Introduction

The newsletter provides a brief summary of the recent developments in market practices and regulatory requirements that have an impact on the retirement programs worldwide.

Reach out to the contact person for each region or country, mentioned at the end of each section, to get further insights on how the discussed changes may require action from sponsoring employees.

This 2019 edition covers key changes enacted in 2018 in a selection of regions or countries with material retirement programs.
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New retirement indemnities law

From 1 January 2018, African companies within the Organization for the Harmonization of Business Law in Africa or Organisation pour l’Harmonisation en Afrique du Droit des Affaires (OHADA) area are required to consider new legislations regarding retirement indemnities benefits. The companies should also book a liability for these employee benefits:

- Account for the associated defined benefit obligation (DBO)
- Take out an insurance contract (from an external life insurer)

In the first case, this liability must be stated properly with respect to Uniform Act on Accounting and Financial Reporting (AUDCIF) norms. The 2017 AUDCIF clearly favors the “externalization” of DBO of retirement indemnities. In the main advantage lies in tax deduction of contract premium. Moreover, no account recording DBO liability appears in balance sheets of the companies.

Additionally, this new law provides a favorable environment to the companies within the OHADA area to anticipate retirement indemnities payment.

Given below are the 17 African countries belonging to OHADA:

- Benin
- Burkina Faso
- Cameroon
- Central African Republic
- Chad
- Comoros
- Côte d’Ivoire
- Democratic Republic of Congo
- Equatorial Guinea
- Gabon
- Guinea
- Guinea-Bissau
- Mali
- Niger
- Republic of the Congo
- Senegal
- Togo

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IORP II Directive

As a reminder, the Institutions for Occupational Retirement Provision II (IORP II) is the new set of rules for EU pension funds adopted since 23 December 2016.

The IORP II Directive should be incorporated into the national law of EU countries by 13 January 2019.

Minimum pension standards for the protection of mobile workers’ pension rights

On 16 April 2014, the European Parliament adopted the Directive on the minimum requirements for enhancing mobility of workers between Member States by improving the acquisition and preservation of supplementary pension rights (the Portability Directive). This was transposed into a national law by the Member States on 21 May 2018.

This Directive focuses on occupational pension scheme — both funded and unfunded, pay-as-you-go schemes.

It places a limit of three years on the combined length of any minimum vesting period and waiting period applied in supplementary pension schemes before the vesting of pension rights. Where a scheme operates a minimum age for the vesting of pension rights, the Directive requires this to be no greater than 21 years.

The Directive also introduces some requirements regarding the preservation of deferred benefits and information rights.

It does not have retrospective effect, i.e., it applies only to the period of employment falling after its transposition into national legislation.

On 29 June 2017, the European Commission issued a proposal for regulation on a pan-European personal pension product (PEPP).

Europe is facing an unprecedented demographic challenge that will increase pressure on public finances. Over the next 50 years, share of the population in retirement age vs. those in working age is forecast to double. This calls for reforms in national pension systems, which some EU Member States have already begun. Part of the solution lies in occupational and personal pension schemes complementing state-based pensions.

One issue, however, is that the European market for personal pensions is fragmented and uneven. The offers are concentrated in a few Member States, while in some others they are nearly non-existent. This variation in supply is linked to a patchwork of rules at EU and national levels, which impede the development of a large and competitive EU-level market for personal pensions.

The proposal seeks to establish a framework for a PEPP to increase investment in the EU and contribute to completing the capital markets union (CMU); improve and enhance the cross-border provision, profitability and other features of personal pension products.

It sets out the requirements for a PEPP, which include a voluntary contract between the saver and the PEPP provider with an explicit retirement objective providing capital accumulation until retirement with only limited early access;
authorization by EIOPA; and portability across Member State borders.

Other rules include: the provision of standard information both before and during the contract term; a maximum of five investment options including a default option protecting at least the capital invested and provision to switch for free every five years; and a provision to switch providers every five years at a capped cost. Payout (decumulation) rules are largely left to Member States.

Recognizing that existing personal pensions often attract beneficial tax relief and that this can be key to their widespread take-up, the Commission’s recommendation, issued alongside the proposal, encourages Member States to grant the same tax relief to the PEPP.

In June 2018, the European Federation of Financial Advisers and Financial Intermediaries (FECIF) warned that Europe is still not dealing with the tax treatment of PEPPs. Secretary General, Simon Colboc, said “The biggest question facing PEPPs is the tax treatment it will receive and that is the main question people are asking and it is the elephant in the room.”

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**Proposed new prudential standards to strengthen member outcomes**

In December 2017, the Australian Prudential Regulation Authority (APRA) released its Strengthening Member Outcomes Consultation Package.

The package requires a registrable superannuation licensee’s board to approve strategic objectives to facilitate delivery of outcomes sought for members.

The key requirements of the package are:

- A business plan, which among other things, documents the key activities that will be undertaken in achieving the licensee’s strategic objectives (including anticipated outcomes) along with KPIs to be used in assessing the outcomes of those activities
- An ongoing monitoring process to be undertaken to assess the likelihood of those strategic objectives being achieved
- An annual review of the business plan that factors in assessment of the most recent annual outcomes
- A revised business plan that reflects changes in operations that can improve outcomes for beneficiaries and if a cost-benefit analysis supports them
- Maintenance of an expenditure policy, which documents how the licensee will ensure that expenditure is aligned to strategic objectives
- Business cases for all significant expenditure (regardless of whether the expenditure was planned or not)

As legislation on Improving Accountability and Member Outcomes in Superannuation is still before the Parliament, the regulator has indicated that they intend to defer commencement of the package that was due to come into force from 1 January 2019.

**The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry**

In December 2017, a Royal Commission was established. The Commission issued its interim report in September 2018, which covered the first four rounds of hearings.

While superannuation was covered in round five, common themes have emerged across all rounds of hearings. The recurring themes are:

- Culture and governance shaped by the primacy of profit and shareholder returns over good customer or member outcomes
- Inherent conflicts of interest aggravated by a lack of clarity from intermediaries as to whom duties and obligations are owed
- Remuneration structures focused on sales and maximizing performance, which contributed to behaviors misaligned with long-term best interests of both customers or members and the institution
- Regulatory oversight that failed to deter misconduct, which either went unpunished or the consequences of which did not match the seriousness of what had been done

A final report with recommendations is anticipated in February 2019.
Productivity Commission’s draft report on superannuation: assessing efficiency and effectiveness

In April 2018, the Productivity Commission released its draft report to address the Government’s concern around the efficiency of the superannuation system given its compulsory nature and sheer size.

Some of the key recommendations that have been made include the following:

- Members are to be allocated to a default superannuation product only once upon entering the workforce.
- A “best in show” shortlist of 10 superannuation products would be presented to members. This list would be set by a competitive and independent process and reassessed every four years.
- There would be improved governance especially around board appointments and mergers. In particular, for mergers that have reached a memorandum of agreement stage, trustees are required to report to the regulator on the reasons for the failure of a merger and the assessment of the members’ best interests that informed the decision.

It is expected that a final report will be issued in the beginning of 2019.

Tax changes

The Australian federal budget of May 2018 proposed changes aimed at protecting the members’ balances from erosion through fees and insurance. In particular, the changes propose:

- A cap of 1.5% on admin and investment fees for low-balance accounts
- A ban on exit fees
- Amendments to default insurance arrangements whereby insurance is opt-in only for:
  - All low-balance accounts
  - All new accounts for members under 25 years of age
  - Inactive accounts

Information security requirements

APRA has issued a new standard dealing with information security, which will become effective from 1 July 2019. Prior surveys conducted by the regulator have found that while respondents had formalized response plans for plausible cyber security scenarios, these plans were often untested and lacked integration with business continuity and disaster recovery plans. Accordingly, the new standard requires all regulated entities to maintain an information security capability that:

- Is commensurate with the vulnerabilities and threats to which its information assets are exposed
- Enables the continued, sound operation of the entity

The new standard focuses on the minimum criteria for managing information security and places ultimate responsibility for information security with the Board. Entities will need to consider their extended business environment, including third parties that manage its information assets. Specific requirements include:

- Clear definitions of roles and responsibilities related to information security
- Implementation of controls across the extended business environment, which are commensurate with the criticality of assets and the threat
- Systematic testing and assurance of control-effectiveness
- Notification to the regulator of material incidents

Notifiable data breaches

The Privacy Act has imposed a mandatory requirement from 22 February 2018 to notify “eligible data breaches.”

Entities must, as soon as practicable, notify the Office of the Australian Information Commissioner and all affected individuals if a “reasonable person” would believe that a data breach is likely to cause “serious harm” to any of those individuals.

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New life table “AVÖ 2018-P”

The effects of demographic change also influence the provisions for social capital of Austrian companies.

The Actuarial Association of Austria (AVÖ) published the new life table “AVÖ 2018-P: Calculation basis for pension insurance” in August 2018. Thus the AVÖ meets the requirement of natural population development and changes in the legal environment. It maintains the already established 10-year rhythm.

Database

Preparation of the life table was based on the data from the following:

- Social security funds
- Statistics Austria
- Pension fund companies
- Pension insurance institution (PVA) for employees

For the validation and plausibility of the resulting probabilities, all data were used.

Influence spectrum

The life table has also been influenced by external factors. Due to the introduction of rehabilitation allowance in 2014 and the associated abolition of temporary invalidity pension, disability probabilities had to be revised. Access to disability pension and early retirement pension is politically controlled and has become increasingly difficult. This has resulted in the composition of active people, disabled people and retirees shifting accordingly over time. Social changes of the last decades on the one hand and mortality improvements of aging people on the other show a clear change in the survival probabilities. The steady improvement in mortality observed in recent decades has not only continued unabatedly over the past 10 years, but also increased significantly, especially in the range of 70-90 years. The difference in mortality among salaried employees, the mixed population of employees and blue-collar workers observed in the social insurance data is now significantly higher than that in the former life table AVÖ 2008-P. In particular, the level of the mixed population is approximately the same as that of the Austrian total population; but the employees have a strongly reduced mortality in the social insurance data, as well as in Statistics Austria data and in the data of the pension funds.

Application

The AVÖ recommends immediate application of the new life table in order to take into account increased life expectancy. It is expected that the application of the new table will lead to a significant increase in provisions for social capital, provided that these are determined actuarially. According to the provisions of IFRS, the effects are reflected in the actuarial gains and losses and are to be recognized directly in the other comprehensive income (OCI). In accordance with the provisions of the Austrian local GAAP, however, the effects are to be recognized directly in profit or loss in the income statement. In order to mitigate this effect, the Federal Ministry for Constitutional Affairs, Reforms, Deregulation and Justice (BMVRDJ) has issued a draft assessment of an “override ordinance” pursuant to Section 222 (3) UGB. The purpose of this draft is to allow a uniform distribution of the difference amount of pension and jubilee benefits up to a maximum of five years. The distribution can take place either by
a gradual increase in the provision, or by a full recognition of liabilities of the provisions and creation of an accrued item, which must be reported separately. However, the distribution of the difference amount is subject to legal dividend payment constraints. The regulation came into force on 1 November 2018 and is applicable to financial years ending after 31 December 2017.

**Impact**

Pension provisions may increase by up to 10% depending on the type of benefit obligation. Depending on the portfolio structure, the provision for jubilee obligations may increase by up to 20%. With regards to provisions for severance payment obligations, depending on the portfolio structure, a slight decline is more likely.

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Legal minimum investment rates

In Belgium, defined contribution (DC) plans have legal minimum investment rates of return – which means that, if actual investment returns on an employee’s DC account are less than the legal minimum rate, the sponsoring company is required to make additional contributions to the account at payment date to ensure these minimum benefits are provided. This legal minimum rate has been 1.75% since 2016 and continues to be the same in 2019.

Second-pillar pension legislation amendment

In Belgium, the second-pillar pension legislation (WAP-LPC) has been amended to reflect the EU Portability Directive.

As from 1 January 2019, the affiliation of a worker falling under the category of a pension plan has been made immediate and the vested rights are granted without seniority conditions. Upon leaving a company, any vested rights below or equaling €150 is assumed to remain within the former employer pension scheme, subject to conditions included in the pension scheme itself.

Legal retirement age application

As from 1 January 2019, the affiliation of a new worker to a pension scheme defining a retirement age below the legal retirement age is not possible anymore.

This means that pension schemes foreseeing a retirement age below 65 will need to be amended or closed to new affiliation.

Introduction of a voluntary supplementary pension scheme

The Belgian Government is considering the introduction of a voluntary supplementary pension for employees.

The objective is to allow the worker to contribute on a voluntary base to his or her retirement if the total second-pillar pension financed by the employer and the individual does not reach a defined percentage (3%) of the worker’s salary.

The worker would have the possibility to pay an additional contribution up to 3% and choose the financing vehicle he or she prefers. The employer will be responsible for deducting the premium from the salary and to pay it to the selected pension organism.

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Expansion of statutory pension

Starting from 2019, the benefits payable under the Canada Pension Plan (CPP), a government pension scheme funded with contributions from employers and employees, will be gradually enhanced. In order to fund these enhancements, the contributions to the CPP will start to increase, effective from 1 January 2019, continuously over the next seven years. Once this change in contributions is fully phased in, the contribution rate for employers and employees will increase from 4.95% in 2018 to 5.95% in 2023. These contributions are only required on earnings between US$3,500 and the maximum earnings limit, which is indexed annually and was US$55,900 in 2018.

Changes to the funding of company pension plans

The year 2018 marked one of the most comprehensive changes to the funding of defined benefit pension plans. In Canada, companies sponsoring defined benefit pension plans are required to make minimum contributions to secure the promised pension benefits. The amount of minimum contributions is based on the applicable pension regulation. Effective from 1 May 2018, the rules in the province of Ontario for determining these minimum contributions have significantly changed.

While these specific changes only impact pension plans that are registered in Ontario, they are consistent with the trend that has been observed across Canada. Generally, the trend is toward relaxing funding requirements. The focus is shifting more toward funding the plans on a longer-term “going concern” basis, sometimes with certain safety margins, rather than requiring funding on a “plan termination” (solvency) basis.

For example, in 2016, the province of Quebec eliminated the requirement to fund an ongoing plan on a solvency basis. This was done when all other Canadian provinces granted significant relief measures to plan sponsors to ease the financial burden of funding on a solvency. Ontario, after almost a decade of providing temporary measures, significantly relaxed the requirement to fund on a solvency basis.

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On 1 May 2018, a pilot tax-deferred pension insurance project was launched in Shanghai, Fujian Province and Suzhou Industrial Park in Jiangsu Province. Under the plan, individuals who invest into tax-deferred pension insurance products will get tax deduction for up to a value of CNY1,000 per month or 6% of their monthly salary, whichever is lower. Benefits can be withdrawn in an annuity at retirement. When withdrawing benefits, 25% of the benefit payments will be tax-free and the remaining 75% will be levied at a rate of 10%.

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The Incomes Register

Effective from 1 January 2019, the technical practices in Finland is undergoing a considerable change – implementation of a single database, the Incomes Register, with information on earned income, pensions and benefits on an individual level. The database is administered by the Finnish Tax Administration.

Implementation of the Incomes Register, the national electronic database, is done in stages. The data on earned income will be reported to the Incomes Register by employers, accounting firms and occasional employers (such as households) from the beginning of 2019. The earnings-related pension providers will access the data from the register. Pension and benefit data will be reported to the register from the beginning of 2020.

The Incomes Register will replace the annual and monthly notifications that employers give to the earnings-related pension providers. Instead, the employers, accounting firms and occasional employers (such as households) will report the earnings data to the register every time they pay out wages. This will change the rhythm of notifications of earned incomes. Pension providers will get the data they need for their statutory duties directly from the Incomes Register.

As a rule, the data is submitted to the Incomes Register in real time – i.e., within five days of paying out the wages. The data can be submitted in different ways – transferred to the register either directly through the payroll administration interface (the online service) or, on special grounds, on a paper form.

The real-time data that the Incomes Register provides will reduce errors and make sure that people get paid the right amount in earnings-related pensions. It will also help pension providers issue pension decisions faster.

The Incomes Register will lead to cost efficiency and reduce the administrative burden of companies when they no longer have to report the same data several times. It will be easier to report when the obligation to report data relating to income will be centralized to the Incomes Register.

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Reform of retirement saving products: the PACTE law

The main objective of this reform is to develop and simplify the retirement saving products in order to finance the real economy. The PACTE law is a new framework to promote retirement saving products that have a low attractiveness today in France.

The law, adopted at the first reading by the National Assembly on 9 October 2018, will be voted through in the first quarter of 2019. The marketing of new products will start in the course of 2020, after the entry into force of the passage of the implementing decrees.

The main features of this law are the following:

**Portability**
- Savers will be able to transfer the accumulated assets from a product in the case of a change of company. To achieve that, harmonization of the product’s features is expected.

**“Manager-guided” as the default investment option**
- Manager-guided investments represent a market-linked savings objective combined with life cycle risk reduction as the saver approaches retirement.
- It is expected that this feature will be extended to all retirement saving products.

**Flexibility on choice of payout options**
- The savers will be able to choose how they use their pension pot: lump-sum, annuities or mixed approach.

**Fiscal and social tax relief**
- Voluntary deposits will be deductible at fiscal income level, within the limit of current ceilings.
- A tax incentive of 10% will be available, but only for payouts in annuities.
- The “forfait social” (exemption on social security tax) will be reduced from 20% to 16% when the investment is made in funds partly investing in SMEs or mid-cap companies’ shares.

**Transposition of the 2014/50/EU Directive in the loi PACTE — impact on the “Article 39”**

The vesting rules of the French supplementary pension scheme (Article 39) will be amended to limit vesting period. Indeed, according to the EU directive, where a vesting period or a waiting period, or both, is applied, the total combined period shall under no circumstances exceed three years for outgoing workers.

Today, the payment of the annuities of the “Article 39” is conditional to the employee’s presence at retirement date.

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Until recently, it was standard to use the “Heubeck RT 2005 G” mortality tables for actuarial valuations of pensions and other long-term employee benefits in Germany.


The new tables are based on the updated data provided by the German Statutory Pension Insurance Scheme (Deutsche Rentenversicherung) and the German Federal Statistical Office.

While the tables still assume an increasing life expectancy for the German population, the assumed pace of increase is lower in the short term than previously assumed by the “Heubeck RT 2005G” tables.

Compared to “Heubeck RT 2005G,” life expectancies have increased between 0.5 and 1 year, depending on sex and age.

Taking into account the partially compensating effect from reduced probabilities of invalidity (especially for men), pension liabilities might increase by up to 5% for individual companies, depending on the underlying pension scheme and plan population. Heubeck expects an average one-off increase of 1%-2%, which will be recognized as actuarial loss due to change of demographic assumptions in the OCI.

On 19 October 2018, the German Financial Ministry issued a letter recognizing the new tables for German Tax Law purposes; companies will have to apply these for valuations under German Tax Law for all fiscal years ending after 30 June 2019 at the latest. This letter, together with the validation and implementation of the tables by the performing actuaries, is considered to be an indicator for the general recognition of the new tables and might, therefore, constitute the date of first application of the “Heubeck RT 2018 G” tables under German GAAP and IFRS.
Greece

Changes in occupational pension funds

In 2018, The Ministry of Labor, Social Insurance and Social Solidarity issued amendments on the law for the occupational pension funds (OPF) that first came into force in 2002. The amendments aim to implement a stricter framework for the compliance and monitoring of the technical provisions for the OPF established in Greece.

The main changes per category are as discussed below.

Technical provisions

- The OPF are required to set up technical provisions and/or to set up technical provisions for unearned contributions and/or technical provisions for outstanding claims, depending on the nature of the risks covered and the benefits provided by the fund.
- The OPF, depending on the risks covered and the benefits provided (such as pension and health) by the fund, are required to keep the technical provisions for each type of benefit separately.
- The OPF are required to submit to the supervisory authorities (the Ministry of Labor, Social Insurance and Social Solidarity; the National Actuarial Authority; and the Hellenic Capital Market Commission) a statement of investment policy principles, along with performing the following activities:
  - The OPF should prepare and, at least every three years, review a written statement of investment policy principles.
  - The statement should be revised by the OPF without delay after any significant changes in the investment policy.
  - The statement should contain, at least, matters such as the investment risk, the measurement methods, the risk management processes implemented and the strategic asset allocation with respect to the nature and duration of pension liabilities.
  - The OPF, upon request, shall notify the statement to the members and beneficiaries of the fund or their representatives, where applicable.

Asset status

- The OPF are required to maintain detailed track of the fund’s assets per asset category (shares, property, bonds and cash) and liabilities (technical provisions and solvency margin) also including their features.
- These data are kept electronically and on an ongoing basis in two registers – the Asset Register and the Other Asset Register. The Asset Register contains the assets held by the fund for covering the technical provisions. The Other Asset Register contains all the other assets held by the fund excluding the assets for the technical provisions.
- The OPF should perform the respective journal entry to the general ledger for all the assets held to cover the technical provisions recorded in the Asset Register on a daily basis.
- Both registers should be immediately available for supervisory review purposes upon the request of the National Actuarial Authority.
Evidence of contribution payments

• The OPF, at the end of every financial year, should submit to the National Actuarial Authority evidence that contributions have been paid as planned. Deviations, if any, will be recorded as well.

Evidence of consistency with the investment policy principles

• The OPF, at the end of every financial year and no later than 31 March of each year, should submit to the National Actuarial Authority and to Hellenic Capital Market Commission evidence of consistency with regards to the implementation of the investment policy principles. Any variations in the asset returns and the re-invested assets, when compared to the ones as planned, will be recorded.

• It should be noted that an officially unlicensed non-profit civil law partnership was founded in June 2018 – the “Hellenic Union of Institutions for Occupational Retirement Provisions.” The Union is one institutional body for the representation of occupational insurance in Greece.

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At the end of 2018, Italy presented its budget plan for 2019 and some measures that will ultimately affect the employee benefits.

- **Retirement pension requirements:** In accordance with the current law (Law 92/2012), as a consequence of the improving life expectancy, starting from 2019, the requirements for retirement pension will be the following:
  - Retirement age: raised to 67 years (increase of five months) for both men and women (with minimum 20 years of contributions)
  - Contribution years: the pension requirement dependent on the seniority contribution alone to be raised to 43 years and 3 months for men and 42 years and 3 months for women (increase of five months)

- **Early retirement:** The Financial Law 2018 (that regulates the economics for 2019) introduced the “Quota 100 rule.” All citizens having a seniority of at least 38 years and an age greater than 62 (62–38; 62–39; 63–38; …) whose sum is greater than or equal to 100 have the chance to retire in advance without penalties. Since the amount of the pension is partially calculated on a contribution method (since 1995), early retirement could, however, result in a reduction of the pension annuities (in the range of 5%-35%).

- **Female advantages:** The Financial Law 2018 has also re-launched the “Donna” option, i.e., the facility for a woman to access, in advance, a pension at 57 years of age and at least 35 years of contributions. In this case, the pension annuities would be recalculated by a fully contributory method (even for the years preceding 1995), heavily penalizing the amount; hence, it is expected that this option could not be massively exercised.

These changes have an impact on actuarial valuation of employee benefits and termination indemnity as well as on the allowance of longevity risk techniques for pension funds.

- **Termination indemnity (TFR):** The “Quir” option expired. Employees can no longer decide to receive the TFR in advance. This also applies to those employees who had subscribed to the option. However, the impact is not material.

- **Redirection of accruing TFR:** An employee may decide to give only part of the TFR to the supplementary pension scheme (industry-wide or private pension). The law introduces the ability to partially redirect the contributions to external pension funds (previously only full contributions were allowed). The aim of this rule is to increase the propensity to use complementary pensions, still occasionally exercised (as at 2017, only 23% of total TFR produced is invested in complementary pensions).

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Change in Employees’ Provident Fund Organization (EPFO) payout rate (25 May 2018)

Ministry of Labor notified interest rate of 8.55% for FY17-FY18, reduction of 0.10% as against FY16-17 (8.65%)

Amendment to Payment of Gratuity Act, 1972 (29 May 2018)

- Maximum gratuity payable increased from INR10 lacs (INR1 million) to INR20 lacs (INR2 million)
- Female employees to enjoy 26 weeks of maternity leave as continuous service

Amendment to benefit under Employees’ Deposit Linked Insurance Scheme (EDLI), 1976 (15 February 2018)

- Amendment applicable to PF-“covered” establishments
- Minimum benefit to be INR250,000 (until 15 Feb 2020)

Transfer of unclaimed provident fund (PF) to SCWF (13 October 2017)

The Provident Fund rules were amended to transfer the balance that is lying unclaimed for seven years post becoming “inoperative” from the Exempt PF Trust to the Senior citizen’s welfare fund (SCWF). Trustees are required to make a concerted effort to reach such members. Member have 25 years to claim PF balance from SCWF. Unclaimed amount will be forfeited by the Government post 25 years.

Supreme court decision on uncapped Employees’ Pension Scheme (EPS) 1995 pension

Supreme Court (SC) decision now allows pension on higher wages. In March 1996, the EPS Act was amended to allow members to raise their pension contribution to 8.33% of full salary (basic + dearness allowance) irrespective of what the salary is. However, for a decade, not many people opted for higher contribution. In September 2014, the pensionable salary limit was raised from INR6,500 to INR15,000, and existing employees who were contributing on full salary were asked to furnish a fresh option within 6–12 months. Simultaneously, EPFO stopped contributions on full salary. In October 2016, SC ruled in favor of employees’ right to raise their contributions to the pension fund without imposing any cutoff date for eligibility. In order to comply with the SC orders, in March 2017, the EPFO came out with a circular allowing member of EPS who had contributed on higher wages exceeding INR6,500 to divert 8.33% of salary to the pension fund, and subsequently be eligible for pension on higher salary.

Draft labour code, second exposure draft issued

Ministry of Labor and Employment is working toward a consolidated labor law in line with recommendations of Second National Labor Commission and International Labor Organization (ILO) Convention No 102. First draft on labor code was issued in public domain.
In March 2017 and second draft tabled in March 2018. Key issues that will be addressed in the new labor code are many. The code intends to bring the informal sector (approximately 85%-90% of workforce) into the standard labor laws providing social security. It also intends to limit the multiple regimes that currently govern the labor laws in various sectors. Further, it aims to consolidate the pools existing under various regulatory regimes to manage them effectively and eliminate misuse of thresholds and monetary ceilings. It also aims for standardization of ceiling across benefits. It will fully or partially subsume some of the existing labor laws such as:

i. Unorganized Workers’ Social Security Act, 2008

ii. The Mica The Employees’ Compensation Act, 1923


iv. The Employees’ State Insurance Act, 1948

v. The Employees’ Provident Funds and Miscellaneous Provisions Act, 1952

vi. The Maternity Benefit Act, 1961

vii. The Payment of Gratuity Act, 1972


xii. The Beedi Workers Welfare Cess Act, 1976

xiii. The Beedi Workers Welfare Fund Act, 1976


xvi. The Building and Other Construction Workers Cess Act, 1996

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Poland

Employee Capital Plans

On 19 November 2018, the President of Poland signed the Act on Employee Capital Plans, which introduces a new way of saving for retirement. The Act will came into force on 1 January 2019 and the program will start on 1 July 2019. The system is similar to the solutions existing in the UK and New Zealand.

The new Act creates a private, voluntary system for collecting retirement savings for all employees paying social security contributions, regardless of the form of employment. Each employee will be assigned to an Employee Capital Plan automatically, but will be able to opt out of saving at any time (with possibility of a later return). Funds accumulated in the Employee Capital Plans will be the private property of participants and will supplement the benefits received from the general obligatory pension system.

When an employee reaches the age of 60 (the same age for women and men was introduced in accordance with the principles of equal treatment in relation to voluntary pension schemes for employees), he or she will be able to withdraw all the funds collected, although then 75% of them will be taxed. However, if it is paid in monthly installments for 10 years period, then no tax will be applied.

Payments to the Employee Capital Plans will be made by employers and employees (program participant). Basic payment to Employee Capital Plans will be 2% of remuneration from the employee and 1.5% of remuneration from the employer. The employer will be able to declare an additional payment in the amount of up to 2%, which means that the employer contribution will be between 1.5% and 4% of the salary. The Employee Capital Plans participant will also be able to declare an additional payment of up to 2%, which gives a maximum of 4% (basic and additional payment). As a result, the total contribution to the employee’s account in Employee Capital Plans will be between 3.5% and 8% of remuneration. Additionally, the state will pay a one-off welcome contribution in the amount of PLN250 and an annual payment in the amount of PLN240.

The program of Employee Capital Plans will be run by investment fund managers, insurers and pension funds. Level of management fee will be limited to 0.6% per annum (fixed 0.5% and additional 0.1% depending on investment results). In addition, there will be a mechanism to prevent excessive market concentration - the level of management fee that exceeds 15% of market share will be reduced for market participants. Assets can be invested in the so-called “defined-date funds” applying different investment policies depending on the age of the participant – a kind of life cycle funds that will allow for rational investments of collected funds, in particular, reduction of investment risk for participants approaching the age of 60.

Limit on the management fee level negatively impacts expected profitability of the product. From the perspective of insurers, one of the main incentives to propose the Employee Capital Plans will be their willingness to offer a full range of services. Life insurance protection products bought in the form of a group policy by companies for their employees are the most popular life insurance products in Poland. It is expected that employers will prefer for have a single provider of both group life insurance and Employee Capital Plans.
The Netherlands

New mortality table

In September 2018, a new mortality table, Prognosetafel AG2018, was issued by the Actuarial Society in the Netherlands. This mortality table anticipates on the expected mortality trend. For an average population, the impact of this new mortality table, when compared to the prior table, is approximately a decrease of 1% of the pension liability.

Fiscal legislation

The fiscal limitation for future pension accrual is in line with the tax legislation in 2018. Therefore, the fiscal retirement age remains 68 years.

Pensionable age for state pension

The pensionable age for state pension (AOW) increased from 66 years in 2018 to 66 years and 4 months in 2019. This age will increase to 67 years and 3 months in 2022 and 2023.

Pension system

For many years, there have been discussions to change the pillar 2 pension system in the Netherlands. An agreement was expected in 2018; however, this was not reached. Currently, it is unclear how the pension system will be designed and when a result could be expected.

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Guaranteed benefits vs. low investment return

For a couple of years, low interest rates and increased life longevity have led to high risks for companies and insurers. This has resulted in reforms in the pension sector initiated by the Government, insurers and companies.

Introduction of highly guaranteed benefits clashes with the low investment returns and longevity trends. Key reforms include the following:

- Pension structural reform ("Altersvorsorge 2020"), which aimed at reducing legal minimum benefits and compensating with higher contributions and VAT increase, was rejected by the population on 24 September 2017.
- Companies offering supplementary benefits are redesigning their pension plans to reduce mismatch between financing and promises.
- Axa, the second biggest player in fully insured pensions, has decided to withdraw completely from the segment by the end of the year and switch to a semi-autonomous model, where returns potential and risks are enhanced.

De-risking pensions plans

A new regulation for special pension plans ("1e plans") has been introduced for parts of salary above €130k, allowing for the first time to create defined contribution pension plans in Switzerland according to the IAS 19/ASC 715 definition.

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Heightened de-risking activities

Pension plans in the US have benefited from a variety of factors that have improved funded status. As a result, many plans are better funded and de-risking activities, including lump-sum windows and insurance buyouts, have been prevalent.

Some of the factors leading to these de-risking activities include the following:

- Tax reform, as a result of lowering corporate tax rates, also lowered deductions for contributions to pension plans. As a result, many companies made large contributions for the 2017 tax year to take advantage of higher deductions under the former tax rates.
- Interest rates have risen significantly during 2018. This has had the effect of lowering liabilities by 10% or more.
- Due to legislation over the past several years, Pension Benefit Guaranty Corporation (PBGC) premium rates continue to rise relative to historical levels. Companies continue to look for ways to avoid these premiums.

In addition, mortality continues to improve at lower-than-expected rates. The Society of Actuaries (SOA) annually publishes a mortality projection scale based on the latest available data from the Social Security Administration. Each subsequent scale over the past several years has resulted in lower liabilities, with the latest scale being “MP–2018.” In large part, as a response to this trend, the SOA published an alternative projection scale, “O2–2018,” that emphasizes smoothness of historical data over fitness. O2–2018 is expected to produce less-volatile results, but would currently produce higher liabilities than MP–2018. It is unclear the extent to which plan sponsors or the IRS will consider adopting O2–2018 for financial reporting and IRS purposes, respectively.

Mortality updates

Internal Revenue Service (IRS) regulations issued in 2017 enabled more plan sponsors to use their mortality experience for the purpose of determining minimum funding requirements, benefit restrictions and PBGC premiums. Plan sponsors with worse-than-average mortality experience are expected to take advantage of these regulations, improving their funded status for these purposes.
GMP equalization

Earlier this year, three female members of the Lloyds Banking Group’s pension schemes brought a claim against the trustees for the inequalities that exist between men and women in their Guaranteed Minimum Pension (GMP) benefits. The High Court delivered its judgment on 26 October 2018. As part of this ruling, the High Court confirmed that trustees of the Lloyds Banking Group schemes are under a duty to equalize GMP benefits between men and women. The High Court considered a number of methods that could be used to equalize benefits, and ultimately did not prescribe a single method. The High Court also did not recommend a time frame within which equalization should occur.

The case has implications on other UK occupational pension schemes that have not historically made allowance for unequal GMP benefits. EY expects that most schemes will amend their policies to retroactively increase benefits to enable equal GMP benefits, leading to an increase of anywhere up to 3% on accounting and funding liabilities. Our experience is that this can vary significantly across schemes.

While equalizing benefits for individual members may take years for trustees to implement, companies will need to include an allowance for GMP equalization in their financial statements for financial years ending after the judgment date, if they have not already. Under both IFRS and US GAAP, the increase in benefit obligation would be accounted for as a plan amendment and give rise to prior service costs. Under IFRS, this would be recognized immediately in a company’s income statement; whereas under US GAAP, prior service costs are deferred in OCI and amortized as a component of net periodic benefit cost.

Mortality updates

The Continuous Mortality Investigation (CMI), a committee within the UK actuarial professional body, releases mortality tables for occupational pension schemes. These tables are referred to as the self-administered pension scheme (SAPS) tables. The latest version of the tables due to be released are the “S3” series, to replace the current “S2” series. It is likely that these tables will be issued during the early part of 2019.

The new “S3” tables assume higher life expectancies than the current “S2” tables, by around 3-6 months (equating to a typical increase in liability values of up to approximately 2%). The increase in life expectancy observed indicates that members of a pension scheme appear to experience lighter mortality than the general population.

The CMI also produces a forward-looking model to project how mortality rates will change in the future. The current version of this model is “CMI_2017.” The model is based on the observed changes in mortality rate improvements in England and Wales over the last 40 years. These have shown a steady decline in improvement rates during the current decade. We are increasingly seeing corporate sponsors and trustees adopt the latest CMI improvement tables for both accounting and funding purposes, resulting in lower liabilities and deficits.

The next version of the model, “CMI_2018” is expected to be released in March 2019. Early indications are that the current trend of decreased population mortality improvements in the UK will continue for 2019.
Increased bulk annuity transactions

The year 2018 has been a record-breaking year for bulk annuity transactions (buy-ins and buyouts) with each of the eight insurers currently active in the UK market also having had their busiest year. Buy-in and buyout volumes are set to exceed £20 billion this year. This represents a 50% increase compared with the previous record of £13.2 billion in 2014. There are various factors driving this surge in activity in the market, including the competitive tension between the insurers, keen pricing, improved funding levels and lower risk strategies from pension schemes. While these excellent pricing opportunities are expected to remain, the market is now also experiencing a shift in demand and supply, whereby demand from pension schemes for buy-ins and buyouts is outstripping the supply from insurance companies. However, there is also talk in the market of new entrants coming in, which will help to normalize the demand and supply dynamics again.

Pension consolidation

The UK Government published a white paper on protecting defined benefit pension schemes on 19 March 2018. In addition to the proposals to give the Pensions Regulator greater powers, the paper focused heavily on consolidation. The Government will look to encourage consolidation of private sector defined benefit pension schemes. Pooling schemes in this way can help to reduce the costs of running schemes and improve the way that they are governed. Although some forms of consolidation are currently possible under UK legislation, the Government may introduce new legislation to enable alternative forms of risk-sharing in pension schemes – for example, Collective Defined Contribution schemes similar to those that exist currently in the Netherlands.

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