Fidelity Benefits Consulting

International Defined Contribution Newsletter

January 2019

Fidelity's international defined contribution newsletter focuses on the key issues surrounding employer-sponsored defined contribution retirement plans globally.

Issued on a bi-monthly basis, this update from our international team seeks to keep you informed of upcoming changes to local legislation and market trends while providing thought-provoking articles to keep you up-to-date in the ever changing defined contribution landscape.

What's Inside

- Legislative & Regulatory Update
- Market Update: Germany Pension Reform

Legislative Updates

Chile

Proposed reforms would require employers to contribute towards employee's individual retirement accounts. The new employer contributions, expected at 4%, would be phased in over a period of time.

The proposals are yet to pass through Congress.

Action Required

Monitor – await further announcements.

Thailand

Introduction of the National Pension Fund (NPF), dependent on National Legislative Assembly approval.

The law will require employers and employees to make matching minimum mandatory contributions (of salary to a cap of THB 60,000 (c. USD 1,900) per month) to the NPF (or to an existing Provident Fund) which will increase over time as follows:

- First three years – 3%
- Years four to six – 5%
- Years seven to nine – 7%
- Year ten onwards – 10%

Employers will be required to pay the full contribution for employees earning below THB 10,000 (c. USD 300) per month.

The target implementation date is currently unknown.

Action Required

Monitor – await further announcements.

France

The 'PACTE' draft law has been passed by the National Assembly. The proposed legislation includes changes to supplementary retirement savings, including:

- Enabling the transfer of savings between different plan types
- Harmonization of the different features seen between the different types of retirement savings vehicles

The legislation is expected to be reviewed by the Senate early in 2019.

Action Required

Monitor – await further announcements.

Poland

Employers will be required to set-up and contribute towards a qualifying retirement plan, with timing for compliance dependent on company size as follows:

- 250 or more employees – July 1, 2019
- 50 or more employees – January 1, 2020
- 20 or more employees – July 1, 2020
- All other employers – January 1, 2021

Employer contributions will be a minimum of 1.5%; however, this will vary dependent on the retirement vehicle used. Employees will also be required to contribute at least 2%, again dependent on the type of vehicle used.

Action Required

Implement – take necessary actions in advance of impending deadline.

New Zealand

Amendments to the KiwiSaver Act contained within the Taxation (Annual Rates for 2018-19, Modernising Tax Administration, and Remedial Matters) Bill would result in the following:

- Individuals over age 65 would be allowed to join KiwiSaver
- The requirement for individuals over age 60 to remain in KiwiSaver for at least five years would be removed
- 6% and 10% employee contribution rates would be added as options
- Contribution holiday periods (savings suspension) would be reduced from five years to one

The bill is currently with the Select Committee for review.

Action Required

Monitor – await further announcements.

Turkey

Following the enactment of auto-enrolment legislation from January 1, 2017 the government has taken steps to reduce the high proportions of opt-outs.

Employers will be required to automatically re-enrol their qualifying workforce within three years. The government has also reserved the right to reduce this period to one year, or to extend it to five years.

Complete implementation details are not yet available.

Action Required

Monitor – await further announcements.

Market Update: German Pension Reform

Germany, like many countries, has been exploring ways to encourage more of the population to save for their retirement to help reduce the burden placed on the state of providing retirement income to an increasing number of retirees.

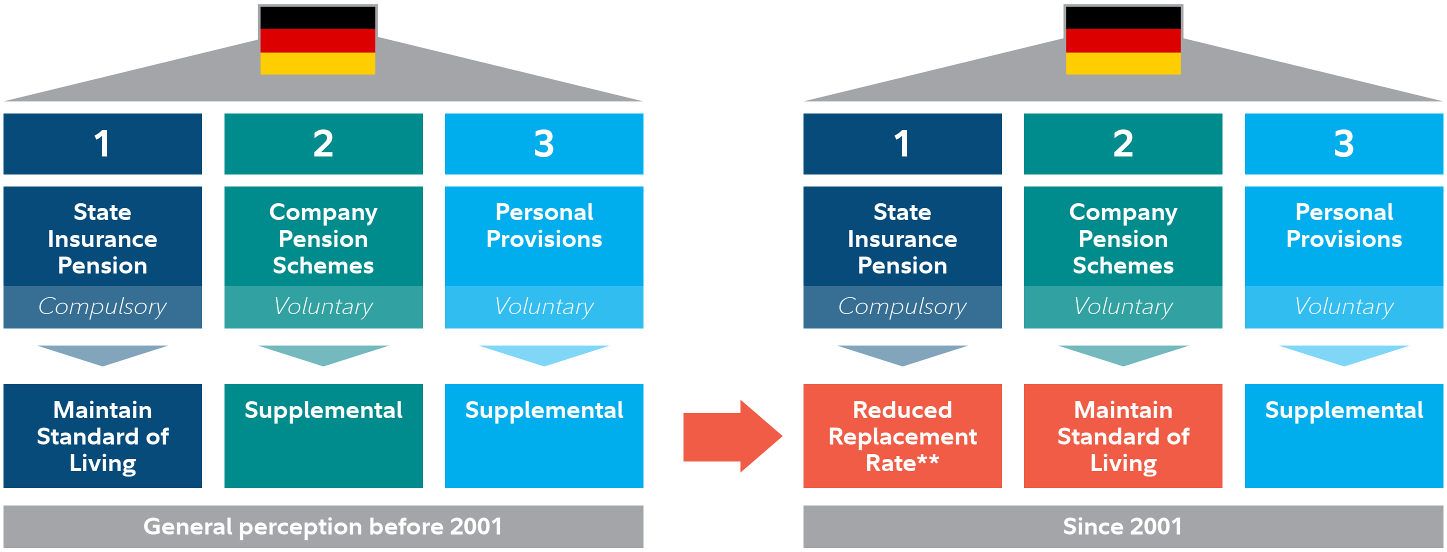
To put this into context it is estimated that:

- Over 40% of the working population do not have any form of supplemental or voluntary retirement savings[1]
- The number of people aged over age 65, according to World Bank estimates, will increase from 17.8 million in 2017 to 23.4 million in 2050[2]

To address this growing financial exposure, the government has taken a number of steps to encourage and better prepare the workforce for retirement planning, including:

- In 2001, the government reduced statutory retirement benefits and allowed individuals to contribute gross salary directly into a pension arrangement – although such contributions were limited to 4% of the Social Security ceiling
- In 2007, the government raised the statutory retirement age from 65 to 67 to reflect improving life expectancy

These changes saw a shift in the landscape as follows[3]:

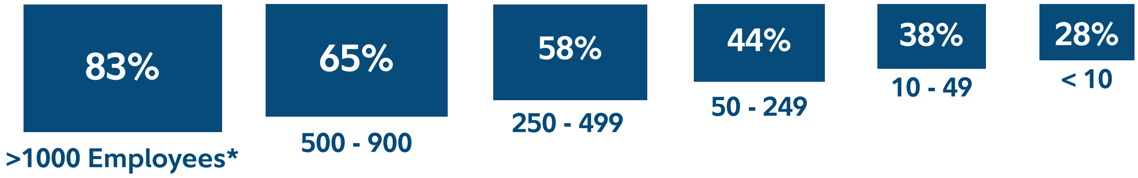


**Net standard pension level should not drop below a minimum of 46% (2020)/43% (2030) of the average net wage while keeping statutory pension contributions stable

[1]statista.com
[2]worldbank.org
[3]Deutsche-Rentenversicherung.de; Bundesfinanzministerium.de

The objective was to boost individual retirement savings and to relieve the pressure on the state insurance scheme. However, despite these measures, voluntary company pension plans still only reach approximately 57% of the overall working population[4]. The participation ratio among low-income earners and in small companies is significantly lower, meaning that a portion of the population will continue to rely on the now reduced state benefits.

Provision of Company Pension Plans by Company Size[5]



*Based on Workforce subject to social security contributions. Source: Statista

Encouraging Greater Participation (2018 Legislative Changes)

On January 1, 2018, legislation was introduced to start encouraging companies and individuals to make further supplementary provisions. The Company Pension Reinforcement Act ('Betriebsrentenstärkungsgesetz') was designed to complement the preceding reforms and aimed to make the three-pillar retirement system more resilient to demographic change and to provide a more sustainable retirement system.

Outline Provisions

This legislation intends to reduce the remaining obstacles for companies through the establishment of a new, potentially more attractive, retirement vehicle.

It also includes:

- For the first time, pure DC schemes without guarantees and auto-enrolment are possible, but only if agreed between the social partners[6]
- A tax credit for employers if they make pension contributions on behalf of low earners (salary up to €2,200 per month)
- An increase to the limit for tax free contributions to external pension providers from 4% of the Social Security Contribution Ceiling (2018: €3,120 pa) to 8% (2018: €6,240 pa)

These changes are expected to initiate a paradigm shift within German company pensions, by allowing genuine Defined Contribution (DC) plans, which to date have legally not been permissible. Additionally, it introduces the option of a 'social partner model' in which tariff unions and employers' associations can jointly establish new industry-wide pension plans.

[4]statista.com
[5]statista.com
[6]The social partner model refers to a pension arrangement which has been agreed by both employers and unions (the social partners).

Impact on Supplemental Pension Plans

These changes have created opportunities for multinational companies to review and revisit future benefit provisions.

From Defined Benefit to Defined Ambition

The recognition of a genuine DC model ('Reine Beitragszusage'), for which guarantees backed by insurance-type arrangements are explicitly not allowed, is considered the key element of the 2018 Act. For the first time, German employers will have the opportunity to pay fixed contributions to a new external financing vehicle, without the need to provide a benefit guarantee. Lifting employers from this contingent liability is expected to increase the number of companies who are prepared to provide supplementary retirement benefits. It also removes the need for companies to adopt cautious investment allocations (due to restrictive investment rules and the need to provide investment guarantees), which have historically diluted investment returns and impacted real standards of living in retirement.

Social Partner Model and Automatic Enrolment

Implementing true DC arrangements will be subject to new collective bargaining agreements between trade unions and employer associations, of a given industry sector, and cannot be set up autonomously at company level only – hence it is referred to as a 'social partner model'. This is designed to leverage the trust already built between employees and their representative bodies, whilst also providing some protection to the workforce.

Also new to this model is the possibility to implement automatic enrolment, under which employees must actively elect to opt-out from participation. It is hoped that this provision will mirror the experience seen in other countries whereby the majority of employees do not opt-out from the plan.

Strengthening Occupational Pensions: Game-Changer or Non-Starter?

The new legislation is perceived as giving new momentum to company pension schemes in the right areas by a thoughtful combination of incentives for both employers (e.g. lifting the investment risk) and employees (e.g. increased tax-free allowance, low-wage funding). It has therefore generally been received positively by all impacted parties as a step in the right direction.

On the other hand, the new social partner model approach will require significant implementation and educational efforts to ensure its acceptance. This comes with the inherent danger that the additional work could be regarded as unjustifiably complex, particularly when considering the number of already established pension models in place.

Ultimately, the Company Pension Reinforcement Act, 2018, introduces new incentives without simplifying the existing landscape, and therefore it is certain to add to the complex pension environment in Germany. This is verified as the first social partner models are currently not expected to be launched before 2020 – time will therefore tell if the new act is successful or not.

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About Fidelity International Benefits Consulting

Fidelity's International Benefits Consulting team is independent and focuses on supporting clients in meeting their business objectives through the provision of impartial, but tailored, advice reflecting market trends and best practice.

Global Benefits Governance	International DC Governance	International Retirement & Financial Wellbeing	International Healthcare & Wellness	International Miscellaneous
Governance structure & operating model International audit, benchmarking and compliance review Management and reporting Ongoing support to global benefits committees Advice on global financing opportunities	Fiduciary and compliance oversight Best practice implementation Development of preferred provider arrangements Enhancing employee experience	***Financial Wellbeing*** Benchmarking/ implementation of global best practice Design/ implementation of programs to support financial wellbeing Vendor selection and oversight	***International Healthcare*** Vendor selection Strategic plan management advice Cost optimization	Global insurance programs Corporate transactions Second opinions on local advice Strategy to respond to legislative changes Facilitation of global stock plan advice
		International Retirement Benchmarking/ setting of financing assumptions Advice on opportunities for de-risking Consolidation of financial reporting & budgeting	***Wellness*** Global wellness education strategies & programs Benchmarking and deployment Vendor selection	