International Update

Recent Developments in Foreign Public and Private Pensions

September 2024

Europe

Turkey Adds Early Withdrawal Options to Private Pension System

On July 1, Turkey's government implemented new rules for the country's Private Pension System (Bireysel Emeklilik Sistemi, BES) that allow participants to make early withdrawals from their voluntary individual accounts for marriage, home purchases, natural disasters, and education. (The BES consists of a voluntary program and an auto-enrollment program [Otomatik Katılım Sistemi, OKS], and individuals can have accounts under both programs.) Previously, participants could only access their BES savings before reaching the minimum retirement age of 56 by withdrawing all their savings and closing their accounts. The government first approved the addition of early withdrawal options under the BES in January 2022, but the details of the reform were not finalized until this past April. The new early withdrawal options give BES participants access to a portion of their savings for major life expenses without having to leave the system. As of September 23, the BES had 9.32 million participants with 1.02 trillion liras (US$29.9 billion) in total assets, and the OKS had 7.54 million participants with 77.9 billion liras (US$2.3 billion) in total assets.

The key details of the new early withdrawal options for voluntary BES accounts—all effective July 1 unless otherwise noted) include:

- *Qualifying conditions:* Participants can make early withdrawals from their BES accounts for marriage, a home purchase, or education after having their accounts opened for at least 5 years and accumulating contributions of at least 5 times the legal gross monthly minimum wage (currently 20,002.50 liras [US$587.23]). There is no minimum participation period or contribution amount to make early withdrawals for natural disasters. However, early withdrawals for education will not be available until June 2026 and can only be made by participants younger than 21 who are enrolled in formal undergraduate programs at universities in Turkey. Participants can only exercise each early withdrawal option once, and, except in the case of natural disasters, there must be at least 5 years between each early withdrawal.
- *Withdrawal amounts:* If participants qualify for an early withdrawal, they can withdraw up to 50 percent of their account balances. However, the portion of an early withdrawal that can be funded with government contributions is limited to 20 percent (for marriage and home purchases) or 25 percent (for natural disasters and education). (To encourage BES participation, the government provides participants with matching funds and saving bonuses.) For participants with multiple BES accounts, only one withdrawal can be made across all of their accounts. Withdrawals for marriage, home purchases, and natural disasters are paid as lump sums, and withdrawals for education are paid as 4-year annuities.
- *Application process:* To make early withdrawals, participants must submit an application to their account administrator within 2 months before or after their marriage or home purchase or within 6 months after the declaration of a natural disaster in their region. Early withdrawal applications for education can be submitted at anytime while participants qualify for this option.
- *Continued enrollment:* When participants make early withdrawals, they must commit to remaining in the BES for at least 3 more years (for marriage, home purchases, and natural disasters) or 4 more years (for education).

The BES was first launched in 2003 with the voluntary savings program open to all individuals aged 18 or older regardless of employment status. (Since May 2021, parents and guardians of children younger than 18 may create voluntary accounts for their children.) Under this program, participants contract directly with pension companies to establish their individual accounts and determine their contribution rates. The OKS was introduced in 2017 and requires all public- and private-sector Turkish employers to enroll their covered employees in private pension plans. Under this program, employers select the pension plans and collect contributions on behalf of their employees, and employees must contribute at least

3 percent of covered earnings. Although employer contributions are voluntary under OKS, the government matches up to 30 percent of participants' annual contributions to all BES accounts, with an annual maximum match of 30 percent of the legal gross annual minimum wage (equivalent to 72,009 liras [US$2,114] in 2024). In addition, the government contributes 1,000 lira (US$29) for OKS participants after 2 months of participation and 5 percent of the account balance at retirement if the account balance is used to purchase an annuity paid over at least 10 years.

Sources: "Çalışan Bilgilendirme Rehberi," Emeklilik Gözetim Merkezi; "Katılımcı Bilgilendirme Rehberi," Emeklilik Gözetim Merkezi; "Turkey Approves Changes to the Private Pension System," *International Update*, U.S. Social Security Administration, March 2022; Bireysel Emeklilik Sistemi Kısmen Ödeme Hakkı Yönetmeliği, 2023; Bireysel Emeklilik Sisteminde Kismen Ödeme Hakkinda Genelge (2024/13), 2024; "BES'te kısmen ödeme dönemi başladı," Sigorta Medya, July 4, 2024; "Summary IPS and AES Data," Emeklilik Gözetim Merkezi, September 23, 2024.

Asia and the Pacific

Taiwan Implements Reforms to Encourage Longer Work Careers

On August 30, Taiwan's government implemented a labor code reform that allows employees to negotiate with their employers to keep working beyond age 65. Although employees could technically work beyond this age before, most employers treated age 65—the age at which Taiwanese employees lose legal protections against age-based dismissals—as a compulsory retirement age. (This age—also known as the mandatory retirement age—is separate from the normal retirement age for Taiwan's main social insurance program, which is currently 64 and rising to 65 in 2026.) By making it clearer to employees and employers that work beyond age 65 is negotiable, the government expects more older workers to extend their careers. Taiwan's legislature approved this labor code reform on July 15 as part of a broader reform package that seeks to encourage longer work careers as the country faces labor shortages and fiscal challenges related to population aging. Earlier this year, Taiwan's Bureau of Labor Insurance estimated that, without reform, the country's main social insurance fund—the Labor Insurance Fund—could become insolvent as early as 2028, with an annual shortfall of NT$126.7 billion (US$3.96 billion).

Other key provisions of the reform package to encourage longer work careers include:

- *Prohibiting age-based employee treatment:* Employers are prohibited from treating employees who extend their careers beyond age 65 less favorably than younger employees in terms of working conditions, pay, and benefits. If employers fail to comply with this regulation, they can be subject to public disclosures and fines ranging from NT$300,000 (US$9,388) to NT$1.5 million (US$46,938).
- *Continuing social insurance and supplemental pension coverage:* Employers are required to maintain social insurance (for old-age, disability, survivor, sickness, and maternity benefits) and supplemental pension coverage for workers who continue working beyond age 65.
- *Requiring retirement and reemployment planning assistance:* Employers must provide their employees with retirement and reemployment planning assistance when the employees are within 2 years of reaching age 65. The government may subsidize the cost of this assistance.
- *Requiring regular government planning:* The government must develop a plan every 3 years to improve Taiwan's work environment for middle-aged and older workers.

Taiwan's old-age pension system consists of a social insurance program for most employees (Labor Insurance), a mandatory individual accounts program for most employees (Labor Pension Fund), a social insurance program for citizens not covered by other public pension programs (National Pension), and a social assistance program for needy citizens (Old-Age Basic Guaranteed Pension). To qualify for an old-age pension under the Labor Insurance program, insured individuals must have reached the normal retirement age of 64 (rising to 65 in 2026) and have at least 15 years of coverage. A supplemental pension is paid under the Labor Pension Fund program if insured individuals have reached age 60 and have at least 15 years of coverage. For individuals covered under the National Pension program, an old-age pension is paid at age 65 with at least 1 day of coverage. The Old-Age Basic Guaranteed Pension is paid to Taiwanese citizens who have reached age 65, have resided in Taiwan for at least 183 days in each of the last 3 years, and have income and assets below certain limits.

Sources: "Taiwan Implements Social Security Reforms," *International Update*, U.S. Social Security Administration, August 2019; " Taiwan, China ," ISSA Country Profiles, January 2022; Amendments to Middle-Aged and Elderly Employment Promotion Act, 2024; Article 54 Amendment to Labor Standards Act, 2024; "Legislature Passes Law Revision to Allow Delay of Workers' Retirement," Focus Taiwan, July 15, 2024; "Taiwan Raises Mandatory Retirement Age of 65," *Taiwan News*, July 15, 2024; "Bills to Facilitate Employment for Taiwan's Middle-Aged and Older People Approved," HR Asia, July 16, 2024; "Taiwan Pension Group Lauds Increased Retirement Age," *Asia Asset Management*, July 19, 2024; "Taiwan: New Legislation to Allow Delayed Retirement," Gallagher GVISOR News, August 30, 2024.

The Americas

Colombia Approves Restructuring of Old-Age Pension System

On July 16, Colombia's president signed a law that will restructure the country's old-age pension system into a four-pillar system on July 1, 2025, with the pillars consisting of a solidarity program, a semi-contributory program, a contributory program, and a voluntary program. As part of the restructuring, the law will also make changes to old-age pension qualifying conditions and contribution rates to enhance retirement security for women and bolster public financing of old-age pensions. The new four-pillar system will represent a significant departure from Colombia's current pension model, which allows workers to choose between a government-operated social insurance program and a privately managed individual account program for their mandatory pension coverage. (A social assistance program called Colombia Mayor and a voluntary individual account program called Beneficios Económicos Periódicos [BEPS] provide some income protection to informal workers and other individuals not covered by the contributory programs.) The shift to the four-pillar system is intended to improve pension coverage and adequacy for lower-income Colombians by expanding the role of social insurance in the old-age pension system. According to recent data from Colombia's pension agency, Colpensiones, around 33 percent of Colombians aged 60 or older are entitled to contributory old-age pensions, around 26 percent receive benefits from Colombia Mayor or BEPS, and the remainder receive no old-age income support.

When the four-pillar pension system is launched on July 1, 2025, it will only mandatorily apply to individuals with less than 900 weeks (men) or 750 weeks (women) of contributions. (Individuals meeting the contribution cut-offs will remain covered by the existing pension system unless they choose to transfer to the new system; those who will reach the normal retirement age of 62 [men] or 57 [women] in less than 10 years from the effective date have 2 years to make the transfer.) The four pillars of the new system will include:

- *Contributory program:* The contributory program will have a social insurance component and an individual account component and will be mandatory for public- and private-sector employees and certain self-employed persons. Covered employees and their employers will pay contributions on monthly earnings/payroll up to 2.3 times the legal monthly minimum wage (2,990,000 pesos [US$750] in 2024) to the social insurance component and contributions on monthly earnings/payroll exceeding 2.3 times the legal monthly minimum wage to the individual account component. When insured individuals retire, the pension benefits they have accrued through the social insurance and individual account components will be combined and paid as one monthly old-age pension. To qualify for the old-age pension, insured individuals must meet the same requirements for the existing social insurance old-age pension—they must have reached age 62 (men) or age 57 (women) and have at least 1,300 weeks of contributions. (Starting on January 1, the contribution requirement for women will decrease by 25 weeks a year until reaching 1,000 weeks in 2036.) However, under a new provision, insured individuals can also qualify for a partial old-age pension if they have reached age 65 (men) or age 62 (women) and have at least 1,000 weeks of contributions.
- *Semi-contributory program:* If individuals do not qualify for a contributory old-age pension and have 300 weeks to 999 weeks of contributions by age 65 (men) or age 60 (women), they can receive a monthly semi-contributory old-age pension instead. (Individuals who have made contributions to BEPS may also qualify under certain conditions.) This pension will be a lifetime annuity calculated based on an insured individual's total adjusted contributions and individual account savings plus a 20 percent (men) or 30 percent (women) savings bonus from the government. The maximum monthly semi-contributory old-age pension will be 80 percent of the legal monthly minimum wage. If individuals do not qualify for the semi-contributory old-age pension because they have less than 300 weeks of contributions, their total adjusted contributions and savings will be paid as a lump-sum settlement.

- *Solidarity program:* Individuals who are not entitled to a contributory or semi-contributory old-age pension can qualify for a solidarity old-age pension if they have reached age 65 (men) or age 60 (women), are not receiving any other pension, have resided in Colombia for at least the last 10 years, and are classified as extremely poor or vulnerable by the government. (The eligibility age will be reduced by 5 years for individuals who have disabilities with at least 50 percent reductions in their work capacities.) The monthly solidarity pension amount will be at least the extreme poverty line (223,000 pesos [US$54] in 2024), which is significantly higher than the 80,000 pesos (US$19) currently paid by the Colombia Mayor program. (The government plans to redesign the Colombia Mayor program after the solidarity pension is implemented.)
- *Voluntary program:* To complement their public old-age pensions, individuals will continue to have access to a range of voluntary retirement plans offered and managed by private financial companies. These plans can be organized on an individual or collective basis and will continue to have separate funding structures.

Although many details of the four pillars are still being worked out, other key provisions of the new system include:

- *Contribution rates:* To finance the non-voluntary programs, employees and employers will continue contributing 4 percent and 12 percent, respectively, of monthly earnings/payroll up to 25 times the legal monthly minimum wage. However, the additional contribution rate that employees must pay on monthly earnings exceeding 4 times the legal monthly minimum wage to a fund that helps finance social assistance benefits (including the solidarity pension) will range from 1.5 percent to 3 percent, up from the current 1 percent to 2 percent. The government will remain responsible for paying the rest of the cost of social assistance benefits.
- *Credited contributions:* When determining pension entitlement under the new system, women will receive 50 weeks of credited contributions for each biological or adopted child they have, up to a maximum of 150 weeks.
- *Administrative organization:* Under the oversight of the Ministry of Labor, Colpensiones will administer the social insurance components of the contributory and semi-contributory programs and Prosperidad Social—another government agency—will administer the solidarity program. Employees who contribute to individual accounts will choose the private pension management companies that manage their accounts.

Sources: "Pensionarse Una Realidad," Colpensiones; *Social Security Programs Throughout the World: The Americas, 2019*, U.S. Social Security Administration, March 2020; Ley No. 2381, 2024; "Reforma Pensional: Prosperidad Social implementará el Pilar Solidario," Prosperidad Social, July 16, 2024; "La reforma pensional es hoy Ley de la República. Colombia asegura una vejez digna para todos y todas," Colpensiones, July 18, 2024; "Con la nueva reforma pensional del Gobierno Petro trabajadores recibirán menos dinero: este es el descuento que aumenta a partir del próximo año," *Infobae*, August 15, 2024; "Colpensiones informa: Procedimientos relacionados con la ineficacia de traslados en Colombia," Holland & Knight, September 5, 2024.

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