Financial incentives for funded private pension plans

OECD country profiles
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Background

This report describes the tax treatment of retirement savings in OECD countries. It also covers non-tax financial incentives provided to encourage individuals to save for retirement in funded private pension plans. The information refers to the rules applicable as of June 2019.

The report covers each country separately. Each country profile contains the following information:

- The structure of the funded private pension system;
- The tax treatment of retirement savings (contributions, returns on investment, funds accumulated and pension income);
- The description of non-tax incentives;
- The social treatment of contributions and benefits;
- The tax treatment of pensioners; and
- The financial incentives for employers to offer and/or contribute to funded private pension plans.

Main findings

Countries use two types of financial incentives, tax incentives and non-tax incentives, to encourage individuals to save for retirement. Traditional forms of savings are taxed the same way as other income and earnings, with contributions paid from after-tax earnings, the investment income generated taxed, and withdrawals exempted from taxation. This is generally referred to as the “Taxed-Taxed-Exempt” or “TTE” tax regime. Tax incentives for retirement savings arise when deviating from this benchmark. They are indirect subsidies provided through the tax code. By contrast, non-tax incentives, mainly matching contributions and fixed nominal subsidies, are direct government payments into the pension account of eligible individuals.

Many countries apply a variant of the “Exempt-Exempt-Taxed” (“EET”) tax regime to retirement savings, where both contributions and returns on investment are exempt from taxation while benefits are treated as taxable income upon withdrawal. Yet a wide range of tax regimes can be found as well, from the “EEE” tax regime, where contributions, returns on investment and pension income are tax exempt, to regimes where two of three flows are taxed.
Figure 1. Overview of the tax treatment of retirement savings in OECD countries, 2019

Note: Main pension plan in each country. “E” stands for exempt and “T” for taxed. Countries offering tax credits on contributions are considered as taxing contributions, as the tax credit may not cover the full amount of tax paid on those contributions.

This figure hides disparities within countries, however, as shown in Table 1. The tax treatment of contributions to private pension plans may change according to the source of the contribution (the individual or the employer), their mandatory or voluntary nature, and the type of plan in which they are paid (personal or occupational plans). In addition, limits to the amount of contributions attracting tax relief may also differ for different types of contributions within a country. In most countries, people not paying income tax do not get any relief on their contributions into private pension plans.

Most countries exempt from taxation returns on investment in private pension plans. When returns are taxed, they are usually taxed every year during the accumulation phase. However, some countries tax returns upon withdrawal only. Tax rates may vary according to the duration of the investments, the type of asset classes, or the income of the plan member. Most countries do not tax the funds accumulated and impose no lifetime limit on the total amount that plan members can accumulate in a private pension plan.

The tax treatment of pension income is identical across different types of post-retirement product (life annuity, programmed withdrawal or lump sum) in most OECD countries. Only three OECD countries (the Czech Republic, Estonia and Turkey) incentivise people to annuitize their pension income through a more favourable tax treatment for annuities as compared to programmed withdrawals, or through a government subsidy. Conversely, lump sums are tax free up to a certain amount or only partially taxed in some countries in order to reach a more neutral tax treatment across the different post-retirement products. A minority of countries discourage early withdrawals through the tax system.
<table>
<thead>
<tr>
<th>Country</th>
<th>Type of plan / contribution</th>
<th>Source of contribution</th>
<th>Tax treatment Contributions</th>
<th>Tax treatment Returns</th>
<th>Tax treatment Withdrawals</th>
</tr>
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<tbody>
<tr>
<td>Australia</td>
<td>Concessional contributions</td>
<td>All</td>
<td>0%/15%/30%</td>
<td>0%/15%</td>
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<td>E</td>
<td>T/PE</td>
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<td>T</td>
<td>E</td>
<td>T/PE</td>
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<td>Employer</td>
<td>E</td>
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<td>T</td>
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<tr>
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<td>Individual</td>
<td>T</td>
<td>E</td>
<td>T/PE</td>
</tr>
<tr>
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<td>State-sponsored retirement provision plans</td>
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<td>T</td>
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<td>10%/16.5%</td>
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<td>10%/33%</td>
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<td>Pension savings accounts</td>
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<td>E/9.25%</td>
<td>8% of assets</td>
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<td>E</td>
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<td>Voluntary contributions, regime A</td>
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<td>E</td>
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<tr>
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<td>30% - 34%</td>
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<td>T/PE</td>
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<td>All</td>
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<td>T</td>
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<td>T</td>
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<td>Individual</td>
<td>E</td>
<td>E</td>
<td>T/PE</td>
</tr>
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<td>T</td>
<td>10.5% - 28%</td>
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<td>All</td>
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<td>T</td>
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<td>IKZE plans</td>
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<td>PPK, PPE and IKE plans</td>
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<td>T/PE</td>
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<td>5%/10%/15%</td>
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<td>T/PE</td>
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<td>United States</td>
<td>Roth contributions</td>
<td>Individual</td>
<td>T + credit (0% - 50%)</td>
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<td>Other contributions</td>
<td>All</td>
<td>E + credit (0% - 50%)</td>
<td>E</td>
<td>T</td>
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</table>

**Note:** T = Taxed; E = Exempt (usually up to a limit); T/PE = Taxed but partially exempt; credit = Tax credit.

Some countries have introduced more direct financial incentives to encourage participation in, and contributions to, the private pension system, especially for low-income earners. Non-tax incentives considered herein include matching contributions from the government or from the employer, and government fixed nominal subsidies. These payments are provided to eligible individuals who actually participate in or make voluntary contributions to the private pension system. Such incentives can be found in 14 OECD countries (Table 2).
Table 2. Non-tax financial incentives in OECD countries, 2019

<table>
<thead>
<tr>
<th>Financial incentives</th>
<th>Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employer matching contributions</td>
<td>Germany, Iceland, Italy, New Zealand, Poland, United States</td>
</tr>
</tbody>
</table>
| Government matching contributions (match rate) | Australia (50%), Austria (4.25%), Chile (50% or 15%),
|                                         | Czech Republic (20%), Hungary (20%), Mexico (325%),
|                                         | New Zealand (50%), Turkey (25%), United States (50% to 100%) |
| Government fixed nominal subsidies      | Chile, Germany, Lithuania, Mexico, Poland, Turkey |

Notes: 1. Chile has two different matching programmes, one for young low earners (50% match rate) and one for voluntary contributors (15% match rate). 2. The matching programme for Mexico only applies to public sector workers. 3. The matching programme for the United States refers to the Thrift Savings Plan for federal employees. The first 3% of employee contribution is matched dollar-for-dollar, while the next 2% is matched at 50 cents on the dollar.

Besides the personal income tax system, contributions to private pension plans and private pension benefits can be subject to social contributions. In general, contributions paid by individuals from their after-tax income to voluntary personal pension plans are also subject to social contributions. Private pension income is usually not subject to social contributions or only a part of the social contributions usually levied on wages and salaries is levied on pension income.

From the point of view of employers, their contributions to funded pension arrangements are usually considered as tax-deductible business expenses.

Since the first analysis in 2015, countries have made changes to the design of their financial incentives.¹

Most countries have updated the income thresholds and the limits for contributions attracting tax relief in line with inflation or other parameters (e.g. minimum wage). This has not been the case, however, in the Czech Republic, Finland, Ireland, Italy, Japan, Korea, Luxembourg, New Zealand, Portugal, the Slovak Republic, Spain, and Switzerland. Countries offering non-tax financial incentives tend to update the maximum entitlement discretionally and not on a yearly basis.

Six countries have reduced the value of the incentives, at least for some categories of workers. Australia reduced incentives for high-income earners in July 2017. In particular, the limit for contributions attracting a 15% tax rate has been reduced; the income limit above which contributions are taxed at 30% has been lowered; and a cap of AUD 1.6 million has been introduced to the amount that can be transferred to a retirement phase account (i.e. an account supporting retirement income streams) with tax-free investment earnings. In Austria, since 2016, special expenses, including pension contributions, are no longer tax deductible for new pension contracts. In Greece, returns on investment are no longer exempt from taxation but taxed at 10%. Since 2019, in Hungary, employers’ contributions to voluntary pension funds and to institutions for occupational retirement provisions are considered as taxable income for the employee, reducing the incentive for employers to contribute. Latvia increased the tax rate of investment returns from voluntary pension plans from 10% to 20%. Finally, Sweden restricted the possibility to deduct contributions to pension insurance contracts or IPS schemes to the self-employed and employees who completely lack pension rights in employment as of 1 January 2016.

¹ 2015 stocktaking report and country profiles.
By contrast, some countries have increased financial incentives. In order to increase contribution levels, on 1 January 2017, the Czech Republic increased the tax relief on members’ contributions from CZK 12 000 to CZK 24 000 annually, as well as the level of employer contributions not considered as taxable income from CZK 30 000 to CZK 50 000. In Denmark, in order to keep up the pension saving incentives and avoid the interaction problem with income-related government pensions and housing support, an extra tax exemption was introduced in 2018. For pension savings up to DKK 71 500 per year, an extra exemption of 22% is obtained the last 15 years before retirement. For pension savers with more than 15 years to retirement, the extra exemption is 8%. In other words the tax exemption is 122% or 108% of contributions instead of 100%. In Italy, since 2017, performance bonuses granted to employees up to EUR 3 000 per year are exempted from personal income tax if they are used for a number of welfare-related expenses, including contributions into occupational pension plans. In addition, returns of new investments of pension funds in stocks of Italian and/or European companies are tax free, if they are kept for at least five years. In January 2019, Norway increased the tax-deductibility limit for contributions by self-employed workers into voluntary defined contribution occupational plans from 6% to 7% of imputed personal income from self-employment between 1 and 12 G.

Finally, four countries have introduced new pension schemes with non-tax financial incentives. Since 1 January 2018, social partners in Germany can agree to introduce occupational defined contribution schemes per collective agreement. Under that model, for employees asking their employer to deduct part of their salary and contribute it to an occupational pension plans (salary conversion), employers have to forward 15% of the deferred income to the pension plan, if they save social insurance contributions due to the deferral of income. In addition, if employers contribute at least EUR 240 per year to an occupational pension scheme on behalf of a low-income earner (those earning less than EUR 2 200 monthly), in addition to the regular wage payment, they get a tax allowance of 30% of the contribution, up to a maximum contribution of EUR 480. Since January 2019, the second pillar in Lithuania is an automatic enrolment scheme. For individuals contributing at least 3% of gross income, the government contributes 1.5% of the pre-last year’s average gross salary in Lithuania. Poland and Turkey also introduced an automatic enrolment scheme. In Poland, the individual benefits from an employer matching contribution and from government subsidies (PLN 250 when the member joins the plan and PLN 240 annually as long as the employees contributes at least 1.5% of salary). In Turkey, the government matches 25% of individual pension contributions up to 25% of the annual minimum wage. It also pays a one-time TRY 1 000 contribution for individuals who do not opt out within the first two months, and a subsidy equal to 5% of participants’ savings at retirement for those who choose a minimum 10-year annuity.
Structure of the funded private pension system

**Mandatory, occupational**
- Corporate superannuation funds
- Industry superannuation funds
- Public sector superannuation funds

**Mandatory, personal**
- Retail funds
- Small APRA funds
- Self-managed superannuation funds
- Approved deposit funds

**Voluntary, personal**
- Retirement savings accounts
- Voluntary contributions to superannuation funds

**Tax treatment of contributions**

Contributions are taxed, but usually at a lower rate than the individual’s marginal income tax rate. There are two main types of contributions with different tax treatments: “concessional” or before-tax contributions and “non-concessional” or after-tax contributions. The government also makes tax-exempt contributions to eligible individuals.

**Concessional contributions**

Concessional contributions include mandatory employer contributions (“superannuation guarantee” contributions), employee “salary sacrifice” contributions and voluntary deductible contributions. The superannuation guarantee contribution is paid regardless of age. However, individuals between 65 and 74 years of age can generally only make voluntary deductible contributions if they satisfy a “work test” (i.e. they work 40 hours within a 30-day period each income year). Individuals aged over 75 cannot make voluntary deductible contributions.

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2 This description applies to the majority of pension funds. Some funds do not pay taxes on concessional contributions nor on returns on investment, but withdrawals from these funds are taxed.

3 Salary sacrifice contributions are when the employee and the employer make a valid agreement to pay some of future before-tax salary or wages into the employee’s superannuation fund.

4 Self-employed workers and employees can claim a tax deduction for any contributions they make to super.
Concessional contributions are taxed at 15% on amounts up to the concessional contributions cap. In 2018-19, this cap is AUD 25 000. It is indexed to wages. From 1 July 2018 it is possible for individuals with balances of less than AUD 500 000 to carry-forward up to 5 years unused concessional cap space.

Contributions over the concessional contributions cap are taxed at the individual’s marginal income tax rate. The individual also has to pay the excess concessional contribution (ECC) charge on the increase in the tax liability to neutralise the benefit of having excess contributions in the concessional tax environment. To reduce the tax liability, the individual receives a non-refundable tax offset equal to the 15% tax already paid by the fund on the excess amount. Any contributions over the cap count towards the individual’s non-concessional contributions. The individual may choose to withdraw up to 85% of the excess concessional contributions from the superannuation fund to help pay the income tax. Any excess concessional contributions withdrawn no longer count towards non-concessional contributions cap.

For high-income earners, with an adjusted taxable income of more than AUD 250 000, the tax rate on concessional contributions that are considered above the AUD 250 000 threshold is 30% instead of 15%. The additional tax is imposed on the whole amount of the contributions, up to the concessional cap, if salary and wages are above the threshold. Otherwise, the additional tax is only imposed on the portion of the contribution that takes the individual over the threshold. If the adjusted taxable income is less than AUD 250 000, but adding concessional contributions brings the total above that threshold, the 30% tax rate applies only to the part of the contribution above the threshold. For example, if your income is AUD 230 000 and your concessional contributions are AUD 25 000, you only pay the 30% tax rate on AUD 5 000.

Non-concessional contributions

Non-concessional contributions primarily include personal voluntary contributions (which can be made as after-tax additional contributions), spouse contributions and other contributions made by one person on behalf of another person where there is no employment relationship. Excess concessional contributions not withdrawn from the fund are also included in the calculation of non-concessional contributions.

Non-concessional contributions are not taxed upon entry into the fund because they are made from money on which the individual has already been taxed at his/her marginal rate. The non-concessional contributions cap is the limit on the amount of non-concessional contributions an individual can make each year before paying extra tax. In 2018-19, this cap is AUD 100 000. Only individuals with a total superannuation balance of less than AUD 1 600 000 are permitted to make non-concessional contributions. The cap is indexed to wages.

Any non-concessional contributions above the cap in a given year automatically bring forward the next two years’ non-concessional contributions cap for people under 65 years old. This means that an eligible individual can contribute up to AUD 300 000 over a three-year period without paying the excess contributions tax. Any contributions above AUD 300 000 in that three-year period can remain in the superannuation fund and be taxed at 49%, or be withdrawn from superannuation to avoid that additional tax, and only pay tax at an individual’s own marginal tax rate on an earnings amount associated with the excess contributions.
Individuals aged between 65 and 74 are eligible to make annual non-concessional contributions of AUD 100 000 if they meet the work test, but are not able to access the bring-forward of contributions.

A tax credit (called Spouse Super Contribution Tax Offset) may apply to after-tax contributions made on behalf of non-working or low-income-earning spouses. It is payable to the contributor (not the spouse). The tax credit is calculated as 18% of the lesser of:

- AUD 3 000, reduced by one dollar for every dollar that the sum of the spouse’s income, total reportable fringe benefits and reportable employer superannuation contributions exceeds AUD 37 000; and
- the total amount of contributions paid.

**State contributions**

The government provides a “low-income super tax offset” (LISTO) of up to AUD 500 annually for eligible individuals on adjusted taxable income of up to AUD 37 000. The amount payable is calculated by applying a 15% match rate to concessional contributions made by, or for individuals (it is effectively a refund of the tax paid on concessional contributions). This contribution is tax exempt.

**Tax treatment of returns on investments**

Investment earnings on superannuation assets in the accumulation phase are taxed at a rate of 15%.

People who have reached preservation age but are under 65 and not retired can still access a transitional super income stream (TRIS) but earnings on the amount supporting it will be taxed at 15%.

Funds are eligible for imputation credits for dividend income and a one-third capital gains tax reduction on assets held for at least 12 months.

**Tax treatment of funds accumulated**

From 1 July 2017, the transfer balance cap imposes a lifetime limit of AUD 1 600 000 on the amount of superannuation assets that may be transferred to a retirement phase account (i.e. an account supporting retirement income streams) with tax-free investment earnings. Assets in excess of the AUD 1 600 000 transfer balance cap must be rolled back to an accumulation phase account (where investment earnings will be taxed at 15%) or withdrawn from superannuation. The transfer balance cap is indexed in line with the consumer price index and increases in AUD 100 000 increments. The transfer balance cap applies only to the amount of assets that may be transferred into a retirement phase account. The value of retirement phase accounts may grow above AUD 1.6 million if future earnings exceed withdrawals.

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5 People can only make non-concessional contributions to their spouse’s account if their spouse is younger than 65 or aged 65-70 and working. No tax credit is available when the spouse receiving the contribution has exceeded their non-concessional contributions cap or their balance is AUD 1.6 million or more.
Transfers in excess of AUD 1 600 000 are subject to excess transfer balance tax. This is a tax on notional earnings attributed to the excess. From 2018, the rate is 15% the first time an individual has an excess transfer balance and 30% for second and subsequent breaches.

**Tax treatment of pension income**

Benefits withdrawn from a superannuation fund have three components: a tax-free component, a taxed element and an untaxed element. Non-concessional (after-tax) contributions are tax-free when withdrawn from the superannuation account. Concessional (before-tax) contributions are taxable when withdrawn. If the superannuation fund has paid taxes on those contributions (as described earlier), this corresponds to the taxed element. If the fund has not paid taxes, this corresponds to the untaxed element.

Individuals do not pay tax on the tax-free component when they withdraw it, regardless of their age or the type of withdrawal.

The tax treatment of the taxable component (taxed element and untaxed element) depends on the age at which the individual retires and the type of withdrawal, as described in the tables below. The preservation age is the age at which individuals can access their superannuation assets if they are retired. It depends on the date of birth (55 years old for people born before 1 July 1960, increasing gradually to 60 for people born from 1 July 1964).

**Table 3. Australia: Tax on withdrawals of taxable component when the individual withdraws money before his/her preservation age**

<table>
<thead>
<tr>
<th>Component</th>
<th>Type of withdrawal</th>
<th>Effective tax rate (excluding Medicare levy)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxed element</td>
<td>Income stream</td>
<td>Individual's marginal tax rate</td>
</tr>
<tr>
<td>Taxed element</td>
<td>Lump sum</td>
<td>Individual's marginal tax rate or 20%, whichever is lower</td>
</tr>
<tr>
<td>Untaxed element</td>
<td>Income stream</td>
<td>Individual's marginal tax rate</td>
</tr>
<tr>
<td>Untaxed element</td>
<td>Lump sum</td>
<td>Individual's marginal tax rate or 30%, whichever is lower, or 45% for lump sums above the untaxed plan cap amount (AUD 1 480 000 in 2018-19).</td>
</tr>
</tbody>
</table>

**Table 4. Australia: Tax on withdrawals of taxable component when the individual withdraws money between his/her preservation age and 60 years old**

<table>
<thead>
<tr>
<th>Component</th>
<th>Type of withdrawal</th>
<th>Effective tax rate (excluding Medicare levy), up to the low rate cap amount (AUD 205 000 in 2018-19)</th>
<th>Effective tax rate (excluding Medicare levy), above the low rate cap amount (AUD 205 000 in 2018-19)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxed element</td>
<td>Income stream</td>
<td>Individual’s marginal tax rate less 15% tax offset</td>
<td>Individual’s marginal tax rate less 15% tax offset</td>
</tr>
<tr>
<td>Taxed element</td>
<td>Lump sum</td>
<td>0%</td>
<td>Individual’s marginal tax rate or 15%, whichever is lower</td>
</tr>
<tr>
<td>Untaxed element</td>
<td>Income stream</td>
<td>Individual’s marginal tax rate</td>
<td>Individual’s marginal tax rate</td>
</tr>
<tr>
<td>Untaxed element</td>
<td>Lump sum</td>
<td>Individual’s marginal tax rate or 15%, whichever is lower</td>
<td>Individual’s marginal tax rate or 30%, whichever is lower, or 45% for lump sums above the untaxed plan cap amount (AUD 1 480 000 in 2018-19)</td>
</tr>
</tbody>
</table>
Table 5. Australia: Tax on withdrawals of taxable component when the individual withdraws money at age 60 or more

<table>
<thead>
<tr>
<th>Component</th>
<th>Type of withdrawal</th>
<th>Effective tax rate (excluding Medicare levy)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxed element</td>
<td>Income stream</td>
<td>No tax for defined contribution schemes (assuming the individual is under the transfer balance cap of AUD 1.6 million)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>For defined benefit schemes, not tax up to AUD 100 000 per year while 50% of amounts over AUD 100 000 taxed at individual’s marginal tax rate</td>
</tr>
<tr>
<td>Taxed element</td>
<td>Lump sum</td>
<td>No tax</td>
</tr>
<tr>
<td>Untaxed element</td>
<td>Income stream</td>
<td>Individual’s marginal tax rate less 10% tax offset (capped at AUD 10 000)</td>
</tr>
<tr>
<td>Untaxed element</td>
<td>Lump sum</td>
<td>Individual’s marginal tax rate or 15%, whichever is lower, or 45% for lump sums above the untaxed plan cap amount (AUD 1 480 000 in 2018-19)</td>
</tr>
</tbody>
</table>

**Non-tax incentives**

The state helps low-to-middle income earners to boost their retirement savings through the “super co-contribution”. This contribution is tax-exempt. The super co-contribution is a government matching contribution for eligible individuals. Individuals younger than 71 are eligible for a super co-contribution if they make a voluntary non-deducted contribution (in their own name) in the income year, have a total income lower than the higher income threshold (AUD 52 697 for 2018-19), at least 10% of their total income is from employment or business and their total superannuation balance is less than AUD 1 600 000. The match rate provided is up to 50%. Individuals with an income below the lower income threshold (AUD 37 697 for 2018-19) can get 50 cents for each dollar contributed, up to the full maximum entitlement (AUD 500 for 2018-19). For every dollar that the individual earns above the lower income threshold, the maximum entitlement is reduced by 3.333 cents.

**Social treatment**

Social contributions are not levied on mandatory pension contributions.

Withdrawals from the taxed and untaxed elements before 60 years old are subject to Medicare Levy (2% since July 2014). After 60 years old, only withdrawals from the untaxed element are subject to Medicare Levy.

**Tax treatment of pensioners**

The public pension (Age Pension) is included in taxable income. The Age Pension is paid to people who meet age and residency requirements, subject to a means test.

Most senior Australians receive a tax credit called the “seniors and pensioners tax offset” (SAPTO). SAPTO is available to taxpayers in receipt of a taxable Australian Government pension, as well as to Australians who are of Age Pension age and who meet all of the Age Pension eligibility criteria except the means test. In 2018-19, it is worth a maximum of AUD 2 230 for a single senior and AUD 1 602 for each member of a senior couple. It builds on the statutory tax-free threshold, the “low income tax offset” and the “low and middle income tax offset” to ensure that eligible single senior Australians with a rebate income up
to AUD 33 088 in 2018-19 (or AUD 29 783 for each member of a couple) pay no income tax. The tax credit cannot exceed the total tax paid.\(^6\)

- For single individuals: the maximum tax credit is reduced by 12.5 cents for each dollar of rebate income in excess of AUD 33 088.
- For each member of a couple: the maximum tax credit is reduced by 12.5 cents for each dollar of rebate income in excess of AUD 29 783.

In 2018-19, single seniors and pensioners with no dependants who are eligible for the SAPTO will not incur a Medicare levy liability if their taxable income does not exceed AUD 35 418. Similarly, couples and families who are eligible for the SAPTO will not be liable to pay the Medicare levy if their combined taxable income does not exceed AUD 49 304 (plus AUD 3 471 for each dependent child or student). The Medicare levy phases in at 10 cents for each dollar in excess of the above thresholds, until it is paid in full.

**Incentives for employers to set up or contribute to a funded private pension plan**

Employer superannuation guarantee contributions are deductible against corporate income tax.

Employers who fail to make the required contributions are subject to additional tax and penalties. This additional tax is the superannuation guarantee charge. It is paid to employees to compensate for non-payment of compulsory superannuation. The charge is higher than the basic superannuation requirement as it includes interest and administrative components. It is not deductible.

**Austria**

**Structure of the funded private pension system**

**Voluntary, occupational**

- Pension companies (*Pensionskassen*)
- Direct commitments (*Direktzusagen*)
- Occupational group insurance (*Betriebliche Kollektivversicherung*)
- Direct insurance (*Direktversicherung*)
- Support funds (*Unterstützungskassen*)

**Voluntary, personal**

- Pension insurance (*Pensionsversicherung*)
- State-sponsored retirement provision (*Prämienbegünstigte Zukunftsvorsorge*)

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\(^6\) Rebate income is the aggregate of taxable income, adjusted fringe benefits amounts, total net investment loss and reportable superannuation contributions.
Tax treatment of contributions

Pension companies and occupational group insurance

Employee contributions are taxed at the individual’s marginal income tax rate. They cannot exceed the sum of annual employer contributions (although an employee can contribute up to EUR 1 000 even when the employer contributes less than EUR 1 000 per year). These contributions are treated as special expenses.

25% of an individual’s special expenses (individual private pension contributions plus other special expenses) are tax-deductible up to the limit of EUR 2 920 per year for a single person and EUR 5 840 if the spouse’s income does not exceed EUR 6 000. If the annual salary exceeds EUR 36 400 these limits are gradually decreased and no tax-deductible special expenses can be claimed if the annual salary exceeds EUR 60 000. From 2016, special expenses are no more deductible for new pension contracts. For contracts concluded before 1 January 2016, the deductions continue to be applicable for a maximum period of 5 years.

Employer contributions are not considered as income for the employee.

An extra 2.5% insurance tax is levied on both employee and employer contributions.

Direct insurance

Employee contributions are taxed at the individual’s marginal income tax rate. They cannot exceed the sum of annual employer contributions (although an employee can contribute up to EUR 1 000 even when the employer contributes less than EUR 1 000 per year). Contributions exceeding EUR 1 000 are treated as special expenses. From 2016, special expenses are no more deductible for new pension contracts. For contracts concluded before 1 January 2016, the deductions continue to be applicable for a maximum period of 5 years.

Employer contributions up to EUR 300 per year are tax-free for the employee. Contributions in excess of EUR 300 are considered as taxable income for the employee and can be considered as special expenses.

An extra 4% insurance tax is levied on both employee and employer contributions.

Direct commitments and support funds

Employees do not contribute. Employer contributions are not considered as income for the employee. The 4% insurance tax applies to support funds but not to direct commitments.

Personal pension plans

Contributions to personal pension plans are done from after-tax income (therefore they are taxed at the individual’s marginal rate of income tax). These contributions are treated as special expenses and attract a 25% tax relief up to a limit. From 2016, special expenses are no more deductible for new pension contracts. For contracts concluded before 1 January 2016, the deductions continue to be applicable for a maximum period of 5 years.

There is no tax relief for state-sponsored retirement provision plans.

An extra 4% insurance tax is levied on individual contributions.
**Tax treatment of returns on investments**

Investment income is tax-exempt for pension companies, occupational group insurance, direct insurance, support funds and personal pensions. Investment income is considered as company profit and subject to profit tax for direct commitments.

**Tax treatment of funds accumulated**

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

**Tax treatment of pension income**

The tax treatment of pension income depends primarily on the type of plan:

- Pension companies and occupational group insurance: Pensions are taxed as earned income at the individual’s marginal rate of income tax. The portion of pension accrued by employer contributions is fully taxed. Only 25% of the portion of pension accrued by employee contributions is taxed.

- Direct insurance and personal pension insurance: Pensions are taxed as earned income at the individual’s marginal rate of income tax from the moment the total value of benefits paid exceeds the capital value of the pension at retirement. It means that pension benefits are tax-free until that point in time.

- Direct commitments and support funds: Pensions are taxed as earned income at the individual’s marginal rate of income tax.

- State-sponsored retirement provision: Withdrawals are tax-exempt if the entitlements are transferred to an occupational or personal pension plan or used to buy an annuity. If they are paid-out as a lump sum, the individual has to pay back 50% of the government subsidies and a 27.5% tax on capital gains.

Lump sum payments are taxed as ordinary income unless the payment does not exceed the amount of EUR 12,600. In this case, only 50% of the normal tax rate has to be paid. This applies to all lump sum payments which result from terminations of pension plans.

**Non-tax incentives**

The minimum term of a state-sponsored retirement provision plan is 10 years and only individuals not yet receiving social security pension benefits can open such plans. The plan must provide a capital guarantee. Personal contributions to a state-sponsored retirement provision plan can attract government matching contributions. The matching contribution rate corresponds to a fixed rate of 2.75% plus a variable rate depending on the annual general level of interest rate. For 2019, the variable rate is 1.5% (thus the total matching rate is 4.25%). As of 1 January 2019, the maximum personal contributions considered to calculate the government contribution is EUR 2,875.18 (thus the maximum government matching contribution for 2019 is EUR 122.20). No tax is levied on matching contributions. If the individual takes the benefits as a lump sum payment, s/he has to pay back 50% of the government subsidy and pay an additional 27.5% tax on the capital gains with retro-active effect.
It is also possible to get government matching contributions for employee contributions to direct insurance plans. The match rate is 2.75% plus a variable rate depending on the annual general level of interest rate for contributions up to EUR 1 000.

**Social treatment**

Social contributions are levied on employee/individual contributions but not on employer contributions.

Pensioners do not pay most social contributions but do pay for sickness insurance (5.1%).

**Tax treatment of pensioners**

Old-age public pension is considered as an income and subject to the individuals’ marginal income tax rate.

Retired persons are entitled to a tax credit. For couples, the tax credit amounts to EUR 764 for sole earners with income up to EUR 19 930 and if the spouse’s income does not exceed EUR 2 200. Otherwise the tax credit is EUR 400. The tax credit is linearly reduced to 0 between EUR 17 000 (EUR 19 930 for sole earners) and EUR 25 000 of income.

Additional voluntary contributions are possible in the public pension system (Höhererversicherung) and lead to benefits taxed differently. Everyone with a public pension scheme can make additional contributions. Contributions can be defined by the individual. The contribution limit for 2019 is EUR 10 440. The contributions are deductible as special expenses up to the individual’s personal limit. The additional amount granted in pension benefits by these additional contributions depends on the amounts contributed, gender, age at the time of the contribution and the age at retirement. 75% of these additional benefits are tax-exempt. 25% are taxed at the individual’s marginal rate of income tax. Under certain conditions, benefits resulting from these contributions can be fully tax exempt, if they result from contributions up to EUR 1 000.

13th and 14th monthly pensions (Sonderzahlungen) attract a particular tax treatment. They are tax free up to an amount of EUR 620 per year. If the received amount is between EUR 621 and the value of 2 times the average monthly gross pension income (max. EUR 2 100), there is no tax levied. If the value of 2 times the average monthly gross pension exceeds EUR 2 100, the amount between EUR 621 and EUR 2 100 is taxed at a fixed rate of 6%. If the amount received exceeds 2 times the average monthly gross pension, the excess amount is taxed at the individual’s marginal income rate.

**Incentives for employers to set up or contribute to a funded private pension plan**

Pension companies and occupational group insurance: Employer contributions are tax-deductible company expenses, up to 10% of salary, provided that the total benefit target including social security benefits does not exceed 80% of current salary.

Direct insurance: Employer contributions up to EUR 300 per year are exempt from non-wage labour costs.

Direct commitments and support funds: Allocations to internal reserves are tax-deductible against income and corporation tax, up to 10% of salary, if the total benefit target including social security benefits does not exceed 80% of current salary.
Belgium

Structure of the funded private pension system

Voluntary, occupational

- Company plans: collective or individual plans
- Sector plans

Voluntary, personal

- Free supplementary pension for the self-employed (VAPZ)
- Free supplementary pension for employees (VAPW)
- Individual pension commitment for self-employed people with a company (IPT)
- Pension agreement for the self-employed without a company (POZ)
- Long-term savings individual life insurance (third pillar)
- Pension savings accounts (third pillar)

Tax treatment of contributions

Occupational pension plans

Employer contributions to an occupational pension plan are not considered as taxable income for the employee.

Employee contributions to an occupational pension plan are rare. They are eligible for a non-refundable tax credit of 30% of the amount contributed.\(^7\)

Employee and employer contributions enjoy tax relief only to the extent that total retirement benefits, including the statutory pension, do not exceed 80% of the last gross annual salary.\(^8\)

The employer must pay an annual 4.4% tax on the total contributions paid (employer plus employee). This tax is not due in the case of a “social” pension scheme (i.e. a plan with solidarity components).

Free supplementary pensions

Employees and self-employed workers have access to different free supplementary pension arrangements: self-employed persons can open VAPZ plans, while employees can open VAPW plans.

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7 As municipal tax is levied on total income tax, the tax credit also reduces the taxable base for municipal tax. This applies to all contributions attracting a tax credit.

8 Employers can offer individual company plans to specific employees, if they already offer a collective plan to all their employees. In that case, employer contributions cannot exceed EUR 2 490 in 2019. These arrangements are rare.
Contributions to VAPZ plans are deductible from professional income. Contributions to
VAPZ plans cannot exceed 8.17% of professional income, up to EUR 3 256.87 in 2019
(respectively 9.40% of professional income for “social” VAPZ plans, up to EUR 3 747.19).
Contributions to VAPW plans are eligible for a non-refundable tax credit of 30% of the
amount contributed. They cannot exceed EUR 1 600 in 2019 or 3% of gross salary received
two years before, whichever is bigger. If the individual is also a member of an occupational
pension plan, the cap is reduced by the increase in assets of the past two years in that plan
(contributions and returns). The individual must pay an annual 4.4% tax on the total
contributions paid.

Additional personal pension plans for the self-employed
There are two other types of personal pension plans for the self-employed. The self-
employed with a company can open an IPT plan, while those without a company can open
a POZ plan.
Contributions to IPT plans are deductible from taxable income only to the extent that total
retirement benefits, including the statutory pension, do not exceed 80% of the last gross
annual salary. The self-employed individual must pay an annual 4.4% tax on the total
contributions paid.
Contributions to POZ plans are eligible for a non-refundable tax credit of 30% of the
amount contributed. The self-employed individual enjoys tax relief only to the extent that
total retirement benefits, including the statutory pension, do not exceed 80% of the last
gross annual salary. The self-employed individual must pay an annual 4.4% tax on the total
contributions paid.

Third pillar personal pension plans
Individual contributions to third pillar pension plans are eligible for a non-refundable tax
credit of 30% of the amount contributed.
In the case of pension savings accounts, the maximum contribution is EUR 980 (tax credit
of 30%) or EUR 1 260 (tax credit of 25%) per year in 2019. The pension savings account
can be subscribed by an individual aged 18 or over, but less than 65, and for at least 10
years.
In the case of long-term savings individual life insurance, contributions cannot exceed 6%
of professional income, up to EUR 2 350 in 2019 (respectively 15% of professional income
when professional income is no more than EUR 1 960 in 2019). The individual must pay
an annual 2% tax on the total contributions paid. The insurance contract shall have been
subscribed by an individual younger than 65, and for at least 10 years.

Tax treatment of returns on investments
When the yearly return on investment is larger than the guaranteed return, the pension
institution can award the individual with an annual profit share. This profit share is subject
to a 9.25% profit share tax. At the time of pay-out, the investment income coming from the
profit share is deducted before calculating the tax due on pension income.

Tax treatment of funds accumulated
There is no ceiling on the lifetime value of private pension funds. No tax applies on funds
accumulated.
Tax treatment of pension income

Occupational pension plans

The tax treatment of occupational pension income depends on the form of the pay-out option and the source of the contributions. In the case of a lump sum capital payment, the part of the capital that has accrued in respect of the employer’s contributions is generally taxed at 16.5% (plus municipal tax). In case the individual withdraws from the statutory age of retirement (65 years old increasing gradually to 67) and remained active until that age, the tax rate is reduced to 10% (plus municipal tax).

The part of the capital that has accrued in respect of the employee’s contributions is taxed at 10% (plus municipal tax) if withdrawn following death or retirement, and at age 62 (63 as of 2019) at the earliest (16.5% for the capital that has accrued in respect of contributions made before 1993).

Annuities are added to the statutory pension income. The total pension is then taxed at the marginal rate of income tax, after an important tax reduction is granted. Annuities are rare in practice. Programmed withdrawals are not allowed in Belgium.

Free supplementary pensions

Upon withdrawal from VAPZ plans (from age 62 or 63 as of 2019), the accumulated capital is converted into a virtual income for tax purposes. The virtual income is then taxed at the individual’s marginal income tax rate, after an important tax reduction is granted. The virtual income is determined by applying a conversion rate to the accumulated capital (between 4% and 4.5%) and has to be declared during a certain period (13 years, except when the individual withdraws from age 65, in which case, the declaration duration is only 10 years).

Withdrawals from VAPW plans are taxed at 10% (plus municipal tax) if withdrawn from the statutory age of retirement (65 years old increasing gradually to 67). Otherwise, they are taxed at 33% (plus municipal tax).

Additional personal pension plans for the self-employed

Withdrawals from IPT plans are generally taxed at 16.5% (plus municipal tax). In case the individual withdraws from the statutory age of retirement (65 years old increasing gradually to 67) and remained active until that age, the tax rate is reduced to 10% (plus municipal tax).

Withdrawals from POZ plans are taxed at 10% (plus municipal tax) if withdrawn following death or retirement, and at age 62 (63 as of 2019) at the earliest.

Third pillar personal pension plans

Third pillar pension plans are paid as a lump sum. That lump sum is taxed at the rate of 8% for pension savings accounts and 10% for long-term savings individual life insurance (no municipal tax). If the pension plan has been opened when the individual was younger than 55, the tax is calculated on the capital accumulated until age 60. If the pension plan has been opened when the individual was 55 or older, the tax is calculated on the capital accumulated when the contract reaches 10 years. Individuals can choose to withdraw the money when the anticipated tax is due, or to delay withdrawal until the age of 65 at the
latest. In the latter case, individuals can continue contributing after age 60 with no further tax due on the additional capital accumulated.

Non-tax incentives
No such incentives.

Social treatment
Employers must pay social contributions at the rate of 8.86% on their contributions to an occupational pension plan, which is lower than the usual rate for social contributions.

For the self-employed, social security contributions are not levied on contributions to IPT plans. They are levied on contributions to POZ plans. VAPZ contributions are considered as social contributions.

There is a special social contribution of 3% on the portion of contributions exceeding a certain limit (so-called Wyninckx contribution). The Wyninckx contribution is due if the sum of the first and second pillar pension exceeds the maximum pension for civil servants. In 2019, this yearly maximum was EUR 78,453.60. The contribution applies to all plans except third pillar plans, but is mostly relevant for IPT plans.

Employee contributions to occupational plans and VAPW plans, as well as individual contributions to third pillar plans are treated in the same way as salary and are thus subjected to the same social contributions (13.07%).

Pensioners with a (first and second pillar) pension above a minimum threshold pay a social contribution of 3.55% for health and disability insurance. The minimum threshold is EUR 1,500.36 in 2019 for a single pensioner without dependents (EUR 1,778.14 for pensioners with dependents). The effect of the contribution cannot lead to a pension payment inferior to this monthly amount.

There is also a “solidarity” contribution levied on (first and second pillar) pension income exceeding EUR 2,594.45 per month for a single pensioner (EUR 2,999.51 for pensioners with dependents). This contribution ranges from 0% to 2% of the gross pension.

Third pillar lump sums are not subject to social contributions.

Tax treatment of pensioners
Public pension income is taxed at the individual’s marginal rate of income tax, after an important tax reduction is granted.

Incentives for employers to set up or contribute to a funded private pension plan
Employer contributions to an occupational pension plan are deductible as business expenses to the extent that total retirement benefits, including the statutory pension, do not exceed 80% of the last gross annual salary.
Structure of the funded private pension system

Voluntary, occupational

- Registered pension plans (RPPs)
- Deferred profit-sharing plans (DPSPs)

Voluntary, personal

- Registered retirement savings plans (RRSPs)
- Pooled registered pension plans (PRPPs)

Tax treatment of contributions

Pension contributions made within the applicable limits are deductible from income.

There is a penalty tax of 1% per month for excess over-contributions made to an RRSP or a PRPP (i.e. contributions in excess of CAD 2 000 over the applicable RRSP/PRPP limit). Over-contributions, including those made within the CAD 2 000 over-contribution allowance, are not deductible from income.

Limited apply to contributions to RRSPs, PRPPs, DPSPs and defined contribution RPPs.

- Annual contributions of 18% of earnings are permitted to be made to an RRSP and defined contribution RPP, up to a specified dollar limit (CAD 26 500 and CAD 27 230 respectively for 2019). The earnings base for the limit is previous-year income for RRSPs and current-year income for RPPs.
- Defined benefit RPPs are permitted to provide pension benefits of 2% of earnings per year of service, up to 1/9th of the DC RPP limit per year of service (CAD 3 026 for 2019).
- Annual contributions to a DPSP are limited to 18% of earnings (current year income) up to one-half of the defined contribution RPP limit (CAD 13 615 for 2019).
- The RPP and RRSP dollar limits are indexed to average wage growth.

The RPP and RRSP limits are integrated in order to provide comparable retirement savings opportunities whether an individual saves in an RPP, an RRSP, a PRPP, a DPSP or a combination of these plans. This is achieved through the pension adjustment (PA), which reduces an RPP or DPSP member’s annual RRSP limit by the amount of annual RPP and/or DPSP saving.

- For defined contribution RPP members and DPSP members, the PA is equal to the sum of employer and employee contributions.
- For defined benefit RPP members, the PA is an estimate of the contributions needed to fund the annual benefit accrued under the plan (based on a pension cost factor of 9 multiplied by the annual benefit accrued under the plan).
• PRPP contributions must be made within an individual’s available RRSP limit. Unused RRSP room is carried forward to future years.

In general terms, contributions to (or benefit accruals under) these plans must cease and payments/withdrawals must commence by or after the end of the year in which the plan member attains 71 years of age. In particular, an RRSP must be converted to a Registered Retirement Income Fund (RRIF) for this purpose. While defined benefit RPP members may not accrue pension benefits after the year in which they attain 71 years of age, employers may make any necessary contributions to a defined benefit RPP that are required to ensure the plan is fully funded in respect of all members and retirees, including those over age 71.

An individual who is 72 years of age or older, may, based on the individual’s accumulated unused RRSP room, contribute to a spousal RRSP until the end of the year in which the spouse reaches 71 years of age.

**Tax treatment of returns on investments**

Returns on investments are not taxed.

**Tax treatment of funds accumulated**

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

**Tax treatment of pension income**

Payments and withdrawals from pension and retirement savings plans are included in income for regular tax purposes and taxed at the applicable rate. Income tax is generally withheld on such payments and withdrawals.

Lump sum payments from an RPP, where they are permitted, generally are not treated differently than periodic pension payments for tax purposes (i.e., they are included in income and taxed at the applicable rate) except for the purposes of the Pension Income Credit and pension income splitting (lump sum amounts are not eligible). Where a lump sum amount is permitted to be transferred to another registered plan or used to purchase an annuity (e.g., where a member terminates their membership in, or retires under, an RPP), the transfer is tax-free (i.e. there are no immediate tax consequences). The transferred amounts would be included in income for tax purposes when withdrawn from the receiving registered plan or when received as annuity payments.

The Pension Income Credit (PIC) is a non-refundable tax credit provided on the first CAD 2,000 of eligible pension income. The credit rate is 15% federally.

A pension income splitting measure permits seniors and pensioners to allocate up to one-half of their eligible pension income to their spouse or common-law partner for tax purposes.

Eligible pension income for the Pension Income Credit and pension income splitting includes periodic pension payments from an RPP, regardless of the recipient’s age, and other types of pension income (i.e., income from an RRSP annuity, RRIF, PRPP and DPSP annuity) as of age 65.

Generally, pension and RRSP assets may not be withdrawn tax-free, either in a lump-sum or on a periodic basis. However, tax-free withdrawals from an RRSP may be made by first-
time home buyers for the purchase of a home or by those pursuing qualifying education or training programs, under the Home Buyers’ Plan (HBP) and the Lifelong Learning Plan (LLP) respectively. Withdrawals are limited to CAD 35,000 under the HBP and CAD 20,000 under the LLP. HBP and LLP withdrawals must be repaid to an RRSP in regular repayments over a specified period, otherwise the repayment amount is included in income for tax purposes.

**Non-tax incentives**
No such incentives.

**Social treatment**
Social programme contributions (Canada Pension Plan contributions and Employment Insurance premiums) are not levied on employer contributions to an RPP, PRPP or DPSP, since employer contributions to these plans are excluded from an employee’s earnings. Employee contributions to an RPP or PRPP attract social programme contributions since such contributions are made out of an employee’s earnings. Contributions to an RRSP, which are generally made out of employment or self-employment earnings, attract social programme contributions.

Social programme contributions are not levied on pension income.

**Tax treatment of pensioners**
Public pension benefits (Canada Pension Plan and Old Age Security (OAS) benefits) are included in income for regular tax purposes and taxed at the applicable rate, with the exception of the Guaranteed Income Supplement (GIS), which is a non-taxable supplement to OAS provided to low-income seniors.

The Age Credit is a non-refundable tax credit provided to individuals age 65 and over on an amount of CAD 7,494 for 2019. The credit amount is reduced by 15% of income over a threshold of CAD 37,790 (for 2019) and is eliminated when income exceeds CAD 87,750 (for 2019). Both the credit amount and the income threshold are indexed to inflation annually.

**Incentives for employers to set up or contribute to a funded private pension plan**
Employer contributions to an RPP, a PRPP or a DPSP are deductible for the employer for income tax purposes.

Social programme contributions (Canada Pension Plan contributions and Employment Insurance premiums) are not levied on employer contributions to an RPP, PRPP or DPSP, since employer contributions to these plans are excluded from an employee’s earnings.
Chile

Structure of the funded private pension system

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Tax treatment of contributions

Members of the pension system contribute 10% of their salary to mandatory personal accounts. These contributions are tax-exempt. There is an upper limit for the salary taken into account for contributing to the system of 79.2 UF.\(^9\)

Members may also contribute to voluntary accounts. These contributions are tax-exempt up to a certain limit. Regarding contributions to APV or APVC, there are two tax regimes available for members:

- Regime B: contributions are tax-exempt, up to a limit of 50 UF per month or 600 UF per year. Under this regime, voluntary contributions are deducted before taxation.
- Regime A: contributions are not deducted before taxation.

Agreed deposits are contributions settled between the employer and the worker. These savings may only be withdrawn upon retirement and they are not subject to taxation up to a maximum of 900 UF. Contributions above this limit are taxed at the individual’s marginal rate of income tax.

Tax treatment of returns on investments

Returns on investments are not taxed in general.

Workers making voluntary contributions under regime A, withdrawing the funds and not using them to complement the mandatory pension, pay taxes upon withdrawal on the yield obtained from the amount withdrawn, at the individual’s marginal rate of income tax.

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9 The UF (*Unidad de Fomento*) is a price-indexed unit of account.
Tax treatment of funds accumulated

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

Tax treatment of pension income

Pension income is subject to income tax.

Upon retirement, pensioners who can finance a pension greater than 100% of the maximum pension with solidarity payment and greater than 70% of the average monthly taxable wage over the last ten years, are entitled to withdraw the surplus as a lump-sum payment (i.e. funds remaining in the individual account after calculating the necessary savings to obtain the aforementioned pension). This available surplus is tax-exempt up to a maximum annual amount equivalent to 200 UTM, and the total exemption may not exceed 1 200 UTM.\(^\text{10}\) If members choose to withdraw the entire surplus in one year, the maximum exemption is 800 UTM. This exemption applies to all savings (mandatory and voluntary) done at least 48 months prior to retirement. In the case of agreed deposits, if an individual withdraws more than 900 UF but less than the limit of the surplus, the return on investment over the excess of 900 UF is taxed.

Workers may fully or partially withdraw the balance accumulated through voluntary contributions at any time, not only upon retirement. If the worker used regime B, these funds are subject to a special additional tax and are considered income for the year the withdrawals were made. The special additional tax is calculated differently depending on when the withdrawal is made:

- Withdrawal before meeting the conditions for retirement: The withdrawal is subject to one-off additional tax at the time of withdrawal at a rate between 3% and 7%. This rate is calculated as 0.03 + [1.1 × (ICR - ISR)/R] where ICR corresponds to the amount of income tax that the individual would have to pay by adding the withdrawal to other taxable income for the fiscal year; ISR corresponds to the amount of income tax that the individual would have to pay if no withdrawals were made; R corresponds to the amount of the withdrawal.

- Withdrawal for pensioners or those who meet requirements for retirement: The withdrawal is subject to one-off additional tax at the time of withdrawal at a rate calculated as (ICR - ISR)/R.

If the worker used regime A, s/he does not have to pay the additional tax described above. In the case of withdrawal of funds before retiring, the worker loses the government matching contribution and pays tax on the return on investment. If voluntary contributions under regime A are used to complement the mandatory pension, the part of the pension financed with these voluntary savings is deducted before taxation.

Non-tax incentives

Workers between 18 and 35 years old with an income lower than 1.5 times the minimum wage are entitled to a government matching contribution for the first 24 contributions to the pension system. This contribution consists in two payments: a subsidy to employers for hiring this type of workers and a direct contribution to the worker’s pension account of the same amount. The matching contribution is equivalent to 50% of the mandatory

\(^{10}\) The UTM is a Monthly Taxation Unit.
contribution of the worker if the wage is lower than or equal to the minimum wage; or 50% of the mandatory contribution over the minimum wage if the wage is greater than the minimum wage and lower than 1.5 times the minimum wage.

Women aged 65 or older are entitled to a government subsidy for each child alive at birth. The subsidy is equivalent to 18 months of contributions over the current minimum wage at the moment of the birth of the child, invested in fund type C since 2009 or since the birth of the child, whichever is later.

Workers making voluntary contributions under regime A (usually low-earnings workers whose wages are either exempted from income tax or have a low income tax rate) are entitled to a government matching contribution, corresponding to 15% of the amount saved annually, subject to a limit. These funds are added to the individual account each year but have a separate accounting. For each calendar year, the government matching contribution is limited to 6 UTM. If the member withdraws the funds instead of using them for retirement, the matching contribution is lost. It is not required to contribute to the mandatory system to get the matching contribution but only members of the pension system may contribute to voluntary accounts.

**Social treatment**

Social contributions (pension 10%; healthcare 7%; unemployment insurance 3% - of which 0.6% is paid by the employee and 2.4% by the employer; insurance for work-related accidents and occupational diseases 0.95%; disability and survivor insurance 1.53%) are levied over the gross salary. There is a maximum salary for social contributions of 79.2 UF. Pension contributions are part of the social security contributions.

Pensioners pay 7% of pension income for health coverage. Since 2011, pensioners eligible for a solidarity pension (who must belong to the 60% poorest population, among other requirements) are exempted to pay contributions for health insurance. Between 2012 and 2016, pensioners that belonged to the 80% poorest population and were not eligible for a solidarity pension, benefited from a reduction in the contribution for healthcare. Since November 2016, this latter group of pensioners is exempted to contribute for healthcare.

**Tax treatment of pensioners**

The basic solidarity pension and the pension supplement are taxed at the individual’s marginal rate of income tax. In practice however, they are tax exempt, because the beneficiaries are in the lower part of the income scale.

**Incentives for employers to set up or contribute to a funded private pension plan**

Agreed deposits and contributions in APVC are considered as an expense for the employer and therefore reduce corporate income tax.
Czech Republic

Structure of the funded private pension system

Voluntary, personal

- Supplementary pension insurance scheme: transformed funds
- Supplementary pension savings scheme: participating funds

Tax treatment of contributions

Individuals’ contributions into supplementary pension schemes are paid from after-tax income. Contributions of CZK 300 up to CZK 1 000 a month are matched by government contributions. Contributions above CZK 12 000 a year are tax-deductible up to CZK 24 000 a year.

Employer contributions into supplementary pension schemes are not considered as taxable income for the employee up to CZK 50 000 a year. Above they are taxed as income.

Tax treatment of returns on investments

Returns on investment are not subject to income tax during participation in the system but taxed according the rules described below in out payments from the system.

Tax treatment of funds accumulated

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

Tax treatment of pension income

If the participant would like to withdraw money and the conditions for lump sum or pension are not met, this closes the contract and any government contributions are returned to the government, and if the participant in such a case used tax incentives, the amount previously deducted must be taxed.\(^{11}\) In addition, the returns on investments and employers contributions are taxed at 15%.

Annuities are tax-free, including when withdrawn up to 5 years before the official retirement age. Programmed withdrawals for more than 10 years are tax-free. They are otherwise taxed as income. Lump sums are taxed at 15% but the tax base consists only of the returns on investments and employer’s contributions paid after January 2000.

Non-tax incentives

Individuals’ contributions made into supplementary pension schemes are matched each month by the government as follows:

\(^{11}\) It is not possible to withdraw a lump sum before the age of 60. Early withdrawal is possible as an annuity or programmed withdrawal up to 5 years before the official retirement age.
• CZK 230 if the individual contributes at least CZK 1 000.
• CZK 90 + 20% of the amount above CZK 300 if the individual contributes between CZK 300 and CZK 999.
• Nothing if the individual contributes less than CZK 300.

Employer contributions cannot be matched. The government contributions are not subject to income tax and social contributions.

**Social treatment**

Individuals’ contributions above CZK 12 000 per year and up to CZK 24 000 are not included in income subject to social contributions.

Social contributions are not levied on employer’s contributions up to the limit of CZK 50 000 per year.

Social contributions are not levied on pension income.

**Tax treatment of pensioners**

Old-age public pay-as-you-go pensions are not taxed up to a value of 36 times the minimum wage.

Taxpayers can claim a tax credit of CZK 24 840 per year. Since 2014, the tax credit can also be claimed by individuals receiving an old-age public pension.

**Incentives for employers to set up or contribute to a funded private pension plan**

Employer contributions into supplementary pension schemes are deductible from corporate tax - more precisely they constitute expenses for tax purposes.

Social contributions are not levied on employer’s contributions up to the limit of CZK 50 000 per year.

**Denmark**

**Structure of the funded private pension system**

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Quasi-mandatory occupational plans and voluntary personal plans can run three different kinds of scheme: age savings (Aldersopsparing), programmed withdrawal (Ratepension/Ophørende livrente) or life annuity (Livrente).

**Tax treatment of contributions**

Employer contributions are not considered as taxable income to the employee.

In age savings, individual contributions are subject to labour market tax and income tax. There is a contribution limit of DKK 5 200 in 2019. The last five years before retirement age, the contribution limit is increased to DKK 48 000 per year (the amount is gradually raised to DKK 51 100 in 2023).

For all the other plans, employee/individual contributions are deductible from income tax but still subject to the labour market tax:

- ATP: contributions are tax-exempt.
- Programmed withdrawal: contributions are tax-exempt up to DKK 55 900.
- Life annuity: contributions are tax-exempt.

In order to keep up the pension saving incentives and avoid the interaction problem with income-related government pensions and housing support, an extra tax exemption was introduced in 2018. For pension savings up to DKK 71 500 per year (employer and employee contributions, except in age savings), an extra exemption of 22% is obtained the last 15 years before retirement. For pension savers with more than 15 years to retirement the extra exemption is 8%. In other words the tax exemption is 122% or 108% of contributions instead of 100%.

Self-employed persons contributing the same amount for at least ten years to a life annuity plan receive tax deductions for the full payment. If paid in less than 10 years, up to 30% can be deducted of the profits of the company in the year.

Self-employed people aged at least 55 and who have run an independent business for at least 10 of the last 15 years can choose to deposit the taxable profit from the selling of their business into a so-called termination pension scheme, up to DKK 2 803 900 (in 2019). The tax payment on the profits is then postponed from year of the sale of the company to the years when the pension is received.

**Tax treatment of returns on investments**

Returns are subject to taxation, regardless of the form of the pension scheme. Returns are taxed yearly at a fixed rate of 15.3%. Returns include dividends, interests and changes in the market value of the assets.

**Tax treatment of funds accumulated**

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

**Tax treatment of pension income**

For ATP, programmed withdrawal and life annuity schemes, pension income is subject to personal income tax (but not to labour market tax).
Pension income from age savings schemes is tax-exempt and does not affect entitlements for the housing support and public pensions.

If an individual chooses to withdraw assets from programmed withdrawal or life annuity schemes before retirement age, the sum will be taxed at a fixed rate of 60%. Many occupational plans do not however offer this opportunity of early withdrawal.

**Non-tax incentives**
No such incentives.

**Social treatment**
No such contributions.

**Tax treatment of pensioners**
Public basic old-age pension is subject to personal income tax (but not to labour market tax).

**Incentives for employers to set up or contribute to a funded private pension plan**
Contributions made by employers are, like other parts of salaries, fully tax deductible as expenses.

**Estonia**

*Structure of the funded private pension system*

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**Tax treatment of contributions**
In mandatory pension plans, only employee contributions and government matching contributions are possible. Employee contributions (2% of the gross salary withheld by the employer) are fully tax-deductible. Government matching contributions (4% of the gross salary) are not considered as taxable income to the employee. They are paid from the employer’s social contributions (20% for pension insurance and 13% for health insurance).

Individuals receive a non-refundable tax credit on their contributions to voluntary pension plans corresponding to 20% of the contributions made during the year, up to 15% of gross income or EUR 6 000. The EUR 6 000 limit applies to the total employee and employer contributions. Contributions are otherwise taxed at the fixed income tax rate (20% in 2019). The tax credit only applies to contracts opened for at least 5 years when the individual reaches 55.
Employer contributions to voluntary pension plans are considered as a part of the employee’s salary and are not subject to personal income tax as long as they do not represent more than 15% of individual contributions, up to EUR 6,000. As the EUR 6,000 limit is common to employee and employer contributions, any employer contribution reduces the available room for individual contribution entitled to the tax credit.

**Tax treatment of returns on investments**

Returns on investments are not taxed.

**Tax treatment of funds accumulated**

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

**Tax treatment of pension income**

Pension payments from the mandatory funded pension system and the pay-as-you-go public pension system are treated together in terms of taxation. An annual basic exemption is available to all Estonian residents who receive taxable income below EUR 25,200, and pension income exceeding the limit is taxed as income at the fixed income tax rate (20% in 2019).

The taxation of pension payments from voluntary pension plans depends on when the individual withdraws money and the form of pension payments.

- Early withdrawals (before age 55) are taxed at a rate of 20% except if the person has become fully and permanently disabled. For disabled people, lump sums are taxed at a rate of 10%, while life annuities are tax-free.
- Withdrawals from the age of 55 are taxed at a rate of 10% for fixed-term annuities and tax free for life annuities, provided that more than 5 years have passed since the conclusion of the contract. Withdrawals are taxed at a rate of 20% if less than 5 years have passed since the conclusion of the contract.
- All taxed withdrawals should be taken into account in yearly income when calculating the basic tax exemption.

**Non-tax incentives**

No such incentives.

**Social treatment**

Employees pay 1.6% of their earnings in contributions for unemployment insurance. The taxable base is the total amount of the gross wage or salary.

Social contributions are also paid by employers on the same taxable base than employees’. The social tax is 33% of gross salary. There is a minimum lump sum payment for each employee of EUR 165 (in 2019). In addition, employers pay the unemployment insurance premium at a rate of 0.8% of gross salary monthly.

Social contributions are not levied on pension income.
Tax treatment of pensioners

Pension payments from the mandatory funded pension system and the pay-as-you-go public pension system are treated together in terms of taxation. Pension income exceeding the annual basic exemption is taxed as income at the fixed income tax rate (20% in 2018).

Incentives for employers to set up or contribute to a funded private pension plan

Contributions to voluntary pension plans made by the employer are classified as expenses related to business. These expenses may be deducted from the employer’s business income.

Finland

Structure of the funded private pension system

Mandatory, occupational

- The earnings-related statutory pension provisions for private sector workers (TyEL) and seamen (MEL)

Voluntary, occupational

- Company and industry-wide pension funds
- Group pension insurance contracts in life insurance companies
- Book reserve pension plans

Voluntary, personal

- Individual pension insurance provided by the employer
- Individual pension insurance taken out by an individual

Tax treatment of contributions

Mandatory occupational plans: Employee contributions are fully tax-deductible from earned income. Employer contributions are not considered as taxable income to the employee.

Voluntary occupational group plans: Employee contributions are deductible from the employee’s earned income up to the lesser of (i) 5% of salary or (ii) EUR 5,000 per year. If the employee contributes more than the employer does, the excess amount is not deductible. For voluntary occupational plans opened before 06/05/2004, employees’ contributions are fully deductible. Employer contributions are not considered as taxable income to the employee.

If the employee contributes to the occupational group plan, the retirement age cannot be lower than the maximum statutory age (currently varying between 68, 69 and 70 years depending on the age of the insured person) to be eligible for tax relief. If the employee

12 The retirement age is 60 for members affiliated between 06/05/2004 and 31/12/2012, and 55 for members affiliated before 06/05/2004.
does not contribute to the plan, in practice a minimum retirement age of 55 years has been applied.

Voluntary personal plans set up by the employer: Employee contributions are not tax-deductible for the employee. Employer contributions are not considered as taxable income to the employee if they do not exceed a limit of EUR 8,500 per year. Excess contributions count as employee’s salary and are taxed at his/her marginal income tax rate.

Voluntary personal plan taken by the employee: Individual contributions are deductible from capital income up to EUR 5,000 per year. If the capital income earned in the year is lower than the amount of deductible contributions, the difference is used to calculate a tax credit applicable to earned income tax. For example, if an individual contributes EUR 5,000 to a personal plan and has EUR 3,000 of capital income, the first EUR 3,000 of contributions are used to reduce capital income to zero. The tax credit is then calculated as 30% of the remaining EUR 2,000, i.e. EUR 600. Employer contributions are considered as taxable income to the employee. If the employer provides a voluntary personal plan for its employees, each year the employer contributes to it, the tax-deductible amount of contributions to a voluntary personal plan taken by the employee declines to EUR 2,500. If the voluntary personal plan was opened before 06/05/2004, contributions paid before 2006 were deductible from earned income.

For members of voluntary personal plans since 2013, the retirement age cannot be lower than the maximum statutory age (currently varying between 68, 69 and 70 years depending on the age of the insured person) to be eligible for tax relief. In addition, early withdrawal of pension assets is possible only under strict conditions (unemployment, disability, divorce and death of a spouse). Furthermore, the minimum withdrawal period has to be 10 years.

**Tax treatment of returns on investments**

Returns on investments in pension plans are not taxed during the saving time until pension is actually paid out.

**Tax treatment of funds accumulated**

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

**Tax treatment of pension income**

Pension benefits received from mandatory occupational plans, voluntary occupational plans and voluntary personal plans provided by the employer are taxed as earned income, as part of the taxpayer’s total earned income.

Pension benefits received from voluntary personal plans taken by employees are taxed as capital income. Capital income is taxed at a fixed rate of 30% up to EUR 30,000. The excess amount is taxed at 34%.

**Non-tax incentives**

No such incentives.

**Social treatment**

Employer health insurance contribution is payable by the employer on salary income, and if e.g. pension insurance contributions constitute taxable salary, the employer and employee...
health insurance contributions need to be collected. The average contribution in 2019 is 0.77% of salary paid. A so-called employee per diem contribution also needs to be collected from income taxable as salary income, the rate of this contribution is 1.54% during 2019.

Similarly, if e.g. employer contributions to pension insurance are considered taxable salary income for the employee, mandatory unemployment and pension insurance contributions need to be collected.

The employer withholds the mandatory unemployment contribution from the employee’s salary, and forwards both the employer’s (in 2019, up to 2.05% of salary paid) and employee’s (in 2019, 1.5% of salary received) contribution to the Unemployment Insurance Fund (TVR).

The average mandatory pension insurance contribution rate applicable for employers is 17.35% during 2019 on salaries paid. The mandatory pension insurance rate applicable for employees depends on the age of the employee and varies between 6.75% and 8.25%.

Pension income does not form a basis for pension or unemployment insurance contributions.

There is a separate health care contribution for pension income taxable as earned income. The health care contribution rate is 1.54% for pension income in 2019.

**Tax treatment of pensioners**

Public pension income is subject to taxes as earned income. However, pensions are entitled to a special pension deduction. The deduction ensures that persons who only receive a small, usually public, pension get their pension tax free.

Some public pensions and add-ons are always tax free, e.g. some war related pensions and state artist pensions.

**Incentives for employers to set up or contribute to a funded private pension plan**

From the point of view of corporate income tax, the employer contributions to e.g. pension insurances can be deducted in the taxation of the employer, similarly to salary expenses. However, as such, there is no extra benefit in using these plans from the point of view of corporate income taxation.

As explained above, some employer (or employee) social contributions are not payable on e.g. voluntary pension insurances, if conditions are met.
Structure of the funded private pension system

Voluntary, occupational

- Occupational DB plans for managers (article 39 of General Tax Code)
- Occupational DC plans (articles 83 and 82 of General Tax Code)
- Company retirement savings plans (PERE)
- Collective retirement savings plans (PERCO)
- Complementary pension plans for civil servants (PREFON) and local government representatives (FONPEL, CAREL-MUDEL)

Voluntary, personal

- Pension insurance contracts for self-employed workers and farmers (Madelin)
- Popular retirement savings plans (PERP)
- Mutual retirement plan for combatants (RMC)

Tax treatment of contributions

Personal income tax system

Employer contributions to all occupational pension plans (except article 82) are not considered as taxable income for the employee.

Employee contributions to occupational (except PERCO and article 82) and personal pension plans are tax deductible from income (or from taxable profit in case of Madelin contracts) up to specific limits. Contributions above the limits are taxed at the individual’s marginal rate of income tax. The following limits apply:

- Article 39: No limit for the tax-exemption of employer contributions.
- Article 83 and PERE: Mandatory employer and employee contributions are tax-exempt up to a limit of 8% of the annual gross wage of the employee, with the annual gross wage capped at 8 times the annual social security ceiling. The contribution limit is reduced by tax-exempt employer or employee contributions into PERCO.
- Article 83, PERE, PERP and PREFON: The tax deduction limit for voluntary contributions is common for these four types of plan. The ceiling for a year is 10% of gross earnings of the previous year. This ceiling cannot be lower than 10% of the annual social security ceiling (EUR 3 973 in 2018) or greater than 8 times 10% of the annual social security ceiling (EUR 31 785 in 2018). This ceiling is reduced by the following contributions made in another retirement savings plan the same year:
  - Employer contributions and mandatory employee contributions into article 83 and PERE;
Employer contributions into PERCO;

- Tax deductible contributions into Madelin contracts.

- The final cap for one year is the ceiling of that year plus unused ceilings of the three previous years.

- Madelin contracts: The tax deduction limit for contributions depends on the taxable profit. If the taxable profit is lower than the annual social security ceiling (EUR 39 732 in 2018) then the tax deduction is capped at 10% of the annual social security ceiling. If the taxable profit is between 1 and 8 times the annual social security ceiling, the cap is equal to 10% of the taxable profit plus 15% of the taxable profit above the annual social security ceiling. If the taxable profit is greater than 8 times the annual social security ceiling, the cap is equal to 10% of 8 times the annual social security ceiling plus 15% of 7 times the annual social security ceiling.

Employer contributions on behalf of employees into article 82 occupational plans are considered as taxable income for the employee and are not tax deductible.

Voluntary employee contributions into PERCO are not tax-deductible. However, profit-sharing contributions into PERCO are not considered as taxable income for the employee. Employer contribution into PERCO cannot exceed 16% of the annual social security ceiling and 3 times employee contributions (voluntary contributions and profit sharing contributions). Employee contributions into PERCO (voluntary contributions and profit sharing contributions) cannot exceed a quarter of the employee’s gross earnings of the past year. The cap for employee contributions into PERCO includes any contributions made into company savings plan (PEE) or intercompany savings plan (PEI).

Social taxes

So-called “social” taxes are levied on employer and employee contributions to occupational pension plans (except article 39) and on individual contributions to personal pension plans: the General Social Contribution (CSG) at the rate of 9.2% and the Social Debt Reimbursement Contribution (CRDS) at the rate of 0.5%. These social taxes are withheld from the salary. Part of the CSG is deductible from income tax (6.8%). Social taxes are not levied on contributions to article 39.

Tax treatment of returns on investments

For article 39, article 83, PERE and PERP, return on investment is exempt from income tax and social taxes.

Return on investment into PERCO and article 82 is not considered as taxable income during the accumulation phase. However, in case of a lump sum withdrawal, it is subject to social taxes at the rate of 17.2% (PERCO) or income and social taxes (article 82). Part of the CSG is deductible from income tax (6.8%).

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13 There is a debate on how to classify the CSG. The French Law considers it as a tax because it does not entitle workers to any right or benefit (as opposed to social contributions). The Court of Justice of the European Union considers it as a social contribution because the money is only used to finance the social security system and is levied on wages (although not only). Following French interpretation, both CSG and CRDS are considered as taxes in this analysis, rather than as social contributions.
**Tax treatment of funds accumulated**

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

**Tax treatment of pension income**

**Annuities**

Annuities paid by article 39, article 83, PERE, PREFON, Madelin and PERP are subject to the same social and income taxes as public pensions. These pensions are taxed at the individual’s marginal rate of income tax after a 10% deduction. This deduction cannot be lower than EUR 383 per pensioner or greater than EUR 3 752 per household. If the individual’s pension is lower than EUR 383, then the tax deduction is equal to the pension. These pensions are also subject to CSG (8.3%), CRDS (0.5%), health contribution (1%) and the solidarity contribution for autonomy - CASA - (0.3%). Part of the CSG is deductible from income tax (5.9%).

An additional tax applies to annuities paid by article 39. The tax scale depends on the date when the annuities have begun:

- If the annuities have begun before 1 January 2011, the part of the monthly pension below EUR 500 is not taxed, the part between EUR 500 and EUR 1 000 is taxed at 7% and the part above EUR 1 000 is taxed at 14%.
- If the annuities have begun after 1 January 2011, the part of the monthly pension below EUR 400 is not taxed, the part between EUR 400 and EUR 600 is taxed at 7% and the part above EUR 600 is taxed at 14%.

The part of the additional tax covering the first EUR 1 000 of pension payment is tax-deductible.

Annuities paid by PERCO and article 82 are partially taxed at the individual’s marginal income tax rate and subject to social taxes (17.2%), depending on the claiming age. If the individual claims the annuity before age 50, 70% of the pension is subject to income and social taxes. If s/he claims the annuity between age 50 and age 59, 50% of the pension is subject to income and social tax. If s/he claims the annuity between age 60 and age 69, 40% of the pension is taxed. If s/he claims the annuity from age 70, 30% of the pension is taxed.

**Lump sums and programmed withdrawals**

Lump sums or programmed withdrawals are not allowed for article 39, article 83, PERE and PREFON. They are not allowed either for Madelin contracts, except if the pensioner buys his/her permanent residence.

In case of a lump sum withdrawal after 8 years from article 82, the payment is divided between a capital component and a return on capital component. Only the return on capital component above EUR 4 600 (for singles) is subject to taxes, as follows:

- if total premiums are lower than EUR 150 000, a single tax of 7.5% (or income tax at the individual’s marginal tax rate), and social taxes;
• if total premiums are higher than EUR 150 000, a single tax of 30% (12.8% for income tax and 17.2% for social taxes) or income tax at the individual’s marginal tax rate and social taxes.

Lump sums paid by PERCO are divided into a capital component and a return on capital component. Only the return on capital component is subject to 17.2% social tax. The lump sum is not considered as taxable income.

Pensioners can withdraw up to 20% of their PERP as a lump sum. In this case, pensioners can choose between three fiscal options:

• The lump sum is taxed at the individual’s marginal rate of income tax after a deduction of 10%. The lump sum is also subject to CSG (8.3%) and CRDS (0.5%). CSG is partially tax deductible (5.9%).

• The income tax due for the lump sum is equal to 4 times the additional tax that would be generated by a quarter of the lump sum being taxed at the marginal rate of income tax. The lump sum is also subject to CSG (8.3%) and CRDS (0.5%). CSG is partially tax deductible (5.9%).

• The lump sum is entirely taxed at the rate of 7.5% and subject to CSG (8.3%) and CRDS (0.5%). In this option, there is not deductible CSG. This option is only available if it is not possible to withdraw another lump sum from the same contract in the future.

**Non-tax incentives**

No such incentives.

**Social treatment**

Contributions into article 39 plans are not subject to social contributions. More precisely, three types of employer contribution are possible and depend on employer’s choice. If the article 39 management is not delegated to an insurance company, social contributions are taxed at 48% of the insurance premium. However, in case of delegated management, the rate is 24%. Employers may choose pensions as tax base with a rate of 32%.

Employee and employer contributions into article 83 and PERE are subject to employee social contributions. Employer contributions within limits are subject to a fixed social fee of 20% instead of usual employer social contributions. The contribution limit is the highest of 5% of the annual gross wage (with the annual gross wage capped at 5 times the annual social security ceiling) or 5% of the annual social security ceiling. The limit is reduced by employer contributions into PERCO. Any contributions above the limit are subject to usual employer social contributions.

Employer contributions into article 82 are subject to social contributions.

Employee contributions (except profit-sharing contributions) into PERCO are subject to social contributions. Employer contributions are subject to a fixed social fee of 20% instead of usual employer social contributions, lowered to 16% on two conditions.

Contributions to PERP and “Madelin” contracts are subject to social contributions.

Social contributions are not levied on pension income.
**Tax treatment of pensioners**

Public pensions are taxed at the individual’s marginal rate of income tax after a 10% tax deduction. This deduction is computed on public pensions and some private pensions (article 39, article 83, PERE, PREFON, Madelin contracts and PERP). It cannot be lower than EUR 383 per pensioner or greater than EUR 3,752 per household. If the individual’s pension is lower than EUR 383, then the tax deduction is equal to the pension.

Pensioners with low “fiscal reference income” are partially or fully exempt from social taxes. The value of the income thresholds in Table 6 depends on the family composition and on whether the individual leaves in metropolitan France or in Overseas Departments of France.

### Table 6. France: Exemption from social taxes

<table>
<thead>
<tr>
<th>Fiscal reference income</th>
<th>CSG</th>
<th>CRDS</th>
<th>CASA</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; Exemption threshold</td>
<td>Exempted</td>
<td>Exempted</td>
<td>Exempted</td>
</tr>
<tr>
<td>Between Exemption threshold and Partial CSG threshold</td>
<td>3.8% (3.8% tax deductible)</td>
<td>0.5%</td>
<td>Exempted</td>
</tr>
<tr>
<td>&gt; Partial CSG threshold</td>
<td>8.3% (5.9% tax deductible)</td>
<td>0.5%</td>
<td>0.3%</td>
</tr>
</tbody>
</table>

**Incentives for employers to set up or contribute to a funded private pension plan**

Employers contributions to occupational private pension plans (article 39, article 83, PERE and PERCO) are deductible from corporate tax. Regarding social contributions, the social treatment described above is also an incentive for employers to set up or contribute to a funded private pension plan.

**Germany**

**Structure of the funded private pension system**

- **Voluntary, occupational**
  - Pension funds (*Pensionskassen* and *Pensionsfonds*)
  - Direct insurance (*Direktversicherung*)
  - Direct commitments (*Direktzusagen*)
  - Support funds (*Unterstützungskassen*)

- **Voluntary, personal**
  - Riester pension plans
  - Basic pension plans (*Rürup*)
  - Private pension insurance (*Rentenversicherung*)

Since 1 January 2018, social partners can agree to introduce occupational defined contribution schemes per collective agreement. These plans can be offered by life insurers and pension funds.
Tax treatment of contributions

Pension funds and direct insurance: Employer and employee contributions are tax exempt, up to 8% of the social security contribution ceiling (EUR 80 400 per year in 2019). If total contributions exceed the limit, they are taxed at the individual’s marginal rate of income tax. For members who joined the plan before 2005, in certain cases, total contributions up to EUR 1 752 could be subject to a 20% fixed tax rate (plus solidarity and church tax), provided this rate is more beneficial than the employee’s personal income tax rate and that the 8% tax deduction rule would not be used.

Direct commitments: Employer and employee contributions are tax free and no ceiling applies.

Riester pensions: Riester pensions are available only to individuals who are actively compulsorily insured in a pension system, where the benefits were reduced by the legislation in or after 2002 (i.e. employees, civil servants, unemployed in receipt of unemployment benefits, recipients of disability pensions). Riester pension plans and the corresponding incentives are also generally available to spouses and partners of civil partnership if both partners live in the European Union, are not separated from each other, make the minimum payment and conclude a Riester contract. Plan members can receive a government subsidy and pay contributions net of those subsidies. Their gross contributions (including the subsidy) can be deducted from income tax up to EUR 2 100. From a technical point of view, the government subsidy can be seen as an advance on the subsequent tax relief. To be incentivized, contributions must be paid to an officially certified Riester pension contract. Important certification criteria are the following. The pension has to be paid in the form of a life annuity and if the contract was signed after 2011, the payment must not occur before age 62. Alternatively, income drawdown until age 85 with a subsequent lifetime annuity from age 85 onwards is permitted.

Basic pensions: Contributions to basic pensions are partly taxed at the individual’s marginal income tax rate. From a tax perspective, basic pension plans are treated like pillar one pensions (mandatory state pension plan and collective retirement schemes for selected professions). These pensions are in a transition period regarding taxation. Contributions to pillar one pensions (including basic pension contributions) are partly taxed, the exempt part growing by 2 percentage points every year, starting from 60% in 2005. This means that in 2019, 88% of a maximum EUR 24 305 for single individuals (EUR 48 610 for married couples) of contributions can be deducted from taxable income. Contributions will be fully tax exempt from the year 2025, up to a maximum equal to the maximum contribution to the miners’ statutory pension scheme (Knappschaft). The limit counts for the total contributions to mandatory state pension, collective retirement schemes for selected professions and basic pensions. For contributions to basic pensions to be tax-incentivized, they must be paid to an officially certified basic pension contract. Important certification criteria are the following. The benefit payment of a basic pension scheme must take the form of a life annuity and if the contract was signed after 2011, the payment must not occur before age 60.

14 The tax authority checks whether individuals are entitled to the tax deduction. The tax authority first deducts the capped gross contributions (i.e. own contributions plus the subsidy, up to EUR 2 100) from the personal income tax base and calculates an adjusted tax liability. It then adds the amount of the subsidy to the adjusted tax liability and compares it with the regular tax liability (i.e. without deducting contributions). The tax relief corresponds to the difference between the two tax liabilities. If the difference is negative, the tax authority does not deduct contributions.

15 For contracts signed before 2011, the minimum age to receive payments is 60.
before age 62. The savings cannot be inherited by someone else, must be non-transferable, cannot be used as collateral, cannot be sold and cannot be subject to capitalization.

Private pension insurance: No tax relief on contributions.

**Tax treatment of returns on investments**

Returns on investments are not taxed.

**Tax treatment of funds accumulated**

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

**Tax treatment of pension income**

In general, pension income is taxed at the individual’s marginal rate of income tax.

Direct commitments: Direct commitments are in transition period regarding the taxation of pension income. The tax-free allowance on benefits will be gradually phased-out from 40% of pension income up to EUR 3 000 in 2005 to 0% by the year 2040. If the payment of the benefits starts in 2019, 17.6% of pension income is tax-free, up to EUR 1 320.

Pension funds, direct insurance and Riester pensions: If the benefits of tax-deducted contributions are paid as annuities or a maximum of 30% as a lump sum, they are taxed at the individual’s marginal rate of income tax. If the annuity is lower than EUR 31.15 per month then the whole benefits can be paid as a lump sum and are also taxed at the individual’s marginal rate of income tax. In this case, the member of the Riester pension plan is generally entitled to receive the payment of the lump sum at the beginning of the next year, which could have a positive effect on the individual’s marginal tax rate. Programmed withdrawals with subsequent annuitisation from age 85 from Riester plans are also taxed at the individual’s marginal tax rate. If the benefits of non-tax-deducted contributions (e.g. contributions exceeding tax limits or paid without being entitled to Riester subsidy) are paid as annuities, then only an age-dependent percentage of the pension is liable for taxation (see description below for private pension insurance).

Basic pensions: Due to the transitional regime, the taxation of pension income depends on the date of retirement. If the payment of the benefits started in 2005 or earlier, 50% of the benefits are subject to taxation at the marginal income tax rate of the pensioner. The taxable portion increases annually by 2 percentage points until 2020. Between 2020 and 2040, the taxable portion increases annually by 1 percentage point until reaching 100%. Therefore, pensions withdrawn on or after 2040 will be fully taxed. The tax-exempt part of the pension is determined in the year after the retirement (based on the rate applicable in the year of retirement) and is kept constant in nominal terms for the remaining lifetime of the retiree. If the payment starts in 2019 the taxation rate of the pension is 78%. The annual amounts are taxed at the individual’s marginal rate of income tax.

Private pension insurance: Because for these products, in general, contributions are not tax-favoured, some special tax rules regarding the benefits apply. Withdrawals before age 62 are not allowed for contracts signed from 2012.

- For life-time annuities, only the so-called “income part” (i.e. returns on investment) will be taxed at the individual’s marginal rate of income tax. This income part is determined by the age at which the retiree receives the pension for the first time. For example, if the recipient receives his/her pension for the first time at age 65,
the taxable income part is 18% of the annual pension. For age 60 (respectively age 67) it is 22% (respectively 17%). This amount will be taxed at the individual’s marginal rate of income tax.

- The taxable income in case of a lump sum payment is calculated as follows. The income part is the insurance benefit in the event of survival minus the paid-in contributions. If the lump sum is paid after holding the contract at least 12 years and the recipient is 60 years or older (if the contract was signed from 2012, the payment must not occur before age 62) half of the income part will be taxed.

**Non-tax incentives**

**Riester plans**

Members of Riester pension plans can receive government subsidies. The subsidy is paid into their account by a state authority. Members have to claim the subsidy annually within two years after contributing to the plan. They may also authorize the provider to claim the government subsidy for them. For single individuals or each partner of a married or civil partnership couple where both qualify for the subsidy, the maximum subsidy is EUR 175 per year and per person. In order to receive the maximum subsidy, the sum of the tax-deducted member’s contributions and the subsidies must be at least equal to 4% of his/her previous year’s annual income before taxes (up to a maximum of EUR 2 100). If below 4%, the state subsidies will be reduced pro-rata. Spouses and partners of civil partnership (who are not entitled on their own) of individuals entitled to the subsidy are entitled to the government subsidy too if they contribute at least EUR 60 per year to their own contract.

An additional child subsidy can also be paid into the Riester account if one of the parents receives child allowances. The maximum subsidy amounts to EUR 185 per year and per child born before January 1st 2008; or EUR 300 per year and per child born on or after January 1st 2008. As a default in case of parents with different gender, the mother receives the subsidy, unless otherwise agreed. As a default in case of parents with the same gender, the person receiving the subsidy is the one against whom the child allowance is determined.

Young individuals, who receive the government subsidy before their 25th birthday, receive an additional maximum one-time bonus of EUR 200.

Since 1 January 2018, there is an allowance for income from a Riester pension in the income assessment to determine eligibility for receiving social welfare payments ("basic social security").

**Social partner model**

For employees asking their employer to deduct part of their salary and contribute it to an occupational pension plans (salary conversion), for contracts signed as of 2019, employers have to forward 15% of the deferred income to the pension plan, if they save social insurance contributions due to the deferral of income. This contribution is tax free for the employee, within the general maximum amounts.

To support employees earning less than EUR 2 200 per month, the “Law to improve occupational retirement income provision” introduces new incentives for the setting up and expansion of occupational pension schemes. If employers contribute at least EUR 240 per year to an occupational pension scheme on behalf of a low-income earner, in addition to the regular wage payment, they get a tax allowance of 30% of the contribution, up to a maximum contribution of EUR 480 (i.e. the tax allowance varies between EUR 72 and
EUR 144 per year). The additional employer contribution is tax free for low-income earners. In addition, occupational pension benefits of up to EUR 200 are not included in the income assessment to determine eligibility for receiving social welfare payments.

**Social treatment**

Pension funds and direct insurance: Neither the employee nor the employer has to pay social insurance contributions (state pension, unemployment, health and long-term care insurance) on the contributions within the 4% of the social security contribution ceiling limit. On the additional 4% of contributions that are still tax free, social insurance contributions are levied.

Direct commitments: Employer contributions are exempt from social insurance contributions without any limit. Same for employee contributions (deferred compensation) within the 4% of the social security contribution ceiling limit.

Pensioners have to pay the full contribution rate to health (14.6% in 2019 plus health insurance related additional contribution of 0.9% on average) and long-term care insurance (3.05% in 2019; 3.30% for childless) from their occupational pension payments. However, these expenses are deductible from taxable income up to certain limits. For individuals who have to finance their health insurance on their own and do not get tax-free benefits for this propose, the limit is EUR 2,800 per person and per year. For all the others, the limit is EUR 1,900 per person and per year. If the contributions to the basic health and basic long-term care insurance are higher than the limit, these higher contributions are deductible. Contributions to health and long-term care insurance are considered as basic if they are paid to establish a care level that corresponds to the level reached when social welfare is granted.

State pensioners who contributed most of their lifetime to the public health insurance become entitled to pensioners’ health insurance. In this case the state pension scheme pays half of the general contributions to health insurance (7.3% in 2019). Pensioners contribute half of the general contributions plus additional contributions stipulated by their particular health insurance. They pay the full rate of contributions to long-term care insurance (3.05% in 2019; 3.30% for childless).

Riester pension, basic pension and private pension insurance: Contributions have to be paid from income from which social contributions were levied (including occupational Riester plans). Benefit payments are not subject to social insurance contributions if the retiree is eligible to pensioners’ health insurance. Non-eligible pensioners have to pay the full health and long-term care insurance contributions.

**Tax treatment of pensioners**

Germany is currently in a transition period regarding the way income from the public pay-as-you-go system is taxed – by 2040 pensioners’ income will be fully taxed. Before this date, pensioners benefit from an allowance which is not taxed. For the individual pensioner the allowance is calculated based on the pension received in the first year after the retirement (50% in 2005; annual increase of 2 percentage points until 2020 and 1 percentage point between 2020 and 2040 until reaching 100%) and is nominally fixed for the remaining lifetime. Simultaneously, contributions to the state pensions will benefit over time from growing tax relief.
Incentives for employers to set up or contribute to a funded private pension plan

From the employer’s perspective, payments to a direct insurance, a pension fund or a support fund can be deducted as operational expenses. In the case of direct commitments, an accrual should be recognized as liability. Pension accruals lead to a reduction of profit for tax purposes and in this way also to a lower tax burden. In most cases, this creates a tax deferral effect which acts in a long-term manner.

Under the new social partner model, if employers contribute at least EUR 240 per year to an occupational pension scheme on behalf of a low-income earner (earning less than EUR 2 200 monthly), in addition to the regular wage payment, they get a tax allowance of 30% of the contribution, up to a maximum contribution of EUR 480 (i.e. the tax allowance varies between EUR 72 and EUR 144 per year). The allowance is administered through the wage tax and reduces the employer’s wage tax liability.

Greece

Structure of the funded private pension system

<table>
<thead>
<tr>
<th>Mandatory/voluntary, occupational</th>
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<tbody>
<tr>
<td>• Occupational insurance funds</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Voluntary, personal</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Group pension insurance contracts</td>
</tr>
<tr>
<td>• Simple personal pension plans</td>
</tr>
<tr>
<td>• Personal pension plans (profit-sharing or unit-linked)</td>
</tr>
</tbody>
</table>

Tax treatment of contributions

Contributions paid to occupational insurance funds established by law, including employer’s and employee’s contributions, are not included in taxable income.

Contributions paid by the employee or by the employer on behalf of the employee under group pension insurance contracts are not included in taxable income since 01/01/2014.

Contributions to other personal pension plans are included in taxable income.

Tax treatment of returns on investments

Returns on investment in private pension plans are taxed at a rate of 10%.

Tax treatment of funds accumulated

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

Tax treatment of pension income

Pension income from occupational insurance funds is taxed on the basis of the personal income tax scale.
Pension income from contributions paid to group pension insurance contracts up to 31/12/2013 is not taxable. Pension income from contributions paid to group pension insurance contracts since 01/01/2014 is taxed individually at a rate of 15%.

Pension income from personal pension plans is not taxed.

The lump-sum benefit paid by occupational insurance funds set up by law to insured and dependent members of the insured is not included in taxable income.

**Non-tax incentives**

No such incentives.

**Social treatment**

Social insurance contributions are not levied on pension contributions. Social insurance contributions are not levied on pension income.

**Tax treatment of pensioners**

Public pension benefits are taxable on the basis of the personal income tax scale.

**Incentives for employers to set up or contribute to a funded private pension plan**

Employer’s contributions are deductible from gross operating income (they are considered to be operational expenses).

**Hungary**

**Structure of the funded private pension system**

- **Voluntary, occupational**
  - Institutions for occupational retirement provision (*foglalkoztatói nyugdíjszolgáltató intézmény*)

- **Voluntary, personal**
  - Private pension funds (*magánnyugdíjpénztár*)
  - Voluntary pension funds (*önkéntes nyugdíjpénztár*)
  - Individual retirement accounts (*nyugdíj elő-takarékossági számla*)
  - Pension insurance products (*nyugdíjbiztosítási termékek*)

**Tax treatment of contributions**

Employees’ contributions are paid from net wages. They are therefore taxed at the fixed income tax rate of 15%.

Contributions to personal pension plans enjoy tax relief in the form of a tax refund transferred and credited to the employee’s pension account. The tax refund is equivalent to 20% of contributions made, up to a limit.
The contributions taken into account for the tax refund are the following for the different types of plans:

- Voluntary pension funds: employee contributions, employer contributions, sums transferred or paid by another person to the member’s benefit (e.g. donation), and sums credited to the private individual account that is treated as other income;
- Individual retirement accounts: individual own contributions;
- Pension insurance: individual own contributions and any premium paid by another person that is recognised as tax-exempt revenue or as taxable income that is to be included in the consolidated tax base;
- Private pension funds and institutions for occupational retirement provisions: contributions do not qualify for the tax refund.

The maximum amount of tax refund is HUF 100,000 per year in case of individual retirement accounts (for those who retire before 2020, the limit is HUF 130,000), HUF 150,000 per year in case of voluntary pension funds and HUF 130,000 per year in case of pension insurance. If the individual has more than one of the above-mentioned savings plans, the amount of tax relief cannot exceed HUF 280,000 per year altogether. Individuals get tax relief on contributions as long as they (or their employer in the case of voluntary pension funds) contribute to pension funds and/or individual retirement accounts. The tax refund paid to the member cannot be more than the personal income tax liability.

Since 2019, employers’ contributions to voluntary pension funds and to institutions for occupational retirement provisions are considered as taxable income for the employee, therefore they are subject to personal income tax (15%).

**Tax treatment of returns on investments**

Returns on investments are tax free for all types of plans provided the returns are not withdrawn from the account before the pension payments started.

In case of voluntary pension funds, after 10 years of membership, returns can be withdrawn tax free once every 3 years. Otherwise, returns withdrawn are taxed as other income at a rate of 15%, and health care tax (19.5%, as of 1 July 2019 the rate of social contribution tax decreased to 17.5%) is also levied on returns on investment. Taking into account that the individual is responsible for the payment of the social contribution tax, the base of the personal income tax and the social contribution tax is 84% (85% as of 1 July 2019) of the withdrawal. As a result, the effective tax rate is 28.98% (27.63% as of 1 July 2019).

**Tax treatment of funds accumulated**

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

**Tax treatment of pension income**

After a certain waiting period, pension income from pension funds is tax free:

- If the account was opened before 01/01/2013, pension payments are tax free.
- If the account was opened after 01/01/2013, pension payments are tax free after 10 years of membership.
Withdrawals before the retirement age are usually taxable at 15% personal income tax and 19.5% health care tax (as of 1 July 2019, the social contribution tax rate decreased to 17.5%). However, in case of withdrawals from pension funds after the 10-year compulsory waiting period has elapsed, the taxable part of the income is reduced gradually (10% reduction per year of the contribution paid before the waiting period), i.e. after 20 years of membership withdrawals become tax free.

In case of other types of private pension plans (e.g. individual retirement accounts), withdrawals before the retirement age qualify as other income and are taxable for the individual at 15% personal income tax and 19.5% health care tax (as of 1 July 2019, the social contribution tax rate decreased to 17.5%). Taking into account that the individual is responsible for the payment of the social contribution tax, the base of the personal income tax and the social contribution tax is 84% (85% after 1 July 2019). In addition, when an individual wants to access to the individual retirement account or to the pension insurance before the retirement age, the 20% tax refund has to be paid back.

**Non-tax incentives**

The tax refund credited to the employee’s pension account can also be seen as a government matching contribution of 20% of the contributions made to private pension plans, up to the limit previously described. The tax refund paid to the member cannot be more than the personal income tax liability.

**Social treatment**

Social contributions are levied on employee contributions, employer contributions and donations, as these items are taxed as employment income.

The employer pays 21% social contribution on the gross amount of employer’s pension contribution to voluntary pension funds and to institutions for occupational retirement provision.

Social contributions are not levied on pension income.

**Tax treatment of pensioners**

Public pension income is tax exempt.

**Incentives for employers to set up or contribute to a funded private pension plan**

Employers can deduct contributions to private pension plans as expenses.

Employer’s contributions are taxed the same way as wage or salary since 2019, so there is no financial incentive for employers to contribute to a pension plan.

Employers can also make contributions as donations. Employers can deduct donations as expenses.

In order to be eligible for tax relief, employers have to make a contract with the fund to make contributions. The employer’s contribution has to be identical (same amount or same percentage) for each employee who is a fund member. Employees who have been in employment for at least six months cannot be excluded.
Iceland

Structure of the funded private pension system

<table>
<thead>
<tr>
<th>Mandatory, occupational</th>
<th>Voluntary, personal</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Occupational pension funds</td>
<td>• Personal pension funds</td>
</tr>
</tbody>
</table>

Tax treatment of contributions

Both employer and employee contributions to occupational pension funds are tax-deductible. Employees can deduct up to 4% of their salaries as contributions. There is no limit for employer contributions.

If individuals decide to start personal pension savings, the minimum contribution is 2% of wages. This contribution is then matched by the employer with another 2% of wages. Individual contributions to personal pension funds are deductible from taxable income up to 4% of the salary. Excess contributions are taxed at the marginal income tax rate. The employer matching contribution is tax exempt.

Tax treatment of returns on investments

Returns on investments are not taxed.

Tax treatment of funds accumulated

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

Tax treatment of pension income

Pension income is taxed as ordinary wage income and subject to the individual’s marginal income tax rate.

A law passed in June 2014 allows active members in voluntary personal pension plans to withdraw assets tax free to pay down residential housing debt, up to ISK 750 000 per year for couples taxed together and ISK 500 000 per year for single persons. Individuals who do not own their residential housing can withdraw up to ISK 500 000 per year and per person to invest in residential housing. This kind of tax-free withdrawal was initially supposed to end in 2019, but has been extended for 10 years.

Non-tax incentives

According to collective agreements, employers contribute minimum 2% of the salary to voluntary personal pension plans if the employee decides to start personal pension savings. The most common contribution rate (employee and employer) is 6% of the employee’s salary as most employees contribute their maximum tax-free percentage (4%).
Social treatment
Social contributions are not levied on pension contributions.
Social contributions are not levied on pension income.

Tax treatment of pensioners
Public pension income is taxed as ordinary wage income.

Incentives for employers to set up or contribute to a funded private pension plan
There is no incentive for employers to set up or contribute to private pension savings plans. Contributions are mandatory and based on collective agreements. Pension plans are autonomous and not directly linked to the employer. Employer contributions are treated as operating expenses.

Ireland

Structure of the funded private pension system

<table>
<thead>
<tr>
<th>Voluntary, occupational</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Occupational pension schemes</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Voluntary, personal</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Retirement annuity contracts (RACs)</td>
<td></td>
</tr>
<tr>
<td>• Personal retirement savings accounts (PRSAs)</td>
<td></td>
</tr>
</tbody>
</table>

Tax treatment of contributions
Contributions made by employees to any kind of pension plan are deductible for income tax purposes. The contributions to approved pension schemes or plans by employees subject to the pay-as-you-earn (PAYE) tax system are deducted from gross pay before the application of income tax under PAYE (this is known as the “net pay arrangement”). Self-employed individuals or individuals in non-pensionable employment must claim tax relief on contributions to pension saving arrangements. Low-income people who are exempt for filing income tax get no tax relief.

Employer contributions to occupational pension plans on behalf of their employees are not treated as taxable income in the hands of the employee.

Employer contributions on behalf of the employee to a RAC are treated as taxable benefit-in-kind for the employee. However, for the purposes of obtaining tax relief on pension contributions, the employee rather than the employer is deemed to have made such a contribution to the pension fund. The effect of this provision is that the tax relief on the contribution negates the taxable benefit-in-kind on the benefit provided. This treatment only applies where the employer contribution does not exceed certain limits based on the age of the employee. If combined employer and employee contributions exceed the limits, an unrelieved benefit-in-kind charge applies to the excess, at the employee’s marginal tax rate.
Employer contributions on behalf of the employee to a PRSA are deemed for tax relief purposes to be made by the employee and are added to the employee’s personal contributions to determine if the age-related limits (below) are reached. Provided the combined employee and employer contributions do not exceed the limits, tax relief will be applied at the employee’s marginal tax rate. Any contributions to a PRSA that exceed the relevant limits are treated as taxable benefit-in-kind for the employee.

The amount of employee contributions that can be tax relieved is limited to an age-related percentage amount of the employee’s earnings (see Table 7). There is also an overall upper limit on the amount of earnings that are taken into account for the purposes of giving tax relief. Since 2011, this limit is set at EUR 115 000. These rules apply to aggregate employee contributions including additional voluntary contributions but do not apply to employer contributions into occupational pension plans.

Table 7. Ireland: Age-related percentage limits and corresponding contribution limits

<table>
<thead>
<tr>
<th>Age</th>
<th>Percentage limit (% of earnings)</th>
<th>Contribution limit (EUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 30</td>
<td>15%</td>
<td>17 250</td>
</tr>
<tr>
<td>30-39</td>
<td>20%</td>
<td>23 000</td>
</tr>
<tr>
<td>40-49</td>
<td>25%</td>
<td>28 750</td>
</tr>
<tr>
<td>50-54</td>
<td>30%</td>
<td>34 500</td>
</tr>
<tr>
<td>55-59</td>
<td>35%</td>
<td>40 250</td>
</tr>
<tr>
<td>= 60</td>
<td>40%</td>
<td>46 000</td>
</tr>
</tbody>
</table>

**Tax treatment of returns on investments**

Returns on investments are not taxed (i.e. exempt from capital gains and dividend income tax).

**Tax treatment of funds accumulated**

There is a lifetime limit on the total capital value of pension benefits that an individual can draw in his/her lifetime from tax relieved pension products. This limit is called the standard fund threshold (SFT) and is EUR 2 million since 1 January 2014. In certain circumstances, a higher threshold called the personal fund threshold (PFT) may apply.

On each occasion that an individual becomes entitled to receive a benefit under a pension arrangement, that individual uses up part of his/her SFT or PFT. Where the capital value of the aggregate of such benefits exceeds the SFT or PFT, a “chargeable excess” arises equal to the amount by which the threshold is exceeded which is subject to an upfront income tax charge at the higher rate of income tax (currently 40%).

Individuals with pension rights whose capital value as at 1 January 2014 exceeds EUR 2 million are able to protect the higher capital value by claiming a PFT from Revenue. The maximum PFT is EUR 2.3 million (i.e. the previous SFT limit), except where an individual holds a PFT issued on the previous occasions when the SFT was first introduced or reduced.

For DC pension arrangements, the capital value of pension rights when they are drawn down after 1 January 2014 is the value of the assets in the arrangement that represent the member’s accumulated rights on that date.

In the case of DB pension arrangements, the capital value of pension rights drawn down after 1 January 2014 is determined by multiplying the gross annual pension that would be
payable to the individual (before commutation of part of the pension for a lump sum) by the appropriate valuation factor. DB pension benefits accrued to 1 January 2014 are valued using a standard valuation factor of 20 that applied up to that date. DB pension benefits accrued after 1 January 2014 are valued, for SFT purposes, at the date of drawdown of those benefits by reference to a set of age-related valuation factors. These factors range from 37 for DB pension entitlements drawn down at age 50 and under, 30 where they are drawn down at age 60, to 26 at age 65 and 22 at age 70 or over. Note that the higher age-related valuation factors must not be used for PFT purposes. The factor for PFT purposes is always 20.

**Tax treatment of pension income**

Pension income benefits are taxable as income at the individual’s marginal rate of income tax. Individuals can usually take tax-free lump sums as described below.

Individuals with pension savings can transfer some or all of their retirement savings upon retirement to an approved retirement fund (ARF), subject to conditions. Any money withdrawn from an ARF is taxed at the individual’s marginal rate. There is an imputed or notional distribution of the value of the assets of an ARF on 31 December each year unless the imputed distribution is matched by actual distributions and the notional amount is taxed at the ARF’s owner marginal income tax rate. The imputed percentage of ARF assets is 4% for ARF owners younger than 70 and where the value of ARF assets is EUR 2 million or less. The percentage is 5% for ARFs of such value where the owner is aged 70 or over. The level of the imputed distribution is 6% for ARFs with asset values in excess of EUR 2 million. The notional distribution measure was introduced to encourage drawdowns from ARFs so that they are used, as intended, to fund a stream of income in retirement. No imputed distributions apply if the ARF holder is under age 61 at any time during the year.

Since 1 January 2011, the maximum sum that can be taken from a pension scheme at retirement tax free is capped at EUR 200,000. This tax-free amount is a lifetime limit and encompasses all retirement lump sums paid to an individual on or after 7 December 2005. Lump sum payments above that limit are taxed at the following rates:

<table>
<thead>
<tr>
<th>Lump sum payment</th>
<th>Income tax rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>= EUR 200,000</td>
<td>0%</td>
</tr>
<tr>
<td>EUR 200,001 to EUR 500,000</td>
<td>20%</td>
</tr>
<tr>
<td>&gt; EUR 500,000</td>
<td>Taxpayer’s marginal rate and USC</td>
</tr>
</tbody>
</table>

**Non-tax incentives**

No such incentives.

**Social treatment**

Employees’ pension contributions do not receive relief from Pay-Related Social Insurance (PRSI) and Universal Social Charge (USC).

Employer contributions attract full PRSI relief. Employer contributions are not liable to the USC (except when the employer makes a contribution on behalf of the employee to a RAC).

Pension benefits are subject to the USC at drawdown.
**Tax treatment of pensioners**

All income in Ireland is generally subject to taxation. Social welfare payments may or may not be deemed taxable but even if an individual’s social welfare payment is taxable (as state pensions are), s/he may not actually have to pay tax on it. Individuals getting a social welfare payment get a PAYE tax credit in addition to their normal tax credits. This means, if a social welfare payment is the only source of income, the individual may not pay tax because his/her tax liability does not exceed his/her tax credits. If an individual has a social welfare payment and another source of income, both sources are added together and the individual is taxed on the total amount.

**Incentives for employers to set up or contribute to a funded private pension plan**

Employer contributions to occupational pension plans on behalf of their employees are deductible in computing the income for tax purposes of the employer’s business.

Employer contributions attract full PRSI relief. Employer contributions are not liable to the USC (except when the employer makes a contribution on behalf of the employee to a RAC).

**Israel**

**Structure of the funded private pension system**

- **Mandatory, occupational**
  - Old pension funds

- **Mandatory, personal**
  - New pension funds
  - General pension funds
  - Provident funds
  - Life insurance policies

**Tax treatment of contributions**

Employer contributions are not included in the taxable income of the employee up to 7.5% of the salary, with a cap on gross salary of 2.5 times the national average salary. For employees earning more than 2.5 times the national average salary, employer contributions above NIS 1,926 (in 2019) are included in taxable income.

For self-employed people, tax deductible contributions are limited to 16.5% of total income, with a cap on total income of NIS 211,200 (in 2019). Excess contributions are taxed at the individual’s marginal rate of income tax.

Employee contributions are subject to a cap at 20.5% of twice the national average salary. Employee contributions are subject to a 35% non-refundable tax credit up to 7% of the salary that is taken into account for pension savings (not all the components of the salary are necessarily taken into account for pensions).
**Tax treatment of returns on investments**

Returns on investments are not taxed.

**Tax treatment of funds accumulated**

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

**Tax treatment of pension income**

Annuities below a limit called “entitled annuity” are tax exempt. The tax rate for the part of the annuity above the entitled annuity is 35%. The entitled annuity amount depends on the extent to which the right to an exemption on severance pay was used. In 2019, the full exemption was NIS 8 480 monthly.

Since 2008, the capital accumulated in any of the pension products (pension funds, provident funds and life insurance policies) has to be converted into an annuity, up to a minimum of NIS 4 512 (based on CPI index as of March 2008). If the capital accumulated translates into a larger annuity, the individual can asks for the minimum annuity and take the difference as a lump sum. Lump sums below NIS 747 936 are tax free and anything in excess is taxed at 35%.

**Non-tax incentives**

No such incentives.

**Social treatment**

Social contributions are not levied on pension contributions.

Old age pensions are subject to social insurance contributions. These contributions are deducted at source.

**Tax treatment of pensioners**

Public pension income is subject to income tax.

**Incentives for employers to set up or contribute to a funded private pension plan**

No such incentives.
Italy

Structure of the funded private pension system

**Voluntary, occupational**
- Contractual pension funds
- Open pension funds
- Pre-existing autonomous pension funds
- Pre-existing non-autonomous pension funds

**Voluntary, personal**
- Open pension funds
- Individual pension plans provided through life insurance contracts (PIPs)

**Tax treatment of contributions**
Contributions are exempt from personal income tax up to EUR 5,164.57 per year. This limit applies to the sum of employee and employer contributions. Contributions above the limit are taxed at the individual’s marginal rate of personal income tax.

TFR (Trattamento di fine rapporto) flows paid into a pension scheme are excluded from the contributions subject to such limit and thus are exempt from personal income tax, regardless of their amount.

Employees who got their first job since 1 January 2007 are entitled to recoup the unused annual tax relief of their first five years of participation in a pension scheme, up to the limit of 50% of the maximum annual relief per year. The recoupment may take place in the 20 years following the fifth year of participation.

Since 2017, performance bonuses granted to employees up to EUR 3,000 per year are exempted from personal income tax if they are used for a number of welfare-related expenses, including contributions into occupational pension plans. However, since most of these welfare-related expenses do not qualify for any dedicated tax relief, and most pension plan members contribute well below the pension-specific limit of EUR 5,164.57 per year, it is expected that the tax relief of performance bonuses will rarely be used for pension contributions.

**Tax treatment of returns on investments**
The total investment return of pension funds (interest, dividends, capital gains) is taxed at a 20% standard rate, except for the total return of government bonds, taxed at the more favourable rate of 12.5% (for example, if the investment return comes 50% from shares and 50% from government bonds, the tax rate applied will be 16.3%). This rule applies since 2014. The tax is levied annually, on the total investment income earned.

Since 2017, returns of new investments of pension funds in stocks of Italian and/or European companies are tax free, if they are kept for at least five years.
**Tax treatment of funds accumulated**

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

**Tax treatment of pension income**

Pension benefits are taxed at a fixed rate of 15%, with a reduction of 0.3% for every year of participation after 15 years. The maximum reduction is 6% (leading to a 9% tax rate after 35 years of participation). Taxation is applied on the pension benefit net of the part that was already taxed in the accumulation phase (either as contributions exceeding the tax-deductible limit, or as investment income). Therefore, although the Italian system is often described as “ETT”, actually every euro paid into pension funds is taxed “one time only” (i.e. no “double” taxation occurs).

Early withdrawals (for buying a house or other reasons) are generally taxed at a rate of 23%.

**Non-tax incentives**

In occupational plans, collective agreements between employee and employer associations provide for employer matching contributions, under the condition that the employee contributes as well.

**Social treatment**

Employee contributions are subject to the standard social contribution rate of 9.19% on earnings up to EUR 46,630 (in 2018). An additional 1% is levied for income above EUR 46,630 and up to EUR 101,427. For earnings exceeding EUR 101,427, the employee pays a fixed amount given by \((0.0919 \times 46,630) + 0.1019 \times (101,427 - 46,630)\). These ceilings are updated annually.

Employer contributions are subject to a lower rate of 10% (instead of the standard contribution rate, around 24%), on earnings up to EUR 101,427 (in 2018); for earnings exceeding EUR 101,427, the standard contribution rate applies. Social contributions are not levied on TFR contributions.

Social contributions are not levied on pension income.

**Tax treatment of pensioners**

Public pensions are taxed as personal income at the individual’s marginal income tax rate.

**Incentives for employers to set up or contribute to a funded private pension plan**

Employer contributions are always considered as costs for the employer and hence they are deducted from business income in calculating the corporate tax.

Employer contributions to supplementary pension funds are subject to a social security contribution of 10% (lower than the standard contribution rate of about 24%), on earnings up to EUR 101,427 (in 2018); for earnings exceeding EUR 101,427, the standard contribution rate applies.
Japan

Structure of the funded private pension system

Voluntary, occupational

- The Employees’ Pension Fund (EPF) (kosei nenkin kikin)
- Defined benefit corporate pension funds (kakutei kyufu kigyo nenkin)
- Contract-type defined benefit plans (kakutei kyufu kigyo nenkin [kiyakugata])
- Defined contribution corporate pension funds (kakutei kyoshutsu nenkin [kigyo-gata])
- Retirement allowance

Voluntary, personal

- Defined contribution individual pension funds (iDeCo) (kakutei kyoshutsu nenkin [kojin-gata])
- National pension funds (kokumin nenkin kikin)
- Personal pension insurance

Tax treatment of contributions

Employee contributions
Contributions to DB corporate pension funds are deductible up to a yearly limit of JPY 40 000.

Contributions to defined contribution pension funds and EPFs are fully deductible without any limit. Employee contributions to DC corporate plans were prohibited until 2012. Since then, employee contributions cannot exceed employer contributions (employers are responsible for ensuring that contributions do not exceed the limit). The limit on combined employer and employee contributions has not changed (see below under employer contributions).

Employees are also eligible to participate in individual type DC plans. Contributions are tax deductible and the monthly contribution limit depends on the employer’s plan sponsorship:

- Employers do not sponsor a DB or a DC plan: JPY 23 000
- Employers do sponsor only a DC plan: JPY 20 000
- Employers do sponsor at least a DB plan: JPY 12 000

Excess contributions are not allowed. For self-employed workers, the monthly contribution limit is JPY 68 000, although this is a combined contribution limit for DC and National Pension Funds.
**Employer contributions**

Employer contributions to all plans are not considered as taxable income (fringe benefit) for the members/employees.

Certain restrictions apply in the case of DC corporate plans. If the employer sponsors only one occupational plan, the maximum tax-deductible yearly contribution is JPY 660 000 for each employee. If the employer also sponsors a DB plan, the maximum tax-deductible yearly contribution to the DC plan is JPY 330 000 for each employee instead of JPY 660 000. Excess contributions are not allowed.

**Tax treatment of returns on investments**

Returns on investments are not taxed.

**Tax treatment of funds accumulated**

There is no ceiling on the lifetime value of private pension funds.

Assets in EPFs, DB and DC plans are taxed at an annual rate of 1.173%. This tax has been temporarily stopped since 1999.

**Tax treatment of pension income**

Retirement income from occupational and personal pension plans is taxed separately without aggregation with other classes of income.

There is a pension-related deduction for annuities which commonly applies to public and private pensions, i.e. the tax treatment of public and private pensions is the same. Once the deduction has been calculated, the remaining income is taxed as general earned income (tax rates between 5% and 45%).

- For annual pension income (public and private) “A” below JPY 4 100 000, the statutory deduction is calculated as (A-500 000)×25%+500 000;
- For A between JPY 4 100 000 and JPY 7 700 000, the statutory deduction is calculated as (A-4 100 000)×15%+1 400 000;
- For A above JPY 7 700 000, the statutory deduction is calculated as (A-7 700 000)×5%+1 940 000;

The statutory deduction cannot be lower than JPY 700 000 below age 65 and JPY 1 200 000 at age 65 and older.

From April 2020, to achieve fairer taxation under the diversity of working styles, the employment income deduction and the public pension deduction will be reduced by JPY 100 000 across the board, with the rise in the basic deduction by the same amount. Also, to make taxation fairer, a cap of JPY 1.955 million will be put on pension income deduction for pension income exceeding JPY 10 million. The deduction will be reduced for pensioners with income other than pension exceeding JPY 10 million after deductions.

Programmed withdrawals are not specifically stipulated in the Japanese pension legislation, but are not prohibited. They are usually classified as a kind of private pension income.

Lump sums are taxed at the individual’s marginal income tax rate.
Non-tax incentives
No such incentives.

Social treatment
Social contributions are not levied on pension contributions.
Contributions to health insurance and long-term care insurance are levied on pension income.

Tax treatment of pensioners
Old-age public pensions are taxed together with private pension annuities (see above).

Incentives for employers to set up or contribute to a funded private pension plan
No such incentives.

Korea

Structure of the funded private pension system

<table>
<thead>
<tr>
<th>Quasi-mandatory, occupational</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Retirement pension plans</td>
</tr>
<tr>
<td>• Retirement insurance plans</td>
</tr>
<tr>
<td>• Retirement trust plans</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Voluntary, personal</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Personal pension insurance plans</td>
</tr>
<tr>
<td>• Personal pension trust plans</td>
</tr>
</tbody>
</table>

The retirement benefit system is mandatory and can take two forms: a severance payment system and an occupational pension plan. The obligation of the employer is to provide a severance payment system, but, by labour agreement, the company can set up an occupational pension plan instead. The occupational pension system is therefore considered quasi-mandatory in Korea.

Tax treatment of contributions
Individual contributions to personal pension plans and to occupational defined contribution pension plans are taxed at the individual’s marginal tax rate but benefit from a tax credit. The tax credit is equal to 13.2% of the individual’s contributions, except for individuals with an income lower than KRW 40 000 000 (or KRW 55 000 000 when the only income source is salary income) for whom the tax credit rate is 16.5%. There is a limit to the amount of contributions taken into account to calculate the tax credit which varies between KRW 4 000 000 and KRW 7 000 000 depending on the type of plan in which the individual contributes.

16 The tax credit rates include local income tax.
contributes (see Table 9). Individual contributions to occupational DC pension plans and personal pension plans cannot exceed KRW 18 000 000 a year and are not possible in occupational defined benefit pension plans.

Table 9. Korea: Determination of the maximum contribution taken into account for the calculation of the tax credit for different illustrative cases

<table>
<thead>
<tr>
<th>Case</th>
<th>Contributions into personal pension plans (KRW)</th>
<th>Contributions into occupational pension plans (KRW)</th>
<th>Maximum contribution for the calculation of the tax credit (KRW)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0</td>
<td>7 000 000</td>
<td>7 000 000</td>
</tr>
<tr>
<td>2</td>
<td>1 000 000</td>
<td>6 000 000</td>
<td>7 000 000</td>
</tr>
<tr>
<td>3</td>
<td>2 000 000</td>
<td>5 000 000</td>
<td>7 000 000</td>
</tr>
<tr>
<td>4</td>
<td>3 000 000</td>
<td>4 000 000</td>
<td>7 000 000</td>
</tr>
<tr>
<td>5</td>
<td>4 000 000</td>
<td>3 000 000</td>
<td>7 000 000</td>
</tr>
<tr>
<td>6</td>
<td>5 000 000</td>
<td>2 000 000</td>
<td>6 000 000</td>
</tr>
<tr>
<td>7</td>
<td>6 000 000</td>
<td>1 000 000</td>
<td>5 000 000</td>
</tr>
<tr>
<td>8</td>
<td>7 000 000</td>
<td>0</td>
<td>4 000 000</td>
</tr>
</tbody>
</table>

Employer contributions to occupational pension plans are not considered as taxable income for the employee. The minimum rate for employer contributions in defined contribution plans is $1/12 of total annual salary.

**Tax treatment of returns on investments**

Returns on investments are not taxed.

**Tax treatment of funds accumulated**

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

**Tax treatment of pension income**

Programmed withdrawals are not allowed. Individuals can withdraw both annuities and lump sums from their occupational DC plan from the age of 55. Individuals can claim annuities from their occupational DB plan if they are at least 55 years old and if they have completed at least 10 years of contributions. If the individual cannot withdraw annuities from his/her occupational DB plan, he/she can withdraw a lump sum.

The taxation of pension income depends on the source of the income and whether the individual chooses a lump sum or an annuity.

**Pension income originating from employer contributions**

To calculate the tax due on pension income originating from employer contributions, one first needs to calculate the tax base. The tax base is calculated according to the following formula:

\[
\text{Tax base} = (\text{pension income} - \text{deduction for continuous years of service}) \times 12 \div \text{number of service years}.
\]

17 The rules described here correspond to those that will apply fully from 2020. There is a transition from the old rules to the new rules between 2016 and 2019, with the portion of the tax calculated based on the new rules increasing over time.
The deduction for continuous years of service is provided in Table 10.

Table 10. Korea: Tax deduction for continuous years of service

<table>
<thead>
<tr>
<th>Service years (SY)</th>
<th>Basic deduction</th>
<th>Additional deduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 5 years</td>
<td>KRW 300 000 x SY</td>
<td>None</td>
</tr>
<tr>
<td>5 to 10 years</td>
<td>KRW 1 500 000</td>
<td>KRW 500 000 x (SY minus 5 years)</td>
</tr>
<tr>
<td>10 to 20 years</td>
<td>KRW 4 000 000</td>
<td>KRW 800 000 x (SY minus 10 years)</td>
</tr>
<tr>
<td>More than 20 years</td>
<td>KRW 12 000 000</td>
<td>KRW 1 200 000 x (SY minus 20 years)</td>
</tr>
</tbody>
</table>

The total tax paid in the case of a lump sum is then determined by the following formula:

\[
\text{Tax paid} = (\text{tax base} - \text{deduction for income level}) \times \text{progressive income tax rates} \times \text{number of service years} \div 12
\]

The deduction for income level, based on the tax base, is provided in Table 11.

Table 11. Korea: Tax deduction for income level

<table>
<thead>
<tr>
<th>Tax base per annum</th>
<th>Deduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than KRW 8 million</td>
<td>100%</td>
</tr>
<tr>
<td>KRW 8 million to 70 million</td>
<td>KRW 8 million + (60% exceeding KRW 8 million)</td>
</tr>
<tr>
<td>KRW 70 million to 100 million</td>
<td>KRW 45.2 million + (55% exceeding KRW 70 million)</td>
</tr>
<tr>
<td>KRW 100 million to 300 million</td>
<td>KRW 61.7 million + (45% exceeding KRW 100 million)</td>
</tr>
<tr>
<td>Over KRW 300 million</td>
<td>KRW 151.7 million + (35% exceeding KRW 300 million)</td>
</tr>
</tbody>
</table>

The difference between the tax base and the deduction for income level is taxed according to the progressive personal income tax rates (between 6% and 38%).

The tax rules incentivise annuities over lump sums, as only 70% of the previously calculated amount is due in taxes if the individual takes an annuity.

Pension income originating from employee/individual contributions and investment returns

If the individual takes a lump sum, the tax treatment depends on whether the contributions enjoyed the tax credit or not. If contributions did not exceed the maximum set for the calculation of the tax credit (Table 9), the lump sum is taxed at the rate of 16.5% (including local income tax). By contrast, contributions made in excess of the tax credit limit are withdrawn tax free.

If the individual takes an annuity, the tax treatment depends on the level of total retirement income (including public pensions). If total retirement income is below KRW 12 million, the individual can choose the separate taxation of the annuity. For a fixed-term annuity, the tax rate varies with the age of the annuitant (5.5% below age 70, 4.4% between 70 and 80, and 3.3% above 80). For a lifetime annuity, there is a fixed tax rate of 4.4% (including local income tax).

If total retirement income is above KRW 12 million, aggregate taxation of all sources of retirement income applies, according to the progressive personal income tax rates.

Non-tax incentives

No such incentives.
Social treatment

Contributions to private pension plans are not included in the social insurance contribution basis.

Social insurance premiums are not levied on private pension income, except for self-employed workers for whom social insurance premiums are levied on the basis of their comprehensive income.

Tax treatment of pensioners

Pension income from public pension schemes is taxed at the marginal rate of income tax.

Incentives for employers to set up or contribute to a funded private pension plan

Employer contributions into occupational pension plans are tax deductible from corporate tax. Moreover, Charges for the Wage Claim Guarantee Fund are reduced by up to 50% if employers set up corporate pension plans rather than severance payment schemes.18

Latvia

Structure of the funded private pension system

- Mandatory, personal
  - Mandatory state funded pension scheme
- Voluntary, occupational and personal
  - Private voluntary pension schemes: Open and closed pension funds

Tax treatment of contributions

Contributions to the mandatory state funded pension scheme (6% as of 2016) are fully tax exempt.

Voluntary contributions to open and closed pension funds are tax deductible up to 10% of the individual’s annual taxable income. In addition, the joint limit for contributions to voluntary pension funds and insurance premiums may not exceed 10% of the individual’s annual taxable income, up to EUR 4 000. Employer contributions are counted as income to the employee and are therefore deductible within the limit mentioned above. Excess contributions are subject to the individual’s marginal income tax rate.

Tax treatment of returns on investments

Returns on investments are not taxed for the mandatory state funded pension scheme.

18 The Wage Claim Guarantee Act of Korea (WCGAK) guarantees payment of employees’ wage claims covered as preferential claims in the insolvency process.
Income from investment in open and closed pension funds is considered as income from capital other than capital gains and taxed at a flat rate of 20%.

**Tax treatment of funds accumulated**
There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

**Tax treatment of pension income**
Pension income from the mandatory state funded pension scheme is treated as ordinary income and taxed at the individual’s marginal income tax rate.
Pension income formed from contributions made by an individual into private pension funds is not taxable. Pension income formed from contributions made by an employer (on behalf of an employee) into private pension funds is taxed at the individual’s marginal income tax rate.

**Non-tax incentives**
No such incentives.

**Social treatment**
State Social Insurance Mandatory Contributions are tax-deductible expenses for personal income tax purposes.
Social contributions are not levied on pension income.

**Tax treatment of pensioners**
Old-age pension above the annual non-taxable minimum is taxed at the individual’s marginal income tax rate.

**Incentives for employers to set up or contribute to a funded private pension plan**
If an employer sets up or contributes to a funded private pension plan, these contributions are not subject to income tax and social insurance contributions, as long as the total does not exceed 10% of the gross remuneration calculated for the employee in the taxation year.

**Lithuania**

**Structure of the funded private pension system**

<table>
<thead>
<tr>
<th>Voluntary, personal</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Second pillar open pension funds</td>
</tr>
<tr>
<td>• Third pillar open pension funds</td>
</tr>
</tbody>
</table>

Second and third pillar pension plans are voluntary. However, from 2019, all workers younger than 40 and insured by social insurance, are enrolled in the second pillar system with a possibility to opt-out. The procedure of automatic enrolment will be repeated every 3 years until the person reaches the age of 40. Besides, once the decision to join the second pillar has been made, it is irreversible.
Tax treatment of contributions

Individual contributions to second pillar pension funds must at least equal 3% of gross salary or income. There is a transition period for members who joined the second pillar for the first time after January 2019 and those who were already members but not paying the additional 2% contribution. For them, the minimum contribution rate will gradually increase from 1.8% to 3% of income between 2019 and 2023. Only contributions above the 3% minimum are deductible from taxable income.

Individual contributions to third pillar pension funds are considered as expenses and can be deducted within the annual deduction room for expenses. The total amount of deducted expenses (pension contributions, life insurance premiums, educational expenses) shall not exceed 25% of the taxable income, up to EUR 2,000 per year (this ceiling relates jointly to voluntary personal pension contributions and life insurance premiums). Excess contributions are subject to a fixed income tax rate of 15%. Employer contributions are not considered as taxable income to the employee if the amount of contributions does not exceed 25% of the employee’s income related to employment.

Tax treatment of returns on investments

Returns on investments are tax exempt.

Tax treatment of funds accumulated

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

Tax treatment of pension income

Pension income from second pillar pension funds is tax-exempt.

The tax treatment of pension income from third pillar pension funds depends on the withdrawal age, the length of the contract and whether the individual has deducted third pillar contributions. For contracts opened since 1 January 2003, the following rules apply:

- If the contract duration is at least five years and the individual withdraws no more than five years before the statutory age of retirement, pension benefits are tax free.
- Otherwise, pension benefits are taxed at the fixed income tax rate of 15%, excluding the part of contributions that have not been deducted from taxable income.

Non-tax incentives

For individuals contributing at least 3% of gross income, the government contributes 1.5% of the pre-last year’s average gross salary in Lithuania. For members in the transition arrangement for the minimum contribution rate, the government contribution will also gradually increase from 0.3% to 1.5% of the pre-last year’s average gross salary in Lithuania between 2019 and 2023.

Social treatment

Social contributions are levied on private pension contributions.

Social contributions are not levied on pension income.
**Tax treatment of pensioners**

Payments from the public pension scheme (SoDra) are tax exempt.

**Incentives for employers to set up or contribute to a funded private pension plan**

For the purpose of calculating corporate income tax, all contributions to pension funds made by the employer are considered as tax deductible.

**Luxembourg**

**Structure of the funded private pension system**

<table>
<thead>
<tr>
<th>Voluntary, occupational</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Association d'Epargne-Pension (ASSEP) and Sociétés d’Epargne-Pension à Capital Variable (SEPCAV)</td>
</tr>
<tr>
<td>• Pension funds</td>
</tr>
<tr>
<td>• Group insurance contracts (traditional and unit-linked)</td>
</tr>
<tr>
<td>• Book reserve schemes</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Voluntary, personal</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Individual pension savings contracts</td>
</tr>
</tbody>
</table>

**Tax treatment of contributions**

Employer contributions into occupational pension plans are not considered as taxable income for the employee up to 20% of the employee’s ordinary earnings. However, employer contributions are taxed at the rate of 20%. This tax is due by the employer.

Self-employed workers’ contributions to an occupational pension scheme are considered as special expenses up to 20% of their net professional profits. These are subject to a lump-sum tax of 20%. The reporting and payment of the 20% tax are the responsibility of the scheme manager.

Employee contributions into occupational pension plans are tax deductible up to EUR 1 200 a year. Excess contributions are taxed at the marginal rate of income tax.

Contributions into individual pension savings contracts are tax deductible up to a limit of EUR 3 200 if some conditions are fulfilled. Excess contributions are taxed at the marginal rate of income tax. Individuals can claim a tax deduction for contributions into individual pension savings contracts if he/she fulfils the following conditions:

- Contributions are made into an insurance company or a credit institution accredited by Luxembourg or the insurance company/credit institution has its head office in another European Union Member State.
- The contract is held at least 10 years.
- Lump sum payments or the start of annuity payments are only possible when the insured person is between 60 and 74 years.
• The contract excludes early withdrawal.

**Tax treatment of returns on investments**

Returns on investments are not taxed.

**Tax treatment of funds accumulated**

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

**Tax treatment of pension income**

Pension income (annuities and/or lump sums, programmed withdrawals are not allowed) from occupational pension plans is divided into the part from the insured period after 1 January 2000 and the part from the insured period before 1 January 2000. The part from the insured period after 1 January 2000 is tax exempt, while the part from the insured period before 1 January 2000 is taxed at the marginal rate of income tax.

Pension income from individual pension savings contracts receives a favourable tax treatment if the conditions described above are fulfilled:

- Lump sums are taxed as “extraordinary income”. Extraordinary income is taxed at the rate of half the global effective tax rate. The global effective tax rate is the ratio between the tax due assuming that all taxable income is ordinary income and the taxable income (ordinary plus extraordinary incomes). Ordinary incomes are taxed at this rate and extraordinary incomes at 50% of this rate.
- 50% of annuities are tax exempt and 50% are taxed at the marginal rate of income tax.

**Non-tax incentives**

No such incentives.

**Social treatment**

Social contributions are levied on private pension contributions.

When people have to file an income tax declaration, excess contributions to occupational pension plans or individual pension savings contracts are also subject to employment fund tax at the rate of 7% or 9% depending on their taxable income. For example, an individual having a global effective tax rate at 20.44% and a taxable income below EUR 150 000 will be taxed at a rate of 20.44% × (1+7%) = 21.87%.

Social contributions are levied on pension income.

When people have to file an income tax declaration, pension income is also subject to employment fund tax at the rate of 7% or 9% depending on the taxable income.

**Tax treatment of pensioners**

Public pensions are taxed at the marginal rate of income tax after tax deductions (wage earners and pensioners receive a maximum refundable tax credit of EUR 600 per year).
Incentives for employers to set up or contribute to a funded private pension plan

Employer contributions into complementary pension plans are tax deductible from corporate tax up to 20% of the employee’s ordinary earnings.

Mexico

Structure of the funded private pension system

- Mandatory, personal
  - Individual retirement accounts (public and private sector workers)
- Voluntary, occupational
  - Occupational pension plans
- Voluntary, personal
  - Voluntary contributions to individual retirement accounts
  - Personal retirement plans

Tax treatment of contributions

Mandatory employer contributions to individual retirement accounts, as well as government contributions and social quotas are not considered as taxable income for the employee. Mandatory employees’ contributions to individual retirement accounts are tax exempt as they are made from before-tax income.

The tax treatment of voluntary personal contributions depends essentially on whether these savings have a long-term perspective or not. Short-term voluntary contributions, which can be withdrawn at any time after a period from two to six months, depending on the pension fund, are not tax deductible. All the other types of voluntary personal contributions have a long-term perspective and are tax deductible up to different limits, as described in Table 12.

Voluntary employers’ contributions to individual retirement accounts or to occupational pension plans are not taxable income for the worker. However, the maximum deductible amount of contributions to occupational plans (12.5% of the employee’s salary) includes both employee and employer contributions.

There is a general limit for personal deductions, which is equal to the minimum between five times the annual UMA and 10% of the taxpayer’s annual gross income.19 The general deduction limit applies to the sum of complementary contributions to individual retirement accounts, long-term voluntary contributions to individual retirement accounts, and...
contributions to special savings for retirement accounts, and contributions to personal pension plans.20

Table 12. Mexico: Tax treatment of pension contributions by workers, by type of contribution

<table>
<thead>
<tr>
<th>Type of contribution</th>
<th>Tax treatment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mandatory contributions to individual retirement accounts (IRAs)</td>
<td>Exempt (1)</td>
</tr>
<tr>
<td>Short-term voluntary contributions</td>
<td>Not deductible (2)</td>
</tr>
<tr>
<td>Complementary contributions to IRAs</td>
<td>Deductible up to the minimum between 5 UMA and 10% of taxable income (3)</td>
</tr>
<tr>
<td>Long-term voluntary contributions to IRAs</td>
<td>Deductible up to the minimum between 5 UMA and 10% of taxable income (3)</td>
</tr>
<tr>
<td>Contributions to special savings for retirement accounts</td>
<td>Deductible up to MXN 152 000 per year (4)</td>
</tr>
<tr>
<td>Contributions to private occupational pension plans</td>
<td>Deductible up to 12.5% of salary (includes both employee and employer contributions) (5)</td>
</tr>
<tr>
<td>Contributions to personal pension plans</td>
<td>Deductible up to the minimum between 5 UMA and 10% of taxable income (3)</td>
</tr>
</tbody>
</table>


Tax treatment of returns on investments

Investment income is always tax exempt as long as it stays invested until retirement, and upon retirement if it is used to obtain an annuity or a phased or programmed payment, not a lump sum withdrawal. Upon withdrawal, investment income remains tax exempt when generated by mandatory contributions to individual retirement accounts, long-term voluntary contributions to individual retirement accounts, contribution to special savings for retirement accounts, and contributions to occupational and personal pension plans.

The real interest earned (net of inflation) from investing short-term voluntary contributions and complementary contributions to individual retirement accounts is considered as taxable income upon withdrawal and taxed at the individual’s marginal rate.21 A provisional withholding tax of 1.04% of the returns from short-term amounts contributed applies.22 23

20 The general deduction limit also applies to other expenses such as hospital and medical expenses, funeral expenses, and mortgage real interests.
22 Individuals whose only taxable income is composed of interest income can consider the withholding tax as their final tax payment as long as these interests do not exceed MXN 100 000 per year. LISR art. 135, https://www.sat.gob.mx/articulo/89366/articulo-135.
Tax treatment of funds accumulated

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

Tax treatment of pension income

The tax treatment of pension income depends primarily on two factors: the form of payment and whether the individual is entitled to a pension when money is withdrawn (see Table 13). When workers reach retirement age and get benefits in the form of an annuity or programmed withdrawals, these benefits are tax exempt up to a limit equivalent to 15 times the annual UMA. Benefits above this limit are taxed at the marginal rate. This limit applies to the sum of all pension payments or benefits paid by the federal government (pay-as-you-go defined benefit pensions), by pension funds (individual retirement accounts), by occupational pension plans and by personal pension plans.

Workers entitled to a pension may also get their benefits as a lump sum payment. For example, when they have accumulated enough assets to buy a life annuity equivalent to 1.3 times the guaranteed pension plus the premium of an insurance for the beneficiaries (spouse and children younger than 25 years, or above in case of disability), they have the right to buy such an annuity and withdraw the remaining balance as a lump sum. In that case, the amounts withdrawn enjoy a tax exemption of 90 times the daily UMA. The excess amount is considered as taxable income and it is taxed at the average annual rate applicable to ordinary income. Moreover, lump sum payments originated from short-term voluntary contributions are tax free, once the tax levied on real interests (return above inflation) has been deducted.

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### Table 13. Mexico: Tax treatment of pension withdrawals, by type of contribution and form of payment

<table>
<thead>
<tr>
<th>Type of contribution</th>
<th>Annuity / programmed withdrawal</th>
<th>Lump sum</th>
<th>Withdrawal while not entitled to a pension</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mandatory contributions to individual retirement accounts (IRAs)</td>
<td>Exempt up to 15 annual UMA; Excess taxed at marginal tax rate</td>
<td>Exempt up to 90 daily UMA per year of service; Excess taxed at average tax rate</td>
<td>Exempt up to 90 daily UMA for each year of contribution; Excess taxed at marginal tax rate with a provisional withholding tax of 20%</td>
</tr>
<tr>
<td>Short-term voluntary contributions</td>
<td>Not applicable</td>
<td>Exempt</td>
<td>Exempt</td>
</tr>
<tr>
<td>Complementary contributions to IRAs</td>
<td>Exempt up to 15 annual UMA; Excess taxed at marginal tax rate</td>
<td>Exempt up to 90 daily UMA per year of service; Excess taxed at average tax rate</td>
<td>Taxed at average tax rate with a provisional withholding tax of 20%</td>
</tr>
<tr>
<td>Long-term voluntary contributions to IRAs</td>
<td>Exempt up to 15 annual UMA; Excess taxed at marginal tax rate</td>
<td>Exempt up to 90 daily UMA per year of service; Excess taxed at average tax rate</td>
<td>Taxed at average tax rate with a provisional withholding tax of 20%</td>
</tr>
<tr>
<td>Contributions to special savings for retirement accounts</td>
<td>Not applicable</td>
<td>Taxed at marginal tax rate</td>
<td>Taxed at marginal tax rate</td>
</tr>
<tr>
<td>Contributions to occupational private pension plans</td>
<td>Exempt up to 15 annual UMA; Excess taxed at marginal tax rate</td>
<td>Exempt up to 90 daily UMA per year of service annually; Excess taxed at average tax rate</td>
<td>Taxed at 30%</td>
</tr>
<tr>
<td>Contributions to personal pension plans</td>
<td>Exempt up to 15 annual UMA; Excess taxed at marginal tax rate</td>
<td>Exempt up to 90 daily UMA per year of service; Excess taxed at average tax rate</td>
<td>Taxed at marginal tax rate with a provisional withholding tax of 20%</td>
</tr>
</tbody>
</table>

When the worker gets a lump sum payment because he/she does not fulfil the requirements for a pension payment from his/her individual retirement account (*negativa de pensión*), this payment is tax exempt up to 90 times the daily UMA per year of contribution. The excess amount is considered as sporadic taxable income and is subject to a temporary 20% withholding tax.

Amounts withdrawn before retirement from personal pension plans and retirement accounts constituted by complementary contributions and long-term voluntary contributions are considered as taxable income. A withholding tax of 20% is applied on the capital and the updated interest income generated by that capital.

Finally, amounts withdrawn from the special savings for retirement accounts are considered as taxable income. However, the tax rate applied cannot be higher than the one in force at the time of the deposit.

**Non-tax incentives**

Employees in the government sector have access to a scheme of solidarity savings, which is a federal government matching mechanism to encourage public-sector workers affiliated to the pension system to make voluntary contributions. For each peso that the worker contributes voluntarily for retirement purposes, the federal government in its capacity as employer contributes 3.25 pesos. Workers can contribute either 1% or 2% of their salary. Solidarity savings have the same tax treatment as mandatory contributions (contributions...)

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26 LISR, art. 142, frac. XVII, [https://www.sat.gob.mx/articulo/49469/articulo-142](https://www.sat.gob.mx/articulo/49469/articulo-142).
are made from before-tax income, return on investment is tax exempt and withdrawals are treated as mandatory pensions).

Social treatment

Social contributions are determined on the gross salary, capped to the corresponding amount in each social security institution (IMSS’s cap = 25 UMA, ISSSTE’s cap (government workers) = 10 UMA).

Given that private pension contributions are part of the social security contributions, all social security contributions, including pension contributions, are calculated on the gross salary. Therefore, when calculating the other parts of social security contributions (not for pensions), pension contributions are not excluded.

Pension income is not subject to social security contributions.

Tax treatment of pensioners

Monthly pension income is tax exempt up to an amount equivalent to 15 times the monthly UMA. Benefits above this limit are taxed at marginal tax rate. This limit applies to the sum of all pension payments or benefits paid by the federal government (pay-as-you-go defined benefit pensions), the pension funds (individual retirement accounts), occupational pension plans, and personal pension plans.

Incentives for employers to set up or contribute to a funded private pension plan

Mandatory employer contributions to the retirement sub-account and to the housing sub-account are tax-deductible.

Complementary retirement contributions done by the employer and employer contributions to occupational private pension plans are partially deductible. The amount deductible cannot exceed 47% of the contributions made. However, 53% of the contributions can be deducted when the benefits provided by the employer to its employees in a given tax year are above the benefits provided the previous year.

Employer contributions to occupational private pension plans are not considered into the salary used to determine social security contributions if the pension plan is registered in the authority’s database of the pension system. This process gives the opportunity to reduce the employer’s cost of providing an occupational plan.
Netherlands

Structure of the funded private pension system

**Quasi-mandatory, occupational**
- Sector or industry-wide pension plans
- Company pension funds
- Pension funds for professions
- Insured occupational plans

**Voluntary, personal**
- Private personal old-age provisions

**Tax treatment of contributions**

The maximum income for the EET system is set at EUR 107,593 in 2019. For the income that exceeds EUR 107,593 a TEE system can apply. This means that an individual with an income above EUR 107,593 contributes a certain percentage of his/her income to a mandatory occupational pension plan, but the income taken into account to calculate the contribution is capped at EUR 107,593. If s/he wants to make extra contributions, s/he has to open a voluntary pension plan and the contributions in that plan are not tax-deductible (investment income and capital gains are tax exempt, as well as the benefits of this voluntary pension plan). This two-tiered system was introduced on 1 January 2015. The maximum income is indexed annually to the minimum wage.

**EET system**

Contributions to an occupational plan are not considered as taxable income to the employee. Second pillar contributions are normally set in collective pension agreements, and are typically shared between employers and employees. Employers usually pay a higher share (roughly two-thirds).

With reference to contributions to an occupational plan, the tax relief is limited in the EET system. For DB plans, the pension that can be granted in a year is limited (the benefit is defined). For DC plans, the contribution is limited.

- Occupational DB plans: The pension that can be granted in any working year (the received entitlement concerning a working year) cannot exceed 1.875% of the career-average salary minus a threshold for the first pillar (general state pension) if the retirement age is 68 years old. After 40 working years, this can lead to a pension of 75% of the average salary. In terms of final salary, the pension that can be granted in any working year cannot exceed 1.657%.

- Occupational DC plans: Tax rules define the maximum total contributions. Those maximum contributions differ and depend on the age of the participant and the participant’s personal situation (e.g. is a pension for a partner included, and if so, in what form). These contributions vary from 3.2% to 4.6% (for employees aged from 15 up to and including 19 years old) up to 22.3% to 27.3% (for employees...
aged from 65 up to and including 67 years old) of the salary minus the threshold for the first pillar.

Contributions to private personal old-age provisions are tax-deductible up to a limit. Contributions are limited to 13.3% of the annual income (with a ceiling of EUR 107 593) minus a threshold for the first pillar (general state pension) and taking into account the accrued pensions rights in the occupational pension plan (to prevent accumulation and tax relief for early retirement).

**TEE system**

Contributions made under the TEE system are taxed at the individual’s marginal income tax rate.

Contributions to occupational DC pension plans are limited as well. The maximum contributions depend on the age and range from 2.2% (age category 15-19 years old) up to 13.2% (age category 65-67 years old).

**Tax treatment of returns on investments**

Returns on investments are not taxed.

**Tax treatment of funds accumulated**

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

**Tax treatment of pension income**

Income from occupational and personal pension plans under the EET system is taxed at the individual’s marginal income tax rate.

Income from occupational and personal pension plans under the TEE system is not taxed.

Lump sum payments are generally not permitted, unless the annuity payment is very small (EUR 484.09 in 2019 for occupational plans), and these payments are taxed as income. The occupational pension capital cannot be paid out as a lump sum to the employee. For personal pension plans, the total lump sum payment cannot exceed EUR 4 404 (in 2019; indexed to inflation).

**Non-tax incentives**

No such incentives.

**Social treatment**

EET system: Social contributions are not levied on pension contributions.

TEE system: The contributions for occupational pensions or private personal old-age provisions are not exempt or deductible from the taxable income. The individual has to pay tax and social contributions on the taxable income (there is no difference with other taxable income; in case of wages, the tax and social contributions are normally withheld by the employer).

Pensioners pay 9.75% of their taxable income for the general insurance of certain health costs and survivors’ pensions (WLZ, ANW, up to an income of EUR 34 400 in 2019).
Depending on their income, they pay for their own health insurance. The social contributions are less than the contributions for those below the age from which the general state pension payments are received (66 years and 4 months in 2019).

**Tax treatment of pensioners**

Pension income is taxed if the EET system applies. Tax is calculated by applying the marginal income tax rate (box 1 income).

A general personal tax credit is available to all taxpayers. The amount of the general tax credit depends on the age of the individual and the level of the individual’s income.

- For individuals below state pension age: If the individual’s income is below EUR 20,384 (in 2019), the tax credit is EUR 2,477. Between EUR 20,384 and EUR 68,507, the tax credit is calculated according to this formula: \[2,477 \times \frac{1.147}{100} \times (\text{income} - 20,384)\]. If the income is above EUR 68,507 the tax credit is EUR 0.

- For individuals at or above state pension age: If the individual’s income is below EUR 20,384, the tax credit is EUR 1,268. Between EUR 20,384 and EUR 68,507, the tax credit is calculated according to this formula: \[1,268 \times \frac{2.633}{100} \times (\text{income} - 20,384)\]. Above EUR 68,507, the tax credit is EUR 0.

In addition, individuals at or above state pension age are entitled to a special tax credit called the “elderly allowance”. This tax credit is EUR 1,596, reduced (but not further than nil) by 15% of the aggregate income to the extent that it exceeds EUR 36,783. If these individuals are single, this tax credit is increased with a fixed amount of EUR 429.

**Incentives for employers to set up or contribute to a funded private pension plan**

No such incentives.

**New Zealand**

**Structure of the funded private pension system**

- **Voluntary, occupational**
  - Employment-related superannuation plans

- **Voluntary, personal**
  - KiwiSaver plans
  - Other superannuation plans

**Tax treatment of contributions**

Employees’ contributions are taxed at the marginal rate of income tax.

Employers’ contributions are also liable for tax (called employer superannuation contribution tax, ESCT). The ESCT rate is calculated based on the employee’s salary or wages in the previous tax year (including gross superannuation employer contributions). When the employee was not employed for all the previous tax year, the tax rate is calculated...
based on an estimate of the total amount of salary or wages that the employee will earn in the year ahead.

- If salary ≤ NZD 16 800 then ESCT rate=10.5%
- If salary from NZD 16 801 to NZD 57 600 then ESCT rate=17.5%
- If salary from NZD 57 601 to NZD 84 000 then ESCT rate=30%
- If salary ≥ NZD 84 001 then ESCT rate=33%

There are two alternative ways to calculate ESCT rates:

- the employee’s marginal rate of income tax, by treating employer contributions as part of the employee’s salary or wages, with the agreement of both employer and employee; or
- for employer contributions made on behalf of a past employee, a fixed tax rate of 33% applies.

### Tax treatment of returns on investments

Investment earnings are taxed. The pension provider directly deducts this tax from the pension account.

If the scheme is a widely-held superannuation fund, investment earnings are taxed at 28%.

The tax rate for investment earnings from a Portfolio Investment Entity (PIE) is referred to as the prescribed investor rate (PIR). All of the KiwiSaver default schemes are PIES. Dividends from a listed PIE are not liable for resident withholding tax. The PIR is calculated based on taxable income in each of the previous two income years.

- If, in either of the previous two income years, taxable income was ≤ NZD 14 000 and (taxable income + PIE income) ≤ NZD 48 000 then PIR=10.5%;
- If, in either of the previous two income years, taxable income was ≤ NZD 14 000 and (taxable income + PIE income) from NZD 48 000 to NZD 70 000 then PIR=17.5%;
- If taxable income ≤ NZD 14 000 and (taxable income + PIE income) ≥ NZD 70 001 for both of the previous two income years, then PIR=28%;
- If, in either of the previous two income years, taxable income was from NZD 14 001 to NZD 48 000 and (taxable income + PIE income) ≤ NZD 70 000 then PIR=17.5%;
- If taxable income from NZD 14 001 to NZD 48 000 and (taxable income + PIE income) ≥ NZD 70 001 for both of the previous two income years, then PIR=28%;
- If taxable income > NZD 48 000 then PIR=28%.

### Tax treatment of funds accumulated

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.
**Tax treatment of pension income**
Payments from superannuation funds and from KiwiSaver plans, whether in the form of an annuity, lump sum or pension, are not taxable in the hands of recipients.

**Non-tax incentives**
The government makes an annual contribution towards KiwiSaver accounts as long as members contribute and are aged 18 and over (and satisfy some additional criteria). The government pays 50 cents for every dollar of member contribution annually up to a maximum payment of NZD 521.43. The member tax credit does not count as taxable income for the member. Members no longer qualify for member tax credit once they become eligible to withdraw their savings.

Employees’ contributions to a KiwiSaver account (minimum 3% of the salary) are matched by a minimum employer contribution of 3% of the employee’s salary.

**Social treatment**
Social contributions are not levied on pension contributions.
Social contributions are not levied on pension income.

**Tax treatment of pensioners**
New Zealand Superannuation (public pension) is taxed at marginal rates.

**Incentives for employers to set up or contribute to a funded private pension plan**
No such incentives.

**Norway**

**Structure of the funded private pension system**

<table>
<thead>
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<th>Mandatory, occupational</th>
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<th>Voluntary, occupational</th>
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<td>• Contractual retirement pension (AFP)</td>
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<th>Voluntary, personal</th>
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<tr>
<td>• Individual pension saving (IPS)</td>
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**Tax treatment of contributions**
Employer contributions to mandatory occupational pension plans are not considered as taxable income to the employees.
Employees usually do not contribute to private occupational pension plans, but they are sometimes required to do so. In case employees are required to contribute, the contribution rate must not exceed 2% of salary in municipal and public sector DB plans and 4% of salary in private sector plans. Contributions are deductible from ordinary income. They are not deductible from personal income.

Contributions by self-employed workers into voluntary defined contribution occupational plans are deductible from both ordinary income and personal income, up to 7% of imputed personal income from self-employment between 1 and 12 G.\(^27\)

Individual contributions to individual pension saving (IPS) schemes are deductible from ordinary income, up to NOK 40 000. They are not deductible from personal income.

**Tax treatment of returns on investments**

Returns on investments are not taxed.

**Tax treatment of funds accumulated**

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

**Tax treatment of pension income**

Pension income from occupational pension plans is taxed as both personal and ordinary income. The pension supplement to the contractual retirement pension (AFP) paid by the government to the cohorts 1994 to 1962 is not taxed. Old-age pension income from the IPS scheme is taxed only as ordinary income. Lump sum payments are not allowed.

**Non-tax incentives**

The government pays one third of the pensions from the contractual retirement pension (AFP), in addition to a pension supplement to the cohorts 1944 to 1962.

**Social treatment**

Employers pay social contributions on their occupational pension contributions at a maximum rate of 14.1%.

Pension income is subject to 5.1% social contribution, which is lower than contribution rates on other types of income (employees pay 8.2%).

**Tax treatment of pensioners**

Public pension income is taxed as both personal and ordinary income.

Old-age pensioners are entitled to a special tax credit. In 2019, the maximum tax reduction was NOK 30 000. The tax credit is tapered by 15.3% of pension income above NOK 198 200 and 6% of pension income above NOK 297 900. There is no tax credit for pension income above NOK 543 665.

\(^{27}\) G is the basic amount and is worth NOK 98 866 in 2019.
Incentives for employers to set up or contribute to a funded private pension plan

Employer contributions to mandatory occupational pension plans are tax-deductible within certain limits as business expenses according to the Norwegian Taxation Act. The mandatory minimum contribution is set at 2% of wages between 1 and 12 G (G is the National Insurance scheme basic amount). Tax-deductible contributions/premiums are capped as follows:

- Contributions of 7% of wages up to 12 G, with an additional contribution of 18.1% of wages between 7.1 and 12 G in DC and mixed/hybrid schemes.
- Premiums financing a life-long retirement benefit of 70% of wage up to 6 G and 100% of wage between 6 and 12 G (benefit levels including estimated pillar 1 pensions.)

Employer contributions to contractual retirement pensions have also become tax-deductible as business expenses through administrative practice at the taxation authorities.

Poland

Structure of the funded private pension system

Voluntary, occupational
- Employee pension funds (PPE)
- Employee capital plans (PPK)

Voluntary, personal
- Open pension funds (OFE)
- Individual retirement accounts (IKE)
- Individual pension insurance accounts (IKZE)

Tax treatment of contributions

Contributions into OFE are tax deductible.

Contributions into IKZE are tax deductible up to a limit. Annual contributions into IKZE are capped at 1.2 times the national projected average monthly salary (PLN 5 331.60 in 2018). If the individual exceeds this limit, the financial institution has to return the excess contributions or to forward them to another account.

Employer contributions into PPE (so-called basic contributions) are included in the taxable income of the employee and consequently taxed at the marginal rate of income tax. Employee contributions (so-called additional contributions) are paid from earnings that have been already taxed. Employee contributions into PPE cannot exceed 450% of the national projected average monthly salary (PLN 19 993.50 in 2018).

Employer contributions into PPK are included in the taxable income of the employee and consequently taxed at the marginal rate of income tax. Employee contributions are paid from earnings that have been already taxed. There is no contribution limit.
Contributions into IKE are taxed at the marginal rate of income tax in the sense that contributions are made from after-tax earnings and do not benefit from tax reliefs. Annual contributions into IKE cannot exceed 300% of the national projected average monthly salary (PLN 13 329 in 2018). If the individual exceeds this limit, the financial institution has to return the excess contributions or to forward them to another account.

**Tax treatment of returns on investments**

Returns on investments are not taxed. Early withdrawal from IKE, IKZE and PPK is possible, but in this case returns on investments are taxed at 19%.

**Tax treatment of funds accumulated**

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

**Tax treatment of pension income**

Ten years before the official age of retirement, assets in OFE are subject to gradual transfer to ZUS sub-account (in 10% per year pace), due to so called security slide mechanism. At the age of retirement, all assets are completely transferred to the first pillar, from which the individual receives total pension which is taxed at the marginal rate of income tax.

IKZE benefits can be paid after age 65 as lump sums or regular payments and are taxed at a fixed rate of 10%. Early withdrawal is possible, but all accrued tax benefits must be surrendered.

Any withdrawal after 60 from PPE, PPK or IKE is tax free. At least 75% of PPK savings should be paid in at least 120 monthly instalments. Early withdrawal from PPE is not possible. Early withdrawal from IKE is possible but in this case, returns on investments are taxed at 19%.

Early, unconditional withdrawals from PPK are possible but in that case, returns on investments are taxed at 19%, 30% of the funds paid by the employer are transferred to ZUS, and state contributions (see below) are transferred back to the state budget.

**Non-tax incentives**

The government pays a PLN 250 contribution in the PPK account when the member joins the plan. It also contributes PLN 240 annually in the PPK account.

These incentive payments will be returned in case of early withdrawal.

**Social treatment**

Employer contributions into PPE and PPK are not included into income subject to social contributions.

Individual contributions are always subject to social contributions.

Pension income is not subject to contributions for pensions, unemployment insurance etc. However, there is a tax-deductible health-insurance contribution. The contribution is deducted from an amount of due personal income tax (7.75%) and from incomes after taxation (1.25%).
Tax treatment of pensioners
Public pensions are subject to income tax.

Incentives for employers to set up or contribute to a funded private pension plan
Employer contributions into PPE are deductible from corporate tax, up to 7% of the employee’s salary. Employer contributions into PPK are deductible from corporate tax.

Portugal

Structure of the funded private pension system

Voluntary, occupational
- Closed pension funds
- Open pension funds: collective membership
- Collective pension insurance contracts

Voluntary, personal
- Open pension funds: individual membership
- Retirement saving schemes (PPR)
- Public regime of capitalisation (RPC)

Tax treatment of contributions
Contributions to occupational pension plans are, in terms of amount, mostly employer contributions. Employer contributions are not considered as taxable income for the employee and are tax deductible from the employer taxable profits as long as the legal required criteria are met, namely:

- All permanent workers of the company are enrolled in the pension plan and the benefits are established in accordance with an objective criteria that applies to all workers;
- The annual contributions made by the employer do not exceed 15% of the annual total costs with wages and salaries (the limit is 25% if employees are not covered by social security such as pension plans under a collective agreement in the banking sector). If the contributions exceed the limit, the exceeding part is not considered as a cost for the company for tax purposes, unless the amounts are included in the employee’s taxable income;
- At the time of retirement, at least two thirds of the benefits are paid in the form of annuities;
- The pension plan covers exclusively benefits in case of retirement, early retirement, supplementary retirement, health (post-work), disability or survivorship and follows, in what concerns age and holders/beneficiaries, the general social security framework;
• The management and disposal of these employer contributions do not belong to the company itself;
• Contributions are not considered income from employment.

Employer contributions to retirement savings schemes (PPR) are also not considered as taxable income for the employee. The legal requirements above do not apply as this type of contribution is always considered as income from employment and deductible from the employer’s taxable profits.

20% of overall employee contributions to private pension plans (both occupational and personal) are tax deductible, up to a yearly deduction limit which varies according to the individuals’ age: EUR 400 per taxpayer under 35 years old, EUR 350 per taxpayer between 35 and 50 years old, and EUR 300 per taxpayer above 50 years old. In the case of contributions to the public regime of capitalisation (RPC), only two age limits apply: EUR 400 per taxpayer under 35 years old and EUR 350 per taxpayer older than 35. In addition, an overall limit applies for deductions related to certain expenses, namely health, health insurance, residence for the elderly and tax benefits (including tax benefits related to the above-mentioned contributions to private pension plans) when the annual income exceeds EUR 7 091. Between EUR 7 092 and EUR 80 640 the limit for tax deductions varies between EUR 2 500 and EUR 1 000. For an annual income above EUR 80 640, the maximum deduction available is EUR 1 000.

**Tax treatment of returns on investments**
Generally, the income generated by private pension assets is tax exempt.

**Tax treatment of funds accumulated**
There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

**Tax treatment of pension income**
If the contributions were exempt (employer contributions to occupational pension plans), the following tax treatment applies:

• Annuities: Taxed at the individual’s marginal rate of income tax. A maximum deduction of EUR 4 104 applies to total pension income. However, if the compulsory contributions to social protection schemes and to legal health subsystems exceed that limit (EUR 4 104), the deduction will be equal to the total amount of contributions.
• Lump sums: One-third of the “contribution part” (capital component) is tax exempt up to a maximum of EUR 11 704.70. The remainder is taxed at the individual’s marginal rate of income tax. The “gains and other returns on investment part” is taxed at a rate of 4% or 8% depending on whether the contributions that originated such income were made before or after 1 January 2006 respectively.

If the contributions were taxed (employee contributions to occupational and personal pension plans, as well as employer contributions when legal criteria are not met for receiving a favourable tax treatment), the following tax treatment applies:

• Annuities: The “contributions part” is exempt and only the “gains and other returns on investment part” is subject to taxation at the marginal rate of income tax. If it is
not possible to distinguish between contributions and returns, then only 15% of the
annuity is subject to taxation at the marginal rate of income tax.

- Lump sum: The “contribution part” is exempt. The “gains and other returns on
  investment part” is taxed at a rate of 4% or 8% depending on whether the
  contributions that originated such income were made before or after the 1 January
2006 respectively.

The interest income subject to taxation can be reduced if more than 35% of the
contributions are paid in the first half of the contract, and the benefits are received more
than 5 years after the beginning of the contract (5 to 8 years: 80% of the interest is taxed;
more than 8 years: 40% of the interest is taxed).

Withdrawals from retirement savings plans (PPR) under the following conditions are not
subject to penalties: (i) old-age retirement; (ii) long-term unemployment of the participant
or any member of their household; (iii) permanent disability of the participant or any member of their household; (iv) severe illness of the participant or any member of their household; (v) at the age of 60; (vi) for payment of instalments of mortgage-backed credit on the participant’s own permanent residence.

Withdrawals outside the above conditions are subject to penalties. The year of withdrawal,
the individual has to add to his/her taxable income the full amount of tax deductions
received on contributions over the years, plus an annual penalty rate of 10% applied to the
tax deductions for each year since the contribution has been made. This is then taxed at the
individual’s marginal rate. For example, if the individual has made a contribution of
EUR 300 eight years ago, the penalty for that contribution will be calculated as the tax
deduction received on that contribution (20%×300) multiplied by 8×10%.

**Non-tax incentives**

No such incentives.

**Social treatment**

Social contributions are not levied on employer pension contributions.

Social contributions are not levied on pension income.

**Tax treatment of pensioners**

Public pensions are considered as income and taxed at the individual’s marginal income
tax rate.

There is a general deduction for pensions of EUR 4 104 or, when higher, of the total amount
of the mandatory social security contributions.

**Incentives for employers to set up or contribute to a funded private pension plan**

Employer contributions to occupational pension plans are tax-deductible expenses as long
as some requirements are fulfilled (see above). Besides this relief on corporate income tax,
social contributions are not levied on employer pension contributions.
Slovak Republic

Structure of the funded private pension system

- **Mandatory, personal**
  - Individual retirement accounts (pillar 2)

- **Voluntary, personal**
  - Supplementary pension plans (pillar 3)

**Tax treatment of contributions**

Employers have to pay mandatory contributions on behalf of employees enrolled in an individual retirement account (4.75% of the salary in 2019, increasing by 0.25 percentage point each year until reaching the target of 6% in 2024). Mandatory contributions are fully tax deductible.

Employees can make additional voluntary contributions in their individual retirement account. There is no cap on the amount an employee can contribute voluntarily and these contributions are not tax deductible.

Employer contributions into supplementary pension plans are treated as employee’s income and taxed at the employee’s marginal rate.

Employee contributions into supplementary pension plans are tax deductible up to EUR 180, only if the participant opts for new pay-out conditions. Excess contributions are taxed at the marginal rate of income tax. New pay-out conditions are in place since 1 January 2014 for all new entrants. Participants who joined the scheme prior to 1 January 2014 can decide to conclude with their supplementary pension company a contract amendment with new pay-out conditions. However, if they opt not to choose to sign this contract amendment, they will not become eligible for the EUR 180 tax relief.

**Tax treatment of returns on investments**

Returns on investment into individual retirement accounts are tax exempt.

Returns on investment are taxed upon withdrawal for supplementary pension plans (both those gained during the accumulation phase and the pay-out phase). A fixed tax rate of 19% applies.

**Tax treatment of funds accumulated**

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

**Tax treatment of pension income**

Pension income from individual retirement accounts is tax exempt.

Upon withdrawals from supplementary pension plans, only the part of the assets originated from returns on investment is taxed at 19%. The other part (originated from contributions) is tax free.
Non-tax incentives

No such incentives.

Social treatment

Mandatory pension contributions are part of the social insurance contributions: 25.2% of the salary paid by the employer and 9.4% of the salary paid by the employee. Health insurance contributions (10% of the salary paid by the employer and 4% of the salary paid by the employee) and social insurance contributions are calculated based on the gross salary.

Voluntary contributions to individual retirement accounts and individual contributions to supplementary pension plans are subject to social contributions, as they are paid from net income.

Employer contributions to supplementary pension plans are considered as income and are subject to health insurance contributions (but not to social insurance contributions).

Social contributions are not levied on pension income.

Tax treatment of pensioners

Public pensions are not taxed.

Incentives for employers to set up or contribute to a funded private pension plan

Employer contributions into supplementary pension plans are tax deductible for the employer (corporate tax) up to 6% of the member’s salary. Employer contributions into supplementary pension plans are not subject to social insurance contributions but health insurance contributions are levied on these contributions.

Slovenia

Structure of the funded private pension system

Voluntary, occupational and personal

- Mutual pension fund
- Umbrella pension fund
- Guarantee fund

Tax treatment of contributions

Employer contributions are not included in employee’s taxable income up to 5.844% of the employee’s gross wage. This cap cannot exceed EUR 2 819.09 per year.

Individual contributions to occupational and personal pension plans attracting tax deduction are capped by the unused cap of employer contributions attracting tax relief. If contributions are paid by both the employer and the employee, and the total amount of

28 This percentage is obtained by applying 24% on the employer and employee contributions into the public pension scheme: 0.24×0.2435=5.844%.
contributions exceeds the maximum contribution entitled to tax relief, the employee may only receive tax relief on the difference between the contribution paid by the employer and the maximum contribution. Excess contributions are taxed at the marginal rate of income tax.

Employer and employee contributions benefit from tax relief if the pension plan is approved by the ministry of labour and entered into a special register kept by the competent tax authority. The sum of employer and employee contributions into pension plans cannot be lower than EUR 240 a year.

**Tax treatment of returns on investments**

Returns on investments are not taxed.

**Tax treatment of funds accumulated**

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

**Tax treatment of pension income**

Only half of the amount of the calculated annuity is taxed at the marginal rate of income tax. The other half is exempt from taxation. Lump sums are taxed at the marginal rate of income tax.

**Non-tax incentives**

No such incentives.

**Social treatment**

Employer contributions above 5.844% of the employee’s gross wage or above EUR 2 819.09 are subject to social contributions. Contributions within the limit are not subject to social contributions.

Employee contributions are made from income that has already been subject to social contributions.

Income from private pension schemes is not subject to social contributions.

**Tax treatment of pensioners**

Pensions from the public scheme are taxed at the marginal rate of income tax and benefit from a tax credit. The tax credit is equal to 13.5% of resident pensioners’ pensions received from compulsory pension and disability insurance.

**Incentives for employers to set up or contribute to a funded private pension plan**

Employer contributions are tax deductible from corporate tax up to 5.844% of the employee’s gross wage. This cap cannot exceed EUR 2 819.09 per year.

Employer and employee contributions benefit from tax relief if the pension plan is approved by ministry of labour and entered into a special register kept by the competent tax authority. The sum of employer and employee contributions into pension plans cannot be lower than EUR 240 a year.
Employer contributions above 5.844% of the employee’s gross wage or above EUR 2 819.09 are subject to social contributions. Contributions within the limit are not subject to social contributions.

Spain

Structure of the funded private pension system

Voluntary, occupational

- Occupational pension plans (planes de empleo)
- Mutual pension provident entities (entidades / mutualidades de prevision social)
- Collective pension insurance plans (seguro colectivo)
- Non-autonomous funds (fondos de pensiones internos)
- Employer social prevision plans

Voluntary, personal

- Associated plans (planes asociados)
- Personal plans (planes individuales)
- Insured prevision plans (planes de prevision asegurados)

Tax treatment of contributions

Employer contributions count as income to the employee. Individuals get fiscal deductions if they pay premiums to insured pension plans.

Total employer and employee contributions made to personal and occupational pension plans are limited to EUR 8 000 per year. Additional contributions are not permitted. In addition, a tax-deductibility limit applies to total contributions. The limit for 2019 is the lesser of (i) 30% of the aggregate net income from work and economic activities, and (ii) EUR 8 000.

The individual can additionally deduct up to EUR 2 500 per year for contributions paid to his/her spouse’s pension plan when the spouse’s net earned and business activities income is less than EUR 8 000. The additional deduction can be carried forward for five years.

Tax treatment of returns on investments

Returns on investments are not taxed.

Tax treatment of funds accumulated

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

Tax treatment of pension income

Pension income is taxed as labour income at the individual’s marginal rate of income tax. The same tax treatment applies to lump sums and annuities.
There is a tax exemption for the contributions made before 2007. According to this, lump-sum benefits are tax-exempt up to 40% of the cash value of accrued benefits or accumulated capital (only in respect of benefits and contributions made before 2007). The 40% reduction may be applied in a single financial year, regardless of the number of plans an individual has subscribed to.

A transitional regime applies, with lump sums arising from contributions made before 2007 taxed in the way described above, under the following conditions:

- People who retired before 2010 can only benefit from tax-free lump sums if they withdraw the lump sum before 2018;
- People who retired between 2011 and 2014 can only benefit from tax-free lump sums if they withdraw the lump sum at most 8 years after retirement;
- People retiring as of 2015 can only benefit from tax-free lump sums if they withdraw the lump sum at most 2 years after retirement.

Non-tax incentives
No such incentives.

Social treatment
Only employer contributions to private pension plans are included for the calculation of social security contributions. The contributions that a company makes in favour of its employee to pension plans will be considered as an increase in the wage base, and will raise the contribution base and contributions to be paid to Social Security, both for the employee and for the company.

Social contributions are not levied on pension income.

Tax treatment of pensioners
Public pension income is taxed as labour income at the individual’s marginal rate of income tax.

Not all pensioners will be required to pay income tax. In particular, those who receive retirement benefits up to EUR 22 000 per annum shall not be required to pay income tax.

Incentives for employers to set up or contribute to a funded private pension plan
Employer contributions to occupational pension plans are tax exempt for the employer. Employer contributions are deductible fiscal expense if the premiums are allocated in favour of employees.
Structure of the funded private pension system

Mandatory, personal
- Premium Pension System (PPM)

Quasi-mandatory, occupational
- Benevolent societies (mainly the sub-category pension funds, tjänstepensionskassor)
- Pension foundations (pensionsstiftelser)
- Life insurance companies
- Book reserves

Voluntary, personal
- Individual pension savings (IPS)
- Individual pension insurance

Tax treatment of contributions
Contributions to PPM are shared among the insured individual, the employer (including the self-employed) and the government. The contribution paid by the individual is called the national pension contribution. The national pension contribution is 7% and is paid on incomes up to 8.07 income base amounts. The national pension contribution is paid in conjunction with the payment of preliminary tax. However, the final tax of those in gainful employment is reduced by an amount corresponding to the national pension contribution paid.

Contributions to occupational plans are only financed by employers. These contributions are not considered as taxable income to the employee, provided that they are secured in any of the ways set out in the Income Tax Act.

From 1 January 2016, only the self-employed and employees who completely lack pension rights in employment can deduct contributions to pension insurance contracts or IPS schemes. For these persons, the cap for individual contributions is 35% of eligible income or at most 10 basic amounts (SEK 465 000 in 2019) per year. Eligible income for the self-employed is essentially defined as surplus from active business activities. To be eligible for tax relief, benefits cannot be withdrawn before the age of 55, and payments must last at least for 5 years in the form of an annuity.

Tax treatment of returns on investments
Returns on investment are not taxed in PPM schemes.

For occupational and personal pension schemes, returns are taxed at a fixed rate of 15% on an imputed return on investment. The imputed return corresponds to the previous year’s average government borrowing rate, but it cannot be negative. Taxation of private annuities
for which premiums are not tax deductible are taxed differently as regards the imputed return on investment and the tax basis.

**Tax treatment of funds accumulated**

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

**Tax treatment of pension income**

Pension income is taxed as earned income at the individual’s marginal income tax rate. Payments from private annuities classified as capital insurance and for which premiums are not deductible, are free from income tax.

**Non-tax incentives**

No such incentives.

**Social treatment**

Social contributions are not levied on pension contributions. However, a special payroll tax of 24.26% is applied on contributions for occupational pensions paid by the employer.

Social contribution tax is not levied on pension income.

**Tax treatment of pensioners**

Public pension income is taxed as earned income.

A basic allowance is given for assessed earned income and varies between SEK 13 700 and SEK 35 900, depending on income. Individuals aged over 65 get an additional allowance, which amount also varies with income.

**Incentives for employers to set up or contribute to a funded private pension plan**

Employers can deduct 35% of an employee’s salary, but maximum 10 basic amounts (SEK 465 000 for 2019) for different pension plans. To be eligible for tax relief, benefits cannot be withdrawn before the age of 55, and payments must last at least for 5 years in the form of an annuity.

There is also a possibility for the employer to use a supplementary provision in cases when a pension agreement is changed or a new agreement is met on early retirement from an employment. Furthermore, the supplementary provision can be used if the pension commitments are insufficiently secured. The supplementary provision states that the whole cost for securing a pension commitment can be deducted if it does not oppose conditions stipulated in law.
Structure of the funded private pension system

Mandatory, occupational
- Pension institutions (pillar 2)

Voluntary, personal
- Individual retirement savings plans (pillar 3a)

Tax treatment of contributions
Employee and employer contributions to occupational pension plans are tax deductible.
Contributions to individual retirement savings plans are tax deductible up to a limit. If the individual has an occupational pension plan, tax-deductible contributions to personal plans are capped at CHF 6,768. If the individual does not have an occupational pension plan, tax-deductible contributions are capped at 20% of annual earnings. In this case, the tax deduction cannot exceed CHF 33,840. Excess contributions are not permitted.

Tax treatment of returns on investments
Returns on investments are not taxed.
Financial transactions are subject to stamp duty, including those done by pension funds. The rate of 0.15% (half paid by each contractor) applies on all securities bought and sold.

Tax treatment of funds accumulated
There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

Tax treatment of pension income
The same tax treatment applies to pension benefits paid by occupational and personal pension plans. Annuities and programmed withdrawals are taxed at the marginal rate of income tax.
The federal government and the regions (cantons) tax lump sums separately from other incomes at preferential rates:
- The federal government taxes lump sums as capital income. This tax is progressive and is equal to 1/5 of the income tax which would be generated if lump sums were separately taxed as income.
- The fiscal treatment of lump sums differs between cantons.

Non-tax incentives
No such incentives.
**Social treatment**

Contributions to occupational pension plans are part of the social contributions, paid from the gross salary.

Contributions to individual retirement savings plans are paid from disposable income. This income has already been subject to social contributions.

Social contributions are not levied on pension income.

**Tax treatment of pensioners**

Income from public pension schemes is taxed at the individual’s marginal rate of income tax.

**Incentives for employers to set up or contribute to a funded private pension plan**

Employer contributions into pillar 2 are tax deductible from corporate tax.

**Turkey**

**Structure of the funded private pension system**

- **Mandatory, occupational**
  - Occupational DB plans for employees exempted from the mandatory social insurance system (first pillar substitute)
  - Special occupational pension plans (for employees of OYAK, Amele Birliği and ILKSAN)

- **Voluntary, occupational**
  - Voluntary occupational pension plans
  - Employer-sponsored group accounts

- **Voluntary, personal**
  - Individual savings accounts
  - Group personal pension accounts

**Tax treatment of contributions**

Employee contributions into personal pension plans are deducted from salaries that have already been taxed at the marginal rate of income tax and that have already been subject to stamp tax at the rate of 0.759%. Employee contributions are matched by the government up to a limit.

Employer contributions into employer-sponsored group accounts are included in employee’s taxable income. Such contributions do not receive the government match.

Tax reliefs are available only if the pension plan is offered by a pension company established in Turkey.
**Tax treatment of returns on investments**

Returns on investment into personal pension plans and employer-sponsored group plans are taxed upon withdrawal. The tax rate depends on when the withdrawal takes place:

- If the individual reaches 56 years old and has been in the scheme during 10 years at least, the tax rate is 5%.
- If the individual has been in the scheme during 10 years at least without reaching 56 years old, the tax rate is 10%.
- If the individual has been in the scheme during less than 10 years, the tax rate is 15%.

Individuals can withdraw a lump sum from voluntary pension plans. Only the return on capital component of the lump sum is taxed at a fixed rate, as described above. Part or all of the savings can be converted into an annuity or programmed withdrawal if the individual reaches the age of 56 and has been in the scheme for at least 10 years. Programmed withdrawals are taxed upon each payment made to the member, while the annuities are taxed just before conversion.

Returns on investment of special occupational pension plans and voluntary occupational pension plans are taxed upon withdrawal. The tax rate depends on when the withdrawal takes place:

- If the individual has been contributing for less than 10 years, the tax rate is 15%.
- If the individual has been contributing for 10 years at least, or leaving the scheme due to death, disability or compulsory winding up, the tax rate is 10%.

**Tax treatment of funds accumulated**

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

**Tax treatment of pension income**

Pension income is tax exempt owing to the fact that tax on returns is deducted at the time the total savings amount is converted into an annuity or programmed withdrawal.

**Non-tax incentives**

The government matches 25% of pension contributions into individual savings accounts or group personal pension contracts up to 25% of the annual minimum wage. The government contribution applies for the automatic enrollment system too, with a separated limit from the one in the individual pension system (i.e. an individual can get the government match twice, within the limit of 25% of the annual minimum wage for each scheme).

Individuals receive 100% of government contributions if they withdraw their assets after reaching 56 years old and if they have contributed for at least 10 years or in case of death or disability.

If an individual makes an early withdrawal (i.e. if s/he does not fulfill at least one of the two previous conditions), s/he cannot keep all of the matching contributions:

- If the individual stays less than 3 years in the scheme, s/he does not receive the government contribution;
● If the individual stays between 3 and 6 years in the scheme, s/he receives 15% of the government contribution and investment returns generated by these contributions;

● If the individual stays between 6 and 10 years in the scheme, s/he receives 35% of the government contribution and investment returns generated by these contributions;

● If the individual stays more than 10 years in the scheme, s/he receives 60% of the government contributions and investment returns generated by these contributions.

The government matching contribution is paid every month into the pension account. If an individual makes an early withdrawal, he/she is not entitled to 100% of the government contribution and so the relevant percentage of government contributions and the investment returns generated by these contributions are withdrawn from the account.

In the automatic enrolment system, the government pays a one-time TRY 1 000 contribution for individuals who do not opt out within the first two months. The initial government contribution is vested once the employee is entitled to the pension. There is also an incentive to annuitize pension assets in the form of a subsidy equal to 5% of participants’ savings at retirement for those who choose a minimum 10-year annuity.

Social treatment

Employer contributions up to 30% of the minimum wage are not included in income subject to social contributions. No relief from social insurance contributions is available for individuals’ contributions.

No social contributions are levied on pension income received from the private pension system.

Tax treatment of pensioners

Public pension income is not subject to income tax.

Incentives for employers to set up or contribute to a funded private pension plan

Employer contributions are deductible from corporate income tax provided that the sum of contributions paid by employers to the individual pension system and personal insurance premiums paid by employees does not exceed 15% of the employee’s monthly wage in the month of payment and the annual minimum wage per annum. If the sum of the two exceeds the limit, the employer and the employee decide upon the priority of the deduction, i.e. deducting first the insurance premiums from the employee’s personal income tax or the employer contributions to the individual pension system. If, for example, the priority is to deduct insurance premiums from the employee’s personal income tax, the employer can only deduct from corporate income tax the difference between the insurance premiums and the overall limit.
United Kingdom

Structure of the funded private pension system

- **Mandatory, occupational**
  - Occupational pension schemes (automatic enrolment)

- **Voluntary, personal**
  - Personal pension schemes (individual or group basis)
  - Stakeholder pensions (individual or group basis)

Workplace pensions include occupational pension schemes, group personal pensions and group stakeholder pensions.

**Tax treatment of contributions**

 Contributions to registered pension schemes benefit from tax relief up to an annual limit (annual allowance). Individuals pay tax at the marginal rate of income tax on any pension savings they have in that tax year above the annual allowance.

- **Occupational pension schemes**: Usually, the employer takes the pension contributions from the individual’s pay, before deducting tax. The individual only pays income tax on what is left. This system of giving tax relief is known as “net pay arrangement”.

- **Other workplace pensions**: The employer takes the pension contributions from the individual’s pay after deducting tax. The pension provider claims tax back from the government at the basic rate of 20% and the tax refund is paid in the pension account. Individuals paying tax at higher rate (40%) or additional rate (45%) can claim the difference through their tax return. The extra tax refund is not paid in the pension account. This system of giving tax relief is known as “relief at source”.

- **Personal pensions**: The relief at source method applies. Individuals pay income tax on their earnings before any pension contribution, but the pension provider claims tax back from the government at the basic rate (the tax refund is paid in the pension account). Individuals paying tax at higher rate or additional rate can claim the difference through their tax return (the extra tax refund is not paid in the pension account).

The maximum amount of pension contributions that an individual can get tax relief on in each tax year is the highest of GBP 3 600, and 100% of the individual’s taxable UK earnings. Where individuals UK taxable earnings are less than GBP 3 600, they can get relief on their contributions only if the pension scheme uses the relief at source method.

If an individual has pension contributions (from both member and employer) in a year of more than GBP 40 000 (annual allowance for the tax year 2018-2019) the excess is subject to a tax charge (the annual allowance charge) that effectively limits tax relief given for the year. Individuals are allowed to make use of unused annual allowance from the previous three years.
The money purchase annual allowance (MPAA) applies to individuals who have flexibly accessed pension benefits and who make money purchase pension contributions. If the MPAA has been triggered (by taking income from a flexi-access drawdown plan or an uncrystallised funds pension lump sum), only GBP 4 000 (the MPAA for tax year 2018-2019) can be paid to all DC plans for an individual in any tax year before the annual allowance tax charge is applied. If the MPAA is triggered part-way through a tax year, only the contributions made after the trigger are tested against the MPAA. However, the total contributions and accruals in that tax year are also tested against the GBP 40 000 annual allowance. The contributions paid before or on the trigger date are measured against an alternative annual allowance of GBP 36 000 (GBP 40 000 - GBP 4 000). Those paid after the trigger date are measured against the GBP 4 000 MPAA. It is not possible to carry forward unused tax relief against the MPAA. Contributions and accruals in relation to a defined benefit plan made after the trigger date are tested against the alternative annual allowance.

Pensions tax relief is restricted by a tapered reduction in the amount of the annual allowance for individuals with income (including the value of any pension contributions) over GBP 150 000 and who have an income (excluding pension contributions) in excess of GBP 110 000. The rate of reduction in the annual allowance is by GBP 1 for every GBP 2 that the adjusted income exceeds GBP 150 000, up to a maximum reduction of GBP 30 000. Where an individual is subject to the money purchase annual allowance, the alternative annual allowance is reduced by GBP 1 for every GBP 2 by which their income exceeds GBP 150 000, subject to a maximum reduction of GBP 36 000.

Although contributions can be paid after a member has reached the age of 75, they are not relievable pension contributions and do not qualify for tax relief.

**Tax treatment of returns on investments**

The income and gains from most pension scheme investments are not taxable. However, pension schemes do not receive a dividend tax allowance and income from certain investments, such as residential property, is taxable if the scheme is an investment-regulated pension scheme (i.e. a pension scheme where the investments can be directed by a member of the scheme).

**Tax treatment of funds accumulated**

There is a cap on the total amount that can be accumulated in a private pension plan that an individual can get tax relief on (lifetime allowance). This is currently set at GBP 1.055 million (uprated annually by the consumer price index). Individuals building up pension savings worth more than the lifetime allowance will pay a tax charge on the excess.

Pension savings are tested against the lifetime allowance when individuals take their pension benefits and on certain other key events:

- Defined benefit schemes: pension benefits are tested against the lifetime allowance. This level of pension savings is broadly equivalent to an annual pension of GBP 50 000 if the individual does not take a lump sum, or GBP 37 500 if the individual takes the 25% maximum tax-free lump sum.

- Defined contribution schemes: the value of the pension pot that is used to pay pension benefits is tested against the lifetime allowance.
The charge is paid on any excess over the lifetime allowance limit. The rate depends on how this excess is paid to the individual. If the amount over the lifetime allowance is paid as a lump sum, the rate is 55%. If it is paid as a pension, the rate is 25% (the pension income is then taxed at the individual’s marginal tax rate). The scheme administrator should deduct the lifetime allowance charge due from the pension pot before paying the pension.

**Tax treatment of pension income**

Annuities, programmed withdrawals and lump sums are all taxed as income at the marginal rate of income tax. Income from workplace and personal pension schemes is paid to the individual by the pension or annuity provider with tax already taken off via the PAYE (Pay As You Earn) system.

An individual can have a tax-free lump sum up to 25% of the total value of the pension pot(s) when they take a pension or annuity. DB schemes are deemed to have a pot size 20 times the annual pension to calculate the tax-free lump sum. Where DC schemes pay an uncrystallised funds pension lump sum, 75% of the value of the lump sum is taxable at the individual’s marginal tax rate.

Pension savings accessed before the normal minimum pension age (currently age 55) are charged a 55% rate (unauthorised payments charge and unauthorised payments surcharge).

**Non-tax incentives**

No such incentives.

**Social treatment**

There is no National Insurance contributions’ (NICs) relief on employee contributions. Employer contributions are excluded from earnings for both employer and employee NICs. NICs are not levied on pension income.

**Tax treatment of pensioners**

The State Pension is taxed as income at the marginal rate of income tax.

**Incentives for employers to set up or contribute to a funded private pension plan**

Employer contributions to a registered pension scheme can be deducted as an expense in computing the profits of a trade, profession or investment business, and so reducing the amount of an employer’s taxable profit. There is no set limit on the amount that an employer can pay into a registered pension scheme.
United States

Structure of the funded private pension system

Voluntary, occupational
- Private pension funds
- State and local government employees retirement funds
- Federal government employees retirement funds

Voluntary, personal
- Individual retirement arrangements (IRAs): traditional and Roth

Tax treatment of contributions

There are different types of employee and employer contributions to tax-qualified plans with different tax treatments. Employee contributions can be salary reduction/elective deferral contributions, catch-up contributions, designated Roth contributions or after-tax contributions. This document describes the federal income tax rules that apply to these types of contribution. These contributions are also subject to state income tax rules; the state income tax rules are generally the same as the federal rules, but there are some differences in some states.

Salary reduction/elective deferral contributions

Salary reduction/elective deferral contributions are generally pre-tax employee contributions to occupational pension plans. There is an annual limit on elective deferrals made to all plans in which the individual participates. If the employee’s total contributions exceed the deferral limit, the difference is included in the employee’s gross income (i.e. the excess contribution is taxed at the individual’s marginal rate of income tax). In addition, the excess amount (and the income earned on that amount) has to be withdrawn from the plan.

- If the excess contributions are withdrawn by April 15 of the following year, any income earned on the contribution is reported as gross income for the tax year in which it is withdrawn. The withdrawal is not subject to the additional 10% tax on early withdrawals.
- If the excess contributions are not withdrawn by April 15, they are subject to double taxation, i.e., they are taxed both in the year contributed and in the year withdrawn from the plan (at the individual’s marginal rate of income tax). These withdrawals could also be subject to the 10% early withdrawal tax.

Limit on elective deferral contributions depend on the type of plan:

- Traditional 401(k), safe harbour 401(k), 403(b) and 457(b) plans: USD 19 000 in 2019.
- Savings Incentive Match Plan for Employees (SIMPLE) 401(k) and SIMPLE IRA plans: USD 13 000 in 2019.
• Salary Reduction Simplified Employee Pension (SARSEP): USD 19 000 in 2019 or 25% of compensation whichever is less.

The total amount the individual can contribute (elective deferral contributions and designated Roth contributions) to all his/her plans (not including 457(b) plans) is USD 19 000 in 2019, but “catch-up contributions”, discussed below, may increase this amount.

Catch-up contributions

Certain plans allow participants 50 years old and over to make pre-tax catch-up contributions beyond the basic limit on elective deferrals. Different limits apply to these additional elective deferral contributions:

• Traditional 401(k), safe harbour 401(k), 403(b), SARSEP and 457(b) plans: USD 6 000 in 2019.
• SIMPLE 401(k) and SIMPLE IRA plans: USD 3 000 in 2019.
• Individual Retirement Arrangement (IRA) plans: USD 1 000 in 2019.
• 403(b) plans: If permitted by the 403(b) plan, an employee who has at least 15 years of service with a public school system, hospital, home health service agency, health and welfare service agency, church, or convention or association of churches (or associated organisation), has a 403(b) elective deferral limit that is increased by the lesser of USD 3 000; USD 15 000 reduced by the amount of additional elective deferrals made in prior years because of this rule; or USD 5 000 times the number of the employee’s years of service for the organisation, minus the total elective deferrals made for earlier years. When both the age-50 catch-up and the 15-year catch-up are available, the 15-year catch-up contributions apply first and then the age-50 catch-up.
• 457(b) plans: special 457(b) catch-up contributions, if permitted by the plan, allow a participant for 3 years before the normal retirement age (as specified in the plan) to contribute the lesser of twice the annual limit (USD 38 000 in 2019); or the basic annual limit plus the amount of the basic limit not used in prior years (only allowed if not using age-50 catch-up contributions).

If an individual aged 50 or over participates in only one 401(k) plan that does not permit catch-up contributions, the USD 19 000 limit applies. However, if that individual participates in two 401(k) plans, s/he can contribute up to USD 25 000 (19 000 + 6 000) on aggregate even though neither plan has catch-up provisions. The USD 19 000 limit still applies to each plan.

Designated Roth contributions and after-tax contributions

Designated Roth contributions are included in gross income (but tax free when withdrawn if certain requirements are met) and therefore taxed at each individual’s marginal rate of income tax. Roth contributions can be made to Roth Individual Retirement Accounts (Roth IRAs) and to 401(k), 403(b) and governmental 457(b) plans.

After-tax contributions are contributions from compensation that an employee includes in taxable income. After-tax contributions can be made to traditional IRAs and to other types of pension plans that permit these types of contribution.
IRA contribution limits

In addition to the contribution limits described above, limits apply to contributions to Roth and traditional IRAs. Contributions that exceed these limits are excess contributions. Excess contributions are taxed at 6% per year, as long as the excess amounts remain in the IRA. The excess contribution can be avoided by withdrawing the excess contribution and any income earned on it by the due date of the individual income tax return.

The maximum an individual can contribute to all of his/her IRA plans is the lesser of USD 6,000 (USD 7,000 including catch-up contributions); or the individual’s taxable compensation for the year. Although the same overall limit applies to both Roth and traditional IRAs, Roth IRA contributions may be limited based on the participant’s filing status and income (see Table 14).

**Table 14. United States: Amount of Roth contributions allowed for 2019**

<table>
<thead>
<tr>
<th>Filing status</th>
<th>Modified adjusted gross income</th>
<th>Contribution limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married filing jointly/Qualifying widow(er)</td>
<td>&lt; USD 193,000</td>
<td>Up to the limit</td>
</tr>
<tr>
<td></td>
<td>= USD 193,000 and &lt; USD 203,000</td>
<td>A reduced amount</td>
</tr>
<tr>
<td></td>
<td>≥ USD 203,000</td>
<td>zero</td>
</tr>
<tr>
<td>Married filing separately and the participant lived</td>
<td>&lt; USD 10,000</td>
<td>A reduced amount</td>
</tr>
<tr>
<td>with his/her spouse at any time during the year</td>
<td>≥ USD 10,000</td>
<td>zero</td>
</tr>
<tr>
<td>Single/Head of household/Married filing separately</td>
<td>&lt; USD 122,000</td>
<td>Up to the limit</td>
</tr>
<tr>
<td>and the participant did not live with his/her spouse</td>
<td>= USD 122,000 and &lt; USD 137,000</td>
<td>A reduced amount</td>
</tr>
<tr>
<td>at any time during the year</td>
<td>≥ USD 137,000</td>
<td>zero</td>
</tr>
</tbody>
</table>


Contributions to a traditional IRA are made after-tax but may be deductible. The deduction may not be full if the participant or his/her spouse is covered by an occupational pension plan and his/her income is above certain limits, as described below (see Table 15 and Table 16).

**Table 15. United States: Deduction limits for traditional IRA contributions if the participant is covered by an occupational pension plan (2019)**

<table>
<thead>
<tr>
<th>Filing status</th>
<th>Modified adjusted gross income</th>
<th>Deduction limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single/Head of Household</td>
<td>≤ USD 64,000</td>
<td>Full deduction up to the amount of the member’s contribution limit</td>
</tr>
<tr>
<td></td>
<td>&gt; USD 64,000 and &lt; USD 74,000</td>
<td>Partial deduction</td>
</tr>
<tr>
<td></td>
<td>≥ USD 74,000</td>
<td>No deduction</td>
</tr>
<tr>
<td>Married filing jointly/Qualifying widow(er)</td>
<td>≤ USD 103,000</td>
<td>Full deduction up to the amount of the member’s contribution limit</td>
</tr>
<tr>
<td></td>
<td>&gt; USD 103,000 and &lt; USD 123,000</td>
<td>Partial deduction</td>
</tr>
<tr>
<td></td>
<td>≥ USD 123,000</td>
<td>No deduction</td>
</tr>
<tr>
<td>Married filing separately</td>
<td>&lt; USD 10,000</td>
<td>Partial deduction</td>
</tr>
<tr>
<td></td>
<td>≥ USD 10,000</td>
<td>No deduction</td>
</tr>
</tbody>
</table>
Table 16. United States: Deduction limits for traditional IRA contributions if the participant is not covered by an occupational pension plan (2019)

<table>
<thead>
<tr>
<th>Filing Status</th>
<th>Modified adjusted gross income</th>
<th>Deduction limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single/Head of Household/qualifying widow(er)</td>
<td>Any amount</td>
<td>Full deduction up to the amount of the member’s contribution limit</td>
</tr>
<tr>
<td>Married filing jointly or separately with a spouse who is not covered by an occupational pension plan</td>
<td>Any amount</td>
<td>Full deduction up to the amount of the member’s contribution limit</td>
</tr>
<tr>
<td>Married filing jointly with a spouse who is covered by an occupational pension plan</td>
<td>≤ USD 193 000</td>
<td>Full deduction up to the amount of the member’s contribution limit</td>
</tr>
<tr>
<td></td>
<td>&gt; USD 193 000 and &lt; USD 203 000</td>
<td>Partial deduction</td>
</tr>
<tr>
<td></td>
<td>≥ USD 203 000</td>
<td>No deduction</td>
</tr>
<tr>
<td>Married filing separately with a spouse who is covered by an occupational pension plan</td>
<td>&lt; USD 10 000</td>
<td>Partial deduction</td>
</tr>
<tr>
<td></td>
<td>≥ USD 10 000</td>
<td>No deduction</td>
</tr>
</tbody>
</table>

Deductible contributions to a traditional IRA are not allowed in the year an individual reaches 70½ or later years. However, an individual can make contributions to a Roth IRA, and can make rollover contributions to a Roth or traditional IRA, regardless of age.

Employer contributions

Employers can make matching contributions or discretionary/non-elective contributions. In both cases, employer contributions are not included in the individual’s gross income. There are limits to how much employers and employees can contribute on aggregate to each plan each year. The limits differ depending on the type of plan.

Overall limit on contributions

- Defined contribution plans (including 401(k) plans): total annual contributions to all the accounts of an individual in plans maintained by one employer (and any related employer) are limited. Total annual contributions cannot exceed the lesser of 100% of the participant’s compensation; or USD 56 000 (USD 62 000 including catch-up contributions) in 2019. The limit applies to the total of all types of contribution, including elective deferrals, employer matching contributions, employer non-elective contributions and allocations of forfeitures.

- SIMPLE 401(k) plans: smaller limits apply.

- 403(b) plans: the limit on the combination of all employer contributions and employee elective deferrals to all 403(b) accounts is the lesser of USD 56 000 (USD 62 000 including catch-up contributions) or 100% of the amount of taxable wages and benefits the employee received in his/her most recent full year of service.

- 457(b): annual contributions cannot exceed the lesser of 100% of the participant’s compensation; or the elective deferral limit (USD 19 000 in 2019, USD 25 000 including catch-up contributions).

- Simplified Employee Pension Plans (SEP): contributions an employer can make to an employee’s SEP-IRA cannot exceed the lesser of 25% of the employee’s compensation; or USD 56 000 in 2019. Elective deferrals and catch-up contributions are not allowed in SEP plans.
- SIMPLE IRA plans: elective deferrals are limited to USD 13,000 in 2019 (USD 16,000 including catch-up contributions). Employer contributions are limited to either (1) a dollar-for-dollar match of employee contributions up to 3% of the employee’s compensation; or (2) a non-elective contribution of 2% of each eligible employee’s compensation.

_Savers’ Credit_

Individuals may receive a non-refundable tax credit for making eligible contributions to an IRA (traditional or Roth) or occupational pension plan (401(k), SIMPLE IRA, SARSEP, 403(b) or 457(b)). The amount of the credit (so-called Saver’s Credit) is 50%, 20% or 10% of the contribution up to USD 2,000 (USD 4,000 if married filing jointly), depending on the individual’s adjusted gross income (AGI).

**Table 17. United States: Saver’s Credit (2019)**

<table>
<thead>
<tr>
<th>Credit rate</th>
<th>Married filing jointly</th>
<th>Head of household</th>
<th>All other filers</th>
</tr>
</thead>
<tbody>
<tr>
<td>50% of contribution</td>
<td>AGI ≤ USD 38,500</td>
<td>AGI ≤ USD 28,085</td>
<td>AGI ≤ USD 19,250</td>
</tr>
<tr>
<td>20% of contribution</td>
<td>USD 38,501 – USD 41,500</td>
<td>USD 28,086 – USD 31,125</td>
<td>USD 19,251 – USD 20,750</td>
</tr>
<tr>
<td>10% of contribution</td>
<td>USD 41,501 – USD 64,000</td>
<td>USD 31,126 – USD 48,000</td>
<td>USD 20,751 – USD 32,000</td>
</tr>
<tr>
<td>0% of contribution</td>
<td>&gt; USD 64,000</td>
<td>&gt; USD 48,000</td>
<td>&gt; USD 32,000</td>
</tr>
</tbody>
</table>

*Note: All other filers include: single, married filing separately or qualifying widow(er).*

_Tax treatment of returns on investments_

Returns on investments are not taxed.

_Tax treatment of funds accumulated_

There is no ceiling on the lifetime value of private pension funds. No tax applies on funds accumulated.

_Tax treatment of pension income_

Withdrawals from pension plans must be included in taxable income (and therefore taxed at the individual’s marginal rate of income tax), except for designated Roth accounts.

Individuals must pay an additional 10% early withdrawal tax if the withdrawal occurs before the individual reaches 59½ years old.²⁹

Most payments an individual receives from a pension plan (other than annuity payments) can be “rolled over” by depositing the payment in another pension plan within 60 days. By rolling over a pension plan benefit, the individual does not pay tax on amounts that are rolled over until they are withdrawn from the new plan.

Once reaching age 70½, the individual generally must withdraw a minimum amount (so-called Required Minimum Distribution, RMD) from his/her pension plan each year. It is possible to withdraw more than the RMD. If the individual fails to take the full amount of an RMD, the individual generally will have to pay a 50% excise tax on the amount not

withdrawn as required. Under the RMD strategy, the percentage of financial assets that retirees must withdraw each year increases as they age.

Roth IRAs do not require withdrawals until after the death of the owner. In a Roth IRA, a retiree can withdraw money, including the investment income, totally tax free if s/he has had the Roth IRA for more than five years.

**Non-tax incentives**

Employers are permitted to automatically enrol employees into a 401(k) plan and to automatically escalate elective deferral/salary reduction contributions. For a Qualified Automatic Contribution Arrangement, the initial automatic employee contribution must be at least 3% of wages, increasing by 1 percentage point annually, so that by the fourth year, the automatic elective deferral/salary reduction contribution is at least 6% of wages. Under this arrangement, the employer must match 100% of the first 1% of wages contributed by the worker, plus 50% of the next 5% of wages, for a maximum match of 3.5% of wages to each employee. Alternatively, the employer can make a non-elective contribution of at least 3% of wages to all eligible non-highly compensated employees.

Employees covered by the Federal Employees Retirement System (FERS) and members of the uniformed services covered by the Blended Retirement System (BRS) can participate in the Thrift Savings Plan (TSP) and receive matching contributions from their agency or service on the first 5% of pay they contribute every pay period. The first 3% is matched dollar-for-dollar, while the next 2% is matched at 50 cents on the dollar.\(^{30}\)

**Social treatment**

There is no social contributions relief on salary reduction/elective deferral contributions. Social contributions include social security tax (6.2% of taxable earnings for the employer and 6.2% for the employee), Medicare tax (1.45% for the employer and 1.45% for the employee) and Additional Medicare tax (0.9% of wages in excess of USD 200 000 for the employee). Other employer contributions are not subject to social security and Medicare tax.

Social contributions are not levied on pension income.

**Tax treatment of pensioners**

Social security benefits include monthly retirement, survivor and disability benefits. They do not include supplemental security income (SSI) payments, which are not taxable. To determine whether social security benefits are taxable, the individual must compare the base amount for his/her filing status with the total of one-half of his/her benefits, plus all his/her other income, including tax-exempt interest. If the total is more than the base amount, part of the benefits is taxable. The base amounts for 2019 are the following:

- USD 25 000 for single, head of household or qualifying widow(er);
- USD 25 000 for married individuals filing separately and lived apart for all of the year;

\(^{30}\) The agency or service also pays automatic contributions equal to 1% of basic pay for FERS and BRS participants. Participants do not have to contribute any money to their TSP account to receive these contributions.
• USD 32 000 for married couples filing jointly;
• USD 0 for married couples filing separately and living together at any time during the year.

Generally, up to 50% of the social security benefits are taxable. However, up to 85% of the benefits can be taxable if either of the following situations applies to the individual:

• The total of one-half of benefits and all other income is more than USD 34 000 (USD 44 000 if married filing jointly);
• The individual is married filing separately and living with his/her spouse at any time during the year.

**Incentives for employers to set up or contribute to a funded private pension plan**

Although employers generally cannot deduct amounts provided to an employee until the year in which those amounts are included in the employee’s income, employers can deduct amounts contributed to pension plans (including elective deferral/salary reduction contributions, which are treated as employer contributions for this purpose) in the year that they are contributed to the pension plan.

The income tax deferral provided by pension plans is a particularly desirable benefit for highly compensate employees, including the working owners of smaller businesses and the executives of larger companies. Non-discrimination rules prohibit employers from providing significantly greater pension plan benefits to highly compensated employees than they provide to employees who are not highly compensated (referred to as non-highly compensated employees). However, the non-discrimination rules allow employers to provide somewhat better benefits to highly compensated employees than they provide to non-highly compensated employees. Limiting the ability of employers to provide pension benefits to highly compensated employees by the amount that they provide to non-highly compensated employees is intended to give working employee, owners and executives an incentive to establish, and make contributions to, pension plans for all employees.