



International Update

Recent Developments in Foreign
Public and Private Pensions

June 2022

Europe

Sweden Establishes New Agency to Manage Premium Pension Investment Options

On June 20, Sweden established a new independent agency—the Fund Selection Agency (Fondtorgsnämnden)—to select and oversee the pension funds that will be available to participants of the country’s premium pension program starting in the second half of 2022. (The premium pension program is a mandatory individual account program that supplements Sweden’s notional defined contribution [NDC] pension program covering employed and self-employed persons. Currently, any pension fund that satisfies some basic requirements and is registered with the Swedish Pension Agency can be offered to premium pension participants.) In its fund selection process, the new agency must ensure that participants have access to a manageable number of high-quality pension funds with varying risk profiles (ranging from lower risk bond funds to higher risk equity funds). This shift to a government-curated pension fund marketplace is intended to improve the premium pension program by making the number of investment options more reasonable (there are currently around 475 pension funds to choose from) and placing a stronger emphasis on fund quality in terms of higher returns, lower fees, and better sustainability. According to the Swedish Pension Agency, the premium pension program currently has around 6.2 million participants with 2.1 trillion kronor (US\$211 billion) in assets.

Sweden’s public old-age pension system consists of the NDC pension program, the premium pension program, a guarantee pension program, and social assistance benefits. To finance the NDC and premium old-age pensions, employers contribute 10.21 percent of monthly covered payroll and employees contribute 7 percent of monthly covered earnings. (In 2022, the minimum and maximum annual earnings used to calculate contributions are 20,431 kronor [US\$2,089.17] and 572,600 kronor [US\$58,551.05], respectively.) To qualify for these earnings-related pensions, an

individual must have reached age 62 (rising to age 63 in 2023) and have at least 3 years of pensionable earnings. (Retirement is usually necessary by age 68 when legal protections against age-based dismissals end.) The government-financed guarantee pension is paid if an individual has reached age 65 (rising to age 66 in 2023), has earnings-related pension income below a certain amount, and has resided in Sweden for at least 40 years. (A proportionally reduced guarantee pension is paid to those with at least 3 years but less than 40 years of residency.) Needy retirees aged 65 or older 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; Lag (2022:759) om Fondtorgsnämnden, 2022; Lag (2022:760) om upphandling av fonder till premiepensionens fondtorg, 2022; “Korta pensionsfakta,” pensionsmyndigheten, May 11, 2022; “För fondbolag,” Pensionsmyndigheten, May 30, 2022; “Pensionsåldrar och riktålder,” Pensionsmyndigheten, June 1, 2022; “Tryggare premiepension med ett upphandlat fondtorg,” Regeringskansliet, June 2, 2022.

Asia and the Pacific

Japan Implements Provisions of Pension Reform Law

On April 1, Japan implemented provisions of the 2020 Pension System Reform Law that increase the maximum pension deferral age under the National Pension (NP) program, reduce the NP early retirement penalty, change the earnings test under the Employees’ Pension Insurance (EPI) program, modify the EPI spousal supplement rules, and simplify the pension tracking system. Another provision of the 2020 legislation will expand EPI coverage to more part-time employees beginning in October. These reforms are intended to address mounting fiscal pressures and labor shortages in Japan stemming from the country’s rapidly aging population. According to the Organisation for Economic Co-operation and Development, Japan’s old-age dependency ratio (the population aged 65 or older divided by the working-age population 15 to 64)

is the world's highest at roughly 50 percent, and is forecast to exceed 80 percent by 2050.

Key provisions implemented in April include:

- *An NP maximum pension deferral age increase:* The maximum age for deferring an NP old-age pension after the normal retirement age of 65 has increased from 70 to 75. As before, the old-age pension is increased by 0.7 percent for each month it is deferred, with the maximum increase now being 84 percent (compared to 42 percent previously).
- *An NP early retirement penalty reduction:* The monthly reduction rate for NP old-age pensions claimed before the normal retirement age has decreased from 0.5 percent to 0.4 percent. As a result, the maximum reduction (for claiming an NP pension at age 60) has decreased from 30 percent to 24 percent.
- *An EPI earnings test change:* The maximum total monthly income (from earnings and pensions) that a working pensioner aged 60 to 64 can receive without triggering a pension reduction or suspension has increased from 280,000 yen (US\$2,162.79) to 470,000 yen (US\$3,630.40). The corresponding income threshold for working pensioners aged 65 or older continues to be 470,000 yen.
- *An EPI spousal supplement rule change:* The EPI spousal supplement is now only paid for dependent spouses younger than the normal retirement age with less than 20 years of EPI contributions. Previously, the spousal supplement was paid to any dependent spouse younger than the normal retirement age who was not receiving an old-age pension. (Pensioners can receive a monthly pension supplement for dependent spouses and children if they have at least 20 years of EPI contributions. [Different contribution requirements apply to pensioners and spouses who entered the workforce at later ages.])
- *A pension tracking system simplification:* Pension handbooks will no longer be provided to new enrollees in the NP and EPI programs. These handbooks were previously used as proof of pension coverage and for tracking pension contributions, but the Japan Pension Service started using a new identification number system (My Number) to link individuals with their pensions in October 2019. Individuals who already possess pension handbooks may continue to use them, but replacement handbooks will no longer be issued.

Japan's public pension system consists of the pay-as-you-go NP and EPI programs supplemented by a means-tested program for low-income pensioners. The flat-rate NP program covers all residents of Japan aged 20 to 59, with voluntary coverage available to certain older workers and Japanese citizens residing abroad. The earnings-related EPI program covers employees younger than age 70 in covered firms, with voluntary coverage available under certain conditions to employees aged 70 or older. The means-tested program pays benefits to old-age, disability, and survivor pensioners who meet certain income limits and other requirements. There are also employer-sponsored pension plans (defined benefit and defined contribution [DC]) and individual DC plans for employed and self-employed persons without access to employer-sponsored plans.

Sources: "Japan Will Implement Changes to Defined Contribution Plans," *International Update*, U.S. Social Security Administration, September 2016; *Social Security Programs Throughout the World: Asia and the Pacific, 2018*, U.S. Social Security Administration, March 2019; "Japan Adopts Pension System Reform Plan," *Japan Times*, March 4, 2020; "Japan Approves Social Security Reform Package," *International Update*, U.S. Social Security Administration, June 2020; "Impacts and Issues of Japan's Pension System Reform," Mizuho Economic Outlook & Analysis, June 11, 2020; "Employees' Health Insurance System and Employees' Pension Insurance System," Japan Pension Service, April 1, 2022; "The Pension Book Will Be Abolished from April 2022. What Kind of Impact Will It Have in the Future?" Yahoo Japan, May 28, 2022; "Japan: Amendments to the Pension System Implemented in April 2022," Gallagher GVISOR News, May 31, 2022.

Philippines Approves Social Pension Reforms

On May 31, the House of Representatives of the Philippines approved a bill reforming the country's old-age social pension program (Social Pension Program for Indigent Senior Citizens). The bill was first approved by the Senate on May 30 and now awaits the president's signature. If enacted, it will: (1) double the monthly social pension from 500 pesos (US\$9.53) to 1,000 pesos (US\$19.07); (2) create a mechanism for adjusting the benefit amount every 2 years based on changes in the national consumer price index; (3) expand the number of cost-free payment options to include cash, electronic transfers, and direct payments through accredited service providers; and (4) transfer the program's payment administration from the Department of Social Welfare and Development (DSWD) to the National Commission of Senior Citizens within 3 years of the law's

implementation. According to lawmakers, the bill aims to help the approximately 3.8 million program beneficiaries better meet their daily subsistence and medical needs. It represents the first benefit increase since the social pension program was introduced in 2010.

The government-financed old-age social pension program covers needy citizens of the Philippines. To be eligible to receive a social pension, an individual must be aged 60 or older; assessed as weak, sick, or disabled by the DSWD; and not have any other sources of income (such as old-age or disability pensions, employment earnings, or financial assistance from relatives). In addition to the social pension program, the Philippines old-age pension system consists of a social insurance program for private-sector employees, self-employed persons, and household workers, and a mandatory provident fund program (Workers' Investment and Savings Program) that was launched in 2021.

Sources: "2022 People's Proposed Budget," Department of Budget and Management, no date; "Social Pension for Indigent

Senior Citizens," Department of Welfare and Development, no date; Expanded Senior Citizens Act of 2010; *Social Security Programs Throughout the World: Asia and the Pacific, 2018*, U.S. Social Security Administration, March 2019; Senate Bill No. 2506, 2022; "Bill Increasing Social Pension for Indigent Seniors Awaits Duterte OK," INQUIRER.net, May 31, 2022; "P1,000 Social Pension for Indigent Elderly Awaits Duterte's Signature," Business Mirror, June 4, 2022.

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