International Update

Recent Developments in Foreign Public and Private Pensions

May 2022

Asia and the Pacific

China Outlines Third-Pillar Private Pension Framework

On April 21, China's State Council announced the framework of a third-pillar private pension program designed to complement the country's existing first-pillar state pension and second-pillar occupational pension programs. The third-pillar program will consist of voluntary individual accounts and will be gradually rolled out across China after a 1-year trial period in select cities. (Details on the implementation schedule are not yet known.) The new program comes after several years of government-backed pilot initiatives and is intended to boost retirement savings and promote capital market development as China experiences rapid population aging. According to the United Nations' Population Division, China's old-age dependency ratio (the population aged 65 or older divided by the population aged 15 to 64) is projected to increase from 17 percent in 2020 to 32 percent in 2035. In addition, at the end of 2021, less than 1 percent of China's 14.5 trillion yuan (US$2.2 trillion) in retirement assets were held in personal pension accounts. (Around 68 percent of the total assets were held in first-pillar pension funds and 31 percent in second-pillar occupational pension plans.)

Key features of the third-pillar private pension framework include:

- *Eligible workers:* Workers currently covered by first-pillar state pension programs can choose to set up personal pension accounts. (According to China's National Bureau of Statistics, there were 1.03 billion first-pillar program participants at the end of 2021.) The accounts can be opened at approved commercial banks and financial product sales agencies.
- *Account contributions:* The maximum annual contribution will be 12,000 yuan (US$1,821), and may be adjusted in the future based on economic and social factors. To encourage participation, the China Securities Regulatory Commission (CSRC) is expected to introduce certain incentives (such as preferential tax treatment for account contributions).
- *Investment options:* The CSRC and other regulatory agencies will determine which products (such as mutual funds, public stock and bond offerings, and commercial pension insurance) can be offered to participants. (The specific criteria for these determinations have not been released yet, but the government has stated that products must be safe and focus on long-term value.)
- *Benefit access:* Participants will be able to withdraw funds (as a lump sum or in periodic payments) from their accounts only after they reach the normal retirement age (currently age 60 for men and professional women, age 55 for nonprofessional salaried women, and age 50 for other categories of women), have lost the ability to work, or have settled abroad.
- *Inheritance provisions:* If a participant dies before reaching the normal retirement age, his or her account balance will bequeath to designated heirs.
- *Program administration:* The Ministry of Human Resources and Social Security and the Ministry of Finance will oversee the program and provide guidance on the final rules and regulations that are still under development.

Besides third-pillar pensions, China's pension system consists of: (1) separate first-pillar programs for urban employees, and rural and nonsalaried urban residents, which are administered at the provincial and local levels; and (2) second-pillar occupational pension programs that primarily cover employees of large state-run enterprises. The first-pillar programs for urban employees generally include a social insurance pension funded by an employer contribution of up to 20 percent of payroll, and a mandatory individual account funded by an employee contribution of 8 percent of gross covered earnings. The first-pillar programs for rural and nonsalaried urban residents generally include a noncontributory pension funded by the central and local governments, and an individual account funded by personal contributions. The second pillar consists of voluntary employer-sponsored occupational pensions.

Sources: *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; "China Introduces Pilot Individual Account Program," *International Update*, U.S. Social Security Administration, June 2021; "Opinions on Promoting the Development of Individual Pensions," The General Office of the State Council, April 21, 2022; "In Milestone Move, China Launches Private Pension Scheme," Reuters, April 21, 2022; "China's First Ever Private Pension Scheme—What You Need to Know," *China Briefing*, April 25, 2022; "China Unveils Long-Awaited Pillar 3 Pension Framework," *Pensions & Investments*, April 25, 2022; "China Launches Private Pension Plan Program," Emerging Markets Channel, April 27, 2022.

Qatar Ratifies Social Insurance Pension Reform Law

On April 19, Qatar's emir ratified a social insurance reform law that expands private-sector worker coverage, increases contribution rates, adjusts covered earnings, tightens old-age pension qualifying conditions, establishes a minimum old-age pension, and introduces new incentives to work longer. These reforms stem from a national development strategy for 2018–2022 that seeks to maintain social protections for Qatari citizens, support vulnerable groups, and promote family cohesion. Although Qatar has quickly become one of the world's wealthiest countries on a per capita basis—its 2020 gross domestic product per capita was US$50,124—its social insurance program has faced growing sustainability issues since its inception 20 years ago. According to the government, around 64 percent of the program's pensioners retired early, and less than 53 percent of Qatari citizens aged 15 to 64 are in the labor force.

The reform law's key provisions (effective 6 months after the law's publication unless otherwise noted) include:

- *Expanding private-sector worker coverage:* The social insurance program currently covers Qatari citizens working in the public sector, certain private-sector firms, or other Gulf Cooperation Council countries (Bahrain, Kuwait, Oman, Saudi Arabia, and United Arab Emirates.) Under the new law, coverage will be extended to all Qatari citizens aged 18 or older employed in the private sector with work contracts lasting at least 1 year. In addition, voluntary coverage will also be possible for certain self-employed Qatari citizens.
- *Increasing contribution rates:* The contribution rates for employees and employers will gradually increase from 5 percent to 7 percent of gross monthly earnings and from 10 percent to 14 percent of gross monthly payroll, respectively. (Details on the phase-in period for these rate increases are not yet known.)
- *Including housing allowances in covered earnings:* Contributions are currently paid based on employees' base pay and social allowances. Under the new law, housing allowances will also be considered covered earnings. (It is common for Qatari employees to receive housing allowances as part of their compensation.)
- *Introducing a covered earnings ceiling:* The maximum monthly earnings used to calculate contributions and benefits will be 100,000 riyals (US$27,472.53). Currently, there is no maximum earnings in these calculations.
- *Raising the early retirement age, minimum contribution period, and early retirement penalties:* Over a 5-year period, the earliest age to claim an old-age pension will gradually rise from 40 to 50, and the minimum contribution period will gradually rise from 15 years to 25 years. (Insured persons will still be able to purchase up to 5 years of contributions to qualify for a pension or higher benefit.) In addition, the penalties for each year the old-age pension is claimed before the normal retirement age of 60 (men) or 55 (women) will rise from 2 percent to 2.5 percent (if voluntarily left employment) and from 2.5 percent to 3 percent (if dismissed from employment for disciplinary reasons).
- *Changing the earnings calculation for private-sector workers' pensions:* For private-sector workers, the old-age pension will be calculated based on their average gross monthly earnings in the last 3 years of employment instead of the last 5 years. Public-sector workers' old-age pensions will still be calculated based on their last gross monthly earnings.

- *Establishing a minimum old-age pension:* Effective immediately, the minimum monthly old-age pension is 15,000 riyals (US$4,120.88). Previously, there was no explicit minimum old-age pension, though the smallest possible old-age pension was 75 percent of an insured person's previous earnings.
- *Offering a long-career pension bonus:* A monthly pension bonus will be paid to insured persons who have more than 30 years of contributions when they reach the normal retirement age.
- *Introducing a housing supplement:* Effective immediately, old-age pensioners with monthly pensions not exceeding 100,000 riyals will receive a monthly supplement of up to 4,000 riyals (US$1,098.90) to help pay their housing expenses.
- *Eliminating penalties for old-age pensioners who continue employment:* Old-age pensioners will be allowed to engage in private-sector employment without affecting their pensions. (Pensioners will not be subject to social insurance contributions while employed.) Currently, the old-age pension is reduced or suspended if an old-age pensioner becomes employed, depending on their earnings.
- *Establishing an early retirement option for women caring for children with disabilities:* Women who leave employment to care for children with disabilities will be entitled to a full old-age pension without early retirement penalties if they have at least 20 years of contributions.

Qatar's social insurance program is administered by the General Retirement and Social Insurance Authority and provides old-age, disability, and survivor benefits. At the end of 2020, the program had 24,900 beneficiaries and 75,103 active contributors, with 81.8 percent of these contributors working in the public sector. (In 2020, around 330,000 of Qatar's 2.68 million residents were Qatari citizens.)

Sources: *Qatar Second National Development Strategy 2018-2022*, Ministry of Development Planning and Statistics, September 2018; *Social Security Programs Throughout the World: Asia and the Pacific, 2018*, U.S. Social Security Administration, March 2019; "Annual Report 2020," General Retirement and Social Insurance Authority, 2021; Law No. 1 of 2022 on Social Insurance, 2022; "Turki Al-Khater, President of the General Retirement and Social Insurance Authority: The Retirement System in Qatar is One of the Most Generous in the World," *Al Raya*, April 20, 2022, "Qatar Raises Minimum Pensions," General Retirement and Social Insurance Authority, April 20, 2022; "Amir Issues Laws to Raise Pensions," *Gulf Times*, April 20, 2022.

The Americas

Jamaica Announces Measures Affecting the Social Pension Program

In April, Jamaica's government announced new measures affecting the country's recently launched social pension program that include expanded outreach efforts to increase enrollment and closer monitoring of whether beneficiaries are still alive (by requiring them to certify a government-issued life certificate twice a year to continue receiving benefits). The outreach efforts will be conducted throughout the fiscal year that began on April 1 and include media advertisements, church partnerships, and direct outreach by social workers in local communities. Approximately 7,800 retirees currently receive a social pension and the government aims to increase this figure to 20,000 by the end of the fiscal year.

The government-financed social pension program was introduced in July 2021. It provides 6,800 Jamaican dollars (US$43.99) every 2 months to resident citizens of Jamaica who are aged 75 or older, do not have any other sources of income (such as employment earnings or old-age or disability pensions), and do not reside in a public institutional care facility. (Beneficiaries of the country's family cash transfer program—the Programme for Advancement through Health and Education—who are aged 75 or older are also being transitioned to the social pension program.) The program complements the country's social insurance pension program (National Insurance Scheme, or NIS), which covers employed and self-employed persons and is funded through employee and employer contributions of 3 percent each of gross covered earnings/payroll. (Voluntary coverage is possible.) To be eligible for an NIS old-age pension, an individual must have reached the normal retirement age of 65 and have at least 520 weeks of paid contributions and an annual average of 10 weeks of paid or credited contributions during their working life. A lump-sum old-age grant is paid at the normal retirement age to individuals with at least 52 weeks of paid contributions but who do not meet the contribution requirements for an old-age pension. The government estimates that only around 47 percent of the labor force is currently covered under the NIS.

Sources: "National Insurance Scheme," Ministry of Labour and Social Security, no date; *Social Security Programs Throughout the World: The Americas, 2019*, U.S. Social Security Administration, March 2020; "30,000 Persons to Benefit from New Social Pension Programme," Jamaica Information Service, July 11, 2021; "PM Launches $800 Million Social Pension Programme," Jamaica Information Service, July 31, 2021; "Gov't Ramping Up Social Pension Programme Beneficiaries," Jamaica Information Service, April 5, 2022; "Life Certificate For Social Pension Programme," Jamaica Information Service, April 8, 2022.

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: Ben Danforth

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