



Aon Global Retirement Bulletin

October 2018

Aon Global Retirement Bulletin is a very short monthly publication referencing a few changes since the latest quarterly Global Retirement Insights.

October was a relatively busy month in regards to Retirement around the world. Below are the highlighted adjustments and proposals:

- Design
- Financing
- Operations
- State

- In [Cambodia](#), legislation has been passed requiring cancellation of DB plans.
- In [Hong Kong](#), the Executive Council has approved partial subsidy of employer costs for removal of the MPF offset by HKD29.3B MPF contributions for 25 years.
- In [South Africa](#), the SARS has explained that foreign pensions (lump sums, pension or annuity from a source outside South Africa) are exempt from income tax.
- In the [United Kingdom](#), the Government has launched a consultation on Collective Defined Contribution plans, follows a high profile Royal Mail CDC plan creation.
- In [Canada](#), Bill S-253 received its first reading. This bill includes bankruptcy priority for unfunded liabilities or solvency deficiencies of a pension plan.
- In the [United Kingdom](#), the Pensions Regulator set out its new approach to regulation, which will result in increased Regulator/scheme interactions.
- In the [United Kingdom](#), a GMP equalisation Court ruling was made (see page 3 for more info), draft PPF levy terms were published for 2019/20 (consider actions to reduce impact), legislation implemented to adopt EU IORP2 Directive (will continue after Brexit), master trusts have until April to apply for authorisation.
- In the [United States](#), the IRS released Revenue Procedure 2018-52, which modifies certain aspects of the Employee Plans Compliance Resolution System.
- In [Portugal](#), early retirement law entered its next phase. People who contributed for 40 years can retire from 63 without reduction.

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
- Bill would ease Investment Foundation (IF) investment restrictions

Canada:

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

EU/EEA:

- IORP2 governance
- Sustainable investment
- Employer action code
- Implementation of Mobility Directive
- PEPP proposals

Germany:

- Potential new pure DC plans
- DB de-risking and external financing
- Plan harmonization and governance
- New mortality tables
- Gentler formula planned for interest rate guarantee buffers

Rest of Europe:

- 1st & 2nd pillar reform in many countries
- Austria: new mortality tables
- France: pension reforms
- Norway: New pension solvency rules
- Poland: mandatory plan implementation
- Spain: social security challenges & options
- Sweden: new pension bill causes lower and more unstable pensions says industry

United States:

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

Italy:

- Impact of New Government
- Early retirement options
- State retirement age increase to 67 from 2019
- New Government's proposed changes

South Korea:

- Increased minimum DB funding

Japan:

- New risk-sharing plan
- DC quality requirements

Mexico:

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

Brazil:

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

Global:

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

Hong Kong:

- Various Hong Kong MPF changes

India:

- Gratuity limit enhancement
- Increased equity choice

Australia:

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

China:

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

Rest of Asia Pacific:

- Various changes to Provident Funds
- Kazakhstan: various changes

More information on changes during this month

United Kingdom

- Requirements
- Proposals
- Opportunities

Financing

GMP equalisation case ruling

As seen in our Q3 edition of the GR IQ, a verdict has been reached in the Lloyds Banking Group case, in which an Aon consultant acted as an expert witness. This led to the GMP equalisation ruling being released. The Judge presiding of the case Justice Morgan ruled that:

- Equalisation is required
- A number of options can be used to equalise, including the lowest cost definition of equalisation, but not the industry standard

There is a lot of noise within both the pensions and mainstream press about what the judgment may or may not mean for schemes, sponsors and members. The job of equalising may take a number of years. Please find below a list of the most important things to consider.

- Ensure that you speak about this with your legal advisor on how it affects your pension scheme.
- Already start to think about interim administration procedures to deal with this.
- Understand the cost for your scheme. Based on the modelling Aon has carried out for many of our clients, lots of schemes are likely to see an increase in liabilities of below 1% of total liabilities. The cost does though heavily depend on a complex interaction between the benefit design and membership profile and we have seen schemes with increased liabilities closer to 4% of total liabilities.
- You will need to agree the accounting treatment, and may want to engage with their auditors to discuss this. Especially if you apply IAS 19 and/or UK GAAP rules this might have a considerable impact.
- Communication. Members are likely to have seen some of the coverage of this issue in the mainstream press and tabloids including the [front page of the Daily Express on Saturday](#). Some of this coverage was quite sensationalist and misleading and may raise lots of questions. In anticipation of this, we've drafted some 'off the shelf communications' that could be used to respond to likely member queries on this issue, or that could be posted on the Scheme website. Let me know if you would like a copy of this.

At Aon we are well equipped and on the foreground to support you with this. We are running alongside Sackers a WebEx at 2pm on Monday 12 November where one of the expert witnesses will take you through the main features and implications from the case. You can register [here](#). It is important to make this a priority if this affects you or your company.

For more information, or support, please contact [Thomas Yorath](#).