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.

Action May Be Required

Italy
Effective March 1, 2015, employees may elect to receive their termination indemnity accrual (Trattamento di Fine Rapporto, TFR) with pay instead of at the end of employment.

Employees who elect this option receive TFR accruals in their pay until June 30, 2018; accruals will be subject to ordinary taxation (i.e., marginal tax rate will be applied). Social security contributions will not be applicable to this amount. TFR accruals represent the largest contribution to fund employees' retirement income.

Recent Developments

Americas

U.S. President Obama signed into law the Tax Increase Prevention Act of 2014, which extends through 2015 special funding rules under the Pension Protection Act of 2006. The special funding rules seek to bolster the funding of multiemployer plans that are in certain categories of underfunding, beginning with plans that are either less than 80% funded or projected not to meet minimum required contributions within seven years. It also will extend through 2015 the ability of multiemployer plans to take an additional five years to amortize funding shortfalls.

The U.S. Pension Benefit Guaranty Corporation published final regulations that include a new table for determining expected retirement ages for participants in pension plans undergoing distress or involuntary termination with valuation dates falling in 2015. This table is needed in order to compute the value of early retirement benefits and, thus, the total value of benefits under a plan. The final regulations substitute Table I-14 with Table I-15 to provide an updated correlation, appropriate for calendar year 2015, between the amount of a participant’s benefit and the probability that the participant will elect early retirement. Table I-15 will be used to value benefits in plans with valuation dates during calendar year 2015. The final regulations become effective on January 1, 2015.
The Government of **Alberta (Canada)** approved changes to the Employment Pension Plans Regulation (Amendment) (EPPA). The Superintendent of Pensions has issued EPPA Update 14-06, Government of Alberta Amends Employment Pension Plans Regulation to explain the key changes.

- **Filing Deadline for Plan Amendments:** The deadline to file plan amendments related to the new Employment Pension Plans Act (Act) that was effective September 1, 2014 was extended from December 31, 2014 to June 30, 2015. Previously, the Superintendent advised that it would consider written requests to extend the deadline to March 31, 2015. A request for extension is no longer required.

- **Periodic Assessment of the Administration of the Plan:** The period for assessing the administration of the plan (after an initial phase-in period), has changed from annual to triennial. Please note that the deadline to have a governance policy in place has not changed; it must be in place by August 31, 2015.

- **Summary of Contributions Required:** The deadline for plan administrators to provide fund holders with a new summary of contributions has been extended from September 30, 2014 to January 31, 2015.

- **Default Funds:** The deadline to set up prescribed default investment funds for member-directed investments has been extended from December 31, 2014 to June 30, 2015.

Bill 56, an Act to require the establishment of the **Ontario (Canada)** Retirement Pension Plan, is under review in the provincial parliament. The bill purports to:

- Require the government to establish the Ontario Retirement Pension Plan (ORPP) no later than January 1, 2017 (legislation would still need to be introduced to provide for the operation of the ORPP, the administration and investment management of the ORPP through an administrative entity, and the basic requirements of the ORPP);

- Require that an administrative entity be established for the purpose of administering the ORPP;

- Authorize the Minister of Finance to request and collect specified information, including personal information, from employers, public bodies, and the federal government for the purpose of establishing the ORPP; and

- Set out the basic requirements of the ORPP in a Schedule, including rules concerning contributions to the plan, eligibility of employees and employers under the plan, payment of retirement and survivor benefits, and compliance and enforcement.

While the bill indicates that the Ontario government is committed to establishing the ORPP by January 1, 2017, it provides very few details. The Ontario government has indicated that this bill merely sets the stage for “further consultations with the people of Ontario to ensure the Plan meets the needs of today’s workforce.”

The **Honduran** social partners (government, unions, and employers’ associations) have agreed on a proposal to reform the social security system. Under the proposal, contributory and subsidized systems would be created for pensions and health care. The other remaining pillars of the system would consist of workers’ compensation and unemployment insurance. To fund the more comprehensive nature of the new system, it is expected that employers’ contributions would at least double. It is not known when draft legislation will be presented to the congress.

**Asia Pacific**

More employees would be eligible to participate in **India**’s Employees Provident Fund under a pending government proposal. The government announced its intention to amend the Employees Provident Funds and Miscellaneous Provisions Act, 1952, to reduce the threshold limit for coverage from 20 employees to 10 employees. It is not yet known when action will be taken.

The **Chinese** government released plans for a unified social security pension system. Public- and private-sector employees would participate in the same system. Government agencies and public institutions would be required to contribute 20% of an employee’s pay up to a specified ceiling, and employees would be required to contribute 8% of pay. The current social security ceiling is three times the relevant City Average Wage. Pensions for public- and private-sector employees would be calculated using the same basis.

**Singapore**’s government announced plans to raise the re-employment age to age 67. With one of the world’s most rapidly aging population, the government established several programs in recent years to encourage older Singaporeans to remain...
in the workforce. Under the Retirement and Reemployment Act of 2011, effective January 1, 2012, employers are required to offer re-employment to employees who are medically fit and have satisfactory performance when they reach age 62. Re-employment continues until the employee reaches age 65. The government indicated that it will introduce a new law raising the re-employment age to age 67 by 2017.

Expatriates with work permits will be required to participate in Vietnam’s social security system. The effective date for the new Law on Social Insurance is January 1, 2016; however, regulations will be effective January 1, 2018. The new Law also requires workers with fixed-term contracts of one to three months to contribute to the social security system as of January 1, 2018.

Europe

In the United Kingdom, the Taxation of Pensions Act received Royal Assent on December 17, 2014. Effective April 6, 2015, members with defined contribution (DC) benefits (including cash balance benefits and additional voluntary contributions) can have full access to these funds if their plans allow. It will be possible to take one-quarter of funds tax free with the remainder taxed as pension income, whether it is paid as a lump sum or over a period of time. The Act also introduces new flexibilities for annuities.

To counter the possibility of tax avoidance, the Act sets out how a reduced GBP 10,000 annual allowance will apply to money purchase arrangements in certain circumstances. More stringent disclosure requirements will apply to members and plans from April 2015.

The Act also includes provisions implementing changes to the taxation of pension funds at death. Employers with DC plans need to understand how these new flexibilities can be administered and communicated to members. Defined benefit plans may face an increase in requests by members approaching retirement for transfers out in order to access the flexibility of DC plans.

The latest version of the U.K. Pension Schemes Bill incorporates wider amendments to enable the defined contribution (DC) flexibility provisions as of April 2015. The Bill provides a high-level legislative framework for introduction of defined ambition plans and collective benefits. The latest version of the Bill, introduced to the House of Lords at the end of November 2014 and subsequently amended, includes amendments associated with the DC flexibility provisions of the Taxation of Pensions Act including:

- Introducing a new flexible benefits definition, which includes money purchase and cash balance benefits;
- Amending the time frame in which a statutory right to transfer flexible benefits applies, up to the point at which an individual crystallizes these savings;
- Allowing members to transfer one category of benefits while retaining or even continuing to accrue another category of benefits within the plan; and
- Introducing a requirement for plans to ascertain that certain individuals have taken advice before transferring out.

The Bill also includes provisions for the new guidance guarantee, to apply from April 2015, for members with DC benefits taking advantage of the new flexibilities.

The Bill is expected to receive Royal Assent early in 2015, in time for the changes relating to DC flexibility to commence from April 6, 2015. The earliest date for implementing collective plans is anticipated to be April 6, 2016. Plans will need to amend their disclosure and transfer processes to reflect the new requirements.

U.K. Chancellor Osborne's Autumn Statement 2014, delivered at the beginning of December, included few measures affecting pensions. Two measures announced are:

- The reforms of the taxation of pension on death from drawdown or uncrystallised defined contribution funds are extended to lifetime annuities. It is proposed that, from April 2015, beneficiaries of individuals who die under age 75 with a joint life or guaranteed term annuity would be able to receive any future payments from such policies tax free, provided that the
beneficiary has not received any payments before April 6, 2015. If the individual were over age 75 at death, the beneficiary would pay the marginal rate of income tax. The tax rules also would change so that it would be possible for joint life annuities to be paid to any beneficiary; and

- As required under the "triple lock," the basic State Pension (BSP) would increase by 2.5% (GBP 2.85) in April 2015. The standard minimum income guarantee in pension credit would rise by the cash increase in BSP. The savings credit threshold would increase by 5.1%.

The government also confirmed it will not make changes to the age limit at which tax relief can be claimed on pension contributions. It will remain age 75.

In the United Kingdom, timelines for proposals for short-service members in defined contribution (DC) plans have been confirmed. The government has announced that the provisions in the Pensions Act 2014, for the abolition of short-service refunds from DC plans, will be implemented from October 2015. The Pensions Minister also has announced that the new "pot follows member" system in which small pension pots will automatically follow employees from job-to-job will be launched in autumn 2016.

The U.K. Pension Protection Fund (PPF) has issued its final Determination for the calculation of PPF levies for the 2015/16 year. The PPF has published its final Levy Determination for the 2015/16 levy, together with final versions of its various guidance documents. There are no substantive changes from the draft Determination that was published for consultation in October 2014; however, there is greater detail on Experian Pension Protection scores.

The PPF has confirmed the parameters for the 2015/16 levy calculation: a risk-based scaling factor of 0.65; a plan-based levy multiplier of 0.0021%; and a cap on the risk-based levy of 0.75% of liabilities. The PPF's formal estimate of total levy income for 2015/16 remains at GBP 635 million, some 10% lower than for 2014/15, although individual plans may see significant changes in their own levy. Pension plans must understand their Experian Pension Protection scores and the implication these scores may have on their levy, including any fluctuations in scores.

Employers and employees in Belgium are reminded that there are new rules on early retirement. Effective January 1, 2015, the early retirement age increased from age 60 to age 62. Specified groups of employees, such as those who worked the nightshift for 20 or more years, may retire at an earlier age. Transitional rules apply to employees who were given notice of employment termination by December 31, 2014.

In the Netherlands, the lower house of parliament is reviewing a bill that would accelerate the increase in the retirement age. Under the bill, the retirement age would increase by three months each year in 2016 and 2017 and then by four months each year from 2018 through 2020. The retirement age would be age 66 in 2018 and age 67 in 2021. As of 2022, the retirement age would be linked to life expectancy. Specifically, the retirement age would be:

- Age 65 and 6 months for individuals born after September 30, 1950 and before July 1, 1951 in 2016;
- Age 65 and 9 months for individuals born after June 30, 1951 and before April 1, 1952 in 2017;
- Age 66 for individuals born after March 31, 1952 and before January 1, 1953 in 2018;
- Age 66 and 4 months for individuals born after December 31, 1952 and before September 1, 1953 in 2019;
- Age 66 and 8 months for individuals born after August 31, 1953 and before May 1, 1954 in 2020; and

The second-pillar pension system could effectively be abolished under recently passed legislation in Hungary. In 2010, the government passed a law giving members of statutory private pension funds until January 31, 2011 to opt for a transfer of their second pillar funds to the first pillar. Members who stay in the second pillar lose all future contributions made by their employer to the first pillar. Employees are still required to contribute to the first pillar. Membership in the second-pillar declined. Four second-pillar funds remain in operation.

Under the 2015 Budget Act, the remaining funds are required to show that at least 70% of their members are paying regular fees for at least two months over a six-month period or face closure. This requirement is effective September 30, 2015.
Under draft legislation introduced in late 2014, employees in Bulgaria could opt out of the second-pillar pension system. New employees would have one year to decide if a portion of their social security contributions would be deposited in a second-pillar fund or if the entire contribution amount would go to the first pillar. For employees who did not explicitly decide, the default would be the first pillar. Current employees also would be given the option to have their entire contribution sent to the first pillar; there would be no time limit on when the decision must be made. In both instances, the decision to move to the first-pillar only system would be irreversible. The change would affect both occupational and supplementary second-pillar pensions. If passed, the reform could be effective as early as 2015.

The Slovak government announced plans to introduce a minimum old age pension. The minimum pension would be paid to individuals who contributed to the social security system for 30 years and reached pension age. It would equal 136% of the poverty level or approximately EUR 270 per month. If the government's proposal were passed by parliament, the minimum pension would be payable as of July 2015.

In Russia, the freeze on contributions to nonstate pension funds has been extended until the end of 2015. President Putin signed the bill into law on December 1, 2015. In related news, the annual ceiling for Social Insurance Fund contributions increased to RUR 670,000, effective January 1, 2015. The annual ceiling for Pension Fund contributions increased to RUR 711,000, also as of January 1, 2015.

Effective January 1, 2015, a new pension formula is used to calculate old age pensions in Russia. The pension amount is now a function of pay, type of system the individual has participated in (state social security system or the state social security system and funded pension system), and years of contributions. The minimum contribution period is increasing from six years in 2015 to 15 years as of 2024. The contribution period will increase by one year each year until 2024.

The pension's value is based on a pension coefficient or pension point. The minimum number of pension points is 30 as of 2025. In 2015, the number of pension points for an old age pension is 6.6. The maximum number of pension points an employee may accrue is 10 points as of 2021. In 2015, the maximum number of pension points accruable is 7.39.

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