International Update

Recent Developments in Foreign Public and Private Pensions

July 2020

Europe

Germany Approves a Basic Pension for Low-Income Pensioners

On July 2, Germany's parliament approved a law that will introduce an income-tested basic pension (Grundrente) on January 1 to supplement the country's social insurance old-age pension. This new program is intended to reduce the risk of old-age poverty among individuals who had below-average earnings in their working lives or spent considerable time outside the labor force. The program is expected to benefit roughly 1.3 million pensioners in Germany, including many women (around 70 percent of the potential beneficiaries) and pensioners in eastern Germany, and is estimated to cost €1.3 billion (US$1.46 billion) per year beginning in 2021. (The government will finance the total cost of the basic pension by increasing its subsidy to the social insurance program.)

Key features of the new program (effective January 1) include:

- *Eligibility requirements:* To qualify for the basic pension, an individual must have at least 33 years of qualifying contributions. (The full basic pension is paid with at least 35 years of qualifying contributions.) These qualifying contributions can include compulsory contributions paid during employment and self-employment, contributions credited for periods of childrearing and other caregiving, and contributions paid while receiving sickness or rehabilitation benefits. (Voluntary contributions and contributions credited during periods of unemployment are not counted.) In addition, an individual's average annual earnings over his or her working life must not exceed 80 percent of the average annual earnings for all insured persons over this period, and only years in which the insured earned at least 30 percent of average national earnings count toward the basic pension.
- *Benefit calculations:* In Germany, old-age pensions are the product of: (1) total individual earnings points (calculated as the insured's individual earnings for each contribution year divided by average national earnings for all insured persons in the same year multiplied by a normal entry factor); (2) the pension factor (typically 1.0, but can increase or decrease based on the age the insured is first awarded a pension); and (3) the pension value (the monthly benefit amount for 1 year of average covered earnings, adjusted based on changes in average national earnings). Under the new program, the government will increase the individual earnings points for qualifying pensioners as follows:
  - Full basic pension (35 years of qualifying contributions): Individual earnings points for each qualifying year will be doubled, up to a maximum of 0.8 earnings points per year. The resulting pension amount will then be reduced by 12.5 percent.
  - Partial basic pension (33 to 34 years of qualifying contributions): Individual earnings points will be increased up to a maximum of 0.4 earnings points with 33 years of qualifying contributions; this maximum amount will gradually increase with each additional month of qualifying contributions until reaching 0.8 with 35 years of qualifying contributions. The resulting pension amount will then be reduced by 12.5 percent.
- *Income test:* The full amount of the basic pension is paid to pensioners with monthly income (including salary, pensions, rental income, etc.) of up to €1,250 (US$1,400) for a single person or €1,950 (US$2,184) for a couple. With monthly income above these amounts but not exceeding €1,600 (US$1,792) for a single person or €2,300 (US$2,576) for a couple, the basic pension is reduced by 60 percent of monthly income above €1,250 or €1,950, respectively. No basic pension is paid with monthly income greater than €1,600 for a single person or €2,300 for a couple.

Germany's social insurance pension program covers employed persons; certain self-employed persons; military personnel; certain caregivers; and certain unemployment, sickness, and other benefit recipients. To qualify for an old-age pension, an individual must have reached the normal retirement age of 65 and 9 months (gradually rising to 67 by 2030) and have at least 5 years of contributions. (The normal retirement age may be lower under certain conditions.)

Sources: *Social Security Programs Throughout the World: Europe, 2018*, U.S. Social Security Administration, September 2018; "Germany Implements Pension Reforms Affecting Contribution Rates and Benefits," *International Update*, U.S. Social Security Administration, January 2019; "Die Grundrente," Deutche Rentenversicherung, May 15, 2020; "German Basic Pension Raises Questions of Financial Sustainability," IPE.com, May 21, 2020; "German Parliament Approves Basic Pension Law," IPE.com, July 2, 2020; "Grundrente Wer Profitiert, Was Wird es Kosten?" tagesschau.de, July 2, 2020; "Grundrente: Wer von der Neuen Grundrente Profitiert," test.de, July 3, 2020; "Fragen und Antworten zur Grundrente Lebensleistung Verdient Anerkennung," Die Bundesregierung, July 7, 2020.

Asia and the Pacific

Australia Temporarily Reduces Superannuation's Required Minimum Withdrawal

As part of its ongoing response to the COVID-19 pandemic, Australia's government recently reduced the required minimum annual withdrawal under the country's mandatory occupational pension program (superannuation) by 50 percent for the 2019–2020 and 2020–2021 financial years. (The Australian financial year begins on July 1 and ends on June 30 the following year.) The reduced withdrawal requirement affects individuals receiving account-based superannuation pensions and annuities (also known as super income streams), and is calculated as a percentage (based on age) of a member's account balance; see Table 1. According to the government, the new measure aims to provide relief to pensioners who experienced account losses due to recent financial market declines.

The reduction in the required minimum withdrawal is the latest in a series of temporary measures adopted by the Australian government to lessen the pandemic's economic impact. Other recently adopted measures include:

- Allowing superannuation participants experiencing severe hardship to withdraw up to A$10,000 (US$6,884.68) of their account balances tax free in both the 2019–2020 and 2020–2021 financial years. To be eligible, an individual must either: (1) be unemployed; (2) be eligible to receive certain benefits, such as a JobSeeker Payment or Parenting Payment; or (3) have been made redundant, had working hours reduced by at least 20 percent, or be a sole proprietor whose business was suspended or met certain other requirements, all on or after January 1.
- Providing up to two tax-free Economic Support Payments of A$750 (US$516.35) to beneficiaries of the country's social security programs—including the Age Pension, Disability Support Pension, and Widow Allowance. (The first payment was made in April to around 6.5 million eligible beneficiaries, and the second payment will be made in July to around 5 million eligible beneficiaries.)

The main components of Australia's old-age pension system are the superannuation program and the means-tested Age Pension. Participation in superannuation is mandatory for employed persons aged 18 to 69 with gross monthly earnings of at least A$450 (US$309.81). To finance the program, employers must 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 private superannuation funds. Employees are not required to

Table 1.
Required minimum annual withdrawal, by age (as a percentage of account balance)

Age	Rates prior to reform	Reduced rates for fiscal years 2019–2020 and 2020–2021
Under 65	4.0	2.0
65–74	5.0	2.5
75–79	6.0	3.0
80–84	7.0	3.5
85–89	9.0	4.5
90–94	11.0	5.5
95 or older	14.0	7.0

NOTE: Different rates applied to the financial years prior to 2014–2015.

contribute, but the government offers tax incentives and matching funds to encourage voluntary contributions, particularly from low- and middle-income workers. To receive superannuation retirement benefits, a participant must have reached age 58 (gradually rising to age 60 by July 2023) and be permanently retired (or participating in the Transition to Retirement program). Individuals aged 66 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: *Social Security Programs Throughout the World: Asia and the Pacific, 2018*, U.S. Social Security Administration, March 2019; "Focus on International COVID-19 Induced Reforms," International Update, U.S. Social Security Administration, April 2020; "Early Release of Super Due to Severe Financial Hardship," SuperGuide, April 4, 2020; "Economic Support Payment," Services Australia, April 6, 2020; "Minimum Annual Payments for Super Income Streams," Australian Taxation Office, April 14, 2020; "COVID-19 Early Release of Super," Australian Taxation Office, July 1, 2020.

The Americas

Colombia Implements Temporary Contribution Rate Reductions

On April 15, Colombia's government implemented a law that temporarily lowered the contribution rates for the country's old-age, disability, and survivor pension system (Sistema General de Pensiones). Colombia's president and 18 cabinet ministers enacted the law without congressional approval by using special powers granted to them under the country's constitution during national emergencies. (The president declared a 30-day state of emergency on March 17 in response to the COVID-19 pandemic.) Under the law, the contribution rates applied to covered earnings or payroll in April and May were 0.75 percent for employees (down from 4 percent) and 2.25 percent for employers (down from 12 percent). (Self-employed persons must pay the combined rate of 3 percent on their covered declared earnings.) Despite the lowered rates, the contributions paid during this two-month period will still count toward the minimum weeks of contributions needed to qualify for an old-age pension (1,300 weeks for a social insurance old-age pension or 1,150 weeks for an individual account old-age pension). The temporary rate reductions were intended to help support workers and employers financially during the economic downturn precipitated by the pandemic. The Organisation for Economic Co-operation and Development has recently estimated that Colombia's economy will contract by 6.1 percent to 7.9 percent in 2020, depending on the pandemic's local severity.

Colombia's general old-age pension system consists of a social insurance program, a mandatory individual account program, and a social assistance program. The social insurance and individual account programs operate in parallel and cover public- and private-sector employees, self-employed persons, and certain foreign employees. When workers first become insured under the pension system, they must choose to participate in either the social insurance program or the individual account program. Workers can switch from one program to the other once every 5 years up until they are within 10 years of the normal retirement age of 62 (men) or 57 (women). The social assistance program provides an old-age social pension to individuals who have reached age 59 (men) or 54 (women), have resided in Colombia for at least 10 years, and are classified as SISBEN I or II. (SISBEN, or Sistema de Identificación y Clasificación de Potenciales Beneficiarios para Programas Sociales, is a government information system used to target social assistance benefits to Colombia's most vulnerable households.)

Sources: Decreto Legislativo 558 de 2020; *Social Security Programs Throughout the World: The Americas, 2019*, U.S. Social Security Administration, March 2020; "Colombia Declares Coronavirus State of Emergency, Orders Elderly to Stay Home," *U.S. News*, March 17, 2020; "Lo que debe saber sobre cómo quedarán las pensiones después del coronavirus," *El Espectador*, April 15, 2020; "Nueva tanda de decretos para enfrentar efectos negativos del covid-19," *El Tiempo*, April 15, 2020; "Colombia: Old Age Pension Contribution Rates Temporarily Reduced," Gallagher GVISOR Compliance Alerts, June 1, 2020; "Colombia," *OECD Economic Outlook* 2020(1), July 10, 2020.

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