International Update

Recent Developments in Foreign Public and Private Pensions

June 2021

Asia and the Pacific

Cambodia Establishes Social Insurance Pension Program for Private-Sector Employees

On March 4, Cambodia's government issued a decree establishing a social insurance pension program that will for the first time provide private-sector employees with public old-age, disability, and survivor benefits. (The country currently only has special pension programs for civil servants and military personnel.) The new program will be administered by the National Social Security Fund (NSSF) and financed through employee and employer contributions, state funds, and investment returns. It will become operational once the Ministry of Labor and Vocational Training and the Ministry of Economy and Finance issue additional guidance on the program's rules and procedures. The government had originally planned to launch the program in 2020 after laying the program's legal groundwork in a 2019 social security law, but it ended up delaying the process. By finally creating the new pension program, the government is seeking to reduce elderly poverty and family burdens as population aging accelerates in Cambodia. The United Nations' Population Division projects that the country's old-age dependency ratio (the population aged 65 or older divided by the population aged 15 to 64) will increase from 7.6 percent in 2020 to 11.5 percent in 2035 and to 17.6 percent in 2050.

Key details of the new social insurance program specified by the decree include:

- *Covered employees:* All workers who are employed at private-sector firms are required to participate in the program. (Private-sector firms must register all of their employees with the NSSF within 30 days after the decree's effective date.) Voluntary coverage is available for individuals younger than age 60 who are not mandatorily covered (such as self-employed persons and household workers).
- *Required contributions:* During the first 5 years the program is in operation, employees and employers will each contribute 2 percent of covered monthly earnings/payroll. The combined contribution rate of 4 percent will then increase by 4 percentage points in the next 5-year period and by 2.75 percentage points in every subsequent 10-year period. (The combined rate will continue to be split equally between employees and employers.) Covered employees will also be able to pay additional contributions on a voluntary basis for a higher benefit.
- *Old-age pension:* A monthly old-age pension will be paid to insured persons who have reached age 60 and have at least 12 months of contributions. The pension will be calculated based on the insured person's covered earnings and a predetermined benefit rate. (More information on the benefit formula is not currently available.)
- *Disability pension:* A monthly disability pension will be paid to insured persons who have at least 5 years of contributions and are no longer able to work because of a disability. The minimum disability pension will be 45 percent of the insured person's covered earnings.
- *Survivor pension:* A survivor pension will be available for eligible dependents of a deceased person who was an old-age or disability pensioner or had at least 5 years of contributions.

The introduction of social insurance old-age, disability, and survivor pensions for private-sector workers is part of a broader government effort to expand social security in Cambodia. The government has already implemented social insurance programs providing work injury benefits (in 2008), medical and sickness benefits (in 2016), and maternity benefits (in 2018). In 2019, the government also launched a social assistance cash benefit program for vulnerable families with pregnant women and children younger than age 2.

Sources: Law on Social Security Schemes, 2019; *Social Security Programs Throughout the World: Asia and the Pacific, 2018*, U.S. Social Security Administration, March 2019; "National Social Security Fund in Cambodia," Briefing Note, Cambodian Commission on Health, Social Affairs, Veteran, Youth Rehabilitation, Labor, Vocational Training and Woman Affairs, August 2019; *World Population Prospects 2019*, United Nations, Department of Economic and Social Affairs, Population Division, August 2019; "New Law Set to Benefit Those Working in the Private Sector," *Phnom Penh Post*, November 20, 2019; Sub-Decree No. 32 of the Law on Social Security Schemes, 2021; "Cambodia News Brief," PwC, March 2021; "Private-Sector Pensions a Step Closer," *Phnom Penh Post*, March 7, 2021; "Cambodia: Rules for Compulsory and Voluntary Pension Contributions," KPMG, May 24, 2021.

China Introduces Pilot Individual Account Program

On June 1, China introduced a one-year pilot of a voluntary third-pillar individual account pension program. The new program will be administered by six insurance companies and initially cover residents in two jurisdictions in China: the eastern province of Zhejiang and the southwest municipality of Chongqing. According to the China Banking and Insurance Regulatory Commission (CBIRC), the program's main aims are to boost retirement savings (particularly among informal-sector workers) and encourage capital market development. It is part of the government's larger efforts to develop a multi-pillar pension system in the country and follows another third-pillar pilot program launched in 2018. The 2018 pilot had limited success in increasing retirement savings to date, attracting around 400 million yuan (US$63 million) in savings out of around 8 trillion yuan (US$1.2 trillion) in total pension assets in China.

Under the new program, participants can choose the amount and frequency of their contributions, which are invested on their behalf by the managing insurance companies. Employers in newer business sectors may contribute on a voluntary basis. When participants reach age 60, they can begin drawing down their accounts by taking payouts over at least 10 years. To encourage broad participation in the program, the CBIRC has directed the six managing insurance companies to develop retirement products that offer easy enrollment, flexible payment schedules, and stable investment returns. The insurance companies are required to submit quarterly reports to the CBIRC that summarize their progress in meeting these objectives and their adherence to regulatory requirements.

Besides third-pillar pensions, China's pension system consists of: (1) separate first-pillar programs for urban employees, and rural and nonsalaried urban residents, which are administered at the provincial and local levels; and (2) second-pillar occupational pensions that primarily cover employees of large state-run enterprises. The first-pillar programs for urban employees generally include a social insurance pension funded by an employer contribution of up to 20 percent of payroll, and a mandatory individual account funded by an employee contribution of 8 percent of gross covered earnings. The first-pillar programs for rural and nonsalaried urban residents generally include a noncontributory pension funded by the central and local governments, and an individual account funded by personal contributions. The second pillar consists of voluntary employer-sponsored occupational pensions. Although the government has promoted the development of the second pillar, widespread informality in the labor force has limited the growth of these pensions; in 2020, as many as 200 million workers (or roughly 22 percent of the working-age population aged 15 to 59) lacked second-pillar pension coverage.

Sources: "Research Report on the Third Pillar of China's Pension Funds," China Insurance Industry Association, November 20, 2020; "Building a Multi-Pillar Pension Insurance System," *Asia Insurance Review*, April 1, 2021; "Notice of the General Office of the China Banking and Insurance Regulatory Commission on the Pilot Program of Exclusive Commercial Pension Insurance," China Banking and Insurance Regulatory Commission, May 15, 2021; "The Third Pillar of Pensions Started, Which Is Good for the Deployment of Insurance Companies in the Pension Industry Chain," Monarch Non-Bank, May 17, 2021; "China to Pilot Private Retirement Savings Scheme in Two Cities," *Regulation Asia*, May 18, 2021; "Ageing China Boosts Private Sector Role as Pensions Time Bomb Ticks," Reuters, May 20, 2021; "Mainland Looks to Private Insurers to Avert Pensions Crisis," *South China Morning Post*, May 20, 2021.

The Americas

Cuba Implements Measures to Encourage Work Among Pensioners

On May 7, Cuba amended its 2008 social security law to increase old-age pensions for certain working pensioners and allow employers to rehire retired workers to their previous positions. Normally, the maximum old-age pension is 90 percent of an individual's average monthly earnings and is paid to workers with at least 45 years of employment (60 percent of average monthly earnings for the first 30 years of employment, plus 2 percent for each of the remaining 15 years). Under the new rules, pensioners with more than 45 years of employment who return to work for at least 5 years are exempt from this 90 percent ceiling; for these pensioners, an additional 2 percent of average monthly earnings will be paid for each additional year of employment above 45 years. The new rules also allow employers—in consultation with the government—to rehire retired workers to their previous positions without affecting the workers' pensions. Previously, pensioners who reentered the labor force typically could only receive both a pension and employment income if they were employed in a position different than the one held before retirement. The new amendments are aimed at reducing the barriers to employment among older workers in Cuba and are part of a larger series of measures passed recently to address a steep economic downturn. According to government statistics, the country's gross domestic product fell by around 11 percent in 2020.

Cuba's pension system consists of a social insurance program for most public- and private-sector employees and a social assistance program for needy residents of Cuba. To finance the social insurance program, employees contribute 5 percent of monthly earnings and employers contribute 12.5 percent (public sector) or 14.5 percent (private sector) of gross monthly payroll. The government finances any deficit in the social insurance program and covers the total cost of the social assistance program. Generally, an insured person qualifies for an old-age pension if he or she has at least 30 years of employment and has reached the retirement age of 65 (men) or 60 (women). (A partial pension may be paid with at least 20 but less than 30 years of employment.) Individuals with less than 20 years of employment who are incapable of work and have no family members for support qualify for a social assistance benefit.

Sources: *Social Security Programs Throughout the World: The Americas, 2019*, U.S. Social Security Administration, March 2020; "Cuban Economy Shrank 11% in 2020, Government Says," Reuters, December 17, 2020; "¿Qué Tributos Pagarán los Trabajadores Cubanos con el Aumento Salarial?" Oficina Nacional de Administración Tributaria, January 8, 2021; "Aprueba el Consejo de Estado Decretos Leyes sobre Telecomunicaciones, Sistema Empresarial Estatal y Consejo Nacional de Innovación," Cubadebate, April 14, 2021; "Cuba: Decree-Laws on Telecommunications, State Enterprises and Social Security Approved," OnCuba News, April 16, 2021; Gaceta Oficial No. 51 Ordinaria, May 7, 2021.

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