Reserva de la Seguridad Social acabará 2025 con 14.000 millones de euros," Secretaría de Estado de la Seguridad Social y Pensiones, January 22, 2025; "Cuota de solidaridad 2025: qué es el impuesto para pagar las pensiones que se aplicará a nóminas de trabajadores con sueldos altos," *Infobae*, January 24, 2025; "Pensiones contributivas y no contributivas: ¿qué son y cuáles son los requisitos para solicitarlas?" La Moncloa, January 29, 2025.

Asia and the Pacific

China Expands Third-Pillar Pension Program

On December 15, the Chinese government expanded the coverage of its third-pillar private pension program from 36 cities and regions to the entire country. The government started piloting the voluntary individual account program in November 2022 as a way of encouraging more individual saving for retirement. Bolstering retirement savings has become a priority for the government as China faces rapid population aging and fiscal pressures to its public pension programs. According to the government, China's population declined for the third straight year in 2024, and the share of the population aged 60 or older is projected to increase from 22 percent in 2024 to over 30 percent in 2035. At the end of June 2024, the third-pillar pension program had over 72 million accounts, though many accounts had low or zero balances.

As before, the third-pillar pension program is open to Chinese citizens and resident workers enrolled in the basic pension insurance (BPI) program for salaried urban employees or the public program for rural residents and non-salaried urban residents. Eligible individuals can open one pension account at an approved financial institution using the National Social

Insurance Public Service Platform, an electronic social security card, or a designated mobile app. Once enrolled, individuals can contribute up to 12,000 yuan (US$1,655) a year to their accounts and invest their savings in a range of pension products. To encourage participation, the government has made contributions tax deductible, waived taxes on investment returns, and lowered the tax rate on pension benefits from 7.5 percent to 3 percent. Account balances can be withdrawn at retirement as lump sums, monthly payments, or a combination of these methods.

In conjunction with the nationwide rollout of the third pillar pension program, the government has implemented several changes, including:

- *Offering more investment options:* During the pilot phase, participants could invest in savings deposits, wealth management products, commercial pension insurance, and mutual funds. As part of the nationwide expansion, the investment options now include index funds, government bonds, and designated pension deposits. As of December 2024, there were 857 individual pension products available through the program.
- *Expanding early withdrawal options:* Previously, withdrawals from third-pillar accounts before retirement were only allowed if participants had a permanent disability, moved abroad, or died. Under the nationwide program, participants can also make pre-retirement withdrawals if they become severely ill or are receiving unemployment benefits or minimum subsistence allowances.

Besides the third-pillar pension program, China's multi-pillar old-age pension system comprises the first-pillar urban BPI program, the first-pillar urban-rural resident BPI program, and second-pillar occupational pension programs that primarily cover employees of large state-run enterprises. The urban BPI program has a social insurance component funded by employer contributions of 16 percent of payroll, and a mandatory individual account component funded by employee contributions of 8 percent of gross covered earnings. (Self-employed individuals contribute 12 percent of gross covered earnings.) The urban-rural resident BPI program has a noncontributory component funded by the central and local governments, and an individual account component funded by personal contributions and government subsidies. The normal retirement age under the BPI programs is 60 and 1 month for men, 58 and 1 month for women in white-collar jobs, and 50 and 1 month for women in blue-collar jobs. (The normal retirement age is gradually increasing over the next 15 years to 63 for men, 60 for white-collar women, and 55 for blue-collar women.) Besides being of retirement age, individuals must also have at least 15 years (gradually rising to 20 years from 2023 to 2039) of contributions to qualify for a BPI old-age pension.

Sources: "China Outlines Third-Pillar Private Pension Framework," *International Update*, U.S. Social Security Administration, May 2022; "China Launches Third-Pillar Pension Program," *International Update*, U.S. Social Security Administration, January 2023; "China Approves Retirement Age Increases and Other Reforms," *International Update*, U.S. Social Security Administration, October 2024; "China's Private Pension System Is Being Rolled Out Nationwide, as a Supplement to Basic Retirement Insurance," *Global Times*, December 12, 2024; "China Expands Private Pension Scheme Nationwide Following Two-Year Pilot Program," *China Briefing*, December 13, 2024; "China Expands Private Pension Scheme and Adds Index Funds," *Financial Times*, December 17, 2024; "Private Pension Plan to Boost Capital Markets," *China Daily*, January 13, 2025; "China's Population Falls for a Third Straight Year, Posing Challenges for Its Government and Economy," AP News, January 20, 2025.

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