SOCIAL SECURITY ADMINISTRATION USA

International Update

Recent Developments in Foreign Public and Private Pensions

February 2021

Asia and the Pacific

Singapore Introduces Government Match for Provident Fund Catch-up Contributions

In January, Singapore's Central Provident Fund (CPF) Board introduced the Matched Retirement Savings Scheme, a program that provides a dollar-for-dollar government match of up to S$600 (US$450.56) per year in catch-up contributions for qualifying CPF members from 2021 to 2025. To be eligible, a CPF member must be aged 55 to 70; have a Retirement Account (RA) balance of less than the Basic Retirement Sum (currently S$93,000 [US$69,836.69]); have average monthly income not exceeding S$4,000 (US$3,003.73); and meet certain asset limits. Anyone can make the catch-up contributions for eligible CPF members, including the members, their families, and their employers. (Catch-up contributions with no government match are allowed for all CPF members with account balances up to a certain limit that varies by age. The government provides tax incentives for up to S$7,000 [US$5,256.52] of catch-up contributions each year.) According to the government, around 440,000 CPF members, representing 53 percent of all members aged 55 to 70, are eligible for the program.

The CPF is a publicly managed provident fund program that is mandatory for most workers (including most public-sector workers) and voluntary for all other workers. Employers contribute 17 percent of monthly payroll greater than S$50 (US$37.55) for employees aged 55 or younger, 13 percent for employees aged 56 to 60, 9 percent for employees aged 61 to 65, or 7.5 percent for employees aged 66 or older. CPF members contribute 20 percent of monthly earnings of at least S$750 (US$563.20) if aged 55 or younger, 13 percent if aged 56 to 60, 7.5 percent if aged 61 to 65, or 5 percent if aged 66 or older. (CPF members earning at least S$500 [US$375.47] but less than S$750 a month pay a flat monthly amount based on their age and earnings.) CPF contributions are allocated into three different individual accounts: (1) an Ordinary Account (OA) that can be used to finance the purchase of a home, life and mortgage insurance, education, and investments in approved retirement-related financial products (for funds over S$20,000 [US$15,018.64]); (2) a Special Account (SA) that is principally for retirement, but funds over S$40,000 (US$30,037.29) can be invested in approved retirement-related financial products; and (3) a MediSave Account for certain hospitalization and medical expenses. Upon reaching age 55, a fourth account—the RA—is created from the combined account balances of the OA and SA accounts. Funds from the RA can be withdrawn for retirement as early as age 55 if the RA balance exceeds a certain minimum; otherwise, the standard payout age for CPF retirement benefits is 65.

Sources: "Matched Retirement Savings Scheme," Central Provident Fund Board, no date; *Social Security Programs Throughout the World: Asia and the Pacific, 2018*, U.S. Social Security Administration, March 2019; "440,000 CPF Members Eligible for New Scheme with Government Matching Retirement Account Top-Ups," Yahoo News Singapore, January 6, 2021; "440,000 Eligible for Matched Top-Ups to CPF Retirement Accounts," *The Straits Times*, January 6, 2021.

The Americas

Québec (Canada) Introduces Occupational Pension Plan

On December 11, Québec's government approved a law introducing the Target Benefit Pension Plan (TBPP), an occupational pension plan that combines certain features of existing defined contribution (DC) and defined benefit (DB) plans. Like a DC plan, a

TBPP is funded with employee and employer contributions paid at fixed rates and does not provide guaranteed benefits. However, by pooling its members' assets and setting a target benefit level, a TBPP can provide workers with a predictable periodic pension at retirement like a DB plan. The main objective behind the TBPP is to offer Québec's employers and workers another alternative to traditional DB plans, which have been in decline for many years. Additional regulatory guidance on the TBPP is expected by the end of 2023 from Retraite Québec, which supervises the province's mandatory and voluntary pension plans.

The key TBPP features established by the new law include:

- *Plan formation:* An employer and its employees must agree to form a TBPP and negotiate its core conditions. (Multi-employer TBPPs are also possible.) For unionized employees, the employees' union must consent to the new plan; for non-unionized employees, consent is granted if less than 30 percent of eligible employees oppose the plan. As part of their negotiations, the employer and employees must set a target benefit level for the plan, which is then used to determine the initial employee and employer contribution rates. Although an existing DB plan cannot be converted to a TBPP for past service, it is possible to convert an existing DC or multi-employer negotiated contribution pension plan. Once a TBPP is established, an employer cannot unilaterally amend or terminate the plan. Instead, a pension committee oversees the plan and a plan administrator handles general management.
- *Plan funding:* TBPPs must be fully funded. If a plan becomes underfunded (when contributions are insufficient to fully fund benefits), the law specifies measures that can be taken, including: an increase in member contributions, an increase in employer contributions (subject to limits set by the plan), a reduction in benefits, and a reduction in the benefit target. To ensure that a TBPP is fully funded, an actuarial valuation must be carried out at the end of each fiscal year. (The actuarial valuations are subject to review by Retraite Québec.)
- *Plan prohibitions:* The new law prohibits TBPPs from having certain provisions commonly found in DB plans, including: benefit calculations based on members' average salary over specified time periods, benefit grants upon plan termination, early retirement benefits based on a member's years of service, and post-retirement benefit indexation.

Québec's public pension system consists of the provincially administered Québec Pension Plan (QPP) and the federally administered Old-Age Security (OAS) and Guaranteed Income Supplement (GIS) programs. The QPP is an earnings-related pension program that covers individuals aged 18 or older who are employed or self-employed in the province and have annual earnings exceeding C$3,500 (US$2,733). (The QPP is similar to the federally administered Canada Pension Plan [CPP], which covers employed and self-employed workers in every province and territory except Québec; the QPP and CPP share many of the same rules, but there are minor differences in the programs' contribution rates and benefit levels.) To finance the QPP, employees and employers each contribute 5.9 percent of gross earnings/payroll above C$3,500 and up to C$61,600 (US$48,105). An individual qualifies for a QPP old-age pension if he or she has reached the normal retirement age of 65 and has at least one valid annual contribution. (A reduced pension can be claimed as early as age 60, and a deferred pension with an increased benefit is possible up to age 70.) The OAS is a universal pension financed from general revenue and paid to individuals aged 65 or older with at least 10 years of residence in Canada since age 18. Low-income OAS pensioners are eligible for the income-tested GIS.

Sources: "Québec (Canada) Adopts Law Expanding the Québec Pension Plan," *International Update*, U.S. Social Security Administration, March 2018; "Release of Bill 68 on Pension Plans in Québec," Mercer, October 9, 2020; "Canada: Quebec Moves Forward with New Supplemental Pension Plan," Blake, Cassels & Graydon LLP, October 29, 2020; "Target Benefit Pension Plans: A New Option for Quebec Employers and Employees," Blake, Cassels & Graydon LLP, December 22, 2020; "Québec: Legislation Implements Target Benefit Pension Plans," Mercer, January 8, 2021.

Mexico Implements Reforms to Mandatory Individual Account Program

On January 1, Mexico's government implemented reforms to the country's mandatory individual account pension program that include increasing employer contributions, adjusting government contributions, reducing the minimum contributions required for an old-age pension, boosting the guaranteed minimum pension, and capping administrative fees. The government finalized the changes on December 16, 2020, after reaching a reform agreement with Mexico's largest private-sector employer and trade union associations in July 2020. The reforms are intended to increase participation in the individual account program—particularly among lower income workers—by improving the adequacy of old-age pensions provided by the program. The government estimates that the reforms will increase future pensions by an average of 40 percent. (The pension increase could be as high as 103 percent for lifelong minimum-wage workers.)

The key provisions of the reform law—effective January 1 unless otherwise noted—include:

- *Increasing employer contributions:* Starting in 2023, employer contributions for the individual account old-age pension will increase for all employees earning more than the minimum wage. (The legal daily minimum wage is currently 141.70 pesos [US$6.98]; 213.39 pesos [US$10.52] in certain northern border areas.) This will be facilitated by replacing the current fixed employer contribution rate with one that increases with an employee's average daily earnings based on 8 salary bands. From 2023 to 2030, the contribution rates for the highest 7 salary bands will gradually increase from the current rate of 5.15 percent of daily covered payroll until they range from 6.202 percent to 13.875 percent. The contribution rate for the lowest salary band (the legal monthly minimum wage) will remain at the current rate. (The employee contribution rate will remain unchanged at 1.125 percent of daily covered earnings.)
- *Adjusting government contributions:* Starting in 2023, the government's contributions for the individual account old-age pension will be targeted more at lower income workers. Currently, the government contributes 0.225 percent of daily covered earnings for all workers plus a fixed daily amount of up to 6.09312 pesos (US$0.30) for workers with average daily earnings up to 15 Units of Measure and Adjustment (Unidad de Medida y Actualización, or UMA; the daily UMA is currently equal to 89.62 pesos [US$4.42]). Under the new rules, the 0.225-percent contribution will be eliminated, the maximum fixed daily amount will increase to 10.75 pesos (US$0.53), and only workers with earnings up to 4 UMAs will receive the subsidy. In addition, the government will pay a fixed daily amount of up to 2.45 pesos (US$0.12) for workers with earnings from 4.01 UMAs to 7.09 UMAs for 2023 only.
- *Reducing required minimum contributions:* The minimum weeks of contributions needed to qualify for an old-age pension decreased from 1,250 to 750. Starting in 2022, the minimum weeks of contributions will increase by 25 weeks a year until reaching 1,000 weeks in 2031.
- *Boosting the guaranteed minimum pension:* The guaranteed minimum pension increased from 3,289 pesos (US$162.12) a month to an average of 4,345 pesos (US$214.17) a month. The actual amount paid under the new rules ranges from 2,622 pesos (US$129.24) a month to 8,241 pesos (US$406.21) a month, depending on the insured person's age at retirement, contribution record, and average covered lifetime earnings. The guaranteed minimum pension amounts will be adjusted each February based on changes in Mexico's national consumer price index.
- *Capping administrative fees:* Starting in 2022, the fees charged by pension fund management companies (Administradoras de Fondos para el Retiro) for administering the individual account program cannot exceed a limit based on the average administrative fees for defined contribution pension programs in Chile, Colombia, and the United States. Once it is set, this new administrative fee cap can never increase, even if the peer-country average later rises. The National Commission for the Retirement Savings System (Comisión Nacional del Sistema de Ahorro para el Retiro) is required to review the fee cap annually and make downward adjustments as needed.

Mexico's old-age pension system consists of the mandatory individual account program, a legacy social insurance program, and a universal program. Both the individual account and social insurance programs cover private-sector employees and cooperative members, but the social insurance program was closed to new enrollees on July 1, 1997, when the individual account program was introduced. (Individuals who were covered by the social insurance program before this date can choose to receive a social insurance old-age pension at retirement.) The normal retirement age for the individual account and social insurance programs is 65. (Early retirement is possible under the individual account program.) The universal program covers all residents of Mexico and can be claimed at age 65 (for indigenous persons) or age 68 (for other covered individuals).

Sources: Decreto por el que se reforman, adicionan y derogan diversas disposiciones de la Ley del Seguro Social y de la Ley de los Sistemas de Ahorro para el Retiro, 2020; *Social Security Programs Throughout the World: The Americas, 2019*, U.S. Social Security Administration, March 2020; Comunicado No. 061, Gobierno de México, July 22, 2020; "Mexico Announces Agreement on Pension Reforms," *International Update*, U.S. Social Security Administration, August 2020; "Subcuentas y Aportaciones IMSS," Comisión Nacional del Sistema de Ahorro para el Retiro, December 8, 2020; "Comisión de las afores tendrá tope máximo para el 2022: Consar," *El Economista*, December 13, 2020; "Reforma a la Ley del Seguro Social y a la Ley del SAR: Resumen del Decreto," Secretaría de Hacienda y Crédito Público, January 2021; "Pensiones IMSS: desde este 2021 ya puedes jubilarte a partir de los 60 años con 750 semanas cotizadas," Infobae, January 6, 2021.

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