International Update

Recent Developments in Foreign Public and Private Pensions

August 2017

Asia and the Pacific

Australia to Restore Discount Card for Some Former Pensioners

On June 19, the Australian Parliament passed legislation to restore the Pensioner Concession Card (PCC) for individuals who lost entitlement to the discount card because of changes made to the social security assets test earlier this year. The PCC is a supplemental benefit automatically provided to individuals receiving the Age Pension or other public pension (including the Disability Support Pension, Carer Payment, and Bereavement Allowance), and it entitles a holder to reduced-price medical care, prescription drugs, transportation services, and utility rates. On January 1, about 92,300 individuals lost their public pension and PCC benefits because they failed to meet lowered assets limits for partial pension benefits under Australia's means-tested social security programs. (The government reduced the assets limits for partial benefits to A$542,500 [US$431,830] for a single homeowner and A$816,000 [US$649,536] for a couple who are homeowners; the limits for non-homeowners were also lowered.) To help compensate for these lost benefits, the government issued discount cards with fewer benefits (the Low Income Health Care Card [LIC] and/or the Commonwealth Seniors Health Card [CSHC]) to the former pensioners. Under the latest reform, the government will reinstate the PCC for most of these former pensioners on October 9 at an estimated cost of A$3.1 million (US$2.5 million) over 4 years.

To be eligible for a restored PCC under the reform, an individual must have been receiving a public pension immediately before January 1, have lost his or her pension directly because of the assets-test restructuring, and not otherwise be entitled to the PCC. Unlike other individuals, those qualifying for the PCC based on these special conditions will not be subject to income or assets tests. Moreover, to prevent a disruption in the payment of energy supplements, the government will allow older individuals who have their PCC benefits reinstated to keep the CSHC (but not the LIC) issued to them earlier this year.

Australia's old-age pension system has two major components, the Age Pension and a superannuation program. To qualify for the government-funded Age Pension, an individual must be aged 65 and 6 months or older (gradually rising to age 67 by July 2023) and meet certain residency, income, and assets requirements. Under the superannuation program, an individual qualifies for a pension if he or she is aged 56 or older (gradually rising to age 60 by July 2024) and permanently retired (with some exceptions). To fund this program, employers must contribute at least 9.5 percent of their employees' earnings (gradually rising by 0.5 percentage points a year from 2021 until reaching 12 percent in 2025) to privately managed superannuation funds (employee contributions are voluntary). Depending on their income and assets, old-age pensioners may also qualify for a number of supplemental benefits, including a pension supplement, an energy supplement, the PCC, and the CSHC.

Sources: Social Services Legislation Amendment (Energy Assistance Payment and Pensioner Concession Card) Bill 2017; "Australia Modifies Assets Test for Public Pensions," *International Update*, U.S. Social Security Administration, February 2017; *Social Security Programs Throughout the World: Asia and the Pacific, 2016*, U.S. Social Security Administration, March 2017; "Budget 2017: Discount Cards for Those Who Lose Out," *The Australian*, May 10, 2017; "Australia," IBIS eVisor News, June 30, 2017; "Pensioner Concession Card," Australian Government Department of Human Services, July 7, 2017.

India Introduces New Annuity Plan

On July 21, the Ministry of Finance formally launched the Pradhan Mantri Vaya Vandana Yojana (PMVVY), an immediate annuity pension plan for individuals aged 60 or older that offers a guaranteed annual 8 percent return (an effective rate of 8.3 percent after compounding monthly) for 10 years from the date of purchase. Despite its recent launch, PMVVY legally began on May 4, and will continue to accept subscriptions through May 3, 2018. The Life Insurance Corporation (LIC) of India administers the program. The government subsidizes the program's administrative expenses and any shortfall between the guaranteed interest paid by LIC and the returns it earns from investing program premiums.

Under PMVVY, subscribers pay a one-time, upfront premium and choose monthly, quarterly, semi-annual, or annual payments. The premium is progressively higher the greater the payment frequency. For example, a one-time premium payment of 144,578 rupees (US$2,256) or 722,892 rupees (US$11,278) provides a minimum annual benefit of 12,000 rupees (US$187.21) or a maximum annual benefit of 60,000 rupees (US$936.04), respectively, over 10 years. Alternatively, a one-time premium payment of 150,000 rupees (US$2,340) or 750,000 rupees (US$11,701) provides a minimum monthly benefit of 1,000 rupees (US$15.60) or a maximum monthly benefit of 5,000 rupees (US$78.00), respectively, over 10 years. Annuity income from PMVVY is exempt from the new Goods and Services Tax (a value-added tax), but it is not exempt from income tax.

The government expects the program's relatively high guaranteed rate of return to be attractive to older citizens in the current low-return environment. However, some financial experts believe that the program is not well-suited for most middle- and upper-class families because its investment ceiling of 750,000 rupees is relatively low and its benefits are subject to income tax. Moreover, the total benefit amount paid to a family under this program cannot exceed the maximum annual benefit of 60,000 rupees; for the purposes of this program, a family includes the subscriber, spouse, and any dependents. Given that PMVVY is not exempt from income tax, experts also suggest that it may be better suited to individuals who have little or no taxable income.

Additional features of PMVVY include:

- A loan option to borrow up to 75 percent of the purchase price 3 years after the policy period begins, with interest deducted from annuity payments and the principal collected from the subscriber's purchase price at the end of the 10-year term.
- An early exit option if the subscriber or the subscriber's spouse requires funds for the treatment of a critical or terminal illness; in such cases, 98 percent of the purchase price is returned to the subscriber.
- A survivor benefit that pays the purchase price to a named beneficiary or the subscriber's heirs should the subscriber die before the end of the 10-year term.
- A maturity benefit if the subscriber survives the 10-year term, with the purchase price paid to the subscriber along with the final annuity benefit.

In addition to PMVVY, major retirement programs in India include the National Pension System (an individual account program), the Employees' Provident Fund (for lower income workers employed at firms with 20 or more employees), the Employees' Pension Scheme (a supplemental defined-benefit program for low-income workers aged 58 or older), and the Atal Pension Yojna Universal Pension (a voluntary defined-benefit program for informal-sector workers aged 18 to 40).

Sources: Life Insurance Corporation of India "Pradhan Mantri Vaya Vandana Yojana," April 5, 2017; "Pradhan Mantri Vaya Vandana Yojana (PMVVY) 2017-18 – Complete Details," mygovernmetschemnes.com, May 6, 2017; "PMVVY: Jaitley Launches Pension Plan for Elderly with 8% Assured Return," *Business Standard*, July 21, 2017; "Govt Guarantees 8.30% to Seniors for 10 Years," *Business Standard*, July 22, 2017; "Should You Opt for Pradhan Mantri Vaya Vandana Yojana?" Daily News & Analysis (DNA), August 1, 2017.

The Americas

Costa Rica Increases Employee Contribution Rate under Public Pension Program

On July 1, the Costa Rican government increased the employee contribution rate under the country's pay-as-you-go (PAYG) public pension program by 0.5 percentage points: from 2.84 percent of gross earnings to 3.34 percent. The increase is the first of two such increases: the rate will rise an additional 0.5 percentage points—to 3.84 percent of gross earnings—in January 2018. As before, employers contribute 5.08 percent of payroll and the government contributes 0.58 percent of the gross income of all workers and self-employed persons. (The contributions—called IVM contributions—finance old-age, disability, and survivor pensions.) Given the rapid aging of the Costa Rican population, the increase is aimed at improving the long-term sustainability of the country's pension system. Recent data from the United Nations Population Division projects that Costa Rica's old-age dependency ratio—the population aged 65 or older divided by the population aged 15 to 64—will increase from 12.9 percent in 2015, to 18.5 percent in 2025, and to 38.4 percent in 2050.

Costa Rica's pension system consists of the PAYG program for public- and private-sector employees and self-employed persons, and a mandatory individual account program for public- and private-sector employees who were younger than age 55 in 2005. (A social assistance program covers certain needy persons who do not qualify for a contributory pension.) Employees participating in the individual account program contribute 1 percent of earnings plus administrative fees (up to 0.19 percent of the account balance), and employers contribute an additional 3.25 percent of payroll. (The government does not contribute to individual accounts.) To qualify for a full old-age pension under either the PAYG or individual account program, a person must reach the normal retirement age of 65 and have at least 300 months of contributions. Additional months of contributions can reduce the retirement age to as low as age 61 and 11 months (with at least 462 months of contributions) for men, or age 59 and 11 months (with at least 450 months of contributions) for women.

Sources: *Social Security Programs Throughout the World: The Americas, 2015*, U.S. Social Security Administration, March 2016; "World Population Prospects: The 2017 Revision," United Nations, Department of Economic and Social Affairs, Population Division, 2017; "Costa Rica: IVM Contributions to Increase as of July 1, 2017," Littler, June 15, 2017; "Calcule Cuánto le Rebajarán de su Salario a Partir de Este Mes," crhoy.com, July 12, 2017; "Mesa de Diálogo sobre Pensiones se Alista para Concretar Reforma al IVM," *La Nacion*, July 13, 2017.

International Update is a monthly publication of the Social Security Administration's (SSA's) Office of Retirement and Disability Policy. It reports on the latest developments in public and private pensions worldwide. The news summaries presented do not necessarily reflect the views of SSA.

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SSA Publication No. 13-11712
Produced and published at U.S. taxpayer expense