Aon Global Retirement Bulletin November 2018

Aon Global Retirement Bulletin is a very short monthly publication referencing a few changes since the latest quarterly Global Retirement Insights. Some hot topics for your immediate attention have also been added with more details.

November has seen some movements in regards to Retirement around the world. Below are the highlighted adjustments and proposals:

- Design
- Financing
- Operations
- State

- In Chile, the Financial Market Commission issued a final rule expanding the investment menu for Collective Voluntary and Voluntary Pension Savings plans.
- In the EU, EIOPA has issued a guidance on pension benefit statement under IORP II.
- In the Netherlands, the proposed retirement age hike has been postponed.
- In Poland, The proposal on Employee Capital Plans (PPK) has been signed into law. See page 3 for more info.
- In the United Kingdom, the DWP opened a public consultation that recommends quick action on legislation supporting Collective Defined Contribution schemes.
- In the United Kingdom, further updates have been provided by the Judge who ruled in the recent GMP Equalisation court case. See page 4 for more info.

- In Mauritius, the Revenue Authority has posted Tax Rulings clarifying tax regimes for pension benefits to non-residents in a range of different circumstances.
- In the Netherlands, disquiet continues to be expressed about the impact on employers and employees' pensions of the strong funding requirements.

- In Italy, the European Commission has taken the unprecedented step of asking Italy to revise its draft budgetary plan for 2019, with potentially wide-ranging effects.
- In Mexico, the Senate has passed a law that will reform the Mexican Institute of Social Security rules to extend survivor benefits to same-sex spouses.
- In Sierra Leone, the minimum monthly pension will jump significantly from Le20,000 to Le250,000 (US$29.58) starting 1 January 2019.
- In Vietnam, social security coverage for foreign workers came into effect on 1 December, 2018, but the retirement provisions will not apply until 1 January 2022.

If you have questions please contact your Aon consultant, click on the country name or email global.retirement.mailbox@aon.com.
Please also use this mailbox to let us know how we could improve the ways in which we update you on new retirement topics of importance to you.
Visit our website to find previous issues of our update as well as our #GlobalBenefitsBulletin Highlights, Aon's monthly high-level report on benefits

Prepared by Aon
Consulting | Retirement and Investment

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Reminder: Key areas of current focus for employers

- Requirements
- Proposals
- Opportunities

United Kingdom:
- GMP equalisation
- White Paper on member protection
- Liability settlement and asset hedging
- Supporting retirement decisions
- Various possible implications of Brexit

Ireland:
- Highlighting members' transfer option
- Exploring funding alternatives
- Roadmap for Pension Reform
- DC Master Trusts

Netherlands:
- Increased governance expectations
- Responding to insurer consolidation
- Exploring use of a cross-border DB plan

Switzerland:
- Lump sums instead of annuities
- Pure DC (1e) for high-earners
- Transfer to multi-employer funds
- Social Security contribution hike approved

Germany:
- Potential new pure DC plans
- DB de-risking and external financing
- Plan harmonization and governance
- New mortality tables
- State social security system

Canada:
- Re-design to reflect State changes
- Funding reform in many Provinces
- Settlement with insurers
- More formal governance

Rest of Europe:
- 1st & 2nd pillar reform in many countries
- France: pension reforms
- Greece: EU reviews budget without pension cuts
- Norway: New pension solvency rules
- Poland: mandatory PPK plan implementation
- Spain: social security challenges & options

EU/EEA:
- IORP2 governance
- Sustainable investment
- Employer action code
- Implementation of Mobility Directive
- PEPP proposals

United States:
- Opportunities from tax reforms
- Defined contribution optimization
- Managing and settling DB liabilities
- Improving plan Governance

South Korea:
- Increased minimum DB funding

Japan:
- New risk-sharing plan
- DC quality requirements

Italy:
- Early retirement options
- State retirement age incease to 67 from 2019
- Government actions

China:
- Growth of supplemental plans
- Financial wellbeing where low Province benefits
- Tax benefits of commercial pension insurance

Mexico:
- Migration from DB to DC
- Life-cycle investment funds
- Communication and financial wellbeing
- New voluntary second-pillar structure

Hong Kong:
- Various Hong Kong MPF changes

India:
- Gratuity limit enhancement
- Increased equity choice

Rest of Asia Pacific:
- Various changes to Provident Funds
- Kazakhstan: various changes

Brazil:
- Migration from DB to DC
- Presidential election
- Settle DB risks with an insurer
- Loss of flexibility on Social contributions

Australia:
- Risk-pooling exploration
- Member-outcomes focus
- Wide-ranging new Budget
- New retirement income system being developed

Global:
- New IAS19 special events calculation rules
- New ASC 715 disclosure requirements
- Reviewing DB asset mixes in light of market uncertainty/volatility

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Hot Topic: Poland – Obligation for employers to provide a PPK

What has happened?	The legislative proposal on Employee Capital Plans (PPK) has finally been signed into law. PPKs are aimed at increasing pensions savings for employees. The Act is expected to enter into force on January 1, 2019, with a 6-month grace period. Companies with less than 250 employees have a longer period in which to comply.
Why does this matter to employers?	Employers must create a PPK and contribute at least 1.5% of pay for enrolled employees. Employees must contribute 2% of pay. Enrollment must be automatic for all employees aged 18 to 55. Employees aged 55 and older can participate voluntarily. Employer contributions are not required in relation to any employee who chooses to stop their contribution payments. Lifecycle investment funds must be offered. Employers are exempt from providing a PPK if they provide an Employee Pension Program (PPE) to which they contribute at least 3.5% of an employee's gross remuneration, and in which at least 25% of employees participate.
What are companies thinking?	▪ What is the deadline for implementation for a company of our size? ▪ Is it better to provide a PPE instead of a PPK? ▪ What is the likely level of enrolment and therefore cost? ▪ What will our competitors be doing? ▪ What level of contributions and investment funds fits best with global corporate policies? ▪ How do we choose a provider?
What actions should be taken now?	Seek advice on the options in regards to the formation of a PPK versus having a PPE in place.
Who can provide more information or support?	**Sebastian Ludwin**, a Retirement plan consultant in Poland, who has lead Aon thinking and advice on the choice of implementation of a new PPK or the alternative PPE.

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Hot Topic: United Kingdom – Requirement to equalise GMPs

What has happened?	A UK court has ruled that Guaranteed Minimum Pensions (GMPs) must be equalised between males and females. The Judge indicated that a number of different approaches could be taken to implement the equalisation. In a subsequent hearing, the Judge: ▪ rejected union request to require a higher cost approach and remove time-limits on back-payments. ▪ confirmed the principles of an approach to convert GMP into different, simpler, form of pension. The union has until 24 December to make a claim to the Court of Appeal. A further hearing is expected to provide clarity on the treatment of transfer payments made to other pension plans.
Why does this matter to employers?	This ends uncertainty that has existed since the 1990s, and confirms a potentially material additional cost for pension plans. This cost will typically need to be recognised in the P&L as a past service cost. Under International accounting standards this will mean full immediate recognition in the P&L, whilst under US GAAP the cost can be amortised. The additional cost may also create a need for additional cash funding when the trustees next review funding.
What are companies thinking?	▪ Which of the permitted approaches should be taken? ▪ How much additional liability will arise under each approach? ▪ Is it possible to defer the cost in the P&L, or for it to not go through the P&L? ▪ Do we need to formally decide which approach to take before determining the P&L cost? ▪ Will the administrative costs to apply the least cost options outweigh the financial benefit relative to higher liability options? ▪ How many years of past payments need to be corrected? ▪ How quickly do the corrections need to be made? ▪ Do any new benefit requests need to be put on hold until corrections can be made?
What actions should be taken now?	▪ Actuarial advice and calculations regarding the additional liability, and its impact for corporate accounting and plan funding. ▪ Legal advice on the actions to correct past payments and continuity of payments ahead of correction. ▪ Advice on administration and communication procedures.
Who can provide more information or support?	Thomas Yorath, a UK consultant from Aon, who acted as Expert Witness for the Judge in the Court case.

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