Social Security

International Update:

Recent Developments in Foreign Public and Private Pensions

June 2014

Europe

Malta

On May 19, a new simplified application procedure for old-age pensions was introduced that affects all workers reaching retirement age on or after August 1, 2014. (The retirement age is 61 (men) and 60 (women) if born before December 31, 1951; age 62 (for both) if born from 1952 through 1955; age 63 if born from 1956 through 1958; age 64 if born from 1959 through 1961; and age 65 if born on or after January 1, 1962.) Under the new procedure, applications for old-age pensions are automatically submitted to the Department of Social Security on behalf of each worker once he or she reaches the retirement age; previously, workers received an application approximately 4 months before retirement age and had to submit the application themselves. Workers will still be required to submit supporting documentation (such as income statements from the previous year) as necessary either electronically or by visiting a local district office. According to the Ministry for the Family and Social Solidarity, the new automatic application procedure for old-age pensions will be extended to other benefits later this year, including survivor and disability pensions.

Malta's pay-as-you-go public pension program, which covers all residents, is financed by (1) employee contributions of 10 percent of covered wages (self-employed persons pay from €26.25/US$35.61 to €56.78/US$77.02 a week, depending on their net income); (2) employer contributions of 10 percent of covered payroll; and (3) a government subsidy of 50 percent of total contributions. (Contributions finance old-age, disability, and survivor pensions as well as cash sickness, work injury, and unemployment benefits.) In addition to the age requirement, workers must have at least 156 weeks of paid contributions—including an annual average of at least 20 weeks of paid or credited contributions—to be eligible for the full old-age pension; a partial pension is paid with fewer weeks of contributions. Early retirement is possible at age 61, regardless of date of birth, provided certain contribution requirements are met. An individual may continue to work while receiving his or her full pension.

Sources: *Social Security Programs Throughout the World, Europe 2012*, U.S. Social Security Administration, August 2012; "Simplifikazzjoni fil-Penzjonijiet," Ministry for the Family and Social Solidarity, May 13, 2014; "Simplification of State Pensions with Automatic Applications Set Up," *Times of Malta*, May 13, 2014; "Contributory Retirement Pension," *gov.mt*, June 11, 2014.

Portugal

On April 30, the government announced a number of measures to reduce the fiscal deficit, including replacing the sustainability contribution levy on higher pensions, increasing contribution rates for all workers, and introducing a new adjustment mechanism for pensions. The measures, which are part of the Budget Strategy 2014–2018, will help the country reach the target fiscal deficit of below 4 percent of gross domestic product (GDP), as called for under the 2011 bailout agreement with the European Union, the International Monetary Fund, and the European Central Bank. Previous attempts to reduce the fiscal deficit—including a cut in public-sector pensions passed by Parliament in the 2014 budget—have been blocked by the constitutional court over the past year.

Beginning January 1, 2015, the special contribution levy (introduced in 2011) for persons with high pension income will be replaced by a new sustainability contribution (see the accompanying table for the 2015 rates). Until January 2015, pensioners will continue to pay from 3.5 percent to 5 percent of pension income (over €1,000/US$1,357 a month) plus 15 percent to 40 percent of pension income on amounts exceeding €4,611/US$6,259 a month. According to the government, the share of pensioners required to pay the new contribution remains at about 13 percent. Other measures to help reduce the deficit include (1) an increase in the contribution rate for all workers (which finances pensions as well as other social security benefits) from 11 percent of gross earnings to 11.2 percent and (2) a 0.25 percent increase in the standard value added tax rate, to 23.25 percent.

The government also announced that it will introduce a balance factor—a new method of adjusting

Sustainability contribution rates, 2015		
Amount of monthly pension (€)	Amount of monthly pension ($)	Contribution rate
1,000 to 2,000	1,363 to 2,726	2 percent of pension amount
2,001 to 3,500	2,727 to 4,770	2 percent of €2,000 plus 5.5 percent of pension amount from €2,001 to €3,500
3,501 to 4,611 [a]	4,771 to 6,284	3.5 percent of total pension amount
4,612 to 7,127 [a,b]	6,285 to 9,713	3.5 percent of total pension amount plus 15 percent of the pension amount from €4,612 to €7,127 [b]
Over 7,127 [a,b]	9,713	3.5 percent of total pension amount plus 40 percent of the pension amount above €7,127 [b]

SOURCE: *Documento de Estratégia Orçamental 2014–2018,* Ministério das Finanças, abril de 2014.

a. These figures are based on the social support index (IAS): 4,611 represents 11 times the IAS and 7,127 represents 17 times the IAS. Since 2010, the value of the IAS has been frozen.

b. The two highest rates (15 percent and 40 percent) will be gradually reduced in 2016 and 2017.

pensions—based on the relationship between revenues and expenditures and considering demographic and economic changes. (No implementation date was specified.) Currently, pensions are adjusted annually according to changes in the social support index (IAS), which is based on changes in the consumer price index plus growth in the country's GDP. However, this index has been frozen since 2010.

Sources: "Governo Congela Indexante de Apoios Sociais," *Diario de Noticias,* 15 dezembro 2013; "Portugal's Coelho Will Seek New Measures, Yield to Court Ruling," Bloomberg, December 20, 2013; "Portugal," *International Update,* U.S. Social Security Administration, March 2014; *Documento de Estratégia Orçamental 2014–2018,* Ministério das Finanças, abril de 2014; "Como Vão Ficar as Pensões a Partir de 2015," Governo de Portugal, *Os Temas*, 1 Maio 2014; "Portugal to Impose New Tax on Pensions Above 1,000 Euros," Mercer Select, June 3, 2014; *Social Security Programs Throughout the World: Europe, 2014*, U.S. Social Security Administration, forthcoming.

United Kingdom

On May 14, the Pensions Act 2014, which includes various provisions covering both the state pension system and private pensions, received Royal Assent. The Act outlines key features of the new state pension system, to be implemented on April 6, 2016; modifies the scheduled increase in retirement ages; and details how employers may offset the loss of their national insurance rebate once defined benefit (DB) contracting-out ends. For private occupational pensions, the law grants government authority to introduce automatic transfers of small defined-contribution (DC) pension accounts, caps pension plan charges, and mandates additional governance requirements for pension plans. Many measures in the new law cannot be implemented until regulations are issued.

The pension reform addresses major issues for the current state pension system: the low level of benefits (40 percent of pensioners are currently entitled to means-tested benefits) and the complexity of the design. Measures in the new law are expected to keep the system on a sustainable path and include the following:

- *Introducing a new single-tier state pension (STP).* The current basic state pension (BSP) and earnings-related state second pension will be replaced by a flat-rate pension for new pensioners. The STP will be set above the existing basic level of means-tested support (£148.40/US$248.34 per week); the full benefit will be based on 35 qualifying years (currently 30 years for a full BSP). A reduced benefit will be paid with at least 10 years of contributions. Benefits will be indexed annually by at least the increase in average earnings. (Currently, BSP benefits are adjusted to the growth in average earnings and price increases, or by 2.5 percent, whichever is higher.)
- *Enabling employers to amend contracted-out plan rules.* Because the contracting-out portion of the current state pension system will be eliminated when the new STP is introduced, the Act allows plan sponsors of affected plans to offset the loss of their national insurance rebate by increasing plan member contributions and/or reducing future benefit accruals.
- *Accelerating the increase in the state pension age.* The state pension age will rise gradually from 66 to 67 between 2026 and 2028—8 years earlier than currently scheduled. The government will

be required to review the state pension age every 6 years starting in 2017.

According to the government, approximately 13 million individuals are not saving enough for retirement, and the level of private savings has been declining. The Act contains a broad range of private pension measures that include the following:

- *Automatic transfer of small pension accounts.* The Act introduces a framework for the automatic transfer of small DC pension accounts (below a minimum threshold of approximately £10,000/ US$16,735) so that workers' accumulated pensions may follow them to their new pension plan if they change jobs. This policy is expected to reduce the administrative burden on sponsors and to make it easier for individuals to keep track of and consolidate pension savings. Workers have the right to opt out of an automatic transfer.
- *Excessive charges and quality standards in workplace pensions.* The Act grants the government authority to introduce minimum governance standards, limit administrative fees, ban certain commissions, and prohibit plan sponsors from offering members of DB occupational plans incentives to transfer their pension rights to another plan. Pension providers and plan trustees will also be required to disclose information about transaction costs and administrative charges to DC plan members.

Sources: "Collections: Pensions Act 2014," Department for Work and Pensions, May 15, 2014; "Technical Information Sheet—Pension Act 2014," Mercer's UK Retirement Resource Group, May 19, 2014; "UK Pensions Speed Brief," EVERSHEDS, May 20, 2014; "Round Up of Pension Developments: May 2014," Pensions E-Bulletin, June 3, 2014.

Reports and Studies

European Commission Report

On June 2, the European Commission (EC) released country-specific policy recommendations to continue on the path to recovery that began a year ago. According to the EC, the economies of most member countries have grown in recent years, and economic reforms have made a difference, especially in the most vulnerable countries (such as Ireland, Spain, and Portugal). However, the EC argues that because projections for the 2014–2015 period are for uneven and fragile growth, reform must continue. In many European Union (EU) countries (EC is the executive body of the EU), social insurance expenditures represent a large portion of government spending; more than half of all member countries need pension reform to maintain sustainability and provide adequate benefits. The EC notes wide variation in the adequacy and sustainability of public pension programs, with some systems (such as Malta and Slovenia) facing long-term challenges while others (such as the Netherlands) have greatly improved their long-term outlook.

The EC pension recommendations include the following:

- Linking the retirement age to life expectancy in Austria, Bulgaria, the Czech Republic, Lithuania, Luxembourg, Malta, and Slovenia. Some countries have already done so (Cyprus, Denmark, Greece, Italy, the Netherlands, and Slovakia). Most member countries have recently passed laws to increase the retirement age (some also equalizing the ages between men and women).
- Improving and/or establishing policies and programs that encourage older workers to remain in the labor force (for example, providing financial incentives) and improve the employability of older workers (for example, establishing lifelong learning programs) in Austria, the Czech Republic, Denmark, France, Germany, Luxembourg, the Netherlands, and Romania.
- Discouraging early retirement in Bulgaria, the Czech Republic, Luxembourg, and Lithuania. Many member countries have already implemented rules, such as increasing the early retirement age and the required number of years of contributions and gradually eliminating early retirement programs.

Sources: *Building Growth: Country-Specific Recommendations 2014,* European Commission, June 2, 2014; "Brussels Warns Germany Over Impact of State Pension Changes on Second Pillar," IPE.com, June 4, 2014.

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