Global Retirement Update

This Update summarizes recent legislative developments and trends related to retirement and financial management and highlights recently passed and pending legislation that may require employers to take action to comply with new rules or review existing plans.

Countries Covered in This Update

**Americas:** Argentina, Canada, Chile, St. Maarten, and United States.

**Asia Pacific:** Bangladesh and India.

**Europe:** Denmark, European Union, Georgia, Greece, Ireland, Lithuania, Netherlands, Norway, Poland, Russia, Switzerland, and United Kingdom.

**Middle East and Africa:** Israel, Morocco, Palestine, and South Africa.

Action May Be Required

**Europe**

**Ireland**

The Irish Pensions Authority has published a consultation document on potential reforms to the pensions system. Employers should consider contributing to the consultation process and providing input by October 3, 2016.

**Lithuania**

Employers should familiarize themselves with the social security reforms recently signed by the President and scheduled to take effect starting in 2017.

**Poland**

Employers should note the pension reforms recently announced by the Deputy Premier that would dissolve the current second-pillar (OFE) pension system and replace it with an occupational savings scheme funded by both employee and employer contributions.

**United Kingdom**

Following the Brexit vote, employers should consider the implications for funding, investment and covenant in relation to their pension schemes.

**Middle East and Africa**
| **Israel** | Employers should ensure that July 2016 employee/employer contributions to pension funds and manager insurance funds are increased to reflect the new percentages as per Amendment 16. |
| **Palestine** | If they have not already done so, employers should review the details of the new social security system that were circulated in June. |
Recent Developments

Americas

Argentina

*Pension restoration bill clears Parliament.*

The Senate has now passed the bill retroactively restoring state pension cost-of-living increases and introducing a universal minimum pension for all over age 65 (GRU June 2016). The universal benefit will be 80% of the minimum monthly pension. This will be financed by a partial tax amnesty, through March 31, 2017, for repatriation of offshore funds. The levy would be waived for those investing the funds in government bonds.

Canada

*Update on CPP and ORPP.*

Please click [here](#) for the full report.

*Ontario holds consultation on PRPP.*

On July 5, 2016, Ontario released draft Regulations under the Pooled Registered Pension Plans Act, 2015 (Draft PRPP Regulations) for consultation.

Pooled Registered Pension Plans (PRPPs) are not yet available in Ontario (except with respect to federally regulated employees).

While Ontario Bill 57, Pooled Registered Pension Plans Act, 2015 (PRPP Act) received Royal Assent on May 28, 2015, it will not come into force until proclamation. Once these Draft PRPP Regulations are finalized, the PRPP Act can be proclaimed into force and PRPPs can be provided in Ontario.

The Draft PRPP Regulations incorporate by reference many of the federal Pooled Registered Pension Plans Regulations. Where necessary, the Draft PRPP Regulations also include Ontario-specific regulations.

Comments can be submitted until August 19, 2016.

Source: [Regulations under the Pooled Registered Pension Plans Act, 2015](#).

Chile

*Setback for pension reform.*

The President recently reprioritized a long-stalled government bill that would have made the pension fund (AFP) market more competitive by introducing a state-managed AFP. The bill has now returned to limbo without an explanation. Its backers have warned that this will be an issue in next year's election campaign. Further impetus for pension reform follows the release of new mortality tables from the Superintendent of Pensions. This would reduce already-low AFP benefits and opposition legislators have both contested the figures and petitioned the government to suspend the law on applying the revised tables until the AFP system is replaced by a more classic state pension model.
St. Maarten

*Retirement age increase set, other pension reforms flagged.*

Parliament recently passed a measure raising the state pension (AOV) age from 60 to 62, effective January 1, 2018. Transitional rules will allow those age 58 and age 59 as of January 1, 2016 to retire at age 60 in 2018. Anyone younger must retire at age 62. Further reforms on the horizon include a degree of flexibility for the retirement age and a second-pillar scheme mandatory for all workers.

United States

*Agencies Release Proposal to Improve, Modernize Form 5500.*

On July 11, 2016, the Employee Benefits Security Administration (EBSA), the Internal Revenue Service, and the Pension Benefit Guaranty Corporation released proposed regulations asking for public comments on proposed revisions to modernize and improve the Form 5500 Annual Return/Report filed by private-sector employee benefit plans. On the same day, EBSA also published a related notice of proposed changes to its annual reporting regulations under Title I of the Employee Retirement Income Security Act (ERISA).

The proposed revisions are intended to:

- Modernize the financial statements and investment information filed about employee benefit plans.
- Update the reporting requirements for service provider fee and expense information.
- Enhance accessibility and usability of data filed on the forms.
- Require reporting by all group health plans covered by Title I of ERISA.
- Improve compliance under ERISA and the Internal Revenue Code through new questions regarding plan operations, service provider relationships, and financial management of the plan.

The proposed regulations also would make improvements to the certification requirements for the limited scope audit requirements under 29 CFR 2520.103-8, and allow group health plans to use the Form 5500 to satisfy certain reporting requirements in the Affordable Care Act. The proposed changes to the Department of Labor regulations are also needed to implement the form revisions.

Comments on the proposed regulations and notice are due by October 4, 2016.

The news release is available [here](#).

A fact sheet is available [here](#).

The proposed regulations are available [here](#).

The notice for proposed form revisions is available [here](#).
Asia Pacific

Bangladesh

New tax on retirement scheme earnings.

Parliament has passed the Finance Act without modifying the controversial measure that levies a 5% withholding tax on the annual income above BDT 0.5M (US $ 6,389) from various retirement and investment schemes. Those affected include pension funds, superannuation funds, provident funds, gratuity funds, and Workers' Profit Participation Fund. The Finance Act, a set of proposals from the 2017 Budget, passed after a number of amendments and analysts had not expected this provision to come through unscathed. It may face further challenges.

India

EPF deferral incentive.

A recent Employees' Provident Fund Organization (EPFO) notification introduced higher benefits for those members who defer retirement by up to two years. Members may withdraw at age 58, but those who postpone withdrawal to age 59 will receive a 4% benefit increase and those who wait until age 60 will see a total increase of 8.16%. One must have 10 years of contributions before age 58 to be eligible and a formal notice of deferral must be sent to the EPFO. This new regime was shared with the press in June, but went into effective April 25, 2016.

High-income EPFO scheme proposed.

The Labor Ministry is reportedly drafting a plan under the Employees Provident Fund Organization to offer a retirement scheme for workers earning above the INR 15,000 (US $ 223.48) per month threshold for EPF participation. High earners who are not in another retirement scheme would make voluntary contributions under an EEE regime (exempt contributions, exempt interest, exempt withdrawals) while the employer obligation to contribute 12% would still be limited to workers earning INR 15,000 or less. The draft will be completed in a few months. Observers have suggested that it may not have the Finance Ministry's support, which would be essential.
Europe

Denmark

Solvency II reporting rules relaxed for small plans.

An Executive Order from the Ministry of Business and Growth reduces Solvency II reporting requirements for small pension funds and insurance companies. The ministry has so far identified 70 entities small enough to apply to the Financial Supervisory Authority (FSA) for a "proportional reduction" of their reporting. The FSA must still review each operation to ensure that there are no complexities that would be underserved by a reporting cutback.

European Union

Social security levies proposed for robots.

The European Parliament's Committee on Legal Affairs has drafted a motion on responses to the exponential increase in the use of robots, especially in the workplace. The headline-dominating provisions were on employment rights and responsibilities for robots, rather "electronic persons." Much of the report is futuristic, anticipating robot "self awareness," but there are some proposals here that could catch on in the short term. The committee proposes that companies using robots in place of human workers should pay social security contributions for them. If the workplace does continue to automate at this pace, social security funding could otherwise be quickly depleted. The report also proposes occupational safety standards for people working with robots and employer liability for any damages caused by robots. A first reading in the plenary is expected in December.

ECJ preliminary ruling backs gay survivor rights.

The Advocate General of the European Court of Justice ruled in case C-443/15 that a college discriminated against a lecturer by denying a survivor pension under its occupational pension scheme to his same-sex partner. There was an age discrimination element to the ruling because the college requires notice of intent to claim the survivor pension option before age 60, but he was not legally able to enter into a civil partnership with his partner of 30 years until he was over age 60. The Advocate General's opinion is not binding, but it generally previews the court's official ruling, which is due next month.

EIOPA advice on PEPP.

The European Insurance and Occupational Pensions Authority (EIOPA) has delivered its advice on a single market for personal pension products to the European Commission. It supports a standardized Pan-European Personal Pension Product (PEPP) with common elements including disclosure standards, a limited investment menu including one default investment, caps on administrative costs, flexible transfer of funds, and high governance standards. The aim with PEPP is to engender consumer trust in a sector that is increasingly relied on to complement both occupational pensions and state pensions.

Pensions directive (IORP II) provisionally agreed.

Please click here for the full text.

Georgia

Savings pension system in development.

The Pension Reform Office will submit draft legislation on creation of a savings pension system to Parliament later this year. Under this defined contribution scheme:

- Employer, employee, and the state would each contribute 2% of salary.
The employee contribution would be voluntary but there may be auto-enrollment with a six-month window for opting out.

There would be a guaranteed annual interest rate indexed to the CPI.

Funds accumulated in the individual accounts would be inherited by one’s survivors and preretirement withdrawals would be allowed in certain cases.

The government expects to launch the system on October 1, 2017. Analysts have warned that employers are legally entitled to require a referendum for any tax increase unless it is offset by an income tax reduction.

Greece

_Creditors approve social security reform._

The social security reform plan recently passed in Parliament (GRU May 2016) has been approved by creditors and is slated to take effect on January 1, 2017 so accounts are getting more detailed. Under a Unified Social Security Institution (EFKA) with more standardized benefits:

- The pension contribution rise to ER 13.33%, EE 6.67% will phase in from 2017-2020.
- The health care contribution will be 4.55% ER and 2.55% EE from January 2017. For those populations facing a significant adjustment, it will be phased in over three years.
- The salary subject to social security contributions will be capped at 10x the minimum basic monthly wage for an unmarried employee over age 25, currently EUR 5,860.80.
- The Unified Auxiliary Social Security and Lump Sum Benefits Fund (ETEAEP), a combination of all auxiliary pension funds, saw the employer and employee contributions rise to 3.5% each on June 1, 2016. That will drop to 3.25% each on June 1, 2019 then 3.0% each after May 31, 2022.

Social security membership will extend to several more professional occupations and managerial positions.

Ireland

_Consultation on pension reform proposals._

The Pensions Authority has published a consultation document offering several proposals linked to a scenario for developing a universal occupational retirement savings system:

- Raising the standards for trustees—this would include minimum qualifications and continuous professional development requirements;
- Setting a scheme authorization process to ensure that adequate governance, financial, and administrative structures are provided;
- Drafting binding codes of practice for trustees and empowering the authority to monitor and enforce them;
- Refining personal retirement savings accounts (PRSAs) while discontinuing both buy-out bonds (BOBs) and retirement annuity accounts (RACs);
- Consolidating many small pension schemes into master trusts in a “rationalization” of the pension market; and
- Reviewing taxation, disclosure, and decumulation issues with the relevant agencies.

Stakeholder input is welcome through October 3, 2016. The Minister for Social Protection welcomed the consultation which he views as the start of a 10-year reform process.

Lithuania

_Social security contributions capped._

The President has signed a significant package of social security reforms (GRU June 2016):
- A ceiling will be imposed for social security contributions. From 2017, the annual limit would be 120 average monthly wages. It will fall to 60 average monthly wages in 2022.
- The mandatory contribution period for a full pension will rise to 35 years.

The employer contribution will drop by 1% in 2017.

**Netherlands**

*Variable annuity law passed.*

The Dutch Senate has passed the Pension Act amendment allowing variable annuities for defined contribution schemes (GRU Mar 2016) and it was published on July 4. A variable payment schedule for retiring members will give them the option of avoiding a fixed annuity but it continues risk exposure into retirement and one may not switch back and forth between fixed and variable annuity schedules. DC plan sponsors will have a responsibility to communicate both the risks and advantages of variable annuities. There can be a mechanism for smoothing particularly high or low returns over the course of up to five years.

**Norway**

*EU consultation on social security contribution disparities.*

The European Free Trade Association (EFTA) has opened a public consultation in association with its investigation of Norway's "differentiated" social security contributions. At issue is Norway's scheme offering reduced social security contributions as an incentive for operating in an underpopulated area. The employer may be based elsewhere as long as the employee is posted in an eligible area. To qualify, an employee must spend at least half of working days in the qualifying area and the lower rate only applies for the time spent in those areas. Stakeholders with comments on the legitimacy of this scheme may respond to the EFTA by July 30.

**Poland**

*Pension reform would eliminate second pillar.*

The Deputy Premier has announced plans for a Capital Construction Programme that will dissolve the second-pillar (OFE) pension system to bolster the Demographic Reserve Fund (FUS), as well as both occupational and individual third-pillar schemes. By January 1, 2018, 75% of OFE assets would be transferred into individual retirement accounts (IKEs). Each OFE member would receive approximately PLN 6,300 no matter what their actual holdings were. The other 25% would reinforce FUS, which serves as a buffer fund for the first-pillar pension. The reform would also introduce Workers' Capital Plans (PPKs), an occupational savings scheme funded by employer and employee contributions of 2% each. If employers added another 1% and employees add another 2%, they would qualify for a PLN 250,000 "welcome sweetener." PPKs would follow the automatic enrollment model with all new hires between ages 19-55 registered, but employees are free to opt out within the first three months. Preretirement withdrawals would be allowed for home purchase or medical emergencies. At retirement, one could take up to 25% as a lump sum and the balance as fixed-term or lifetime annuity. PPK would launch in January 2018 for firms with at least 250 employees, July 2018 for those with 25-249, and January 2019 for smaller firms.

Incidentally, the standing committee of the Council of Ministers has approved the President's plan to reduce the retirement age (now on a slow climb to age 67), to age 65 for men, and age 60 for women (GRU Jan 2016).

**Russia**

*Federal Tax Service to administer social security levies.*

The government announced that under Federal Law 243-FZ the Federal Tax Service (FTS) will assume responsibility for collecting employer social, pension, and medical insurance levies. The measure will take effect on January 1, 2017. The FTS will not be taking charge of industrial accident and occupational disease insurance levy management.
Switzerland

*Referendum on state pension benefit hike.*

There will be a September 25 [national referendum](#) on the [AHVplus initiative](#) on a proposal that would increase the state pension benefit by 10%. Backers maintain that the benefit has lagged behind wage inflation while the Federal Council and Parliament have warned that this move could exacerbate the financing challenges of a system bracing for a wave of retiring baby boomers. If this referendum does become law, contributions might increase by 0.43% for employees and employers and the balance would be funded by the federal government.

United Kingdom

*Aon Brexit resource page.*

Please click [here](#) for the full report.

*Review of Brexit implications.*

Please click [here](#) for the full report.

*Reclaiming VAT on Pension costs.*

Please click [here](#) for the full report.

*Pensions implications of the United Kingdom leaving the European Union.*

The United Kingdom’s vote on June 23 to leave the European Union will have wide implications. The effect on sponsor covenant will be highly dependent on the sponsor’s business sector. Both defined benefit (DB) and defined contribution investment strategies should be reconsidered. DB schemes’ funding positions should be assessed and actively monitored going forward. Trustees might also review the assumptions adopted for transfer values, commutation, and other factors. Trustees should consider reviewing their employer covenant, investment strategy, and funding position and decide how to mitigate any material risks identified.
Middle East and Africa

Israel

Pension contribution rise.

Our Israeli business partner, AKT, has shared this reminder of an important, but low-profile development. Under Amendment 16 (previously referred to as Amendment 12), from July 2016, the employer will need to contribute an equal percentage rate into employee pension arrangements be it a manager insurance policy or a pension fund.

- The employer contribution rate will be 6.25% from July 2016.
- The employer contribution rate will rise to 6.5% from January 2017.
- For manager insurance plans, this new percentage rate includes the cost of long term disability cover. The net contribution to a pension cannot be less than 5%.
- Employee contribution rates will increase to 5.75% from July 2016 and rise to 6% from January 2017.

Morocco

Pension reform bill advances in Parliament.

Divisive pension reform legislation (GRU Mar 2016) has now passed in both houses of Parliament by a comfortable margin. The increase in the retirement age from age 60 to age 63, which was to have transpired between 2017 and 2019, now has a gentler transition to 2022. The 10% social security contribution split evenly by employers and employees is still scheduled to climb to 14% by 2019. The nation's four largest labor unions plan to challenge the law in constitutional court on "many" grounds.

Palestine

Social security debut for private sector.

The law establishing a social security system for the private sector took effect in April, but was not publicly circulated until June. In a nutshell:

- Contributions are based on a percent of total monthly remuneration, including allowances and bonuses. The pensionable salary ceiling is 8x the monthly minimum salary, currently NIS 1,450 (EUR 333).
- The benefit programs and their contributions are:
  - Old age, disability, and survivors (ER 8.5%, EE 7.5%);
  - Work injuries (ER 1.6%); and
  - Maternity (ER 0.3%, EE 0.2%).
- At some later stage, health insurance, unemployment benefit, sickness benefit, and family allowance schemes will be introduced.

South Africa

Consultation on budget measures.

The National Treasury has opened a consultation on the Draft Taxation Laws Amendment Bill incorporating many of the proposals in the 2016-17 Budget (GRU Mar 2016). Measures include:

- Harmonization of tax relief for retirement fund contributions.
- Clarification of the tax exemption on foreign pensions for South African tax residents.
- Confirmation of an exemption from South Africa source rule for payments from retirement annuity funds.
- Simplification of the criteria for taking a lump sum from a retirement annuity when ceasing to be a tax resident of South Africa.
- Higher threshold on fringe benefits tax exemption for employer-provided bursaries and scholarships.
- Closure of a loophole allowing payment of tax-exempt dividends from restricted equity shares before they vest.

Comments are welcome through August 8, 2016.

For More Information

For more information on the topic and countries in this newsletter, please refer to the Aon Hewitt Country Profiles eGuide. You can learn more about the Country Profiles eGuide here.

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