SOCIAL SECURITY ADMINISTRATION USA

International Update

Recent Developments in Foreign Public and Private Pensions

December 2019

Europe

Ireland Announces Key Elements of New Auto-Enrollment Plan

On October 30, Ireland's government announced key elements of a new auto-enrollment defined-contribution retirement savings plan, including the plan's coverage, contribution rates, opting-out and reenrollment rules, administrative organization, investment options, and administrative fees. The government officially started developing the plan in February 2018 as part of a broader effort to reform Ireland's old-age pension system, and it expects to have the plan fully designed and launched by 2022. The plan is intended to improve future retirement security by boosting workers' supplemental retirement savings. According to the government, only about one-third of private-sector employees in Ireland currently participate in occupational pension plans, which can help supplement the flat-rate benefits paid under the public State Pension program. Ireland is currently the only member of the Organisation for Economic Co-operation and Development (OECD) that does not have a mandatory earnings-related or auto-enrollment pension program. (36 countries are currently members of the OECD.)

The key elements of the new auto-enrollment plan include:

- *Plan coverage:* Current and new employees aged 23 to 60 with annual earnings of at least €20,000 (US$22,034.20) will be automatically enrolled in the plan if they are not members of an approved supplemental pension plan. (To be approved, a plan must meet certain minimum standards and contribution levels.) Employees who fall outside of these categories will be able to opt in to the auto-enrollment plan. In all cases, there will be no waiting period for enrolling employees in the plan.
- *Contribution rates:* Employees and employers will each be subject to the same minimum contribution rate of 1.5 percent of covered earnings or payroll during the first 3 years of the plan's existence. Thereafter, the contribution rate will increase by 1.5 percentage points every 3 years until it reaches 6 percent. (The government also plans to contribute, but this detail has not been finalized.) The maximum earnings used to calculate an employer's contributions will initially be €75,000 (US$82,628.24), and employer contributions will be tax deductible.
- *Opting-out and reenrollment rules:* An employee will be allowed to opt out during a 2-month window after 6 months of enrollment. During these initial 6 months, contributions will be mandatory. Thereafter, an employee who does not opt out of the plan will be given a limited number of opportunities to suspend his or her contributions temporarily. (Employer and government contributions will also temporarily cease during these periods.) Employees who opt out of the plan will automatically be reenrolled after 3 years, but they will be able to opt out again under the same rules.
- *Administrative organization:* The government will establish a Central Processing Authority (CPA) to collect contributions and oversee the plan providers that will administer participants' accounts. The CPA will select the plan providers on a competitive basis and set minimum standards for service delivery and investment options. The number of plan providers will be limited, and the initial service contracts will last 10 years. Participants (not their employers) will be responsible for choosing the plan providers for their accounts. (Participants who do not actively choose will be assigned to plan providers on a rotating basis.)
- *Investment options:* Plan providers will have to offer participants a standard set of investment options, including a default option for participants who do not choose their investments. (The CPA will determine the standard set of investment options.) The investment options offered by plan providers can include life-cycle or target-date funds, which automatically adjust their asset allocations over time to meet certain risk objectives.
- *Administrative fees:* The total annual administrative fees that plan providers can charge participants will be capped at 0.5 percent of assets under management.

Until the auto-enrollment plan is launched, the State Pension program will remain the main source of retirement income for most residents of Ireland. The program consists of a contributory pension for residents with an annual average of at least 10 weeks of paid or credited contributions since entering the workforce or 1979 (whichever is later) and a means-tested noncontributory pension for residents who do not qualify for a contributory pension or only qualify for a reduced contributory pension. The normal retirement age for both the contributory and noncontributory pensions is 66 (rising to 67 in 2021 and 68 in 2028). The full weekly flat-rate benefit is currently €248.30 (US$273.55) for the contributory pension (with an annual average of at least 48 weeks of contributions) and €237 (US$261.10) for the noncontributory pension. (Additional amounts may be paid if a pensioner is aged 80 or older, lives alone, or has dependents.)

Sources: "A Roadmap for Pensions Reform 2018–2023," Government of Ireland, February 28, 2018; "Ireland Announces Five-Year Pension Reform Strategy," *International Update*, U.S. Social Security Administration, March 2018; *Social Security Programs Throughout the World: Europe, 2018*; U.S. Social Security Administration, September 2018; "State Pension (Non-Contributory)," Citizens Information, October 18, 2019; "Minister Doherty Announces Key Elements of Design for New Automatic Enrolment Retirement Savings System," Department of Employment Affairs and Social Protection, October 30, 2019; "Almost 600,000 People Will Be Auto-Enrolled in Retirement Saving Schemes," *Irish Examiner*, October 30, 2019; "Automatic Pension Scheme to Be Introduced over Decade," *Irish Times*, October 30, 2019; "Irish Government Approves Key Auto-Enrolment Provisions," IPE.com, October 31, 2019; "State Pension (Contributory)," Citizens Information, November 14, 2019.

Sweden Implements Retirement Age Reforms

On January 1, Sweden's government will implement amendments to a 2010 social security law that will gradually increase the country's flexible retirement age and change how future retirement age adjustments will be made. The reforms will affect the contributory pensions paid under the notional defined contribution (NDC) and mandatory individual account programs, and the noncontributory guarantee pension. Sweden's parliament approved the amendments on June 18 and October 16 as part of an effort to extend the working lives of the country's residents. According to the Organisation for Economic Co-operation and Development (OECD), the average effective age of retirement in Sweden for the 2013–2018 period was 66.4 for men and 65.4 for women compared to averages of 65.4 and 63.7, respectively, across all 36 OECD-member countries.

Effective January 1, the amendments will make the following retirement age changes:

- *Minimum retirement age for contributory pensions:* The minimum retirement age for contributory pensions will increase from 61 to 62.
- *Age at which employment protection ends:* The age at which employment protection ends will immediately increase from 67 to 68 and then rise to 69 in 2023. (Retirement is usually compulsory at this age unless an employer agrees to extend an employee's work contract.)

Under a cross-party pension reform agreement reached in 2017, the minimum retirement age for contributory pensions is expected to increase further to 63 in 2023 and to 64 in 2026. In addition, the minimum retirement age for the guarantee pension is expected to increase from 65 to 66 in 2023 and to 67 in 2026.

After the scheduled retirement age increases are implemented by 2026, further increases will be linked to life expectancy changes through a new mechanism called the target age (*riktålder*). Starting in 2020, a target age will be calculated every year by: (1) subtracting the life expectancy of Sweden's population at age 65 for the 5-year period ending in 1994 from the same figure for the 5-year period ending in the year preceding the calculation year, (2) adding two-thirds of this difference to 65 years, and (3) rounding this sum to the nearest whole year. The target age will become effective 6 years after its calculation and be used to set Sweden's retirement ages: the guarantee pension's minimum retirement age will equal the target age and the contributory old-age pensions' minimum retirement age will be 3 years less than the target age. (The government has not decided how the age at which employment protection ends will be linked to the target age.) To limit the frequency of retirement age changes, the target age can increase only once every 3 years.

Sweden's public old-age pension system consists of the NDC pension program, mandatory individual accounts, the guarantee pension program, and social assistance benefits. To qualify for the contributory NDC and individual account pensions, an individual must have contributed for at least 3 years with annual covered earnings above an annually set minimum. (In 2019, the minimum is 19,670 kronor [US$2,055.38].) The guarantee pension is paid if an individual has income from contributory pensions below a certain amount and has resided in Sweden for at least 40 years. (A proportionally reduced guarantee pension is paid with at least 3 years but less than 40 years of residency.) Needy retires may also qualify for other means-tested benefits, including a housing allowance and old-age income support.

Sources: *Social Security Programs Throughout the World: Europe, 2018*; U.S. Social Security Administration, September 2018; Arbetsmarknadsutskottets betänkande 2018/19:AU12; SFS 2019:644; SFS 2019:646; SFS 2019:647; SFS 2019:648; SFS 2019:648; " Höjd pensionsålder nästa år," *Aftonbladet*, October 14, 2019; "Höjd pensionsålder och höjd garantipension från 2020," Pensionsmyndigheten, October 17, 2019; "Vad är riktålder? Hur påverkar det pensionen?" AP7, November 19, 2019; "Sweden," IBIS eVisor Compliance Alerts, November 26, 2019; *Pensions at a Glance 2019: OECD and G20 Indicators*, Organisation for Economic Co-operation and Development, November 27, 2019.

Asia and the Pacific

Vietnam Approves Gradual Retirement Age Increases

On November 20, Vietnam's parliament adopted an amendment to the labor code that will gradually increase the normal retirement age from 60 to 62 for men and from 55 to 60 for women, starting in January 2021. The rate of the increases will be 3 months a year for men (through 2028) and 4 months a year for women (through 2035). (As under the current rules, certain workers will be able to retire up to 5 years before the normal retirement age. In addition, the new amendment will allow certain high-skilled workers to delay retirement by up to 5 years; further details on this provision are not yet available.) According to the government, the amendment aims to improve the financial sustainability of Vietnam's social insurance pension program in the face of rapid population aging and increased life expectancy. The United Nations Population Division (UNPD) estimates that Vietnam's old-age dependency ratio—the population aged 65 or older divided by the population aged 15 to 64—will increase from 11.4 percent in 2020, to 32.8 percent in 2050, and to 52.6 percent in 2100. Furthermore, the UNPD projects that life expectancy at birth will increase from 75.77 years in the 2020–2025 period to 80.17 years in the 2050–2055 period.

The retirement age increases are the latest in a series of reforms to the country's social insurance pension program. Most notably, a 2014 law extended the program's coverage to more workers (including workers with 1-month labor contracts; part-time workers in communes, wards, and townships; and foreign citizens legally working in Vietnam), changed the monthly wage base used to calculate contributions, increased certain minimum contribution requirements, and equalized one component of the old-age pension formula for men and women.

Vietnam's social insurance program covers most private- and public-sector employees. The old-age pension is generally paid at the normal retirement age with at least 20 years of contributions. (The retirement age may be reduced under certain conditions, including for workers in hazardous or arduous occupations and workers with disabilities.) An old-age grant is paid to those with less than 20 years of contributions at the normal retirement age who do not qualify for an old-age pension. In addition, a social assistance (social pension) program covers needy persons aged 60 to 79 who are living alone without family support, or aged 80 or older and not receiving any social insurance pension.

Sources: "Vietnam Implements a Revised Social Insurance Law," *International Update*, U.S. Social Security Administration, January 2016; "Vietnam Changes Benefit Formula for Old-Age Pensions," *International Update*, U.S. Social Security Administration, February 2018; "World Population Prospects: The 2019 Revision," United Nations, Department of Economic and Social Affairs, Population Division, 2019; *Social Security Programs Throughout the World: Asia and the Pacific, 2018*, U.S. Social Security Administration, March 2019; "Vietnam to Extend Retirement Age by 2 Years for Men, 5 Years for Women," Bloomberg, November 20, 2019; Vietnam Social Security Agency press release, November 20, 2019.

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