Social Security

International Update:

Recent Developments in Foreign Public and Private Pensions

October 2016

Europe

Finland to Adjust Contribution Rates for Earnings-Related Pension

As part of the new Competitiveness Pact approved by the Finnish government on June 14, the contribution rates for Finland's earnings-related pension will gradually fall for employers and rise for employees over the next several years. The pact also adjusts contribution rates for unemployment and sickness insurance, increases the average annual working time of full-time employees by 24 hours without additional pay, and extends the duration of other collective agreements by one year. At present, the pact covers over 91 percent of wage and salaried workers and applies to most employers. The government had encouraged Finland's social partners to produce the pact to help bolster the country's sluggish labor market (the average unemployment rate for the first six months of 2016 was 9.8 percent). After the pact takes effect at the beginning of 2017, the government expects it to stimulate the creation of 110,000 jobs in Finland by 2019 through lower labor costs for employers (the current estimated size of the Finnish labor force is 2.69 million people).

By adjusting the contribution rates for the earnings-related pension, the pact shifts a portion of the program's costs from employers to employees. Under current arrangements, employers contribute a much larger share to the program (75 percent) than employees. (Employers currently contribute 18 percent of their monthly payroll, and employees younger than age 53 contribute 5.7 percent of their gross monthly earnings.) The pact addresses this imbalance by decreasing the contribution rate for employers and increasing it for employees by corresponding amounts over four years: 0.2 percentage points in 2017 and 2018, and 0.4 percentage points in 2019 and 2020. This series of rate changes does not supersede a set of rate increases that were agreed to in a 2014 pension reform and are already being implemented (the employer and employee rates are both set to increase by 0.35 percentage points from current levels by 2019). After all adjustments are implemented, the contribution rates for the earnings-related pension will be 17.15 percent for employers and 7.25 percent for employees younger than age 53. The earnings-related pension has no contribution requirements and can be claimed between ages 63 and 68.

In addition to the earnings-related pension, the Finnish retirement system consists of a universal flat-rate pension and several social assistance programs. To qualify for the universal flat-rate pension, a person must have resided in Finland for at least three years and be aged 65 or older (aged 63 for a reduced benefit). There are also means-tested housing and income supplements for retirees with low incomes and a care allowance for those with functional impairments.

Sources: "Finland," *International Update*, U.S. Social Security Administration, November 2014; "Kilpailukykysopimus," Central Organization of Finnish Trade Unions (SAK/FFC), February 29, 2016; "Finland," IBIS News, August 31, 2016; *Social Security Programs Throughout the World: Europe, 2016*, U.S. Social Security Administration, September 2016; "Finland's 'Competitiveness Pact' to Apply in 2017," Mercer Select, September 28, 2016; "Labour Force Survey," Statistics Finland, October 12, 2016.

Iceland and the United States Sign Totalization Agreement

On September 27, the United States and Iceland signed a totalization agreement to exempt U.S. and Icelandic 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 Icelandic Parliament 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 Iceland for five years or less from paying social security taxes to Iceland. Icelandic workers sent to work temporarily in the United States by Icelandic-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. Once the agreement enters into force, Iceland will be the 27th or 28th country with a totalization agreement with the United States. (A recently signed agreement between Brazil and the United States is also currently in the review process.)

Sources: E-mail communication with the Office of International Programs, U.S. Social Security Administration, October 2016; U.S. International Social Security Agreements, U.S. Social Security Administration, https://www.socialsecurity.gov/international/agreements_overview.html.

The Americas

Canada Reaches "Agreement in Principle" on Expansion of the Canada Pension Plan

On October 4, British Columbia announced its approval of an expansion of the Canada Pension Plan (CPP), an earnings-related program that covers employed and self-employed workers in Canada. The initial "agreement in principle" to expand the CPP was reached among the nine participating provinces (all provinces except Quebec) on June 20 and was expected to be officially approved by the provinces by July 15; however, British Columbia delayed its approval to allow time for consultations with stakeholders. (British Columbia's approval was vital because the agreement required the support of at least seven provinces representing at least two-thirds of Canada's population to move forward.) The expansion now awaits approval by the federal parliament and, if approved, will be phased in gradually from 2019 through 2025. According to the Canadian government, the expansion will significantly improve the retirement security of future retirees.

The key features of the CPP expansion include:

- *An increase in benefits:* The income replacement rate of CPP pensions will increase from around one-quarter to around one-third of a worker's average monthly pensionable earnings (adjusted to changes in the consumer price index) during the contribution period.
- *An increase in contribution rates and the introduction of an upper earnings limit:* From 2019 to 2023, the contribution rates for employers and employees will gradually increase from 4.95 percent to around 5.95 percent of payroll and earnings, up to the year's maximum pensionable earnings (YMPE). (The YMPE is currently C$54,900 [US$41,711] and is projected to reach C$72,500 [US$55,083] in 2025 because of annual inflation adjustments.) In addition, starting in 2024, employers and employees will each be required to contribute around 4 percent of payroll and earnings above the YMPE, up to a new upper earnings limit, which is projected to be 107 percent (C$74,900 [US$56,907]) of the YMPE in 2024 and 114 percent (C$82,700 [US$62,833]) of the YMPE from 2025 onwards. (The revised contribution rates are estimates and are subject to an actuarial review.) As a result, the overall earnings ceiling will be 14 percent higher than it would have been absent the enhancement.
- *An increase in the working income tax benefit:* To offset the impact of higher CPP contributions on low-income workers, the federal government will work with the provinces to increase the working income tax benefit, a refundable tax credit that supplements the earnings of low-income workers.
- *A new tax deduction for CPP contributions:* To prevent an increase in the after-tax cost of saving, employees will receive a tax deduction on the portion of contributions associated with the CPP expansion. Employees will continue to receive nonrefundable tax credits for existing CPP contributions. (All employer contributions will continue to be tax deductible, including the portion associated with the expansion.)

Canada's public pension system consists of the CPP, Old-Age Security (OAS), and Guaranteed Income Supplement (GIS) programs. (The province of Quebec opted out of the CPP, but it has a similar earnings-related plan called the Quebec Pension Plan [QPP]. It is not yet known whether Quebec will approve a similar expansion of the QPP.) The normal retirement age for a CPP retirement pension is 65 with at least one valid annual contribution; a reduced pension is possible from age 60 to 64, and a deferred pension (for an increased benefit) is possible up to age 70. OAS is a nearly universal pension paid to Canadians aged 65 or older and is financed through general revenue. To be eligible for an OAS pension, a person must be a legal resident of Canada for at least 10 years after reaching age 18. Low-income OAS pensioners are eligible for the income-tested GIS.

Sources: *Social Security Programs Throughout the World: The Americas, 2015*, U.S. Social Security Administration, March 2016; "Canada's Finance Ministers Agree to Strengthen Canada Pension Plan" and "Background on Agreement in Principle on Canada Pension Plan Enhancement," Department of Finance Canada, June 20, 2016; "A New Premium on Retirement," *The Globe and Mail*, June 22, 2016; "B.C. Delays Signing on to CPP Expansion Plan," *CBC News*, July 15, 2016; "B.C. Agrees to Back Ottawa's Proposal to Expand Canada Pension Plan," *The Globe and Mail*, October 4, 2016; "Canada Pension Plan Enhancement," Canada Revenue Agency, October 6, 2016.

U.S. Social Security Administration Releases Social Security Programs Throughout the World: Europe, 2016

In September, the U.S. Social Security Administration (SSA) released *Social Security Programs Throughout the World: Europe, 2016*, the first volume of a four-volume series. This volume provides a cross-national comparison of the social security systems in 45 countries in Europe. It summarizes the five main social insurance programs in those countries: (1) old age, survivors, and disability (OASD); (2) sickness and maternity; (3) work injury; (4) unemployment; and (5) family allowances. The other regional volumes in the series focus on the social security systems of countries in Asia and the Pacific, Africa, and the Americas.

Changes made since SSA released the 2014 volume include:

- *New benefits.* Albania (old-age social pension), Greece (universal basic pensions for old age and disability, and means-tested family allowances), Italy (targeted unemployment benefits), Jersey (child personal care benefit), Malta (in-work benefit), Poland (child-raising benefit), Russia (defined-benefit OASD pensions), and the United Kingdom (single-tier old-age pension and shared parental leave).
- *Major reforms to existing benefits*: Albania (old age and disability), Andorra (old age and disability, work injury, and family allowances), Bulgaria (old age), Croatia (disability), Czech Republic (work injury), Denmark (disability and maternity), France (unemployment), Germany (old age), Greece (OASD, sickness, work injury, unemployment, and family allowances), Italy (unemployment), Russia (OASD), and the United Kingdom (old age).
- *Contribution rate increases for OASD programs*: Finland, France, Germany, Hungary, Ireland, Jersey, Monaco, San Marino, Sweden, and the United Kingdom.
- *Contribution rate decreases for OASD programs*: Iceland, Romania, Slovak Republic, and the Ukraine.
- *Retirement age increases*: Albania (for women), Bulgaria, Croatia (for women), Czech Republic, Estonia (for women), France, Germany, Hungary, Isle of Man (for women), Italy, Latvia, Lithuania, the Netherlands, Portugal, Romania, Serbia (for women), Spain, Ukraine (for women), and the United Kingdom (for women).

Source: *Social Security Programs Throughout the World: Europe, 2016*, U.S. Social Security Administration, September 2016.

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