Social Security Administration USA

International Update

Recent Developments in Foreign Public and Private Pensions

January 2021

Europe

Denmark Approves Early Pension

On December 21, Denmark's parliament approved a law that will allow citizens and certain other individuals with at least 42 years of employment by age 61 to receive a new means-tested early pension (tidlig pension) up to 3 years before the normal retirement age of 67. Specifically, starting on January 1, 2022, individuals can retire up to 1 year early with 42 years of employment from age 16 to age 61, 2 years early with 43 years of employment, or 3 years early with 44 years of employment. The new pension is intended to aid lower-skilled workers who tend to enter the labor force earlier and have more physically demanding occupations. The government estimates that just over 41,000 individuals will be eligible for the early pension in 2022 and that 24,000 of these individuals will apply for it. The program is estimated to cost around 2.2 billion kroner (US$363 million) in its first year and 3.1 billion kroner (US$511 million) a year by 2025.

Other key details of the new early pension include:

- *Covered employment:* Periods of employment and self-employment in Denmark generally count toward the early pension's minimum employment requirement if ATP contributions were paid on the earnings. (ATP is Denmark's supplemental pension program that provides old-age and survivor benefits.) Periods of work outside of Denmark, compulsory work training, and social security benefit receipt (including for family care, unemployment, and sickness) also count under certain conditions.
- *Pension amount:* The full early pension is equal to the full state pension (folkepension) paid to a single person at the normal retirement age (13,853 kroner [US$2,284.54] a month in 2021). The pension amount is unaffected by other pension income, but it is reduced if a pensioner has gross annual earnings exceeding 24,000 kroner (US$3,957.91) or pension assets exceeding 2 million kroner (US$330,000). Unlike the state pension, the early pension is not adjusted based on marital status or a spouse's financial resources. Payment of the early pension ceases when a pensioner reaches the normal retirement age and begins receiving the state pension.
- *Application process:* Starting on August 1, 2021, individuals who have reached age 61—the cut-off age for qualifying employment—can apply for an early pension at Udbetaling Danmark, the agency responsible for administering most social security benefits in Denmark.
- *Future adjustments:* The qualifying conditions for the early pension will be adjusted in coming years as previously scheduled retirement age increases are implemented. Table 1 summarizes the normal retirement age and early pension eligibility by birth year. The main components of Denmark's old-age pension system are the universal state pension and an earnings-related ATP pension. To receive a full state

Table 1.
Normal retirement age and early pension eligibility by birth year

Birth year	Normal retirement age	Cut-off age for qualifying employment	Years of employment required for early pension		
			1 year early	2 years early	3 years early
1955 to 1962	67	61	42	43	44
1963 to 1964	68	61	42	43	44
1965 to 1966	68	62	43	44	45
1967 to 1968	69	62	43	44	45
1969 to 1970	69	63	44	45	46
After 1970	To be determined based on changes in life expectancy				

pension, an individual must have reached the normal retirement age, have at least 40 years of residence in Denmark since age 15, and have earnings and other income below certain limits. An individual qualifies for a full ATP pension if he or she has reached the normal retirement age and has worked continuously since age 16 or since 1964, whichever is later. Partial pensions are paid under both programs to individuals who have resided or worked in Denmark but do not meet the requirements for the full pensions.

Sources: "Tidlig pension," Borger.dk; *Social Security Programs Throughout the World: Europe, 2018*, U.S. Social Security Administration, September 2018; "Denmark Introduces Early Retirement Pension for Certain Workers," *International Update*, U.S. Social Security Administration, January 2020; "Ny ret til tidlig pension–værdig tilbagetrækning for alle," Danish Government, August 2020; "Thousands of Danes Could Retire Early Under Government Pension Reform," Reuters, August 18, 2020; "Tidlig pension vedtaget: 41.000 får ret til at trække sig tilbage før pensionsalderen," Danish Ministry of Employment, December 21, 2020; Lov nr 2202 af 29/12/2020.

Kosovo Allows Special Withdrawals from Mandatory Individual Accounts

As part of its efforts to provide relief to individuals and businesses affected by the COVID-19 pandemic, Kosovo enacted a law on December 7 that allows participants of the country's mandatory individual account pension program to withdraw up to 10 percent of their account balances. (Other measures of the law include €200 million [US$245.4 million] in aid to businesses, payments of €300 (US$368.13) a month from October 2020 to December 2020 to workers who lost their jobs, and reductions in the value-added tax on raw materials.) Participants may request the tax-free withdrawals by submitting applications online to the Kosovo Pension Savings Trust (KPST, an independent public entity that manages the program) within 4 months of the law's enactment. According to the KPST, 394,978 participants have withdrawn around €184 million (US$225.8 million) from the program, out of €2 billion (US$2.5 billion) in total assets, as of December 30.

Kosovo's old-age pension system was introduced in 2002 and consists of a universal basic pension program, mandatory individual accounts, and voluntary private pensions. (Other benefits are available to certain individuals, including members of the military and individuals who contributed to the former Yugoslav pension system for at least 15 years.) The universal program is funded by general revenue and provides a basic monthly pension (linked to the cost of a minimal food basket) to all resident citizens of Kosovo aged 65 or older. The mandatory individual account program is funded by employer and employee contributions (each contribute 5 percent of the employee's gross salary), and covers all public- and private-sector workers. Upon reaching the normal retirement age of 65, benefits are paid as a lump sum or a monthly pension, depending on the account balance.

Sources: "Kosovo: Pension Policy Challenges in 2020," World Bank, no date; "Kosovo* Plans Significant Pension Policy Shift," ESPN Flash Report 2018/77, December 2018; "Law on Economic Recovery," PwC, December 2020; "Economic Recovery Package Passes at Kosovo Assembly," Prishtina Insight, December 4, 2020; "Over 200 Thousand Kosovo Citizens Apply to Withdraw 10% of Their Pensions," Exit News, December 12, 2020; Kosovo Pension Savings Trust press release, December 30, 2020.

International

Organisation for Economic Co-operation and Development Releases OECD Pensions Outlook 2020

On December 7, the Organisation for Economic Co-operation and Development (OECD) released *OECD Pensions Outlook 2020*, the fifth edition of its biennial report on major policy issues facing public and private pension systems in 38 OECD countries and select non-OECD countries. This year's report examines policy options to help governments improve the sustainability and resilience of their pension systems. The report gives special attention to the COVID-19 pandemic's effects on old-age pensions and the measures that governments have implemented to reduce these effects. Other issues examined by the report include retirement income adequacy, the retirement savings of non-standard workers, default investment strategies, the negative consequences of frequent investment switching, and communicating with participants about investment strategies.

In its chapter on the impact of the COVID-19 pandemic, the reports notes that the pandemic's significant disruption of labor markets has negatively impacted retirement savings arrangements and old-age pensions. Although most governments have implemented income-support measures (such as job-retention programs and pension contribution deferrals, suspensions, or subsidizations) that have reduced the pandemic's effects on workers and employers, the high cost of these measures—combined with a substantial drop in contribution revenues—could threaten the long-term sustainability of these programs. In addition, the report notes that the pandemic has created a series of other challenges such as: a drop in pension plan assets in the first quarter of 2020; lower levels of pension plan participation and contributions; and a higher risk that individuals prioritize their short-term needs over their long-term well-being (for example, by making early withdrawals from their retirement savings). The report argues that governments and pension providers should carefully balance the short-term and long-term consequences of their policy responses to the pandemic.

Other key topics discussed in the report include:

- *Adopting clearer frameworks for assessing retirement income adequacy*. The report argues that the frameworks governments use to assess retirement income adequacy should have clear objectives and definitions to ensure that pension systems are meeting expectations. In Chile, for example, the pension system's objectives are to allow individuals to maintain a similar standard of living during their active work and retirement stages and to eliminate poverty among the elderly and persons with disabilities. By contrast, in Canada, the objective of the means-tested, flat-rate Old Age Security pension is to provide a basic level of retirement income to all residents regardless of their work histories. Regardless of which objectives are adopted, governments should regularly conduct pension adequacy assessments to help identify groups at risk.
- *Developing pension arrangements for non-standard workers*. In the OECD, non-standard forms of work (such as part-time and temporary employment, self-employment, and informal employment) account for more than one-third of total employment—a share likely to increase with the growing diversification of work arrangements driven by globalization, technological developments, population aging, and government regulation. Non-standard workers tend to build up lower pension entitlements because they usually have limited access to public and private pension plans. The report discusses various approaches to enroll more of these workers in funded pension plans (such as offering distinct pension plans for these workers or applying the same enrollment rules to all workers), and ways to ensure that these workers contribute regularly to their retirement savings.

Other recommendations made in the report include:

- *Subsidizing pension contributions*. Governments that subsidize wages should consider also subsidizing employee and employer contributions to pension plans during the pandemic.
- *Adhering to investment objectives*. Pension providers should adhere to their investment objectives and be allowed to carefully assess new investment opportunities without government interference.
- *Ensuring that rules for defined benefit (DB) pension plans are counter-cyclical*. Governments should adopt more flexible funding requirements for DB pension plans that encourage these plans to act as stable, long-term investors and avoid actions that can reinforce economic downturns.
- *Providing proportionate, flexible, and risk-based oversight:* Governments should take actions to reduce fraud and facilitate efficient pension operations.

Source: *OECD Pensions Outlook 2020*, Organisation for Economic Co-operation and Development, December 2020.

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