International Update

Recent Developments in Foreign Public and Private Pensions

February 2017

Europe

Hungary Reduces Social Security Contribution Rate for Employers

Effective January 1, a new Hungarian law significantly reduces the social security contribution rate for employers (referred to as the "social contribution tax") from 27 percent to 22 percent of gross monthly payroll. The social contribution tax finances old-age, disability, and survivors (OADS) pensions; sickness, maternity, and medical benefits; work injury benefits; and unemployment benefits. The government anticipates further reductions of approximately 2 percentage points a year (if certain economic conditions are met), until the tax rate reaches around 14 percent by 2022. The latest reduction is part of a reform package adopted at the end of 2016 that largely aims to increase the country's competitiveness in the European Union (EU). Other government measures have significantly lowered the corporate tax rate (now considered the lowest in the EU) and increased the minimum wage by 15 percent in 2017 (with an additional 8 percent increase in 2018).

The new law does not affect employee contributions, who continue to contribute a total of 18.5 percent of their gross monthly earnings, including 10 percent for OADS; 7 percent for sickness, maternity, and medical benefits; and 1.5 percent for unemployment benefits. (Employee contributions to OADS and sickness, maternity, and medical benefits also finance work injury benefits.) Self-employed persons pay both the employee contributions and the social contribution tax.

Hungary's social insurance system covers employed persons, including employed pensioners, members of cooperatives, self-employed persons, and certain social insurance beneficiaries. The normal retirement age for an old-age pension under the OADS system is age 63 and six months (gradually rising to age 65 in 2022) with at least 20 years of coverage. The retirement age is reduced for certain workers, including those born before January 1, 1952, and those employed for at least 10 years (men) or 8 years (women) in arduous or unhealthy conditions. A partial pension is possible with at least 15 years of coverage.

Sources: *Social Security Programs Throughout the World: Europe, 2016*, U.S. Social Security Administration, September 2016; "Contribution Cut in Hungary to Be Back on the Menu in 2018" and "Hungary Moves Up in Paying Taxes Ranking," portfolio.hu, November 24, 2016; "Hungary," IBIS eVisor Compliance Alerts, January 31, 2017.

Slovenia and the United States Sign Totalization Agreement

On January 17, the United States and Slovenia signed a totalization agreement to exempt U.S. and Slovenian employers and workers from dual social security tax liability. Before the agreement can enter into force, each country has to complete a review process: The Slovenian National Assembly must ratify the agreement; in the United States, the president must transmit the agreement to Congress for a required 60-day review period.

The agreement will exempt U.S. citizens sent by U.S.-owned companies to work in Slovenia for five years or less from paying social security taxes to Slovenia. Slovenian citizens sent to work temporarily in the United States by Slovenian-owned companies will receive similar tax treatment. As a result, employers will pay social security taxes only to their workers' home countries.

Individuals who have worked in both countries but do not meet the minimum benefit eligibility requirements for either system may qualify for a benefit based on combined coverage credits from both countries. Combined coverage periods may be used to calculate retirement, disability, and survivor benefits.

At present, the United States has totalization agreements with 26 countries. In addition, recently signed agreements with Brazil, Iceland, and Uruguay are currently in the review process.

Sources: E-mail communication with the Office of International Programs, U.S. Social Security Administration, January 2017; U.S. International Social Security Agreements, U.S. Social Security Administration, https://www.socialsecurity.gov/international/agreements_overview.html.

Asia and the Pacific

Australia Modifies Assets Test for Public Pensions

On January 1, Australia implemented a reform that modifies the assets test used to determine eligibility and benefit amounts for the Age Pension and other types of public pensions (including the Disability Support Pension, Wife Pension, and Carer Payment). The reform, which was passed by the Australian Parliament in June 2015, lowered the maximum assets a person can have to qualify for a partial pension and raised the maximum assets a person can have and still receive full benefits. (Assets include property, investments, and other items of monetary value a person [or couple] owns inside and outside of Australia, with certain exceptions such as a principal home.) As a result, around 327,000 of those receiving a partial Age Pension in 2016 (or about 10 percent of all Australian old-age pensioners) had their benefits reduced or eliminated at the start of 2017. At the same time, around 171,500 (or about 5 percent of all old-age pensioners) had their partial benefits increased (50,000 of whom became eligible for the full Age Pension). Overall, the Australian government expects the modified assets test to reduce its expenditures on the Age Pension and other public pensions by A$2.40 billion (US$1.82 billion) over the next five years.

The specific provisions of the reform include:

- Lowering the assets limit to qualify for a partial Age Pension from A$793,750 (US$601,927) to A$542,500 (US$411,396) for a single homeowner and from A$1,178,500 (US$893,696) to A$816,000 (US$618,800) for a couple who are homeowners. For non-homeowners, the revised limit is A$742,500 (US$563,063) for a single person and A$1,016,000 (US$770,467) for a couple.
- Raising the assets limit to qualify for a full Age Pension from A$209,000 (US$158,492) to A$250,000 (US$189,583) for a single homeowner and from A$296,500 (US$224,846) to A$375,000 (US$284,375) for a couple who are homeowners. For non-homeowners, the revised limit is A$450,000 (US$341,250) for a single person and A$575,000 (US$436,042) for a couple. (The full Age Pension is currently A$797.90 [US$605.07] every two weeks for a single person and A$601.50 [US$456.14] every two weeks for each member of a couple.)
- Increasing the "taper rate" used to calculate the partial pensions paid to those who qualify for an Age Pension but have assets in excess of the limit for a full pension. Under the revised rule, the full pension amount is reduced by A$3.00 (US$2.28, up from A$1.50 [US$1.14]) for every A$1,000 (US$758) in assets above the limit for a full pension.

Australia's old-age pension system has two core programs, the Age Pension and the Superannuation Guarantee. The Age Pension is a means-tested, noncontributory pension funded through general revenue. In addition to meeting certain assets and income requirements, an individual must be aged 65 or older (gradually rising to age 67 by July 2023) and have resided in Australia for at least 10 years to qualify for an Age Pension. The Superannuation Guarantee is a mandatory occupational pension program that requires employers to contribute 9.5 percent of employees' earnings (gradually rising by 0.5 percentage points a year from 2021 until reaching 12 percent in 2025) to privately managed pension plans (employee contributions are voluntary). To receive a pension under this program, an individual must be aged 56 or older (gradually rising to age 60 by July 2024) and permanently retired.

Sources: *Social Security Programs Throughout the World: Asia and the Pacific, 2014*, U.S. Social Security Administration, March 2015; "Australia: Income and Asset Testing Rules to be Changed," *International Update*, U.S. Social Security Administration, July 2015; "Aged Pension Cuts Planned: Seniors to Have Pensions Sliced," *Herald Sun*, January 3, 2016; "Backlash on Pension Changes," *The Australian*, December 31, 2016; "Australia," IBIS eVisor News, January 26, 2017; "Age Pension," Australia Department of Human Services, accessed February 10, 2017.

The Americas

Cayman Islands Begins to Phase in Private-Sector Pension Reforms

An amendment to the Cayman Island's National Pensions Law (NPL) went into effect January 1, but its changes to the country's mandatory occupational pension system—including increases in the retirement age and covered earnings—will be implemented in phases over a three-year period. The amendment is aimed at ensuring that workers aged 18 or older can work longer and retire more securely. Since there is no public pension program, retirement income is available only through personal savings and occupational pensions. The NPL has not undergone any significant amendment since it was introduced in 1998.

The NPL's specific changes and implementation dates are as follows:

January 2017—

- Raises the normal retirement age (referred to as the "normal age of pension entitlement") from 60 to 65 and the early retirement age from 50 to 55. (The increases only affect employees born after 1969.)
- Increases the maximum annual earnings used to calculate employee and employer contributions from CI$60,000 (US$72,000) to CI$87,000 (US$104,400).
- Requires plan sponsors and administrators to improve plan governance by submitting more information about administrator training and investment policies when registering a pension plan; providing plan members with greater access to financial education, plan records, and investment information; and fulfilling certain other administrative duties (e.g., holding mandatory annual general meetings and promptly filing audited financial statements).

February 2017—

- Stiffens the penalties for employer violations of the NPL, including an increase in existing fines, imprisonment for a term of 2 years, or both for the first offense; and the introduction of new fines (in some cases escalating up to CI$100,000 [US$120,000]) and more severe imprisonment terms for additional offenses.

March 2017—

- Changes NPL coverage to exclude citizens younger than age 23 who are full-time students.
- Permits plan members to access any additional voluntary contributions (AVCs) prior to retirement for financial hardship related to housing, medical bills, temporary unemployment, and education. AVCs are defined as all NPL contributions exceeding 10 percent of an employee's covered pay. Under current rules, an employer contributes at least 5 percent of an employee's covered pay to the pension system, and the employee contributes the difference between the employer's contribution and 10 percent of his or her covered pay; normally access to AVCs requires an individual to reach the normal retirement age. The government believes allowing hardship withdrawals may encourage plan members to boost their AVCs with the understanding that they may access the funds, if necessary.

The NPL governs the operation of private-sector employee retirement funds, while separate systems cover public-sector workers. The NPL specifies rules for occupational defined benefit and defined contribution (DC) pension plans, including multiemployer DC plans that cover most participants in the country.

Sources: "Report on Review of Cayman Islands National Pensions Law: Cayman Islands National Pension Office," Mercer Human Resource Consulting, March 26, 2007; "New Pension Bill Aims for 'Culture of Compliance'," Cayman News Service, June 30, 2015; "Changes to be Made to Pensions Withdrawal Schedule," Caribseek News, December 6, 2016; "National Pensions Amendment Law to Come into Effect on New Year's Eve," Cayman Islands Department of Labour and Pensions, December 6, 2016; "New Pension Law Allows AVC Access" and "Overview of New National Pension Law," caymanreporter.com, January 27, 2017; "Cayman Islands: Sharp Increase in Covered Pay under National Pensions Law," Willis Towers Watson, January 31, 2017.

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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
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