International Update

Recent Developments in Foreign Public and Private Pensions

May 2024

Asia and the Pacific

Afghanistan Suspends Public-Sector Pension Program

In early April, the supreme leader of the Taliban directed Afghanistan's government institutions to stop collecting monthly social insurance contributions from their employees from the beginning of fiscal year 1403 on the Solar Hijiri calendar (March 20, 2024, on the Gregorian calendar). This move effectively ends operations of the public-sector pension program, which suspended benefit payments to retired civil servants and security personnel in 2021 following the Taliban's takeover of Afghanistan. The Taliban-controlled Ministry of Finance has estimated that there are around 152,000 individuals entitled to benefits under the program. With the suspension of the public-sector pension program, Afghanistan now lacks a social security program that provides long-term old-age benefits to a meaningful number of its residents. (The country has never had an old-age pension program covering private-sector workers.) According to the United Nations' Population Division, around 3.9 percent of Afghanistan's population of 43 million is aged 60 or older, and this percentage is projected to double over the next 20 years.

Before it was suspended, Afghanistan's public-sector pension program covered employees at 119 government institutions, including the armed forces and police agencies. To finance the program, public-sector employees contributed 8 percent (civil servants) or 5 percent (security personnel) of their monthly earnings, and the government contributed 8 percent (civil servants) or 11 percent (security personnel) of monthly payroll and covered any deficit. Insured individuals qualified for normal retirement under the program if they had at least 40 years of service or had reached age 65 (civil servants) or age 52 to 62 (security personnel, depending on their ranks and years of services). Under a regulation issued in 2009, the normal retirement benefit for civil servants was a lump sum of 2 times their average monthly earnings for each year of service if they had up to 5 years of service, a lump sum of 2.5 times their average monthly earnings for each year of service if they had more than 5 years and up to 10 years of service, or a monthly benefit equal to 2 percent of their average monthly earnings for each year of service (with an 80 percent maximum) if they had more than 10 years of service. (The average monthly earnings were calculated based on employees' earnings in their last 3 years of service.) Civil servants could retire as early as age 55 and receive reduced benefits if they had at least 25 years of service. Separate regulations governed the calculation of retirement benefits for security personnel, which were also based on years of service and monthly earnings.

Although private-sector employees in Afghanistan have never had social insurance coverage, they may qualify for an end-of service benefit under the country's labor code. If they leave employment at the normal retirement age of 65, their employers must pay them 10 months of their last monthly earnings as a lump sum.

Sources: "Civilian Wage Bill Management, Five-Year Policy: 1398-1402," Afghanistan Ministry of Finance; Labor Law No. 35, 2007; Regulation on Pensions of Civil Servants, 2009; "Pension Policy Reform, Afghanistan," World Bank, January 2017; *World Population Prospects 2022*, United Nations, Department of Economic and Social Affairs, Population Division, July 2022; "Hibatullah Akhundzada Imposed a Ban on the Retirement of Civil Servants in Afghanistan," BBC Pashto, April 1, 2024; "Dissolution of National Retirement System: Pensions for Retirees Still in Limbo," *Hasht-e-Subh Daily*, April 6, 2024; "The Azadi Briefing: Afghans Protest Taliban's Decision to Abolish Pension System," Radio Free Europe/Radio Liberty, April 26, 2024.

Singapore Announces Increases to Retirement and Re-Employment Ages

On March 4, Singapore's Ministry of Manpower announced that the country would increase its statutory retirement age from 63 to 64 and its reemployment age from 68 to 69 on July 1, 2026. (The retirement age is the earliest age at which Singaporean employers can require their employees to retire; once employees reach this age, their employers must offer them 1-year reemployment contracts each year until they reach the reemployment age or can no longer meet certain performance and health requirements.) These 1-year increases to the retirement and reemployment ages follow increases implemented in 2022 and are part of a plan approved by government, employer, and labor representatives in 2019 to increase the retirement and reemployment ages to 65 and 70, respectively, by 2030. The gradual age increases are intended to further boost the labor force participation of Singapore's residents aged 65 or older, which has already risen from 23.8 percent to 31.5 percent over the past decade. According to the government, over 90 percent of Singapore's retirement-age workers who requested reemployment contracts in 2023 received them.

The retirement and reemployment age increases do not affect the withdrawal and payout eligibility ages for the Central Provident Fund (CPF), which provides old-age benefits to most workers in Singapore. Under current CPF rules, participants born in 1958 or later who have reached age 55 can withdraw from their accounts a lump sum of S$5,000 (US$3,672) or an amount exceeding the minimum required balance (Full Retirement Sum, currently S$205,800 [US$151,152]), whichever is greater. (Additional rules apply to participants who own properties in Singapore.) At the payout eligibility age of 65, participants born in 1958 or later can withdraw up to 20 percent of their account balances (with some exclusions) as a lump sum or periodic payments while the remaining funds must be used to purchase a government-backed life annuity (CPF LIFE). (Participants who have account balances below S$60,000 [US$44,068] or are receiving other pensions or private annuities that meet certain requirements may be exempt from the mandatory annuitization rule.) Participants can choose to defer the annuity purchase until age 70 to increase their monthly benefits.

Singapore's public old-age pension system consists of the CPF and a social assistance program (the Silver Support Scheme). To finance the CPF, employees with monthly wages above S$750 (US$551) contribute 20 percent (if aged 54 or younger), 16 percent (if aged 55 to 59), 10.5 percent (if aged 60 to 64), 7.5 percent (if aged 65 to 69), or 5 percent (if aged 70 or older) of covered monthly earnings, while their employers must contribute 17 percent (if aged 54 or younger), 15 percent (if aged 55 to 59), 11.5 percent (if aged 60 to 64), 9 percent (if aged 65 to 69), or 7.5 percent (if aged 70 or older) of covered monthly payroll. (Each contribution rate change becomes effective the first day of the month after an employee reaches the applicable age. Special rules apply to employees with monthly earnings up to S$750 or less than 2 years of permanent residency.) Before participants reach age 55, their CPF contributions are allocated to three different individual accounts administered by the government's CPF Board: an Ordinary Account (OA) that can be used to finance the purchase of a home, life and mortgage insurance, education, and investments in approved retirement-related financial products; a Special Account (SA) that is primarily for retirement savings; and a MediSave Account for certain hospitalization and medical expenses. At age 55, OA and SA savings, up to a certain amount, are transferred to a Retirement Account [RA] that is used for old-age benefits. Singaporean citizens aged 65 or older who have up to S$140,000 (US$102,825) in CPF contributions by age 55 and meet certain income, asset, and housing requirements may be eligible to receive monthly benefits under the Silver Support Scheme.

Sources: "General Information on Retirement," Central Provident Fund Board; "How Much CPF Contributions to Pay," Central Provident Fund Board; "Singapore to Implement Changes to the Central Provident Fund," *International Update*, U.S. Social Security Administration, December 2021; "Singapore," ISSA Country Profiles, January 2022; "Chart: Labour Force Participation and Employment Rates," Singapore Ministry of Manpower, February 7, 2024; "Retirement and Re-Employment Ages to Be Raised to 64 and 69 in 2026," CNA, March 4, 2024; "Committee of Supply 2024: Working Hand-in-Hand with Singaporeans for a Brighter Future," Singapore Ministry of Manpower, March 4, 2024; "S'pore Retirement Age to Go Up to 64 in 2026, Re-Employment Age to Rise to 69," *The Straits Times*, March 6, 2024.

The Americas

Mexico Establishes Old-Age Pension Guarantee Fund

On May 1, the Mexican government approved legislation creating the Welfare Pension Fund (Fondo de Pensiones para el Bienestar) to guarantee that old-age pensioners receive 100 percent of their last monthly salaries, up to the average monthly salary of social security participants (currently 16,777.68 pesos [US$988.61]). The new guarantee applies to individuals aged 65 or older receiving old-age pensions under Mexico's mandatory individual account program implemented in 1997, and it will begin topping up eligible pensioners' benefits on July 1. The creation of the new guarantee is part of a multi-year government effort to boost the old-age pensions of lower-income Mexicans, and it is intended to complement rather than replace existing pension supplements and guarantees. (Under a 2020 reform, individual account participants who have reached age 60 and have at least 825 weeks [gradually rising to 1,000 weeks by 2031] of contributions can already access a lower guaranteed minimum benefit that varies depending on their age at retirement, weeks of contributions, and average covered earnings.) According to Consar, the commission that regulates the individual account program, the average old-age pension paid under the program in 2023 was around 72 percent of the average national salary.

The Welfare Pension Fund is a public trust of the Bank of Mexico and overseen by a nine-person Technical Committee. The fund will initially be financed by transferring roughly 40 billion pesos (US$2.36 billion) in savings from inactive accounts managed by Mexico's pension fund management companies (Afores) and owned by individuals aged 70 or older. (Accounts are considered inactive if there has been no transfer activity in the past 3 years.) Other sources of revenue for the fund will include 75 percent of the income of the Institute to Return Stolen Wealth to the People, 25 percent of the profits from certain state-owned enterprises, the proceeds from the elimination of the National Financial Institution for Agricultural, Rural, Forestry, and Fisheries Development and other public bodies, and certain debts and fees collected by the state. Additional guidance about the fund's operations and the process for claiming benefits is expected to be published by June.

Mexico's old-age pension system consists of the mandatory individual account program, a legacy social insurance program, and a universal program. Both the individual account and social insurance programs cover private-sector employees and cooperative members, but the social insurance program was closed to new enrollees on July 1, 1997, when the individual account program was introduced. (Individuals who were covered by the social insurance program before this date can choose to receive a social insurance old-age pension at retirement.) The normal retirement age for the individual account and social insurance programs is 65. (Individual account participants can retire earlier if they are unemployed or their account balances are large enough to fund minimum benefits.) The universal program covers all residents of Mexico and can be claimed at age 65.

Sources: *Social Security Programs Throughout the World: The Americas, 2019*, U.S. Social Security Administration, March 2020; "Mexico Announces Agreement on Pension Reforms," *International Update*, U.S. Social Security Administration, August 2020; Decreto del Fondo de Pensiones para el Bienestar, 2024; "Mexican Lawmakers Approve New Pension Fund Backed by President," Reuters, April 25, 2024; "López Obrador promete que el pago de las nuevas pensiones comenzará a partir del 1 de julio," *El Pais*, April 26, 2024; "Así es como AMLO Compensará a los trabajadores jubilados tras la aprobación del Fondo de Pensiones para el Bienestar," *Infobae*, April 26, 2024; "Presidente de la República formaliza creación del Fondo de Pensiones para el Bienestar," Goberirno de México, May 1, 2024.

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