

Progress of the Pension Systems

MARCH – APRIL 2022
No.2

This document compiles the major changes that occurred in the pension systems in the March-April 2022 period, with emphasis on the development of the individually funded systems. Due to the importance of events, this edition includes information on changes in regulatory proposals up to the first week of May 2022.

Document prepared by FIAP, based on press information. We thank FIAP member associations for the information and comments submitted. The content of this document may be fully or partially reproduced citing the source.

Executive Summary by area of interest

New pension programs and social security reforms (approved)

- **Austria:** On January 1, the government implemented reforms to the public pay-as-you-go system, which penalizes early retirement for men (reduction of the old-age pension by 4.2% for each year before 65) and establishes a bonus for retirees who began contributing before the age of 20.
- **Bahrain:** On April 18, the government approved a series of reforms to the public pay-as-you-go system, gradually increasing contribution rates (from 19% to 27%), establishing a less generous formula for the old-age pension, and introducing incentives for delay the retirement age.
- **Chile:** On March 11, the government enacted a [law](#) that will extend social security coverage and other labor protections to digital platform workers, which will come into force on September 1, 2022.
- **China:** Due to strong demographic pressures (the number of active workers for each passive will decrease from 5.9 in 2020 to 2.7 in 2050), on April 21 the State Council published a [document](#) detailing the development of the first country's voluntary private pension plan, which will complement current basic pensions and annuities provided by the state and employers. To participate in the plan, individuals can make voluntary contributions to a personal pension account through a centralized platform. Annual contributions are capped at approx. USD 1,846, which will be adjusted in the future based on economic development.
- **Ireland:** On March 29, the government published detailed plans for the new retirement savings system with automatic affiliation, which will take effect from 2024. All workers between the ages of 23 and 60 with annual incomes of more than USD 22,000 who are not contributing to an occupational pension plan, they will be automatically affiliated to this scheme (the initial contribution rate of the worker and employer is 1.5% of the salary and will reach 6% in 2034; the State will also make an additional contribution to the worker's contribution).
- **Peru:** On May 4, the plenary session of Congress approved a 6th withdrawal that will allow all AFP members to withdraw up to approx. \$4,833 from your fund. If there are no observations, the law must be promulgated by the President of the Republic no later than May 27.
- **Turkey:** On January 21, the government approved changes to the voluntary private pension plan, which, among other things, allows automatic affiliation of workers over 45 years of age (previously only those under 45 were automatically affiliated).

Relevant studies

- **Chile:** A [study](#) by the AFP Association of Chile shows that, considering the employment and pension history of Chilean affiliates, the savings and capitalization system delivers higher contributory pensions than pay-as-you-go systems.
- **Dominican Republic:** The Dominican Association of AFPs (ADAFP) presented the book "[Prosperity and Pensions: reflections and perspectives after 20 years of pension reform in the Dominican Republic](#)", where it is shown that the savings managed by the AFPs have allowed 22% of the accumulated growth of GDP in the period 2003-2019.

Crisis in public PAYG systems

- **Ecuador:** The National Assembly has promoted a request to the President of the Republic to declare the Ecuadorian Social Security Institute (IESS) in emergency due to institutional and financial crisis, due to the progressive lack of financing, mismanagement and acts of corruption.
- **Spain:** If pensions are updated with inflation (a measure included in the most recent pension reform), it is estimated that total pension spending will exceed EUR 188 billion (14% of GDP) by 2023, implying that the deficit reaches up to 2.6% of GDP.
- **Panama:** According to César Tribaldos, former member of the Board of Directors of the Social Security Fund (CSS), faced with the government's proposal to use mining funds to strengthen the distribution program, he pointed out that this does not solve the problem because the system has a structural deficit (it is estimated that by 2024 the system would run out of funds to pay pensions).

Reforms proposed or to be discussed

- **Colombia:** One of the presidential candidates, Gustavo Petro, has proposed a reform that provides a pension bonus of approx. USD 133 per month to 3 million people, which would be financed with the contributions of those who earn up to 4 minimum wages (approx. USD 1,067) per month, which would go obligatorily to the public pay-as-you-go system managed by Colpensiones (those who earn more than 4 minimum wages minimum, they could choose between contributing to the pay-as-you-go system or to an AFP). According to Asofondos, among other things, this proposal does not increase pension coverage, it punishes lower-income workers, being highly regressive, and it only gives the government cash in the short term to finance populism.
- **Chile:** The Minister of Labor, Jeannette Jara, explained that the design in which the Government is working for the pension reform has three pillars: (i) a solidary one that allows progress towards a universal basic pension for the entire population of \$250,000 (approx. USD 292); (ii) a contributory pillar that contemplates the incorporation of a technically suitable public entity and a greater contribution from the employer that will be gradual, added to the recognition of unpaid work and also addressing gender gaps in pensions; and (iii) a voluntary pillar in the terms in which it currently works, with elements that can strengthen it as a complement to the future pension. Finally, she pointed out that this new pension reform law will not interfere with the ownership of the funds saved to date in the individual capitalization system.
- **USA:** The House of Representatives approved the "[SECURE Act 2.0](#)", which expands automatic enrollment in 401-k and 401-3 plans. Now the law must go to the Senate.
- **France:** The reelected president Emmanuel Macron will maintain his reform to delay the minimum retirement age from 62 to 65 years.
- **Uruguay:** In the first half of 2022, the Executive will send a bill to Parliament to reform the pension system. Increasing the retirement age from 60 to 65 years (for those born from 1971 onwards) is one of the proposals that is on the table in the draft document approved in November 2021 by the Committee of Experts on Social Security (CESS).

Relevant reports or presentations

The ADAFP presented the book “[Prosperity and Pensions: dad y Pensiones: reflections and perspectives after 20 years of pension reform in the Dominican Republic](#)”. In its nine chapters, the book presents a diagnosis and broad prescription of policies for the reality of the Dominican Republic, based on the opinion that pension system reform should be based on good international practices, while taking structural reality into account. The pension system in the Dominican Republic has been subjected to an ongoing reform over 20 years, since its inception, with results that need to be reviewed for a constructive look at the future that enhances favorable aspects and reinforces everything that promotes a more inclusive system that citizens can recognize as theirs, as part of a social contract that needs to be permanently reinforced. One of the chapters on the impact of the introduction of the individually funded system in the country, shows that the system managed by the AFPs has allowed the Dominican Republic to grow by more than one additional percentage point per year between 2003 and 2019, a period in which the economy grew at an average rate of 5.5% per year. This means that 22 per cent of cumulative GDP growth in that period is due to individual pension savings. Among the positive impacts, it highlights the fact that the macroeconomic effects of the introduction of the pension system have favored employment and prevented more than 370 thousand people from falling into poverty. (Source: <https://adafp.org.do>; Date: 31.03.2022).

The International Organisation of Pension Supervisors (IOPS) published a [set of good practices](#) for designing, presenting, and monitoring pension projections. This set of practices aims to help pension supervisory authorities and highlight the importance of transparency in forecasting, and clear and simple

communication. Appropriate projections can play a key role in supporting pension sustainability, especially for defined-contribution pension schemes and plans. Pension projections can be a powerful tool for managing the expectations of pension plan members and influencing their retirement decisions (for example, the chosen contribution rate, savings timeframe, level of risk). Projections can educate members about the likely values of their future retirement income and the effects of their retirement decisions. However, pension projections are also subject to several risks related to methodology and inadequate assumptions or communication. Problems related to forecasting and reporting future retirement benefits include the formulation and monitoring of pension policies with different regulatory and supervisory frameworks. In some jurisdictions, pension supervisors are explicitly mandated to monitor, and sometimes standardize, various stages of the projection of pension plans, providers, or funds, i.e., their design (methodology, assumptions), communication methods (traditional and electronic), disclosure of information, as well as how the results are presented and explained to pension plan participants. (Source: <http://www.iopsweb.org>; Date: 22.03.2022).

A [study](#) by the Chilean Association of AFP's shows that, based on the labor and pension history of Chilean members, the individually funded savings system provides higher contributory pensions than the PAYGO systems. The study estimates the pensions that Chilean men and women would have at 5 years prior to the official retirement age, calculating pensions with the rules of Chile's individually funded system, and those of other countries with PAYGO systems, such as Canada, Spain, the United States, Japan, the Netherlands, and Uruguay. Some of the main results obtained are the following:

1. The Chilean individually funded system, with the lowest contribution rate of the countries

analyzed, provides a high pension when compared to the average income of its members.

2. In Chile, all contributing workers receive their savings in the form of a pension, which is not the case in some countries.
3. Enrolled members with less than 10 years of contributions would not receive a pension if the US pension calculations were applied to them, and enrolled members with less than 15 years of contributions would not receive a pension under Spanish standards.
4. Based on the calculation rules of Canada, the Netherlands, Japan or Uruguay, pensioners with less than 10 years of contributions would have obtained a pension, but with amounts lower than those of the individually funded system in Chile.
5. Half of the new old-age pensioners in Chile between 2017 and 2020 contributed for less than 15 years, while only 20% contributed for more than 30 years.
6. For those who contribute between 30 and 35 years, Chilean pensions would be higher than those of Canada and Japan. For those who contribute for between 35 and 40 years, Chilean pensions would be higher than those obtained in the Netherlands, Canada, the United States and Japan. (Source: <https://www.aafp.cl>; Date: April 2022).

A study by Unión Capital AFAP analyses the investment of the main pension funds in alternative assets, together with the regional situation and the case of Uruguay. According to the study, the data show that in Uruguay, the funds currently invested in alternative assets represent around 10% of the total pension savings fund of the system. These investments are basically in real assets and are distributed as follows: infrastructure and renewable energy (42 per cent), forestry funds (28 per cent), agricultural

land funds (14 per cent) and real estate investments (16 per cent). Investment in alternative assets: (i) improves the return and risk profile of the portfolio, so it is beneficial for members; (ii) maintains returns in times of crisis (due to its low correlations with returns of other types of assets); and (iii) is positive for the country, by increasing investment, employment, and exports, and generating a spillover effect in the different sectors of the economy. Alternative investment in Uruguay is at similar levels as the rest of Latin America, although equity investment is below average. To the extent that the executive approves a new sub-fund for younger members in line with the best practices observed in other countries, the AFAPs are expected to be more exposed to alternative assets and international equities in coming years. (Source: www.unioncapital.com.uy; Date: 24.03.2022)

Libertad y Desarrollo published a new [article](#) on the economic and political impacts of the early withdrawal of pension funds in Chile. The report points out that early withdrawals of funds have been increasingly regressive, since those who have saved the most are the ones who have been able to withdraw higher amounts, due to greater labor formality and a higher number of contributions. The data show that, as of December 2021, just over 2 million people enrolled in the individually funded system have zero balance in their pension savings accounts. I.e., 18% of members have no old-age savings. Of this group, 63% are women, equivalent to about 1.3 million people. A possible new withdrawal will result in a 37% decrease in women's pension amounts and 29% in men's pension amounts. Furthermore, the economic effects of previous withdrawals will be accentuated: higher inflationary pressures and interest rate rises, especially in the long term (mortgage loans) and higher exchange rate volatility. All this weakens investment, the recovery of economic activity and job creation. Finally, the projected low economic growth of between 1.0 and 2.0% in 2022, and -

0.25% and 0.75% in 2023, and inflation that could reach 15% with a new withdrawal, would significantly affect households, especially the most vulnerable. (Source: <https://lyd.org/>; Date: 15.04.2022).

Relevant news of the period

Latin America, the Caribbean and North America

Colombia

The Association of Pension Fund Managers, Asofondos, calls to safeguard savings and rigorously and responsibly debate the pension future of workers. Asofondos called on the presidential candidates to engage in a rigorous, responsible, informed discussion, and above all, with the welfare of the workers in mind. This appeal was made specifically in response to some proposals based on lies, with inaccuracies and lack of rigor. Asofondos categorically rejects the statements of the candidate Gustavo Petro regarding pension funds and makes the necessary clarifications for public opinion in this [link](#).

Basically, Petro proposes providing a pension bond of COP 500,000 (approx. \$133) per month for three million people who currently have no old-age savings. This policy would cost COP 18 trillion (approx. USD 4,802 million) per year and, according to Petro, a currency issue would not be necessary. The funds, he said, would come from a pension reform that modifies the current distribution of the system: the contributions of those who earn up to 4 minimum wages (approx. USD 1,067) per month, would necessarily go to the public PAYGO system, managed by Colpensiones, instead of the private funds (AFPs). It is precisely these funds that would be used to pay pension bonuses to the three million pensioners. Those earning more than 4 minimum monthly wages could choose to contribute to the public PAYGO system or an AFP.

According to Asofondos, the method that Petro Proposes guarantees high, subsidized pensions to those with higher incomes, but punishes lower income workers, who make up 80% of Colombian workers.

On the other hand, Petro points out that switching workers' contributions to Colpensiones could release 18 billion pesos per year. However, according to Asofondos, changing the distribution of members' funds is, in effect, an expropriation of pension savings. The funds that will be spent on the pension bond of those who have no savings due to informality, have been saved to pay the pensions of the members who do pay pension contributions, but who have not yet reached retirement age. If those funds are spent, there would be no way to pay the pensions of those who are now 20, 30 or 40 years old. To take funds away from those who prudently save and give them to others, is like filling a gap and opening a bigger one.

Santiago Montenegro, the Chairman of Asofondos, argues that a reform redirecting workers' contributions to Colpensiones would have the following negative effects: (i) It would maintain the financial pyramid; (ii) It does not increase coverage; (iii) It maintains high income subsidies (high pensions) and is still very regressive; (iv) It perpetuates the expropriation of those who do not retire by the existing public regime; (v) It is fiscally unsustainable and the only thing it achieves is to provide cash to the Government in the short term, to possibly finance populism. (Source: Asofondos; www.semana.com; Date: March 2022).

Low coverage, regressive transfers, and low level of sustainability of the pension system make pension reform urgent. The pension system in Colombia has a number of problems that need to be urgently addressed. First, the system has very little coverage. Only one in four older adults

receives a pension; of the remaining three, one receives COP 80,000 (approx. USD 19) per month from the Colombia Mayor program, and two receive no income at all. Thus, the pension system does not fulfill its essential purpose, which is to guarantee an income to pensioners. Secondly, the pension and public PAYGO systems contribute to increasing inequality in income distribution in Colombia. According to Fedesarrollo, 73.1% of pension subsidies benefit the richest 40% of the population. The system also punishes people who cannot retire, i.e., those with low incomes and little job security. Thirdly, there are financial challenges for ensuring the sustainability of the system. Nearly 4% of GDP - or one quarter of government revenue - is allocated each year to cover the pension deficit (managed by the PAYGO system) and special schemes. Due to all the above, there is an urgent need for a pension reform that increases coverage, improves equity, and ensures sufficient funds to fulfill the purpose of a pension system.

The proposal to reform the Social Security system put forward by the Association of Pension Fund Managers (Asofondos), considers the following:

- A first non-contributory pillar that ensures that all senior citizens in poor households are above the poverty line - according to SISBEN¹—. This is regardless of whether or not they contributed throughout their working lives, as in Colombia Mayor.
- Since most workers fail to meet the required number of weeks of contributions to retire, a second non-contributory pillar is proposed to provide them with a lifetime income, which must recognize the totality of their contributions, and the returns on them for the time they were saved. The proposal is to combine these savings with government

subsidies, in a program similar to what is now known as Periodic Economic Benefits (BEPS).

- A third contributory pillar, comprising a defined benefit and a defined contribution component. The defined benefit component implies that a minimum wage is ensured, regardless of the value of the contributions paid in throughout working life, as long as a minimum number of weeks of contributions is met. The defined contribution component, in turn, means that the pensions of those earning more than the minimum wage are proportional to their contributions throughout their working lives. Unlike other proposals, Asofondos' proposal aims to save and invest the contributions of new members. Of course, not saving part of the contributions is tempting for the government, because it produces a short-term cash flow, which is irresponsible, especially with respect to today's youth.
- There is no intention to eliminate Colpensiones. The important thing is to save and invest the contributions through public or private agencies. Meaningful discussion is not about public vs. private, but about measures that can or cannot improve the protection of the elderly. (Source: <https://razonpublica.com>; Date: 02.03.2022).

The Employment Mission recommends a sole pension system for Colombia. According to the Mission, it would be very convenient to consider a sole retirement pension system for all, comprising two elements: a universal citizens' pension financed from general taxes, and a complementary pension for those who worked prior to retirement, financed by their own contributions (with subsidies for low-income workers). The Mission insists that a universal

¹ System for Identifying Potential Beneficiaries of Social Programs.

citizens' pension serves as a minimum pension guarantee and can replace the existing constitutional requirement that pensions based on contributions should be at least equal to the minimum wage. This, in turn, would make it possible to eliminate the minimum number of contribution requirements for accessing an old age pension. (Source: www.vanguardia.com; Date: 21.03.2022).

Chile

Minister of Labor defines the pillars of the government's pension reform prior to the "tripartite dialogues." The Minister of Labor, Jeannette Jara, announced that the "tripartite dialogs" to define the principles of the pension reform bill of law will commence on April 27, and explained where the government is heading. She commented that the Government's pension program considers a modern pension system with tripartite financing, incorporating employer's contributions. She stressed that the system the government will endorse must be mixed and sustainable over time, must have a public institutional framework, must be legitimate, and must comply with international standards, so that Social Security contributions are meaningful to people. She explained that the government is working on a three-pillar design: (i) a solidarity pillar that enables advancing to a universal basic pension for the entire population of CLP 250 thousand (approx. USD 292), for which the PGU (Universal Guaranteed Pension) will serve as an important foundation; (ii) a contributory pillar that incorporates a technically competent public agency and higher employer contributions, which will be gradual, in addition to the recognition of unpaid work, while also addressing gender gaps in pensions; and (iii) a voluntary pillar similar to the existing pillar, with elements that can enhance it as a complement to future pensions. Finally, she pointed out that this new pension reform law will not interfere in the ownership of the funds saved in the individually funded system to date. (Source: <https://www.emol.com>; Date: 21.04.2022).

The Chamber of Deputies rejected the fifth universal withdrawal of pension funds, as well as the Government's limited withdrawal proposal.

On April 18, the Chamber of Deputies rejected the proposal put forward by several Deputies for a fifth early and unconditional withdrawal of 10% of pension funds, as well as the government's limited withdrawal proposal (mainly for the payment of debts). The Congressional decision gives the Government of Gabriel Boric a bittersweet victory since it had expressed its opposition to the possibility that Chileans could unconditionally withdraw all of their pension funds. If the fifth universal withdrawal had prospered, savings would have been depleted by an additional USD 17 billion (USD 3 billion in the event of a limited withdrawal), a total of approximately 5.8 million people would have been left with zero balance in their individual accounts, and pensions would have dropped by 40% on average. The fifth universal withdrawal proposal was decisively discarded. It will be filed and will not be able to be presented for another year. However, the Government could resort to the prerogative of submitting its bill of law to the Senate, which it is entitled to do since it is a presidential initiative. (Source: www.france24.com; Date: 19.04.2022).

Chile and India make progress on Social Security issues. The Undersecretary of Social Security, Christian Larraín, led a bilateral meeting with India, and stressed that the agreement they are working on recognizes the social security rights of Chileans in India and residents of India in Chile. (Source: www.previsionsocial.gob.cl; Date: 04.04.2022).

Digital platform workers now have social security protection. On March 11, the government enacted an [amendment to the country's labour code](#) that will extend social security coverage and other labor rights to digital platform workers. Digital platforms are computer systems that allow workers to provide services to users of the platform in specific geographical

areas, such as the transportation of goods or passengers. According to this reform, which will come into effect on September 1, digital platform workers will be classified as formal or self-employed workers (depending on their employment contracts) and will thus have access to old-age, disability and survivors' pensions, health insurance and other social security benefits. Previously, digital platform workers were treated as informal workers and were poorly protected by law. This reform aims to improve the working conditions and retirement security of a growing class of atypical workers. The reform is expected to affect some 189,000 workers in Chile, representing about 2.2 percent of the country's workforce. (Source: [International Update SSA April 2022](#); Date: April 2022).

Ecuador

President asked to declare a Social Security emergency. The Ecuadorian National Assembly today asked the President of the Republic, Guillermo Lasso, to declare the Ecuadorian Social Security Institute (IESS) in emergency due to an institutional and financial crisis. The request was evaluated by the Commission on the Right to Health and Sport, which adopted a majority resolution to approve it, due to the progressive defunding, mismanagement, and acts of corruption, resulting in dismissals of health personnel and poor care services. (Source: www.prensa-latina.cu; Date: 08.04.2022).

United States

The House of Representatives passed the "SECURE Act 2.0," expanding automatic enrollment in 401-k plans. The House of Representatives passed a bill that will improve the retirement savings system for American workers. Law H.R. 2954, also called the "Security 2.0 Act," which has now been submitted to the Senate, will help all Americans to successfully save for a safe retirement by expanding coverage and increasing

retirement savings, simplifying the current retirement system, and protecting Americans and their retirement accounts," said House Committee on Ways and Means Chairman, Richard Neal, D-Mass. One of the provisions of the law would require employers to automatically enroll eligible workers in 401(k) plans at a rate of 3% of salary, which would increase annually until employees contribute 10% of their salary. Employees may choose not to participate or select a different contribution amount. Companies with 10 or fewer employees, or that have been operating for less than 3, would be excluded from the mandate. Now the bill of law must be sent to the Senate. (Source: CNBC; Date: 30.03.2022).

Mexico

The pension regulator, CONSAR, increased the percentage of investment for the Afores in active mutual funds that have underlying shares of Mexican companies. Before this change, the Afores could invest between 10% and 35% in this type of funds; after the amendment, they may exceed this 35% limit. The Investment Committee may authorize participation percentages greater than 35% of net pension assets, only for mutual funds with active strategies that have underlying shares of Mexican companies and meet the criteria approved by the Risk Analysis Committee (CAR) said Consar in the Federation's Official Gazette (DOF). According to some analysts, this would provide the Afores with additional tools to diversify their portfolios. (Source: <https://www.bloomberglinea.com/>; Date: 31.03.2022)

Panama

Contributions from the mining industry are not the solution to the public PAYG system's deficit (IVM). In response to the government's proposal to use mining industry funds to strengthen the PAYG program, Cesar Tribaldos, a former member of the Board of Directors of the Social Security

Fund (CSS), said that this does not solve the problem because the system is facing a structural deficit (annual income is \$1.3 billion, while annual pension payments are in the order of \$2.1 billion; it is estimated that the system would run out of funds to pay pensions by 2024). He also stressed that the CSS is a failed institution, which has been used for appointing relatives or political party cronies. (Source: www.ecotvpanama.com/; Date: 01.04.2022).

Peru

Congress approves sixth withdrawal of pension funds. On May 4, 2022, the plenary meeting of Congress approved by majority vote a bill that will allow all AFP members to withdraw up to four Tax Units (ITU; PEN 18,400, approx. USD 4,833) from their pension funds. This is despite warnings from the main technical entities (MEF, BCRP and SBS), international bodies (IMF, OECD) and financial analysts. Congress sent the bill of law to the President of the Republic on May 6 for promulgation within 15 working days (i.e., the deadline is 27 May). If there are no objections, the President of the Republic must promulgate the law, ordering its publication in the Official Gazette. The sixth withdrawal of funds will become law the day after publication. The Association of AFP's has expressed its opposition to another withdrawal, due to the negative effects it would have on the economy and the pensions of contributors. According to the Association of AFPs, this sixth withdrawal will defund the system in the amount of approximately USD 25 billion, and close to 5 million people (about 60% of the system's members) would be left without funds. (Source: <https://gestion.pe> and FIAP; Date: May 2022).

² Bahrain's social insurance pension program covers Bahraini nationals working in establishments with at least one worker, or in one of the Gulf Cooperation Council countries (Kuwait, Oman, Qatar, Saudi Arabia, or the United Arab Emirates). Coverage is voluntary for self-employed individuals, people who previously had at least 5 years of mandatory coverage,

Uruguay

In the first half of the year the Executive Branch will send a bill to Congress to reform the pension system. Raising the retirement age from 60 to 65 (for those born from 1971 onwards) is one of the proposals in the draft document approved in November 2021 by the Commission of Social Security Experts (CESS). It was not approved by the Frente Amplio political party and representatives of the workers and pensioners. The Pit-Cnt is preparing to resist and does not rule out collecting signatures to convene a referendum to oppose the reform, which is illegal, according to constitutionalists. José Lorenzo López, vice-chairman of the Pit-Cnt, said that first "the possibilities for dialogue will be exhausted" and then decisions will be taken on the matter. (Source: www.elpais.com.uy; Date: 01.04.2022).

Asia and the Pacific

Bahrain

The country approved reforms to the Public PAYG pension system. On April 18, the King of Bahrain promulgated reforms to the country's social security pension program² that gradually increase contribution rates, raise the monthly old-age pensions of current pensioners, change the old-age pension calculation and adjustment methods, introduce incentives to delay retirement and introduce an end-of-service bonus for foreign workers (many of the details of the reforms and their implementation dates are not yet known). According to the government, the reforms aim to improve the long-term sustainability of the PAYGO social insurance program. Like many countries, Bahrain is

and nationals working abroad. To be eligible for an old-age pension, a person must reach the official retirement age of 60 (men) or 55 (women) and have at least 10 years of contributions (contributions can be credited under certain conditions). The contributions of those with less than 10 years of contributions are reimbursed on retirement.

experiencing rapid population aging, which will exert significant and increasing fiscal pressure on its state budget in the coming decades. The United Nations Population Division expects that the ratio of the population aged 65 and over to the population aged 15-64, will increase from 3.4% in 2020 to 23.1% in 2060.

Key details of the reforms include:

- **Contribution rate increases**: The combined worker/employer contribution rate will gradually increase from 19% to 27% of taxable income (from 7% to 8% for workers and from 12% to 19% for employers).
- **Higher old-age pensions of current pensioners**: Monthly old-age pensions will immediately increase by 6%, up to a maximum of 60 dinars (approx. USD 160) per month.
- **Change the old-age pension calculation and adjustment methods**: Old-age pension amounts will now be based on a less generous formula, which considers the average monthly income of the insured in the last 5 years of contributions, instead of only the last 2 years. Moreover, old-age pensions will only be adjusted in the years that the social security fund has a surplus (previously, pensions automatically increased by 3% in January of each year, although these increases were suspended in 2021 and 2022).
- **Introduction of incentives to delay retirement**: Individuals who postpone the application for an old-age pension for up to 5 years after the official retirement age, will receive pensions of up to 90% of their average monthly income in the last 5 years of contributions. There is currently no increase in benefits for those who postpone retirement, and the maximum old-age pension is 80% of the average monthly

income of the insured in the last 2 years of contributions.

- **Integrating the foreign workers' end-of-service bonus**: The foreign workers' end-of-service bonus will be integrated into the social security program and will be paid by the Social Security Fund, the body responsible for managing the program. Employers are currently required to pay an end-of-service bonus to all workers not covered by the social security program (including foreign workers), based on the worker's seniority: 15 days' salary for each of the first 3 years of service, plus 1 month's salary for each additional year of service. (Source: [International Update SSA April 2022](#); Date: April 2022).

China

The Government will launch a private pension system. On April 21, the State Council of China published a document entitled "[Views on Promoting the Development of Personal Pensions](#)," which sets out the development of China's first voluntary private pension scheme. According to the document, the new pension scheme will complement current pensions and basic life annuities provided by the State and employers, while helping to develop commercial pension financial services. Under the scheme, people can make annual contributions of up to RMB 12,000 (approx. USD 1,846) to a pension account established through a centralized platform (for more details on how the scheme works, please click on this [link](#)). The private pension plan seeks to address an urgent need for pension reform, as China experiences one of the most extreme incidents of population aging seen in the world, and current state and employer-sponsored pension plans fall short. So far, both workers and employers have contributed fixed amounts to state pension schemes. The plan, which will be tested in certain cities for a year

before being implemented more broadly, is a significant milestone in the government's long-standing efforts to develop its pension system, which depends heavily on state and employer-organized plans. The measures are aimed at middle-class Chinese workers who are already contributing to the common basic pension insurance plan, who will be encouraged to contribute annually to an individual pension account, said Lauren Johnston, a visiting professor from the School of Economics and Public Policy at the University of Adelaide. Their funds, in turn, will help to create a growing Chinese wealth and finance management industry,' she added. The initiative arises when the United Nations has estimated that the ratio of people between 15 and 64 to the population aged 65 or more in this country, will drop from 5.9 in 2020 to 2.7 in 2050. All experts point out that the Chinese pension market is currently valued at about USD 300 billion, but that, in 2025, thanks to the opening up to a private pension system, this business will rise to USD 1.7 trillion and its prospects for the coming decades, when population aging will peak, are immense. Hence, the major players in the sector worldwide are expected to launch a series of private plans in the country. (Source: www.china-briefing.com; www.df.cl; www.eleconomista.es; Date: April 2022).

Europe

Austria

The country implements a pension reform that sanctions early retirement. On January 1, 2022, the government implemented reforms to the social insurance pension program³ of the country that reinstate an early retirement penalty and create the Early Commencement Bonus (Frühstarterbonus) for retirees who started contributing at an early age. The early retirement penalty, which was eliminated in January 2020, reduces the Social Security old-age pension by 4.2% for each year that it is claimed before the age of 65 (the official retirement age for men; under this provision, people can claim the old-age pension from the age of 62 if they have at least 540 paid or credited months of contributions. This provision currently only applies to men because the normal retirement age for women is 60; however, the retirement age for women will gradually increase to 65 between 2024 and 2033). The Early Commencement Bonus is a monthly supplement paid to retirees who have at least 300 months of paid contributions, including at least 12 months of contributions paid before age 20. The amount of the bonus is €1 (US\$1.12) for each month of contributions paid from 15 to 19 years of age, up to a maximum of €60 (US\$66.97). These reforms aim to encourage workers to retire later and increase the retirement income of individuals who entered the workforce as teenagers. According to the OECD, Austria's average effective retirement age in 2020 was 62 for men

³ The Austrian social insurance pension program covers employees with monthly earnings of at least €485.85 (US\$542.31), as well as apprentices. To fund old-age, disability, and survival benefits under this program, employees contribute 10.25% of taxable monthly earnings, and employers contribute 12.55% percent of the taxable monthly payroll. The minimum number of contributions required for an old-age pension vary according to the year of birth of the insured and the date of the first contribution: a person born before 1955 must have at least 180 months of contributions paid or credited in the last 30 years, a total of

at least 300 months of paid or credited contributions, or a total of at least 180 months of paid contributions; a person born in 1955 or later, without any contributions prior to 2005, must have at least 180 months of contributions paid or credited, including at least 84 months of contributions paid; and a person born in 1955 or later, with at least 1 contribution prior to 2005, must meet the most favourable of the two previous requirements. Contributions may be credited by the government under certain conditions, such as periods dedicated to caring for others, military service, or receiving sickness, maternity, or unemployment benefits.

and 60.7 for women, compared to 63.8 and 62.4, respectively, for the 38 OECD member countries.

(Source: [International Update SSA March 2022](#); Date: March 2022).

Spain

Total pension expenditure will exceed EUR 188 billion (14% of GDP) if pensions are adjusted to inflation. The recently promulgated Law 20/2021 includes, among other measures, the guarantee of the purchasing power of pensions by their annual adjustment to the average rate of the CPI. With this measure, the legislature seeks to protect pensioners from purchasing power losses caused by the evolution of prices, isolating this group from the evolution of the economy, according to Miguel Ángel García, professor of Applied Economics of the URJC. With this reform, it is estimated that total public pension expenditure would exceed 188.5 billion euros in 2023 (14% of GDP), which would have increased by 1.7 points of GDP over the level existing in 2019, at which time it was within the average of the Euro Zone countries. Inflation above 6% would worsen the situation, as each additional point of CPI would increase total pension expenditure by around €1.7 billion (0.12 points of GDP). The deficit of the social security contribution component in 2023 would increase to 2.6% of GDP (-33.6 billion euros). If this scenario plays out, the pension system would be subject to a considerable imbalance just before the baby boomers reach retirement age, with the resulting increase in the pace of expenditure growth. (Source: [www.eleconomista.es](#); Date: 08.04.2022).

France

Re-elected President Macron will maintain his pension reform to postpone retirement until age 65. Emmanuel Macron, re-elected for a new five-year term, will maintain his reform to extend the minimum retirement age from 62 to 65, but will

leave room for discussion of other points, such as the conditions of those who started working before the age of 20, or the compensation for jobs with harsh working conditions (which will be defined in terms of contribution periods). This is the message of his Minister of Economy and Finance, Bruno Le Maire, who this Monday acknowledged that behind the "great victory" obtained this Sunday by Macron in the second round of the presidential elections against the ultra-right-wing Marine Le Pen, there is "a very deep democratic dissatisfaction" and also "a message of angry satisfaction." (Source: [www.emol.com](#); Date: 25.04.2022).

Ireland

The government published the detailed plans for the new retirement savings system with automatic enrollment, which will start operating as of 2024. According to the [detailed plans](#) published by the Ministry of Social Protection on March 29, 2022, all workers between the ages of 23 and 60, with an income of more than €20,000 (approx. \$22,000) per year (in all jobs), who are not already contributing to an employment pension plan, will be automatically enrolled. They will be free to opt out at the end of the minimum membership period in the 7th or 8th month, and whenever contribution rates increase in the first ten-year period. Those who choose not to participate will also be automatically re-enrolled after two years. Once workers are registered, they will have to make their own minimum contributions, in addition to receiving 100 per cent matched contributions from their employers, and an additional State contribution. Some relevant features of the program are as follows:

- **Contributions:** In the first 3 years, workers and employers will each contribute 1.5% of gross income and the State will add an additional contribution equivalent to 33% of the worker's contribution up to a cap

(employer and State contributions will only be paid on the first €80,000 [approx. \$88,000] of workers' annual earnings). This means that for every €1 saved by workers, €2.33 will go to their savings account (Worker €1 + Employer €1 + State €0.33). Minimum contributions will increase over time, every 3 years, to reach 6% after 10 years. Thereafter, the minimum contributions will be 6 per cent for the worker, 6 per cent for the employer and 2 per cent for the State. Employer contributions will also be deductible for corporate income tax purposes.

- **Investment options:** All members will be able to choose from a range of four funds: (i) conservative fund (mainly government bonds, cash or cash equivalents); (ii) moderate risk fund (government bonds + Tier 1 stocks, stock indices); (iii) higher risk fund (stocks and real estate); and (iv) a special predetermined fund that will operate on a life cycle basis, which means having more capital investments at first and then reducing them to lower risk investments as the member approaches retirement.
- **Fund management:** The funds will be provided by four business investment managers who will be selected in an open tender, and each provider must offer the four funds. All contributions to a particular fund type will be pooled and distributed among suppliers and all returns will also be pooled, meaning that all employees in the same fund type will receive the same return. In addition, annual management fees will be capped at 0.5% of assets under management. Workers will have no direct contact or relationship with investment managers. This too, according to the ministry, will minimize the administrative burden for employers, as they will not have

to select any suppliers and will only have to make payroll deductions from contributions.

- **Access to Benefits:** Participants will only have access to their savings when they reach the official retirement age (currently 66).
- **Program management:** The State plans to establish the so-called “central processing authority” (CPA), which will be the sole point of contact for members. All members will be able to access their account information directly through the CPA, which will also enable the so-called “*pot-follows-member*” approach, meaning that the portability of pension funds will not be an issue. The CPA will also engage a small number of commercial auto-enrollment providers to offer a range of savings/investment products and facilitate the collection of contributions from workers, employers and the State, as well as the distribution of funds to members when they reach retirement age.

According to the Department of Social Protection, approximately 750,000 workers will join the new regime. Overall, according to government estimates, the new system will generate ERU 21 billion in funds under management over the next ten years, excluding return on investment, which represents a significant amount of assets for Ireland. At the individual level, government estimates predict that for an average worker who earns €40,000 per year, the new system could generate a total pension fund valued at more than EUR 560,000, including the estimated return on investment, after 43 years of saving. (Source: <https://irrationalretirement.com/>; *International Update SSA April 2022*; Date: April 2022).

United Kingdom

The Country publishes the draft code for collective defined contribution plans. On January

25, 2022, the Pension Regulator (TPR⁴) published its draft code governing collective defined contribution schemes (CDC), a new type of occupational pension scheme that is expected to be available in the country as of August. Parliament approved the creation of CDC schemes in a law promulgated in 2021, to provide employers and workers with an alternative to the defined contribution (DC) and defined benefit (DB) schemes that currently comprise the UK occupational pension system. CDC plans are designed to be attractive to both employees and employers, by combining the key features of DC and DB plans. Like a DC plan, a CDC plan limits an employer's financial risk because it is funded by employee and employer contributions paid at fixed rates and does not provide guaranteed benefits. However, by pooling its members' assets and establishing a target benefit level, a CDC plan can, like a DB plan, provides workers with predictable (and potentially more generous) pensions on retirement. According to a 2019 government survey, the UK occupational pension system had 22.4 million people enrolled in DC schemes and 18.3 million people enrolled in DB or hybrid schemes. While many aspects of the UK's CDC framework still have to be resolved, several key features of the plans include:

- (i) **Training:** To establish a CDC plan, an employer (or a group of connected employers) must submit a detailed request to the TPR for approval, laying out the plan's governance structure, administrative systems and processes, financial sustainability, communications with members, continuity strategy, and other characteristics.
- (ii) **Funding:** CDC plans must be fully funded. If a plan has insufficient funds (when

contributions are insufficient to fully fund the benefits), cuts to the plan's target benefit level may be required to achieve financial balance. To ensure that this funding requirement is met, plan administrators must produce actuarial reports at least once a year.

- (iii) **Communication:** To ensure that CDC plan members are aware of the actual and potential effects of return and investment risks on their pension benefits, plan administrators will be required to issue quarterly statements to members.

In addition to occupational pension schemes, the UK's old-age pension system consists of a one-tier State Pension (STP) scheme for people retiring on or after 6 April 2016, with means tested benefits. The STP provides a full lump sum pension at the official retirement age (SPA) of 66, with at least 35 years of contributions paid or credited; a partial benefit is paid for between 10 and 35 years of contributions. Pensioners with limited financial resources may qualify for a means-tested pension credit if they have reached the SPA, or a means-tested social assistance benefit if they have reached the age of 80 and meet certain other conditions. (Source: [International Update SSA March 2022](#); Date: March 2022).

Turkey

The country approves changes in the private pension system. On January 21, 2022, the government approved changes to the country's Private (Voluntary) Pension System (BES) that increase the state-funded contribution rate, allows pre-retirement withdrawals, and allows older workers to enroll in the automatic enrollment program (OKS in its Turkish acronym). According to the government, the changes aim to

⁴ TPR is the regulator of occupational pension schemes in the UK. Private sector employers are required by law to

automatically enrol all employees aged 22 to 65 with annual earnings of at least £10,000 [US \$13,401.37] in qualified occupational pension plans.

increase enrollment in the BES and retirement savings. On March 4, the voluntary program had 7.2 million participants with 246 billion lire (US\$17.7 billion) in total assets, and the OKS had 6.2 million participants with 18.1 billion lire (US\$1.3 billion) in total assets.

Key details of the changes (all as of 22 January) include:

- **Increase in the State-funded contribution rate in the BES program:** the government increased its equivalent contribution rate from 25% to 30% of the participants' annual contributions, and the maximum annual contribution increased from 25% to 30% of the gross annual minimum wage. (In 2022, the government's maximum contribution will be 18,014.40 lire [US \$1,293.02]). Participants lose between 40% and 100% of their matching government contributions (depending on the number of years of contributions) if they leave the BES program for reasons other than retirement, disability, or death.
- **Allow pre-retirement withdrawals:** BES participants can withdraw up to 50% of their account balances (not including government contributions) before age 56, if they meet certain conditions. (Specific qualification conditions have not yet been announced.) Previously, withdrawals were only allowed if a participant withdrew the full account balance and left the OKS or voluntary program.
- **Allow older employees to enroll in the OKS:** Employees aged 45 and older can now choose to enroll in the OKS by notifying their employers. Previously, only employees under the age of 45 were eligible. (These younger employees are automatically enrolled by their employers when they start

work but may choose not to participate in the program within 2 months of enrollment.)

The BES was first launched in 2003, with the voluntary savings program open to all individuals over 18 years of age, regardless of their employment status. (Since May 2021, parents and guardians of children under the age of 18 can create voluntary accounts for their children.) Under this program, participants contract directly with pension companies to establish their individual accounts and determine their contribution rates. The OKS was introduced in 2017 and requires all Turkish public and private sector employers to enroll their covered employees in private pension plans. Under this program, employers select pension plans and collect contributions on behalf of their employees, who must contribute at least 3% of taxable income. (Employers' contributions are voluntary.) In addition to the contributions made by the government to participants in both BES programs, the government contributes 1000 lire (US\$71.78) to OKS participants after 2 months of participation and 5% of the account balance on retirement (if the account balance is used to purchase a life annuity paid for at least 10 years).
(Source: [International Update SSA March 2022](#)).