International Update

Recent Developments in Foreign Public and Private Pensions

March 2021

Europe

Poland Approves Draft Law Eliminating Second-Pillar Individual Accounts

On March 2, the Polish cabinet approved a draft law that would eliminate the second pillar of privately managed individual accounts and transfer the account balances of participating workers—currently held by open pension funds (Otwartych Funduszy Emerytalnych, or OFEs)—to the public first-pillar notional defined contribution (NDC) program or to third-pillar voluntary individual accounts (Indywidualne Konta Emerytalne, or IKEs). The lower house of parliament (the Sejm) passed a nearly identical law in February 2020, but it was rejected by the upper house of parliament (the Senate) and not taken back up by the Sejm. (Under the Polish constitution, the Sejm can overrule any Senate rejection with a simple majority vote. However, due to the onset of the COVID-19 pandemic, the Sejm chose to postpone the reform and did not overrule the Senate's rejection.) If approved by parliament and signed by the president, the new draft law would go into effect in June 2021. According to the Polish Financial Supervision Authority (Komisja Nadzoru Finansowego), there were around 15.4 million participants in the second-pillar program as of January 2021, with assets under management of around 150 billion zloty (US$39.9 billion).

Key provisions of the draft law include:

- *Default option:* By default, all OFE account balances will be transferred to IKEs. Workers who prefer to transfer their OFE account balances to the NDC program must make the request between June 1 and August 2, 2021.
- *Conversion fees and income taxes:* OFE account balances transferred to IKEs will be subject to a 15 percent conversion fee, split over two installments in 2022. Withdrawals from IKEs at retirement are tax exempt. In contrast, no conversion fee is charged for workers who transfer their OFE account balances to the NDC program, but their pensions will be subject to personal income taxes. (Currently, the personal income tax rate is 17 percent of annual income up to 85,528 zloty [US$22,775.09] plus 32 percent of annual income above this amount.)
- *Withdrawal options and pension benefits:* As is the case for current IKE participants, workers who transfer their OFE account balances to IKEs will be able to withdraw their IKE balances as lump sums or periodic payments. Unlike current IKE assets, which may be withdrawn prior to retirement (with penalties), assets transferred from OFEs may only be withdrawn upon reaching the normal retirement age of 65 (men) or 60 (women). Workers who transfer their OFE account balances to the NDC program will receive higher NDC old-age pensions.
- *Asset inheritability:* Assets transferred to IKEs will be private and inheritable, while those transferred to the NDC program will not.

In 1999, Poland introduced a multipillar pension system consisting of the first-pillar NDC program, second-pillar individual accounts that were mandatory for persons born after December 31, 1968, and third-pillar voluntary retirement savings accounts. In 2014, the government made the second-pillar program voluntary for all new entrants to the workforce, and all existing participants were allowed to opt out and transfer their account balances to the NDC program. To finance the NDC program, employees and employers each contribute 9.76 percent of covered earnings/payroll for old-age benefits plus 1.5 percent (employees) or 6.5 percent (employers) for disability and survivor benefits. However, if employees have chosen to participate in the second-pillar program, 2.92 percentage points of their 9.76-percent NDC old-age contributions (plus administrative fees) are diverted to their individual accounts. (Once the second pillar is eliminated, all employees will contribute the full 9.76 percent of covered earnings to the NDC program.)

Sources: Social Security Programs Throughout the World: Europe, 2018, U.S. Social Security Administration, September 2018; "Poland Approves Draft Law Eliminating Second-Pillar Individual Accounts," *International Update,* U.S. Social Security Administration, November 2019; "Poland: Individual - Taxes on Personal Income," PwC, February 9, 2021; "Znamy Nowe Terminy Likwidacji OFE," analizy.pl, February 15, 2021; "Dane Miesięczne OFE - Styczeń 2021 Roku," Komisja

Nadzoru Finansowego, February 19, 2021; “Projekt Ustawy o Zmianie Niektórych Ustaw w Związku z Przeniesieniem Środków z Otwartych Funduszy Emerytalnych na Indywidualne Konta Emerytalne,” Kancelaria Prezesa Rady Ministrów, March 2, 2021.

Spain Introduces New Parental Pension Supplement

On February 4, Spain’s government introduced a new pension supplement for parents receiving contributory old-age, disability, and survivor pensions from the country’s social security system. Under this measure, qualifying pensioners receive €378 (US$455.60) a year for each biological or adopted child they have, up to four children. The supplement replaces a mother’s supplement that the European Court of Justice ruled discriminatory in December 2019 because it excluded men. (Pensioners who were receiving this supplement before February 4 can continue to receive it instead of the new supplement if they prefer.) Although the new supplement is available to men under certain conditions, it is primarily intended to boost women’s pensions. With this targeted pension increase, the government is seeking to reduce Spain’s gender pension gap (the percentage difference between the average pensions men and women receive) from around 30 percent to less than 5 percent. According to the Organisation for Economic Co-operation and Development, Spain had the eighth largest gender pension gap for individuals aged 65 or older among 27 member countries surveyed in 2014.

The key details of the new parental pension supplement include:

- *Qualifying conditions:* Only one parent of a child can receive the supplement at any time; by default, this parent is the mother. However, a father can receive the supplement instead of the mother if he shows that (1) his contributory pension income is less than the mother’s and (2) he had at least 120 days without contributions from 9 months before the child’s birth to 3 years after the birth (for a child born before 1995), had at least 120 days without contributions from the date of the child’s adoption to 3 years after the adoption (for a child adopted before 1995), or experienced at least a 15 percent drop in his contribution base in the 24 months after the child’s birth or adoption compared to the 24 months before the birth or adoption (for a child born or adopted since 1995). If a child has two mothers or two fathers, the parent with lower contributory pension income receives the supplement. With these conditions, the government expects 98 percent of the supplement’s recipients to be women.
- *Application process:* Mothers are automatically considered for the supplement when they claim a contributory pension, while fathers must apply for the supplement.
- *Payment schedule:* The supplement will be distributed with the base pension in 14 payments each year—one payment each month plus bonus payments in June and November.
- *Benefit adjustment:* The supplement amount will be adjusted each January based on changes in a revaluation index. (The revaluation index is used to adjust other social security benefits and is based on a number of factors, including the social security system’s revenues and expenditures.) In addition, the gender pension gap will be reviewed annually to determine whether the supplement is still needed; if the gap falls below 5 percent, the supplement will be eliminated for all recipients.

Spain’s public pension system consists of contributory and noncontributory programs. To qualify for an old-age pension under the contributory program, an individual must have reached age 66 (gradually rising to age 67 by 2027) and have at least 15 years of contributions, including 2 years in the 15 years before retirement. An individual can receive a reduced old-age pension as early as age 62 if he or she meets certain contribution requirements and other qualifying conditions. The noncontributory old-age pension is paid to individuals who have reached age 65, have resided in Spain for at least 10 years since age 16 (including the 2 years before retirement), and have household income below certain limits.

Sources: Social Security Programs Throughout the World: Europe, 2018, U.S. Social Security Administration, September 2018; *Pensions at a Glance 2019: OECD and G20 Indicators*, Organisation for Economic Co-operation and Development, November 27, 2019; Press Release No. 154/19, Court of Justice of the European Union, December 12, 2019; Real Decreto-ley 3/2021, 2021; “Preguntas y respuestas del nuevo complemento de maternidad de las pensiones de 378 euros anuales por hijo,” elDiario.es, February 2, 2021; “El Gobierno aprueba el nuevo complemento de maternidad de las pensiones, de 378 euros anuales por hijo,” *El País*, February 2, 2021; “Complemento a las pensiones por hijos: requisitos, cuantía y a quién se le reconoce,” *El Confidencial*, February 4, 2021; “Todas las preguntas y respuestas sobre el nuevo complemento para reducir la brecha de género en las pensiones,” Seguridad Social, March 8, 2021.

Asia and the Pacific

Philippines Introduces Supplemental Provident Fund

Effective January 1, the Philippines' Social Security System (SSS) introduced a new mandatory provident fund known as the Workers' Investment and Savings Program (WISP) to supplement the country's social insurance program. All workers participating in the SSS social insurance program with monthly covered earnings of 20,250 pesos (US$417) or above are automatically enrolled in WISP. (SSS coverage is mandatory for private-sector employees, household workers, and self-employed persons, and voluntary for Filipino citizens working abroad, persons who previously had mandatory coverage, and nonworking spouses of insured persons.) The introduction of WISP is part of a broader government effort to improve the adequacy and sustainability of public pensions that started with the passage of the Social Security Act of 2018.

Key details of the new WISP program include:

- *Contributions:* Under SSS, employees contribute 4.5 percent of gross monthly earnings and employers contribute 8.5 percent of monthly covered payroll, based on 45 income classes. (Employee and employer contribution rates are gradually increasing and will reach 5 percent and 10 percent, respectively, in 2025.) For workers in the top 10 income classes (those with earnings of 20,250 pesos or above), a portion of their contributions will be allocated to WISP. For 2021, the employer WISP contribution ranges from 42.50 pesos (US$0.88) to 425 pesos (US$8.75) a month and the employee contribution ranges from 22.50 pesos (US$0.46) to 225 pesos (US$4.63) a month, depending on an employee's monthly covered earnings.
- *Investments:* The SSS plans to invest at least 75 percent of fund members' assets in low-risk government securities and the remaining portion in blue-chip corporations. Investment returns are tax free, and the principal is protected by the government. The government projects an average annual rate of return of 4.5 percent for WISP savings.
- *Benefits:* At retirement, a fund member's total accumulated assets are converted into an annuity that is paid out over at least 15 years. In the event of a fund member's death, the member's total account balance is paid as a lump sum to designated beneficiaries. Early withdrawals from WISP accounts are not permitted.

In addition to WISP, the Philippines' old-age pension system consists of the SSS social insurance program and a means-tested social pension program. (There are also special pension systems for military personnel and civil servants.) To qualify for a social insurance old age pension, an individual must have reached the normal retirement age of 60, have at least 120 months of contributions, and have stopped working (if younger than age 65). Individuals who have reached the normal retirement age, but do not qualify for the social insurance pension can receive the means-tested social pension if they are assessed as poor by the National Household Targeting System for Poverty Reduction.

Sources: "Republic Act No. 11199," Republic of the Philippines, February 7, 2019; Social Security Programs Throughout the World: Asia and the Pacific, 2018, U.S. Social Security Administration, March 2019; "SSS to Launch New Mandatory Provident Fund in January 2021," CNN Philippines, December 23, 2020; "SSS to Implement New Contribution Schedule, Workers' Investment and Savings Program Starting January 2021," Philippine Information Agency, December 24, 2020; "SSS to Enforce 13% Contribution Rate," *Manila Standard*, December 29, 2020; "What Is Mandatory Provident Find in SSS?" PhilippinesQA, January 2, 2021; "Philippines: Social Security Increases Contributions, Launches New Mandatory Provident Fund," Gallagher GVisor Compliance Alert, February 26, 2021.

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