International Update
Recent Developments in Foreign Public and Private Pensions

August 2024

Europe

Ireland Enacts Auto-Enrollment Pension Legislation

On July 9, Ireland's president signed a bill creating an auto-enrollment (AE) pension program that will become operational on January 1, 2025. The new retirement savings program aims to increase pension coverage and overall retirement adequacy in Ireland, which is the only Organisation for Economic Co-operation and Development member (out of 38 member countries) that does not have a mandatory or auto-enrollment earnings-related pension program. Once implemented, the AE program will require most employees to be automatically enrolled into occupational pension plans while giving them the option to exit the program after 6 months of enrollment. According to the government, the rate of occupational pension coverage in Ireland is roughly 57 percent of the working population and may be as low as 35 percent when the private sector is considered alone. The government has projected that AE program assets (excluding investment returns) could amount to as much as €21 billion (US$22.7 billion) in the first 10 years of operation, with €9 billion (US$9.7 billion) each coming from employee and employer contributions and €3 billion ($US3.2 billion) coming from government matches.

When the AE program becomes operational on January 1, its key features will include:

- *Covered workers:* Employees aged 23 to 60 who have annual earnings of at least €20,000 (US$21,578) from all jobs and are not already participating in occupational or personal pension plans funded through payroll deductions will be automatically enrolled in government-sponsored individual accounts. New employees that satisfy these criteria must be enrolled from their first day of employment. Employees not covered by the auto-enrollment provision can voluntarily enroll in the program, while self-employed individuals are excluded from participation.
- *Employer obligations:* Employers must comply with the program's auto-enrollment and contribution rules. Employers that already operate occupational pension plans (typically larger employers) can either open their plans to non-participating employees or let non-participating employees enroll in the government-sponsored individual accounts.
- *Contribution rates:* When the program is launched, enrolled employees and their employers will each contribute 1.5 percent of gross covered earnings/payroll to the individual accounts. (Employers will only pay contributions on the first €80,000 [US$86,312] of employees' gross annual earnings. This earnings ceiling 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. To encourage continued program participation, the government will match 33 percent of an employee's contributions on annual earnings up to €80,000.
- *Opt outs and re-enrollments:* Auto-enrolled employees can choose to opt out of the program after 6 months of participation and have their contributions refunded. Employees who opt out can re-enroll in the program at any time, and will automatically be re-enrolled after 2 years of inactivity.
- *Investment options:* Participants can invest their account contributions in one of four funds with different risk profiles: a low-risk fund (primarily government bonds, cash, and cash equivalents), a medium-risk fund (primarily government bonds, blue-chip equities, and index funds), a high-risk fund (primarily equities and real estate), and a life-cycle fund. If participants do not actively select a fund, their contributions will be invested in the life-cycle fund by default.
- *Benefit access:* Participants can withdraw their total account balances as lump sums when they reach the normal retirement age (currently 66). Additional payment options may become available in the future.

Early withdrawals are not allowed except in case of early retirement due to ill health. The accumulated savings of participants who die before reaching the normal retirement age will become part of their estates.

- *Program administration:* A new independent agency, the National Automatic Enrolment Retirement Savings Authority (NAERSA), will be set up by the Department of Social Protection to administer the program. NAERSA will identify and enroll covered employees, collect contributions, manage participants' accounts (including opt-outs and re-enrollments), arrange the investment of contributions, and process benefit payments.

Until the AE program is implemented, the State Pension program remains the primary source of retirement income for many residents of Ireland. Old-age benefits provided under that program include contributory and noncontributory pensions. To qualify for the contributory pension, a resident currently must have reached the normal retirement age of 66 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. Starting in 2025, the program will gradually shift over a 10-year period to a total contributions approach based on the number of contribution years, with at least 40 years of contributions required for a full pension. The 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: "The Design Principles for Ireland's Automatic Enrolment Retirement Savings System," Ireland Department of Social Protection, March 2022; "Ireland Publishes Details of Proposed Auto-Enrollment Program," *International Update*, U.S. Social Security Administration, April 2022; Automatic Enrolment Retirement Savings System Act, 2024; "Ireland Begins Implementing State Pension Changes," *International Update*, U.S. Social Security Administration, January 2024; "New Workplace Pension Scheme for Ireland—Minister Humphreys Announces Details of Automatic Enrolment Retirement Savings System," Ireland Department of Social Protection, May 5, 2024; "Historic Automatic Enrolment Legislation Passed by Daíl," Ireland Department of Social Protection," July 11, 2024; "Auto-Enrolment," Ireland Department of Social Protection, July 17, 2024; "Auto-Enrolment—Frequently Asked Questions (FAQs)," Ireland Department of Social Protection, August 19, 2024.

Asia and the Pacific

Hong Kong Launches Electronic Platform for Mandatory Private Pensions

On June 26, Hong Kong's government launched a centralized electronic platform for the territory's employer-based defined contribution occupational pension program—the Mandatory Provident Fund (MPF)—called eMPF. Over the next year and a half, the 12 private pension fund providers that manage the MPF program are required to transfer participants' accounts to the new platform and use it for account administration going forward. Although the eMPF gives MPF members new options for monitoring and controlling their savings online, they can continue to use paper forms and other methods to manage their accounts. By replacing the MPF providers' separate administrative systems with a single electronic platform, the eMPF is intended to standardize and automate many administrative processes, reduce administrative costs, and improve users experiences. The eMPF is also expected to facilitate the implementation of future reforms to the MPF program, which may include the introduction of full account portability between MPF providers and the establishment of government matching contributions for low-income workers. As of the end of March, the MPF program covered 361,000 employers and had 4.75 million members with around HK$1.18 trillion (US$151 billion) in savings.

Key aspects of the new eMPF platform include:

- *Phased rollout:* All MPF providers are required to use the eMPF platform to run their operations, but they will be integrated into the new platform in phases through the end of 2025 based on the amount of assets under their management. Two of the smallest MPF providers were first brought onboard the eMPF on June 26 and July 29, respectively, and the remaining 10 providers will join the platform in stages in ascending order of their financial holdings.
- *Administrative processes:* The new platform will process all member registrations, recurring monthly contributions, and account withdrawals. The platform is designed to collect contributions and process payments in a uniform manner, which is expected to improve the administrative efficiency of the MPF program as these tasks were previously handled by MPF providers using various processes and standards.

- *Account management:* MPF members can use the eMPF to perform most administrative functions, including accessing accounts, switching investment funds, consolidating accounts, and withdrawing funds. If members have multiple MPF accounts, their accounts will not be automatically consolidated when they join the eMPF. However, these members can use the platform's single sign-on to view all of their MPF accounts and consolidate them if they choose.
- *Administrative costs:* According to the Mandatory Provident Fund Schemes Authority (MPFA), the eMPF is expected to reduce the administrative fees charged to MPF members by around 36 percent in the first 2 years of operation and up to 55 percent in the first 10 years of operation. These savings are expected to come from improvements in operational efficiencies in the MPF program, including simplified business processes, reduced human error, and lowered compliance expenses.
- *Platform operations:* The MPFA, which regulates the MPF program, is funding and overseeing the eMPF's software and hardware development, system maintenance, and initial operation.

Under the MPF program, Hong Kong employers must have defined contribution occupational pension plans for their employees unless they have received an exemption through the Occupational Retirement Schemes Ordinance. Employed and self-employed persons aged 18 to 64 who have work contracts lasting at least 60 days (any period for workers in the catering and construction industries) must participate in their assigned plans. To receive an MPF old-age benefit, individuals must have reached the normal retirement age of 65. In addition to the MPF program, Hong Kong's old-age pension system consists of the means-tested Comprehensive Social Security Assistance Scheme (CSSA) and the universal Social Security Allowance Scheme (SSAS). The CSSA old-age allowance is paid to individuals aged 65 or older who have at least 1 year of residency in Hong Kong and meet certain income and asset limits. To receive an SSAS old-age allowance, individuals must have reached age 70 and have at least 7 years of residency in Hong Kong, including the year immediately before the benefit is claimed.

Sources: *Social Security Programs Throughout the World: Asia and the Pacific, 2018*, U.S. Social Security Administration, March 2019; "Hong Kong Implements Changes to Social Assistance Program," *International Update*, U.S. Social Security Administration, April 2019; "How Hong Kong's New eMPF Platform Will Impact Employers and Members," *South China Morning Post*, February 12, 2024; "Maximizing the MPFA Tool for Integrating Personal Accounts," Willis Towers Watson, March 27, 2024; "eMPF Platform to Begin Operation on 26 June MPF Schemes Get Onboard One by One," Mandatory Provident Fund Schemes Authority, May 2, 2024; "Hong Kong: eMPF Platform to Launch 26 June 2024," Gallagher GVISOR News, June 25, 2024; "Hong Kong's eMPF Platform Launch Allows 4.75m Employees to Manage Retirement Funds Online," *South China Morning Post*, June 26, 2024.

Saudi Arabia Enacts Social Insurance Reforms

On July 3, Saudi Arabia's government enacted reforms to the social insurance program for Saudi citizens that include harmonizing public- and private-sector rules, increasing contribution rates, raising the normal retirement age, restricting early retirement eligibility, and changing the old-age pension formula. The reforms also introduce a social insurance maternity benefit for Saudi and non-Saudi workers to replace a benefit that employers were previously required to provide. Except for the retirement age and early retirement changes and new maternity benefit, the reforms only apply to new entrants to the workforce. The reforms were developed in consultation with the World Bank and are intended to improve the flexibility and sustainability of the social insurance program amidst shifting work patterns and accelerating population aging. According to the United Nations' Population Division, Saudi Arabia's old-age dependency ratio (the population aged 65 or older divided by the population aged 15 to 64) is projected to increase substantially from 4.7 percent in 2024 to 33.9 percent in 2050.

The key provisions of the new social insurance reforms (all effective July 3 unless otherwise noted) include:

- *Harmonizing public- and private-sector rules:* For the first time, the reforms establish a uniform set of program rules for public- and private-sector Saudi workers. This change is part of an effort to make it easier for Saudi citizens to change jobs between the two sectors and encourage more private-sector employment among this group.
- *Increasing contribution rates:* The employee and employer contribution rates will each increase from 9 percent to 9.5 percent of monthly covered earnings/payroll in 2025 and rise an additional 0.5 percentage point each year thereafter until reaching 11 percent. Voluntarily insured individuals are still required to pay the combined employee and employee contribution rates.

- *Raising the normal retirement age:* The normal retirement age (currently 60 Hijri years or 58 Gregorian years) will gradually increase based on individuals' ages on July 3 until reaching 65 Gregorian years. (Saudi Arabia previously used the Islamic Hijri calendar to define the normal retirement age and other social insurance parameters, but is transitioning to the more widely used Gregorian calendar for most government rules and procedures. Unless otherwise noted, other parameters in this article are expressed in Gregorian months and years.) In particular, the normal retirement age will rise by 4 months for individuals aged 48 to 48.5 and by an additional 4 months for each year below age 48 until reaching 65 for individuals younger than age 29.
- *Restricting early retirement eligibility:* The contribution requirement to claim an old-age pension before the normal retirement age will increase from 300 months to 312 months in 2025 and by 12 months each year thereafter until reaching 360 months. In addition, early retirement will only be possible up to 10 years before the normal retirement age. Previously, insured individuals could claim an old-age pension at any age upon meeting the early retirement contribution requirement.
- *Changing the old-age pension formula:* The monthly old-age pension is now calculated as 2.25 percent (down from 2.5 percent) of an insured individual's average monthly covered earnings for each year of contributions. The maximum old-age pension is still 100 percent of the insured's average monthly covered earnings, and the average monthly covered earnings continue to be calculated based on an insured's last 2 years of earnings. (The average monthly covered earnings cannot exceed 150 percent of the insured's earnings at the beginning of the last 5 years, and special adjustments may apply if an insured's earnings decrease during the last 2 years.)

All of the above reforms apply to Saudi citizens entering the workforce for the first time on or after July 3. In addition, the retirement age and early retirement reforms apply to Saudi citizens who were younger than 50 Hijri years (or 48.5 Gregorian years) or had less than 240 months of contributions on this date. However, Saudi citizens who were aged 50 or older or had at least 240 months of contributions on July 3 remain covered by the previous social insurance law and are unaffected by the reforms.

Saudi Arabia's social insurance program for Saudi citizens covers private-sector employees, certain public-sector employees, and citizens working abroad for Saudi employers. Coverage is voluntary for citizens working abroad for non-Saudi employers and individuals who are self-employed, had mandatory coverage previously, or work for diplomatic missions or international organizations in Saudi Arabia. To qualify for a social insurance old-age pension at the normal retirement age, the insured must have at least 120 months of contributions. A lump-sum old-age settlement is paid at the normal retirement age to workers with less than 120 months of contributions.

Sources: "Saudi Arabia," ISSA Country Profiles, January 2022; *World Population Prospects 2022*, United Nations, Department of Economic and Social Affairs, Population Division, July 2022; "Awareness Platform," General Organization for Social Insurance, 2024; Social Insurance Law, 2024; "Saudi Arabia Increases Retirement Age under New Social Insurance Law," *Saudi Gazette*, July 3, 2024; "Council of Ministers Approves New Social Insurance Law Applicable Exclusively to New Employees, and Affirms Continuation of Civil Pension and Social Insurance Laws for Current Contributors with Exceptions to Provisions on Statutory Retirement Age and Retirement Eligibility Age for Certain Groups," General Organization for Social Insurance, July 3, 2024; "Breakthrough Pension Reform in Saudi Arabia—A Model for the MENA Region," World Bank Blogs, July 15, 2024.

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