

International Update:

Recent Developments in Foreign Public and Private Pensions

April 2016

Europe

Denmark Implements Retirement-Age Reforms

The Danish government recently implemented two policy changes that will delay the transition from work to retirement for many of its residents. On December 29, 2015, the statutory retirement age increased from age 67 to 68 for younger Danish residents. Three days later, on January 1, 2016, a reform went into effect that prohibits the long-standing practice of including mandatory retirement ages in employment contracts. The policy changes are aimed at improving the long-term sustainability of the Danish pension system in the face of significant population aging. The World Bank projects that Denmark's old-age dependency ratio—the population aged 65 or older as a percentage of the population aged 15 to 64—will rise from 29.6 percent in 2015 to 40.9 percent in 2050.

The 1-year increase in the statutory retirement age applies to Danish residents born in 1963 or later and is part of a series of increases governed by a 2006 agreement affecting pensions. Prior to the recent increase, the retirement age was already set to rise gradually from age 65 to 67 for those born after 1954. According to the agreement and confirmed by the latest reform, further adjustments are limited to 1-year increments once every 5 years. To determine what adjustments are warranted, the agreement established a target—the duration of oldage pension benefits should be about 14.5 years based on the life expectancy of a person in Denmark at age 60.

The new prohibition on mandatory retirement ages applies to all employment contracts (both existing and future) negotiated between employers and workers. Previously, it was common for employment contracts to include a provision that required workers to retire at age 70. The broad coverage of employment contracts in Denmark (nearly all Danish workers have employment contracts; over 80 percent of those workers are covered by collective agreements) effectively made mandatory retirement at age 70 a national policy even though it was not enshrined in law. As a result of the

new reform, Danish workers may now remain in the labor force past age 70.

The two reforms affect both of Denmark's mandatory old-age pension programs, which include a universal basic pension (folkepension) and an earningsrelated pension (ATP, arbejdsmarkedets tillægspension). In addition to meeting the age requirement, workers must have at least 40 years of residence since age 15 to receive the full basic pension and a continuous work history since age 16 (or from 1964 for older workers) to receive the full earnings-related pension. The full basic pension is currently 72,756 kroner (US\$11,230) a year while the full earnings-related benefit varies depending on the length of coverage and the size of contributions paid. Workers who do not meet the residency requirement for the full basic pension or the continuous work history requirement for the full earnings-related pension receive reduced benefits.

Sources: "Denmark," International Update, U.S. Social Security Administration, July 2006; Social Security Programs Throughout the World: Europe, 2014, U.S. Social Security Administration, September 2014; Lov 1489, Folketinget, December 23, 2014; "Slut med pligtmæssig fratræden ved det fyldte 70. år," Horten, January 7, 2015; "Ophævelse af 70-årsreglen," Willis Towers Watson," January 29, 2015; Lov 40, Folketinget, December 18, 2015; "Denmark," IBIS News, January 31, 2016; "Denmark," IBIS News, February 6, 2016; Health Nutrition and Population Statistics, World Bank, April 5, 2016.

Hungary-U.S. Totalization Agreement Sent to U.S. Congress

On February 1, President Obama transmitted a new totalization agreement with Hungary to Congress for review. Once effective, the agreement will exempt U.S. and Hungarian employers and workers from dual social security tax liability. Before the agreement can enter into force, each country has to complete a review process (the Hungarian Parliament has already ratified the agreement; in the United States, the agreement must remain before Congress for a required 60-session-day review period).

The agreement will exempt U.S. citizens sent by U.S.-owned companies to work in Hungary for 5 years or less from paying social security taxes to Hungary.

Hungarian workers sent to work temporarily in the United States by Hungarian-owned companies will receive similar tax treatment. As a result, employers will pay social security taxes only to their workers' home countries.

Individuals who have worked in both countries, but who do not meet the minimum benefit eligibility requirements for either system, may qualify for a benefit based on combined coverage credits from both countries. Combined coverage periods may be used to calculate retirement, disability, and survivor benefits. Once the agreement enters into force, Hungary will be the 27th country with a totalization agreement with the United States. (A recently signed agreement between Brazil and the United States must still be ratified in Brazil and transmitted to the U.S. Congress for the 60-session-day review period.)

Sources: "Brazil: Totalization Agreement with the United States," *International Update*, U.S. Social Security Administration, August 2015; E-mail communication with the Office of International Programs, U.S. Social Security Administration, February 2016; U.S. International Social Security Agreements, U.S. Social Security Administration, https://www.socialsecurity.gov/international/agreements_overview.html.

The Americas

Canada's 2016 Budget Includes Measures Affecting Public Pension Programs

On March 22, the Canadian government released its 2016 budget, which includes a series of measures aimed at strengthening Canada's public pension system and improving the adequacy of benefits for pensioners. The budget now awaits approval by Parliament. Among the most significant measures related to pensions is a reversal of a previously legislated increase (in the 2012 budget) that raised the normal retirement age—from age 65 to 67 from 2023 to 2029—under the Old-Age Security (OAS) and Guaranteed Income Supplement (GIS) programs. As a result, the normal retirement age will remain at age 65 under both programs. The reversal, which was a preelection commitment by the new government, is meant to prevent potential increases in old-age poverty, particularly among low-income pensioners who have little or no income outside of OAS/GIS.

Other measures relating to pensions in the 2016 budget include:

• The launch of public consultations on reforms to the Canada Pension Plan (CPP)—The government

- confirmed its goal of reaching an agreement with Canada's provinces and territories by the end of 2016 on how to reform the earnings-related CPP to improve retirement savings. In the coming months, the government will begin consultations with the public to develop possible reform options.
- An increase in the GIS for low-income single beneficiaries—Beginning in July 2016, the GIS for low-income single beneficiaries will increase to as much as C\$947 (US\$726.88) per year, up from the current maximum amount of C\$772.83 (US\$593.19) as of December 2015. (The GIS benefit amount varies by marital status and income in the previous year.)

Canada's public pension system consists of the OAS/ GIS programs and the earnings-related CPP. (The province of Quebec opted out of the CPP, but it has a similar earnings-related plan called the Quebec Pension Plan, or QPP.) OAS is paid to almost all Canadians aged 65 or older and is financed through general revenue. To be eligible for an OAS pension, a person must be a legal resident of Canada for at least 10 years after reaching age 18. Benefit amounts are based on the duration of residency, with maximum benefits paid to those with at least 40 years of residency. Pensioners with reported incomes greater than a certain amount (C\$72,809 a year [US\$55,885.09] for 2015) must repay some or all of their OAS benefits at a rate of 15 cents for every dollar above that amount. Low-income OAS pensioners are eligible for the income-tested GIS. The CPP/QPP covers all employed and self-employed persons working in Canada. A CPP/QPP pension may be paid at age 65 with at least one valid annual contribution; a reduced pension may be paid from age 60 to 64, and the pension may be deferred up to age 70.

Sources: "Canada," *International Update*, U.S. Social Security Administration, May 2012; *Social Security Programs Throughout the World: The Americas, 2015*, U.S. Social Security Administration, March 2016; "Budget 2016: Growing the Middle Class," Department of Finance Canada, March 22, 2016.

U.S. Social Security Administration Releases Social Security Programs Throughout the World: The Americas, 2015

In March, the U.S. Social Security Administration (SSA) released *Social Security Programs Throughout the World: The Americas, 2015*, the last issue of a four-volume series. This volume provides a crossnational comparison of the social security systems in 36 countries in North and South America. It

summarizes the five main social insurance programs in those countries: (1) old age, survivors, and disability (OASD); (2) sickness and maternity; (3) work injury; (4) unemployment; and (5) family allowances. The other regional volumes in the series focus on the social security systems of countries in Europe, Asia and the Pacific, and Africa.

Changes made since SSA released the 2013 volume include:

- New benefits. Colombia, Ecuador, El Salvador, and Panama (social, non-contributory or means-tested pensions); Uruguay (partial retirement pension); Bolivia (disability grant); British Virgin Islands (national health insurance); Colombia (individual account for unemployment); Chile, Colombia, and Ecuador (means-tested family allowances).
- New groups incorporated into OASD programs. Brazil (household workers), Honduras (household workers, not yet implemented), and Paraguay (household workers, not yet implemented, and selfemployed persons).
- *New rules for existing benefits.* Brazil (survivors and unemployment), Chile (maternity and health), and Uruguay (disability).
- Contribution rate increases for OASD programs. Bahamas, Barbados, Costa Rica, Cuba, Dominica, Ecuador, Honduras, Nicaragua, St. Vincent and the Grenadines, and Trinidad and Tobago.
- Retirement age increases. Barbados, Colombia, and Jamaica (for women).
- New social insurance laws. Honduras (OASD, universal health, unemployment, and work injury; partially implemented).

Source: Social Security Programs Throughout the World: The Americas, 2015, U.S. Social Security Administration, March 2016.

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