SOCIAL SECURITY ADMINISTRATION USA

International Update

Recent Developments in Foreign Public and Private Pensions

July 2021

Europe

Norway Plans to Expand Mandatory Occupational Pension Coverage

On June 18, Norway's government proposed legislation to expand mandatory occupational pension coverage to more private-sector workers by reducing or eliminating certain earnings, age, and work thresholds. The legislation is expected to receive parliamentary approval later this year and become effective on January 1, 2023. The proposed changes are intended to boost retirement savings, particularly among younger persons, part-time employees, and low-wage workers. Although many occupational pension plans have already voluntarily implemented some of the new measures, the government estimates that the final changes will benefit around 1 million of Norway's 1.5 million private-sector workers. (Norway has a separate occupational pension program for public-sector employees.)

The key changes to mandatory occupational pension coverage under the proposed legislation include:

- *Eliminating the minimum earnings threshold:* Under current law, private-sector employers with defined contribution occupational pension plans must contribute at least 2 percent of each employee's annual earnings from 1G up to 12G. (G, or grunnbeløpet, is a social security base amount that changes annually and is currently equal to 106,399 kroner [US$12,383.78].) The proposed legislation would eliminate the 1G minimum, which would effectively expand mandatory coverage to all employees regardless of their earnings and increase employer contributions for employees with annual earnings of 1G or above. In 2019, around one-quarter of private-sector employees belonged to occupational pension plans that already collected employer contributions from the first krone of annual earnings. (Employees are not required to contribute to occupational pensions.)
- *Lowering the minimum age:* The proposed legislation would lower the minimum age for mandatory coverage from 20 to 13, matching the minimum age for public pension coverage. The government estimates that this provision would expand coverage to around 51,500 young workers.
- *Removing the minimum work hours requirement:* Employers are currently only required to pay occupational pension contributions for employees who work at least 20 percent of full-time hours. The proposed legislation would eliminate this requirement and thus extend mandatory coverage to all part-time employees regardless of how many hours they work.

In addition to mandatory occupational pensions, Norway's old-age pension system consists of a two-tiered public pension program and voluntary retirement savings vehicles. The public old-age pension consists of a guarantee pension program covering all residents of Norway and a notional defined contribution (NDC) pension program covering employed and self-employed persons. To receive the guarantee pension, an individual must have reached age 67 and have at least 3 years of residency in Norway from age 16 to 66; the normal retirement age for the NDC pension is flexible—ranging from age 67 to 75—and there is no minimum contribution requirement. (It is possible to receive the NDC pension as early as age 62 under certain conditions.)

Sources: *Social Security Programs Throughout the World: Europe, 2018*, U.S. Social Security Administration, September 2018; "Norway Finalizes Changes to Defined Contribution Occupational Pension Plans," *International Update*, U.S. Social Security Administration, November 2020; Proposisjon 223 L, 2020–2021; "Norway Acts to Extend Pension Access, Improve Guaranteed Pensions," ipe.com, June 18, 2021; "Pension from the First Krone," Finans Norge, June 22, 2021; "Norway: Increase in Basic Amount (G) Results in Changes in Social Security Benefits," Gallagher GVISOR News, June 29, 2021; "Norway: Proposal to Expand Covered Pay for Pension Benefits," Willis Towers Watson, June 29, 2021; "Norway," Gallagher GVISOR Country Manual, July 19, 2021.

Asia and the Pacific

Australia Implements Superannuation Changes

On July 1, Australia's government implemented changes to the country's mandatory occupational pension program (superannuation) that include increasing the minimum employer contribution rate, introducing annual superannuation fund performance reviews, creating a mechanism to prevent duplicate accounts, and launching a new fund comparison tool. The contribution rate increase was originally approved in 2012 with an effective date of July 1, 2015, but its implementation was delayed for 6 years. The other changes were approved in June 2021 as part of the government's "Your Future, Your Super" reform package. The changes are intended to improve retirement security for future retirees by increasing superannuation savings and investment returns and reducing administrative fees. According to the Association of Superannuation Funds of Australia, the superannuation program had around A$3.1 trillion (US$2.3 trillion) in assets held in 24.4 million accounts at the end of March 2021.

The main superannuation changes implemented on July 1 (all effective immediately unless otherwise noted) include:

- *Increasing the minimum employer contribution rate:* The minimum employer contribution rate (also known as the super guarantee) has increased from 9.5 percent to 10 percent of monthly payroll. This contribution rate is set to rise by another 0.5 percentage points next July and each July thereafter until it reaches 12 percent in July 2025. (Employees are not required to make superannuation contributions, but the government offers tax incentives and matching funds to encourage voluntary contributions.)
- *Introducing annual superannuation fund performance reviews:* All MySuper default superannuation funds are now subject to an annual performance review conducted by the Australian Prudential Regulation Authority. (Since 2014, employees have been automatically enrolled in MySuper funds unless they choose to participate in other types of superannuation funds.) Funds will be classified as underperformers if their annual net investment returns are 0.5 percentage points or more below assigned benchmark rates over an 8-year period. Underperforming funds are required to inform their members of the review findings by the following October 1, and they will be prohibited from accepting new members if they fail two consecutive performance reviews. The annual performance reviews will be extended to other types of superannuation funds starting in July 2022.
- *Creating a mechanism to prevent duplicate accounts:* Starting on November 1, MySuper accounts will follow employees when they change employers, a procedure locally referred to as stapling. Under this measure, employers must contribute to their new employees' existing MySuper accounts and selected funds unless the employees opt to make changes. For new employees who do not have existing MySuper accounts and take no action to select a MySuper fund, employers will continue to pay contributions to the MySuper funds of their choice. (Employees can still switch MySuper funds at any time after their initial enrollment.) The Australian Taxation Office will facilitate this stapling mechanism by tracking MySuper accounts and sharing this information with employers.
- *Launching a new fund comparison tool:* There is a new online tool called Your Super that allows superannuation participants to compare the administrative fees, investment returns, and other features of MySuper funds. The tool also provides participants with information on their existing accounts and how to consolidate them.

Australia's old-age pension system consists of the superannuation program, the Age Pension, and personal retirement savings. To receive a superannuation retirement benefit, a participant must have reached age 58 (gradually rising to age 60 by July 2024) and be permanently retired (or participating in the Transition to Retirement program). Individuals aged 66 and 6 months or older (gradually rising to age 67 by July 2023) who meet certain asset, income, and residency requirements may also qualify for the Age Pension, which is funded and administered by the Australian government.

Sources: "Australia," *International Update*, U.S. Social Security Administration, April 2012; *Social Security Programs Throughout the World: Asia and the Pacific, 2018*, U.S. Social Security Administration, March 2019; "Your Future,Your Super: Reforms to Make Your Super Work Harder for You," Australian Government, October 2020; Treasury Laws Amendment (Your Future, Your Super) Bill 2021; "Superannuation Statistics," Association of Superannuation Funds of Australia, May 2021; "Super Guarantee Percentage," Australian Taxation Office, June 15, 2021; "Australian Superannuation Changes: What Do

They Mean for You?," *The Guardian*, June 17, 2021; "Super Reforms - Your Future, Your Super," Australian Taxation Office, June 24, 2021.

Malaysia Introduces Early Withdrawal Option under Provident Fund Program

On July 12, Malaysia's Employees' Provident Fund (EPF) introduced a new policy (i-Citra) that allows around 12.6 million provident fund members younger than age 55 to withdraw up to 5,000 ringgits (US$1,202.20) from their EPF accounts. The new policy is intended to provide financial relief to fund members who have been negatively affected by the COVID-19 pandemic. It follows the introduction of two other early withdrawal options for fund members younger than age 55, including: (1) a policy (i-Lestari) introduced in April 2020 that allowed fund members to withdraw 50 ringgits (US$12.02) to 500 ringgits (US$120.22) a month from their Account 2 balances from April 2020 through March 2021; and (2) a policy (i-Sinar) introduced in November 2020 that allows fund members to withdraw up to 60,000 ringgits (US$14,426.42) from their Account 1 balances. (The EPF provides two types of individual accounts for members younger than age 55: Account 1 funds retirement and Account 2 may be accessed before retirement for education, designated critical illnesses, a home purchase, and other approved expenses. i-Sinar was initially only open to fund members who lost their jobs or experienced a significant income reduction because of the pandemic, but eligibility was expanded to all fund members younger than age 55 in March 2021.)

Other key details of i-Citra include:

- *Qualifying conditions:* Fund members must have combined (Account 1 and 2) account balances of at least 150 ringgits (US$36.07) to be eligible for the early withdrawal. (Fund members who made early withdrawals through i-Lestari or i-Sinar may also apply for i-Citra.)
- *Application deadlines:* The application period opened on July 12 and will close on September 30.
- *Payment schedule:* Fund members who elect to withdraw the maximum amount of 5,000 ringgits will receive 1,000 ringgits (US$240.44) a month over a 5-month period. The payments will be drawn first from members' Account 2 balances; if there is less than 5,000 ringgits in Account 2, the remainder will be drawn from Account 1. (A fund member must maintain a balance of at least 100 ringgits [US$24.04] in Account 1 to remain an EPF member.)

The EPF is the primary source of old-age, disability, and survivor benefits in Malaysia. Coverage is mandatory for all private-sector employees and public-sector employees not covered by the separate public-sector pension system, and voluntary for certain other workers. In addition to the EPF, Malaysia's pension system includes a social insurance program for those who are mandatorily covered by the EPF (voluntary coverage under the social insurance program is not possible) and a social assistance program for needy elderly persons. The social insurance program only provides disability and survivor pensions.

Sources: *Social Security Programs Throughout the World: Asia and the Pacific, 2018*, U.S. Social Security Administration, March 2019; "Malaysia Further Expands Access to Provident Fund Savings During Pandemic," *International Update*, U.S. Social Security Administration, December 2020; "Malaysia Expands Eligibility to Early Withdrawals under Provident Fund Program," *International Update*, U.S. Social Security Administration, April 2021; "i-Citra," KWSP, July 22, 2021.

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.

Editor: John Jankowski

Writers/researchers: Ben Danforth, John Jankowski, and David Rajnes.

Social Security Administration
Office of Retirement and Disability Policy
Office of Research, Evaluation, and Statistics
250 E Street SW, 8th Floor, Washington, DC 20254

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