

# International Federation of Pension Fund Administrators



## Progress of the Pension Systems November - December 2021 No. 6

*This document compiles the major changes that occurred in the pension systems in the November - December 2021 period, with emphasis on the development of the individually funded systems. Due to the importance of events, this edition includes information on changes and regulatory proposals until the first week of January 2022.*

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## Executive Summary by area of interest

### New pension programs and social security reforms (approved)

- **Belarus:** Government approves a new voluntary pension savings program, which will start operating in Oct. 2022. Employers must match the first 3% that participating workers save (contributing up to 10% of their salaries), proportionally reducing the contributions they pay into the PAYGO program.
- **Costa Rica:** Reforms to the public PAYGO system were approved and will come into effect in 2024. Among other aspects: (i) the pension calculation formula was reformed and based on the best 300 reported salaries (instead of the last 240 salaries); (ii) the right to early retirement was eliminated for men and maintained for women, but the early retirement age was increased from 60 with 450 contributions, to 63 with 405 contributions.
- **Spain:** The Senate approved several amendments to the public PAYGO system, many of which came into effect in January 2022, the most salient being: (i) On January 1 of each year, pensions will be automatically adjusted, based on the average annual inflation of the previous year (they were previously adjusted based on the CPI estimated at the beginning of each year); if inflation is negative, pensions will remain unchanged; (ii) Several measures for streamlining the effective and official retirement ages, such as penalties for early retirement and incentives for postponed retirement; and (iii) An "Intergenerational Equity Mechanism" (MEI) that replaces the repealed "Sustainability Factor," reactivating the Social Security Reserve Fund through an additional 0.6% contribution (financed with 0.1% from workers and 0.5% from employers), from 2023 to 2032.
- **Israel:** A new law will gradually increase the retirement age of women by 4 months per year, from 62 to 63, between 2022 and 2024, and by 3 months per year, to 65, between 2025 and 2032. The retirement age of men remains unchanged at 67.
- **Italy:** As of 2022, the government approved access to old-age pensions if the sum of the age of the retiree and the number of years of contributions is at least 102 (previously the sum had to be at least 100; the so-called "Quota 100"), and access to early retirement at the age of 64, with 38 years of contributions (individuals could previously retire at 62 years of age, with 38 years of contributions).
- **New Zealand:** The government approved a gradual increase in the residency requirements for accessing the universal old-age pension, from 10 to 20 years, as of 2042.
- **Singapore:** A series of changes will be implemented in the funded system (CPF) as of 2022, including higher contribution rates for certain groups of workers, higher retirement ages (from 62 to 63) and simplified payment procedures.

### Crisis in public PAYGO systems

- **Ecuador:** A [World Bank study](#) acknowledges that the public PAYGO system, managed by the Ecuadorian Social Security Institute (IESS), not only has financial problems, but is also regressive, since it grants pensions to the highest-income individuals equivalent to seven times what they contributed while working.

### Reforms proposed or to be discussed

- **Chile:** In Dec. 2021 the government submitted a bill of law to Congress for the creation of a Universal Guaranteed Pension (PGU) of a maximum amount of \$ 185,000 (USD 220), for all individuals over 65 who fall within 90% of the most vulnerable population; the measure replaces the benefits of the solidarity pension system and enables increasing coverage from 60% to 90% of the population over 65 years of age.
- **Peru:** Congress has revived a bill of law enabling the transfer of workers' funds in the AFPs to other agencies of the financial system (such as banks, finance companies and municipal savings funds). The Ministry of Economy and Finance and the Pension Regulator oppose the measure, because pension savings are different to other product offered by companies in the financial system, among other aspects.
- **Dominican Republic:** The Dominican Association of AFPs (ADAFP), put forward a series of proposals for improving the pension system, including a minimum non-contributory solidarity pension (60% of the minimum wage); a lifetime disability pension; balancing replacement rates between men and women; adjusting the retirement age to life expectancy and integrating self-employed workers, in addition to establishing a gradual contribution for overcoming informality, incentivizing voluntary pension savings with tax incentives, and automatic enrollment.
- **Uruguay:** At the end of November 2021, the Social Security Experts Commission (CESS) delivered its [final report on recommendations](#) for a pension reform to the Executive Branch, which will now have to draw up a bill of law totally or partially incorporating such recommendations. Among other aspects, the report establishes options for a gradual increase in the minimum retirement age, proposes leaving the contribution rate as is (since it is already very high), and enables accessing "guaranteed minimum income" after 71 years of age (regardless of the minimum number of contributions, but subject to a residency requirement).

### Relevant studies

- **According to the latest OECD report, [Pensions at a Glance 2021](#), the biggest long-term challenge for pension systems is still to provide financially and socially sustainable pensions in the future, in an aging context.** The report suggests that it is crucial for countries to establish automatic adjustment mechanisms in their pension systems that change parameters (such as the retirement age, benefit amounts or contribution rates), when demographic, economic or financial indicators change. It also states that allowing early access to pension savings to compensate for economic difficulties, results in lower pensions.
- **The European Commission published a [report](#) on the best practices and performance of automatic enrollment mechanisms in pension systems which enable promoting pension savings.** The study identifies and evaluates 32 best practices worldwide for the design of these types of plans.

## Relevant reports or presentations

According to the latest OECD report, [Pensions at a Glance 2021](#), the challenges of aging persist, despite pensions being protected during the COVID-19 pandemic. Although the increase in life expectancy in old age has slowed since 2010, rapid aging rates are projected for the next two decades. The size of the working-age population is also expected to decline by more than a quarter by 2060 in most Southern, Central and Eastern European countries, as well as in Japan and Korea.

Young people have been severely affected by the crisis and their future pensions could be reduced, especially if the pandemic results in longer-term issues and difficulties in developing their careers. Allowing early access to pension savings to compensate for economic difficulties, as observed in some countries such as Chile, can also generate long-term problems. The consequence will be lower pensions, unless higher future savings compensate for these withdrawals.

Measures regarding retirement ages have been limited in the last two years. Sweden raised the minimum retirement age for income-related public pensions; the Netherlands postponed the planned increase while reducing the pace of the future link to life expectancy; and Ireland repealed the planned increase from 66 to 68 years of age. Denmark, Ireland, Italy and Lithuania have increased their early retirement options.

According to legislative measures, the official retirement age in the OECD will increase by approximately two years by the mid-2060s. The official future retirement age will be 69 or older in Denmark, Estonia, Italy and the Netherlands, while Colombia, Luxembourg and Slovenia will allow men to retire at age 62. Women will have a lower official retirement age than men in Colombia, Hungary, Israel, Poland and Switzerland.

According to the report, the biggest long-term challenge for pension systems is still to provide financially and socially sustainable pensions in the future. Many countries have introduced automatic adjustment mechanisms that change the parameters of the pension

system, such as retirement age, pension amounts or contribution rates, when demographic, economic or financial indicators change. These self-adjusting mechanisms are crucial in helping to cope with the impact of aging.

Approximately two-thirds of OECD countries use some form of automatic adjustment in their pension plans. The OECD report shows that automatic adjustment mechanisms were sometimes suspended or even eliminated over the years, in order to avoid reductions in pension benefits and increases in the retirement age. However, compared to the alternative of discretionary changes, automatic adjustments can be designed and implemented to generate changes that are less erratic, more transparent and more equitable between generations. (Source: [www.oecd.org](http://www.oecd.org); Date: 08.12.2021).

The European Commission published a [report on best practices and performance of automatic enrollment mechanisms in pension systems](#). Automatic enrollment (also known as auto-enrollment) is a mechanism that encourages pension savings by enrolling people in a pension plan, unless they actively choose not to participate. This study identifies and assesses 32 best practices for the design of self-enrollment pension plans, based on an in-depth qualitative and quantitative assessment of pension plans in selected EU and non-EU countries, and consultations with pension experts. These best practices cover the entire life cycle of the saver, including the initial decision to save for a pension, the choice of funds, greater pension rights, and post-retirement options. Best practices for implementing an automatic enrollment pension plan are also presented. Finally, an indicator chart is presented that assesses each best practice based on key evaluation criteria, including its relative importance in the operation of an automatic enrollment pension plan and its impact on performance measures (participation, savings and return on investment). (Source: <https://op.europa.eu>; Date: 29.11.2021).

## Relevant news of the period

### Latin America, the Caribbean and North America

#### Chile

**Government proposed the creation of a Universal Guaranteed Pension (PGU).** In December 2021, the Government submitted an amendment to the Short Pension Law creating the Universal Guaranteed Pension (PGU) for a maximum amount of \$ 185,000 (approx. USD 220<sup>1</sup>) for all individuals over 65 who fall within 90% of the most vulnerable population. This benefit replaces the existing benefits granted by the solidarity pension system (basic solidarity pension for those who did not contribute and solidarity pension contribution for those who have a self-financed pension) while also benefitting 90% of the population over 65 years of age, thus expanding the 60% currently covered by the Solidarity Pillar. According to the Minister of Labor's figures presented to the Chamber of Deputies, 2,145,663 people will receive the benefit, 1,540,880 of them current beneficiaries of the Solidarity Pillar and 604,783 of them individuals not currently receiving any government assistance, since they are not part of the most vulnerable 60% of the population. By 2050, this figure will more than double to include a total of 4,783,903 people, 1,308,773 of whom would not have received any government assistance if the current structure of the solidarity pension system were to be maintained. In order to access the PGU, applicants must be 65 years old, not be part of the wealthiest 10% of the population over 65, prove at least 20 years of residence in Chile (from 20 years of age, and with a minimum of 4 of the last 5 years prior to the date of application for the benefit) and have a pension of less than Ch\$ 1,000,000. The amount of the benefit will be calculated on the individual's base pension on retirement, regardless of whether or not the individual retires. According to Ministry of Finance figures, those with a base pension amount less than or equal to Ch\$ 630,000, will receive a PGU of Ch\$ 185,000 while those with a base pension of over \$ 630,000 but less than \$ 1,000,000 will receive an amount that progressively decreases in a linear fashion. The estimated fiscal expenditure in 2022 is 0.4% of GDP, and a maximum of 0.95% of GDP between 2028 and 2034, averaging 0.92% of GDP in the 2040s. According to Instituto Libertad y Desarrollo, LyD, this is good news,

because the proposal establishes a minimum threshold to which the mandatory individual pension savings (currently 10%) are added, thus encouraging pension savings. i.e., by having a formal job and paying pension contributions, individuals will always obtain a higher pension amount. Furthermore, the PGU is granted after the age of 65, regardless of whether the person retires or carries on working, thus also providing an incentive to postpone the retirement age, which is favorable considering the longevity of the population. Finally, the expansion to 90% of the most vulnerable population over 65 years of age benefits a significant number of people who are currently not receiving government assistance in pension matters, which is significant considering population aging. The Association of AFPs has also applauded the executive's initiative, as it directly aims at improving pensions. Sources of financing for the PGU include a new bill of law that modifies tax exemptions, the provision of funds contemplated in the 2022 Budget Law and their financial scheduling, and a reduction in the mandatory contribution to the Pension Reserve Fund. One of the decisive points in the discussion for the approval of the PGU in the first days of January 2022, was the sufficiency of the proposed financing. (Source: <https://lyd.org>; [www.df.cl](http://www.df.cl); [www.emol.com](http://www.emol.com); Date: January 2022).

#### Costa Rica

**The reform of the Disability, Old Age and Death regime, IVM (public PAYGO system) was finally approved.** This reform was approved in August 2021 and was subsequently submitted to public consultation for 15 days. The reform was then approved on December 15, 2021, and will be sent to the Official Gazette for publication. According to the authorities, the approved measures will provide oxygen to the public PAYGO pension system until at least 2050, which will require 15 additional years of sufficiency of the reserve, as of 2037. The changes will take effect in 2024. This approval basically establishes that:

- i) Men and women will continue to be entitled to access an old-age pension at age 65.
- ii) Men will no longer be entitled to early retirement. They can currently retire at age 62 with 462 contributions, but when the

<sup>1</sup> At the observed exchange rate on 06.01.2022: 1 USD = CLP 841.63.

reform comes into effect, they will retire at age 65 with 300 contributions.

- iii) Early retirement for women is maintained, but the retirement age rises from 60 with 450 contributions, to 63 with 405 contributions.
- iv) The formula for calculating pensions is amended so consider the best 300 reported salaries (25 best years, not necessarily consecutive) of the entire working career as a basis, adjusted to present value, known as the average reference salary (SPR). The old-age pension amount is currently based on the average of the last 240 salaries (last 20 consecutive years).

(Source: <https://www.nacion.com>; [www.monumental.co.cr](http://www.monumental.co.cr); <https://delfino.cr>; Date: December 2021).

## Ecuador

**A World Bank study acknowledges that the public PAYGO system, managed by the Ecuadorian Social Security Institute (IESS), not only has financial problems, but is also regressive, since it grants pensions to the highest-income individuals equivalent to seven times what they contributed while working.**

According to the World Bank's diagnosis "[Ecuador: pensions at risk](#)," a high-income individual in the PAYGO pension system managed by the IESS will receive a pension seven times higher than what he contributed while working. Medium and low-income individuals, on the other hand, will receive a pension of 5 times what they contributed. This goes to show that the PAYGO system is designed to give members more than they contribute, thus making the pension fund unviable, eventually reach a point where there will be no money left to pay pensions. This also implies that the pension system is not supportive, because it provides proportionally higher pensions to members with higher incomes (if the system were supportive, most of the benefits would be for lower-income members). The inequity of the system is also evident in the fact that the contributions of active members do not suffice for paying the pensions of retirees (there are currently 5 active members for each retiree, whereas the system would need 8 to be balanced) so the government contributes 40% of the pensions paid by the IESS each year. This comes from the taxes paid by all Ecuadorians, whether or not they are enrolled in Social Security (i.e.,

the general taxes of all Ecuadorians are used for financing the pensions of even the highest-income individuals). Finally, another point that evidences the lack of solidarity of the PAYGO system is that, in order to access an old-age pension, individuals must contribute to the system for at least 15 years of their working lives. But individuals who cannot meet that 15-year minimum requirement (because they are in the informal sector, or generally poorer people, with less education, for example), will not receive the IESS pension. It is becoming increasingly difficult for the government to help finance the deficit of the PAYGO pension system; in fact, the Ministry of Economy and Finance has acknowledged that some \$ 1,371 million are currently pending payment to the IESS for 40% of pensions. According to the Fiscal Policy Observatory, structural reforms should be made to Social Security to provide it with more income, which would entail increasing contributions, increasing the retirement age or changing the formula for calculating pensions (which is now based on the best five years of wages, and could be extended to the best ten years). (Source: [www.primicias.ec](http://www.primicias.ec); [www.eluniverso.com](http://www.eluniverso.com); Date: December 2021).

## Mexico

**CONSAR's Board of Directors authorized the commissions to be charged by the Afores in 2022.** Eight Fund Managers were authorized to charge a commission of 0.57% on the managed balances; the Public AFORE was authorized to charge 0.53% and one Fund Manager (Coppel) was authorized to charge the average commission of 0.56%, since its proposal to charge 0.78% was rejected. The following factors were considered when analyzing commissions: (i) the volume of assets managed by each Fund Manager; (ii) the income obtained by the Fund Managers; (iii) the costs of the system; and (iv) the Fund Managers' business costs. The average commission of the system was reduced from 0.808% to 0.566%. Source: CONSAR; Date: December 2021).

**Amfore presented a tool for workers to calculate their pension upon retirement.** This [tool](#), jointly developed by AMAFORE and the consulting firm Mercer, was presented in the final stages of the 2021 Digital Meeting organized by the agency. Using this calculator, all workers will be able to estimate their pension amounts on retirement. It will be useful for changing the short and mid-term savings habits of workers. (Source: <https://dialogosoaxaca.com>; Date: 24.11.2021).



## Peru

**Congress has revived a bill of law enabling the transfer of workers' funds in the AFPs to other agencies of the financial system.** The Congress of the Republic seeks to resume the proposals for freely opting out of the AFPs and transferring the funds to financial agencies, in order to make the Private Pension System (SPP) more competitive. The "Podemos Peru" bench is the driving force behind the measure, submitting a new bill of law and updating another one from the previous legislature. Congressional sources said that the bill of law would be debated in the legislative process beginning in March 2022. It has been suggested that if members wish to opt for another pension savings mechanism in the financial system, the AFPs themselves should directly transfer the funds accumulated in their Individually Funded Accounts to their new savings accounts in the chosen financial institution (or vice versa, if the users decide to return to an AFP). In order to enable this transaction, banks, finance companies and municipal savings funds would be required to be part of the SPP, to authorize them to open long-term savings accounts for social security purposes, generating annual interest in favor of the saver, without charging commissions. They would also be unattachable. The Ministry of Economy and Finance (MEF) and the Superintendency of Banking, Insurance and AFP (SBS) had previously objected to the measure, mainly for the following reasons:

- (i) It does not meet the purpose of providing adequate protection for members against the risks of old age, disability and death.
- (ii) It would seriously compromise the management of its funds by incorporating risks inherent to the financial system.
- (iii) On comparing the annualized rates of return obtained by the AFPs, to the annual effective rates of return of banks for term deposits, the AFPs provide higher returns.
- (iv) Bank financing is short and mid-term, with the exception of mortgage loans, whereas pension savings accounts are long term.
- (v) In case of transfers, workers would not be protected against the risk of other services or transactions carried out by financial agencies, as is the case with the AFPs, whose assets are separated. Thus, the bill of law could give rise to potential risks that would defeat the purpose of the SPP.

- (vi) It is risky for a financial institution to consolidate a variety of functions such as savings, loans and pension funds, which, unlike other financial instruments, have a long-term horizon.
- (vii) Pension savings are different in nature to any other product offered by companies in the financial system, because such funds are intended to serve as a source of income in retirement.

(Source: <https://elcomercio.pe>; <https://larepublica.pe>; Date: Dec. 2021.

**According to the SBS, 70% of active AFP members withdrew money from their pension funds.** This percentage is equivalent to 5.7 million people who withdrew money from their AFPs in the last two years, due to the pandemic (in five special withdrawals), for a total of PEN 65,923 million (approx. SD 16,500 million). Members between 21 and 30 years of age, comprising 25% of the clients of the AFPs, decided to withdraw approximately 90% of their funds. In other words, the youngest members were the ones who withdrew the most money from their AFPs, whereas the ones who withdrew the least from their AFP accounts were members over 65, representing 19% of contributors and close to retirement age. With these withdrawals, it is estimated that 1.5 million members were left without funds in their pension accounts. This is a worrisome scenario for the SBS, because these people no longer have retirement savings, potentially being exposed to economic vulnerability in their old age. (Source: <https://rpp.pe>; Date: 27.12.2021).

## Dominican Republic

**The Dominican Association of Pension Fund Managers (ADAFP) discussed its favorable results and the prospects for strengthening the pension system with the IMF.** Among the topics discussed were the initiatives for modifying the social security law, currently being discussed, highlighting the importance of making adjustments for improving pensions, and continuing to strengthen this important savings mechanism, which is crucial for the country's stability and economic and social development. Kirsis Jáquez, Chair of the ADAFP, presented the AFP Trade Association's proposals for enhancing the legislation that would provide more and better sustainable pensions to enrolled workers and

their families, also strengthening national savings, to the IMF Mission. On this occasion, the ADAFP also argued that the individually funded pension funds, in addition to their contribution to the stability and growth of the economy, have energized and deepened the stock market through financing and participation in companies and projects in sectors of high economic and social impact, such as energy, tourism and agribusiness.

(Source: <https://adafp.org.do>; Date: 23.11.2021).

**The ADAFP presented proposals for achieving more and better pensions.** The proposals presented by the ADAFP, some of which involve amendments to the law, seek to raise the average replacement rate for the system from the currently estimated average of 30 percent, to 60%. The program contains 25 proposals for improvement, including a non-contributory minimum solidarity pension (60% of the minimum wage), a lifetime disability pension, balancing replacement rates between men and women, adjusting the retirement age to life expectancies and integrating independent workers, in addition to establishing a gradual contribution for defeating informality and encouraging voluntary pension savings with tax incentives and automatic enrollment.

(Source: <https://adafp.org.do>; Date: 03.11.2021).

## Uruguay

**The Social Security Experts Commission (CESS) delivered its [final report on recommendations](#) for a pension reform to the Executive.** The Executive will now have to draw up a bill of law totally or partially incorporating such recommendations. Social security expenditure is growing (it was 11% of GDP in 2019) and this trend will continue if nothing is done, so changes are necessary. The document points out that contribution rates (personal and employer) are already high, preventing them from being used as a means to mitigate the financial imbalance. It therefore recommends that they should not be increased. Other aspects mentioned in the document are the following:

- (i) Regarding the minimum retirement age, currently 60, it proposes “not to modify the retirement ages of people born before April 1, 1966,” and two options for gradually increasing the minimum retirement age of the rest:
  - One of the options would be to increase the existing minimum retirement age of 54 for those

born in 1967 by one year each successive year, to reach a minimum retirement age of 65 for those born after 1971 (currently 50). In other words, the minimum retirement age of those born in 1967 would be 61; 62 for those born in 1968, and so on until reaching a minimum retirement age of 65 for those born from 1971 onwards.

- The other option would be to raise the minimum retirement age by one year per year, starting with people born in 1971, who would be able to access retirement at 61, ending the transition with people born in 1975 (currently 46 years old). This second option would imply a slower containment and reversal of the upward trend in the level of public pension expenditure, so that, if the government chooses this option, it would have to modify other parameters. It also recommends that all systems should converge to the minimum retirement age of 65.
- (ii) The measure considers that the existing requirement of at least 30 years of contributions for retirement must be maintained, progressively reducing it at a rate of three years for each additional year of age, to the existing requirement of 70 years of age and 15 years of contributions. In other words, at 66 years of age individuals may retire with at least 27 years of contributions, at 67 with 24, at 68 with 21, at 69 with 18 and at 70 with 15 years of contributions (the latter being the existing requirement).

People will be able to access the guaranteed minimum income procedure after age 71, regardless of the minimum number of years of contribution, but subject to a residency requirement. The minimum guaranteed income will have a “minimum reference value” based on the criteria established for the existing non-contributory old-age pension, i.e., \$ 13,035. In other words, those who turn 71, having worked informally all their lives (without having made any contributions), will be able to access the guaranteed minimum income. Furthermore, this guaranteed minimum income will be used to supplement pensions of less than three times the value of the minimum income (i.e., \$ 39,105).

(Source: [www.elpais.com.uy](http://www.elpais.com.uy); Date: 25.11.2021).

## Asia and the Pacific

### Israel<sup>2</sup>

**The government gradually increases the retirement age of women from 62 to 65.** As part of its annual budget process, the Knesset passed the Economic Arrangements Bill on November 4, 2021, which gradually increases the official retirement age for women from 62 to 65 (the Bill does not affect the official retirement age for men, which will remain at 67). The new law increases the official retirement age by 4 months per year, from 2022 to 2024 (until the age of 63) and by 3 months per year from 2025 to 2032. In order to lessen the effects of this increase on approaching retirement, the law also extends the duration of unemployment benefits for women aged 60 and over, provides funding for new vocational training programs, increases the employment subsidy paid to low-income women and increases the amount of income that retirees under the age of 70 can earn without reducing their pensions. According to the government, the law aims at improving the long-term sustainability of the pension system, while increasing women's employment rates and pension benefits. The government estimates that raising the retirement age will save around NIS 550 million (approx. USD 174.7 million) per year.

(Source: [Intentional Update SSA Dic.2021](#); Date: December 2021).

<sup>2</sup> The Israeli public pension system consists of a social insurance (PAYGO) program and a non-contributory social assistance program covering all residents in the country. To be eligible for an old-age pension (social security), a person must have reached the official retirement age and have at least 60 months of contributions in the last 10 years, or a total of 144 months of contributions (there are no minimum requirements for women who are: widowed, divorced, abandoned or married to an uninsured husband; or who receive a disability pension in the month prior to the official retirement age; people who immigrated to Israel for the first time after the age of 60 to 62, depending on their date of birth, are not eligible for an old-age pension). The pension is means-tested until the insured turns 70. A means-tested, non-contributory old-age pension is paid to new immigrants to Israel who meet certain conditions.

<sup>3</sup> New Zealand's old-age pension system comprises the NZ Super, a non-contributory social assistance program, and a voluntary individual account program (KiwiSaver). To qualify for a NZ Super pension, individuals must meet the residency requirements and be 65 years old. As of April 2021, the weekly after-tax benefit paid under this program is NZ \$ 436.94 (approx. USD 299), if single and living alone, NZ \$ 403.33 (approx. USD 276), if single and sharing accommodation, or NZ \$ 336.11 (approx. USD 230), if married, in a civil union or common law marriage. For people 65 and older who are experiencing financial hardship, the government also offers several means-

### New Zealand<sup>3</sup>

**Government approves increasing the residence requirement to access the country's universal old-age pension.** On November 15, 2021, the government passed a law that will gradually increase the residency requirements for the country's universal old-age pension (New Zealand Superannuation or NZ Super) from 10 to 20 years. Specifically, the required number of years of residence will increase to 11 years on July 1, 2024, and then by 1 year every 2 years thereafter, to reach 20 years on July 1, 2042. The new law does not change other residency requirements, including the one that at least 5 years of residence must be after 50 years of age. The increased residency requirement is intended to reduce access to this government-funded benefit among people who have spent a significant part of their working lives outside of New Zealand. The change will bring the NZ Super residency requirement closer to the 27.5-year average for residency-based old-age pensions in OECD countries. (Source: [Intentional Update SSA Dic.2021](#); Date: December 2021).

### Singapore<sup>4</sup>

**The government will implement changes to the Central Provident Fund as of 2022.** In early 2022, the country will implement a series of changes to the Central Provident Fund (CPF), including higher contribution rates for 55-year-old and 1-day workers up to 70 years of age, higher retirement ages and reemployment and simplified payment procedures. The government approved the changes in early 2021; they are in line with recommendations made in 2019 by a tripartite working

tested benefits, including health and housing supplements and an emergency benefit. To help supplement these public retirement income sources, the KiwiSaver program automatically enrolls most workers aged 18 to 64 in privately managed individual retirement accounts (workers can subsequently opt out of the program; self-employed and unemployed individuals can also choose to participate in the program). The accounts are funded by contributions from employees (3 to 10 percent of gross income), employers (a minimum of 3 percent of the gross payroll), and the government (up to NZ \$ 521.43 [approx. USD 357] per year for each worker).

<sup>4</sup> Singapore's public old-age pension system comprises the CPF and a non-contributory social assistance program. The CPF is a publicly managed provident fund that is mandatory for most workers. RA account funds can be partially withdrawn from the age of 55 (subject to certain conditions) or at any age if the fund member has a serious medical condition or permanently leaves Singapore and West Malaysia. Fund members with at least S\$ 60,000 (approx. USD 43,992) in the RA account at age 65 (the CPF payment eligibility age) are automatically enrolled in an annuity program (CPF Lifelong Income for the Elderly, or CPF LIFE) (enrollment is voluntary for fund members with less than this amount). A government-funded non-contributory social assistance program (the Silver Support Plan) provides benefits to needy Singaporean citizens aged 65 and over who meet certain conditions.



group on older workers. The changes are intended to boost retirement savings and the supply of older workers, as the country faces a growing labor shortage caused by an aging population. According to the Ministry of Labor, about a quarter of the country's workforce was 55 or older in 2020, compared to 16.5% in the previous decade. Key changes to the CPF (all effective January 1, 2022, unless otherwise noted) include:

- (i) **Higher contribution rates for workers aged 55 years and 1 day, up to 70:** The combined contribution rate of workers and employers will increase from 26% to 28% of covered monthly income for workers 55 years and 1 day up to 60, from 16.15% to 18.15% for workers aged 60 and 1 day up to 65, and from 12.5% to 14% for workers aged 65 and 1 day up to 70 (the combined contribution rate will remain at 37% for workers 55 years and younger and 12.5% for those aged 70 and 1 day, or more). Additional contributions will be allocated in full to the Worker's Special Account (SA), which is primarily for retirement needs (contributions to the CPF are allocated to three different individual accounts: [1] the SA; [2] an Ordinary Account [OA] that can be used to finance a home purchase, life and mortgage insurance, education, and investments in approved retirement-related financial products, and [3] a MediSave Account for certain medical and hospital expenses). At age 55, savings from OA and SA accounts, up to a certain amount, are transferred to a Retirement Account [RA]).
- (ii) **Higher retirement and re-employment ages:** On July 1, 2022, the official retirement age will increase from 62 to 63, while the re-employment age will increase from 67 to 68 (in Singapore, the retirement age is the earliest age at which employers can require workers to retire; once a worker reaches this age, their employer must offer reemployment contracts for one year, provided the worker meets certain conditions, until the worker reaches the re-employment age; employers can

also transfer the re-employment obligation to another employer or provide a special lump sum - these ages are not conditions for receiving old-age benefits under the CPF). The Ministry of Labor may also authorize further increases in the retirement and re-employment ages until they reach 65 and 70, respectively. These increases should be in line with the recommendations of the Tripartite Working Group on Older Workers, which foresees a retirement age of 65 and a re-employment age of 70 by 2030.

- (iii) **Simplified pension payment procedures:** Savings from OA and SA accounts will be automatically paid to CPF members when they exhaust their RA account savings. Members who exhaust their RA account savings must now request transfers of their savings from the OA and SA accounts to continue receiving pension payments.

## Europe

### Belarus<sup>5</sup>

**Government approves new voluntary pension savings program.** On September 27, 2021, the country's president signed a decree that creates a new voluntary individual accounts pension program as of October 1, 2022. Employees covered by the country's social security program who are at least 3 years younger than the official retirement age, can choose to participate in the new program and contribute up to 10% of gross monthly income to fund their individual accounts (the official retirement age is 63 and 58 for men and women, respectively, as of January 1, 2022). Workers' contributions are tax deductible and workers can modify or suspend their contributions at any time. Employers must match the first 3% contributed by workers; however, their contributions to the social security program (PAYGO) will be proportionally reduced to maintain a total contribution rate of 28% of gross monthly payroll. According to the government, the new program aims to increase pension savings. The

<sup>5</sup> The pension system in Belarus currently comprises a social insurance (PAYGO) program that covers dependent and self-employed workers permanently residing in the country, and a social assistance program that covers all resident citizens. Workers contribute 1% of gross monthly earnings, self-employed workers contribute 29% of reported earnings, and most employers contribute 28% of gross payroll to fund the social security program (the employers' contribution rate varies by industry and business). To receive an old-age pension from social security, individuals must have reached the

official retirement age and have at least 25 years of contributions (men) or 20 years of contributions (women), including at least 18 years of paid contributions (men and women; gradually increasing by 6 months per year to 20 years in 2025). Partial pensions can be accessed at the official retirement age if the insured do not meet the contribution requirements for a full pension. The government-funded non-contributory social assistance program provides an old-age social pension to non-working citizens at age 65 (men) or age 60 (women) who are not entitled to a social security pension.

average social security old-age pension is currently around 545 rubles (approx. USD 223) per month. Other key aspects of the program include:

- **Management and Investments:** The program will be managed by Strativa, a state insurance company. Strativa will also decide how to invest individual account assets.
- **Minimum rate of return:** The guaranteed minimum rate of return on worker/employer contributions will be equal to the Central Bank's refinancing rate, which is currently 9.25% per year.
- **Benefits:** On retirement, participants can choose to receive a tax-free monthly life annuity or annuity paid for 5 or 10 years. If the participant dies, the remaining funds in the individual account will be inherited by the eligible survivors.

(Source: [Intenational Update SSA Nov.2021](#); Date: November 2021).

## Spain

The Senate passed a law establishing regulatory changes in the public PAYGO system, relating to the transitory period to determine the retirement age, the number of years considered for calculating pensions, and the revaluation of pensions, among others. The approved "[Law to guarantee the purchasing power of pensions and other measures to reinforce the financial and social sustainability of the public pension system](#)," amends the revised text of the General Social Security Law. The first package of measures of this reform come into effect on January 1, 2022. The new Law:

- Establishes a stable time frame for the revaluation of pensions.** Thus, on January 1 each year, pensions will be automatically increased in accordance with the average annual inflation recorded in the previous year (pensions were previously adjusted on the basis of the CPI estimated at the beginning of each year). With this amendment, contributory pensions will increase by 2.5% in 2022. Pension amounts will remain unchanged in years with a negative CPI.
- It incorporates several measures aimed at voluntarily streamlining the effective retirement age with the official retirement age.** Thus:
  - Both voluntary and involuntary early retirement will be reviewed (applicable to everyone from 2022, except for those entitled**

**to the maximum pension, in which changes will be applied progressively from 2024 to 2033):**

- **In voluntary early retirement,** the reduction coefficients (penalties) become monthly instead of quarterly, to give future pensioners more flexibility and encourage voluntary postponement of the age at which they retire, with more favorable treatment of individuals with a greater number of years of contributions. Furthermore, the reduction coefficients related to early retirement will be applied to the pension amount and not on its regulatory basis, as has been the case up to now. The new reduction coefficient design establishes four tables for voluntary early retirements based on the number of years of work: for those who have contributed for less than 38.5 years, the reductions range between 21% and 3.6%; for those who have professional careers of between 38.5 and 41.5 years, the penalties range between 19% and 3.11%; for those who have worked between 41.5 and 44.5 years, the coefficients are between 17% and 2.96%; and, finally, for those who have contributed for more than 44.5 years, the reduction varies between 13% and 2.81%, depending on the month in which they decide to take early retirement.
- **In forced early retirement,** two aspects are improved: on the one hand, monthly instead of quarterly coefficients are established; and, on the other hand, if early retirement is accessed in the two years immediately prior to the official retirement age, the same coefficients are applied for calculating the pension as in the voluntary mode, in those cases in which the new coefficient is more favorable than the one in force until now, among others.

- Postponed retirement is encouraged.** Exemption from contributing for common contingencies is established, except for temporary disability, as of the corresponding official retirement age. The most noteworthy measure is that incentives are significantly strengthened, establishing three types of incentives for each year of postponement: (i) An additional percentage of 4%; (ii) A lump sum based on the amount of the pension (which can amount to EUR 12,000) and rewarding the longest working

careers with contributions; (iii) A combination of both options.

(iii) **The official retirement age is increased.** In 2022, only those who have contributed for 37 years and 6 months or more may retire at age 65 without penalties in their pension amounts. Those who have not paid contributions for 37 years and 6 months can only officially retire if they have reached 66 years and 2 months, compared to the 66 years required in 2021 for those who have contributed for less than 37 years and 3 months.

(iv) **The “Sustainability Factor” is eliminated and replaced by the “Intergenerational Equity Mechanism.”** The repealed Sustainability Factor, whose application was suspended until 2023, adjusted the pension amount based on the variation in life expectancy at 67 years of age, estimated for the generation to which each retiree belonged. The Intergenerational Equity Mechanism (MEI) that replaces it, which will be temporarily applied, comprises several components. Salient among them is the reactivation of the Social Security Reserve Fund, through an additional Social Security contribution of 0.6%, for common contingencies, from 2023 to 2032 (for 10 years). 0.5% will be borne by the company and 0.1% by the worker. If there are no deviations from the planned spending path, no measure will be applied and the use of the reserve fund will be considered to reduce social security contributions or improve pension amounts. This Fund will be used, with an annual drawdown limit of 0.2% of GDP, if from 2033 onwards, the European Commission Aging Reports show a deviation in the pension spending forecast to 2050, with respect to the 2024 report (which will be used as a reference). Should the Reserve Funds be insufficient, the Government will negotiate with its social counterparts to submit to the Toledo Pact, in accordance with its recommendations, a balanced proposal aimed at reducing the percentage of

pension spending in terms of GDP, either by increasing the contribution rate or other alternative formulas for increasing revenue.

(i) **The system’s revenue structure is strengthened.** The State General Budget Law will contemplate an annual transfer from the State to the Social Security budget for financing a variety of items that enable the separation of sources, in compliance with Recommendation 1 of the Toledo Pact of 2020. This transfer was already included in the 2021 General State Budget and is increased in the 2022 budget. The Law also refers to the creation of the State Social Security Agency, with the commitment to submit a bill of law within a period of six months, among other points. Finally, the so-called 'safeguard clause' remains unchanged indefinitely.

(Source: [www.lamoncloa.gob.es](http://www.lamoncloa.gob.es); [www.jubilaciondefuturo.es](http://www.jubilaciondefuturo.es); Date: December 2021).

## Italy<sup>6</sup>

### Government announces changes to early retirement.

On November 11, 2021, the cabinet published the draft of its 2022 Budget Law, which includes provisions that modify several early retirement options under the country's notional defined contribution (NDC) pension program. In particular, the changes extend the validity of the options by 1 year, until the end of 2022, increase the age requirement and relax certain eligibility rules for the unemployed and workers with tough working conditions. These changes still require congressional approval. The government introduced these early retirement options in 2017 and 2019 to help ease the transition to a higher official retirement age (currently 67) and create jobs for younger residents. However, as the country's public pension expenditure has continued to rise, due to its aging population, the government is seeking to increase the average retirement age. According to the Organization for Economic Cooperation and Development (OECD), Italy spends around 15.6% percent of its GDP on public pensions, which is the highest proportion among the 38 member

<sup>6</sup> The Italian old-age pension system comprises the NDC program (PAYGO system with notional accounts), an inherited social insurance program (closed to new members in 1996), and non-contributory social assistance programs subject to means-testing. To be eligible for a social security or NDC old-age pension, a person must have reached the official retirement age and have at least 20 years of contributions. The rules state that early retirement is possible: (1) at any age with at least 42 years and 10 months of contributions (men) or 41 years and 10 months of contributions (women), or

(2) for individuals who entered the system as of January 1, 1996, at the age of 64, with at least 20 years of contributions if the balance of the insured's notional account is sufficient for providing a monthly pension above a certain amount. Retirees who do not qualify for a social security or NDC pension and have resided in Italy for at least 10 consecutive years may be entitled to an old-age social benefit if their annual income is below certain limits. Furthermore, low-income pensioners may qualify for a pension supplement at age 70 (60 if disabled or 65 if certain contribution requirements are met).

countries of the organization. The new provisions affect the following early retirement options:

- (i) **“Quota 100”**: Individuals can currently claim an old-age pension if the sum of their age and years of contributions is at least 100. Furthermore, the earliest retirement age under this option is 62, with 38 years of contributions. However, according to the amended rules which will come into effect in 2022, the minimum sum of age and contributions will be 102 and the minimum retirement age will be 64 (with 38 years of contributions).
- (ii) **Option for women (Opzione donna)**: This option, which allows women with at least 35 years of contributions to claim an old-age pension at the age of 58 (if they are employed) or from the age of 59 (if self-employed) will remain in force until 2022 (there is still a 12-month waiting period [if employed] or 18-months [if self-employed] for pension payments to begin with this option).
- (iii) **Early retirement based on well-being (APE Sociale)**: this option allows certain unemployed people, people with disabilities, caregivers and workers in conditions of poverty with at least 30 years of contributions (36 years for workers in conditions of economic hardship) to claim an old-age pension from the age of 63. It will remain in force until 2022. The amended rules will also make it easier for the unemployed and struggling workers to qualify, by eliminating the 3-month waiting period for the unemployed and expanding the list of occupations classified as arduous.
- (iv) **Early retirement for workers in companies in difficulty**: In 2022 and 2023, workers aged 62 or more in small and mid-sized companies in difficulty, will be able to apply for an old-age pension (the government will announce additional details for this option in the coming months). Early retirement is currently only available to workers in larger companies undergoing restructuring.

(Source: [Intenational Update SSA Nov.2021](#); Date: November 2021).