International Update

Recent Developments in Foreign Public and Private Pensions

April 2022

Europe

Ireland Publishes Details of Proposed Auto-Enrollment Program

On March 29, Ireland's Department of Social Protection published "The Design Principles for Ireland's Automatic Enrolment Retirement Savings System," which describes the key features of an auto-enrollment (AE) pension program that is expected to be implemented by 2023 and operational by 2024. The program is intended to improve retirement security in Ireland by increasing the share of individuals who have private retirement savings to supplement the old-age benefits paid under the State Pension program. Ireland is currently the only member of the Organisation for Economic Co-operation and Development (OECD) that does not have a mandatory or auto-enrollment earnings-related pension program. (The OECD currently has 38 member countries.) According to the government, the rate of supplemental pension coverage in Ireland is around 56 percent for the working population and less than 35 percent among private-sector workers.

The key features of the new AE program include:

- *Covered population:* Current and new employees aged 23 through 60 who have annual earnings of at least €20,000 (US$22,104) and are not already participating in occupational pension plans will be automatically enrolled into individual accounts. However, these employees can opt out of the program after 6 months of participation. (Employees who opt out of the program will be reenrolled after 2 years of inactivity.) Employees not covered by the auto-enrollment mechanism can choose to participate in the program. The government estimates that around 750,000 employees (out of a total labor force of around 2.4 million workers) will be enrolled into the program when it launches.
- *Account contributions:* To fund the individual accounts, participating employees and their employers will each contribute 1.5 percent of gross covered earnings/payroll. (Employer contributions will only be paid on the first €80,000 [US$88,416] of employees' annual earnings. This earnings maximum does not apply to employee contributions.) The employer and employee contribution rates will gradually rise by 1.5 percentage points every 3 years until they each reach 6 percent by 2034. To encourage program participation, the government will match 33 percent of an employee's contributions on annual earnings up to €80,000.
- *Investment options:* Participants will be able to invest their savings in one of four funds with different risk profiles: conservative (mix of government bonds, cash, private bonds, and index funds), moderate risk (mix of government bonds, equities, and real estate), higher risk (primarily equities and real estate), and a life-cycle fund. If participants do not actively choose a fund, their savings will be invested in the life-cycle fund by default.
- *Benefit access:* Participants will only have access to their savings when they reach the normal retirement age (currently 66).
- *Program administration:* A Central Processing Authority (CPA) will be established to collect contributions, administer the individual accounts, and distribute savings at retirement. The CPA will also oversee four private investment companies that will manage the program's funds. To help participants track and manage their savings, the CPA will create an online portal with account management tools.

Until the AE program is implemented, the State Pension program remains the primary source of retirement income for residents of Ireland. Old-age benefits provided under that program include contributory and noncontributory pensions. To qualify for the contributory pension, a resident must have reached the normal retirement age and have an annual average of at least 10 weeks of paid or credited contributions since entering the workforce or since 1979, whichever is later. (Contributions may be credited for periods the insured person received certain social security benefits.) A means-tested noncontributory pension is paid at the normal retirement age to those who do not meet the contribution requirements for a contributory pension or who receive a reduced contributory pension.

Sources: Ireland Announces Key Elements of New Auto-Enrollment Plan," *International Update*, U.S. Social Security Administration, December 2019; "Ireland Proposes Deferring State Pension Age Increases as Part of a Revised Reform Strategy," *International Update*, U.S. Social Security Administration, August 2020; "The Design Principles for Ireland's Automatic Enrolment Retirement Savings System," Ireland Department of Social Protection, March 2022; "New State Pension Auto-Enrolment Plan Will See Higher Rates Phased in Over 10 Years," *The Irish Times*, March 28, 2022; "Pensions Overhaul: Average Worker Could Net €650,000 Pot under Landmark Plan," *Irish Independent*, March 29, 2022; "New Workplace Pension Scheme for Ireland—Minister Humphreys Announces Details of Automatic Enrolment Retirement Savings System," Ireland Department of Social Protection, April 4, 2022; "The State's Auto-Enrolment Pension Scheme: How It Works and Why It's Good News," *Irish Times*, April 4, 2022.

Asia and the Pacific

Bahrain Approves Social Insurance Pension Reforms

On April 18, Bahrain's king enacted reforms to the country's social insurance pension program that gradually increase contribution rates, raise current pensioners' monthly old-age pensions, change the old-age pension calculation and adjustment methods, introduce delayed-retirement incentives, and integrate the end-of-service gratuity for foreign workers. (Many details of the reforms, including their implementation dates, are not yet known.) According to the government, the aim of the reforms is to improve the long-term sustainability of the social insurance program. Like many countries, Bahrain is experiencing rapid population aging that will put significant and growing fiscal pressure on its state budget over the coming decades. The United Nations' Population Division projects that the country's old-age dependency ratio (the population aged 65 or older divided by the population aged 15 to 64) will increase from 3.4 percent in 2020 to 23.1 percent by 2060.

Key details of the reforms include:

- *Increasing contribution rates:* The combined employee/employer contribution rate will gradually increase from 19 percent to 27 percent of covered earnings (from 7 percent to 8 percent for employees and from 12 percent to 19 percent for employers).
- *Raising current pensioners' monthly old-age pensions:* Old-age pensions will immediately increase by 6 percent, up to a maximum increase of 60 dinars (US$159.57) a month.
- *Changing the old-age pension calculation and adjustment methods:* Old-age pension amounts will be based on the insured's average monthly earnings in the last 5 years of contributions, rather than the last 2 years. In addition, old-age pensions will only be adjusted in years when the social security fund has a surplus. (Previously, pensions were automatically increased by 3 percent each January, though these increases were suspended in 2021 and 2022.)
- *Introducing delayed-retirement incentives:* Individuals who defer claiming an old-age pension by up to 5 years after the normal retirement age will receive up to 90 percent of their average monthly earnings in the last 5 years of contributions. Currently, there is no benefit increase for those who defer claiming a pension and the maximum old-age pension is 80 percent of the insured's average monthly earnings in the last 2 years of contributions.
- *Integrates the end-of-service gratuity for foreign workers:* The end-of-service gratuity for foreign workers will be integrated into the social insurance program and paid by the Social Insurance Organization, the organization responsible for administering the program. Currently, employers are required to pay an end-of-service gratuity to all workers not covered by the social insurance program (including foreign workers) that is based on the employees' length of service: 15 days of wages were paid for each of the first 3 years of service, plus 1 month of wages for each additional year of service.

Bahrain's social insurance pension program covers citizens of Bahrain working in establishments with at least one employee or in one of the Gulf Cooperation Council countries (Kuwait, Oman, Qatar, Saudi Arabia, or United Arab Emirates). Coverage is voluntary for self-employed persons, persons who previously had at least 5 years of mandatory coverage, and citizens of Bahrain working abroad. To be eligible for an old-age pension, an individual must reach the normal retirement age of 60 (men) or 55 (women) and have at least 10 years of contributions. (Contributions may be credited under certain conditions.) An old-age settlement is paid at the normal retirement age to those with less than 10 years of contributions.

Sources: "Bahrain End of Service Gratuity Calculation," HLB HAMT, no date; *Social Security Programs Throughout the World: Asia and the Pacific, 2018*, U.S. Social Security Administration, March 2019; *World Population Prospects 2019*, United Nations, Department of Economic and Social Affairs, Population Division, August 2019; “Agreement Reached to Raise Bahraini Citizens’ Pensions by 6%, Up to BD60,” The Daily Tribune, March 28, 2022; “Pensions Deal: Bahrainis Are Set to Benefit From A One-Off Six Per Cent Increase In Pensions,” French Chamber of Commerce and Industry in Bahrain, March 28, 2022; “Parliament Backs Major Amendments to Pension Laws,” French Chamber of Commerce and Industry in Bahrain, March 30, 2022; “HM King Ratifies, Promulgates Law (14) of 2022,” Bahrain News Agency, April 18, 2022.

The Americas

Chile to Extend Social Security Coverage to Digital Platform Workers

On March 11, Chile’s government enacted an amendment to the country’s labor code that will extend social security coverage and other employment protections to workers employed through digital platforms. (Digital platforms are computer systems that allow workers to provide services in specific geographic areas—such as the transportation of goods or passengers—to platform users.) Under this reform—which will be effective September 1—digital platform workers will be classified as formal employees or self-employed persons (depending on their work contracts) and thus receive access to old-age, disability, and survivor pensions, health insurance, and other social security benefits. (Previously, digital platform workers were treated as informal workers and received few protections under Chilean law.) This reform is intended to improve the working conditions and retirement security of a growing class of non-standard workers. It is estimated that the reform will affect around 189,000 workers in Chile, which represents about 2.2 percent of the country’s labor force.

Chile’s old-age pension system consists of a mandatory individual account program, a legacy social insurance pension program, and a near-universal guarantee pension (Pension Garantizada Universal, or PGU) program. The mandatory individual account program covers employees and self-employed persons with annual covered incomes of at least the legal monthly minimum wage (currently 350,000 pesos [US$446.19]). To finance their individual account old-age pensions, participants must contribute at least 10 percent of their covered earnings (plus an administrative fee). (Employers do not pay old-age pension contributions.) The normal retirement age for the individual account and social insurance pensions is 65 for men and 60 for women. The government-financed PGU is paid to individuals who have reached age 65; have at least 20 years of residency in Chile since age 20, including at least 4 of the last 5 years before the pension is claimed; be a member of a family unit that is not in the richest 10 percent of the population; and have monthly base pension income below 1 million pesos (US$1,274.82). (The PGU was launched in February 2022 to replace two means-tested old-age benefits and will not be fully phased in until August 2022.)

Sources: *Social Security Programs Throughout the World: The Americas, 2019*, U.S. Social Security Administration, March 2020; Ley N° 21.431, 2022; “¿Cuál es el valor del ingreso mínimo mensual?” Dirección del Trabajo, January 17, 2022; “Chile Introduces Near-Universal Old-Age Pension,” *International Update*, U.S. Social Security Administration, February 2022; “Se despacha a ley proyecto que regula a los trabajadores de plataformas digitales,” Undersecretary of Labor, March 3, 2022; “Berger informó que trabajadores de plataformas digitales tendrán acceso a seguridad social,” Diario de Valdivia, March 4, 2022; “Boletín Estadístico: Empleo Trimestral Nº 281,” Instituto Nacional de Estadísticas, March 30, 2022.

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