Fidelity Benefits Consulting

International Defined Contribution Update

September 2018

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.

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Fidelity INVESTMENTS

Legislative & Regulatory Update

Bangladesh

Possible pension reform.

Comments are expected during the 2018/2019 budget around the implementation of a public pension plan. At this time little information exists.

Action Required

Monitor – await budget release for specifics.

Canada

Expansion of the CPP/QPP to be phased in over a five year period starting from 1 January 2019.

Impacts include additional employer contributions and enhanced benefits.

Action Required

Implement – take necessary actions in advance of impending deadline.

Hong Kong

Changes are expected to the Mandatory Provident Fund (MPF).

These include raising the earnings ceiling and tax reforms designed to encourage additional savings. No clear timetable is available at this time.

Action Required

Monitor – await further announcements.

Ireland

The consultation period for the proposed automatic enrollment legislation has begun and is due to close on November 4.

The legislation will require companies to automatically enroll their employees to a qualifying pension plan which meets certain minimum standards, beginning in 2022.

Action Required

Monitor – await further announcements.

Lithuania

Social security reforms expected to take effect from 1 January 2019.

Changes include partial removal of employer paid social security contributions and auto enrollment to individual retirement accounts for those under the age of 40.

Action Required

Implement – take necessary actions in advance of impending deadline.

Poland

Delay to the proposed auto enrollment of employees to new DC plans.

The first stage is now expected for implementation on 1 January 2019 and will require companies with more than 250 employees to auto-enroll employees to the new Employee Capital Plans.

Action Required

Implement – take necessary actions in advance of impending deadline.

Market Trends - International Automatic Enrollment

Automatic enrollment to a defined contribution pension plan is not a new concept – it has already been adopted in Australia, Israel and the UK. In each of these countries, employers, employees or both have been required to make contributions for retirement.

More recently, however, a growing number of countries are looking to encourage retirement savings through mandatory contributions, often through auto enrollment. In the United Kingdom, which introduced such requirements from October 2012 (dependent on employer size) we have just seen the required level of contributions increase.

Australia was one of the first countries to introduce auto enrollment in 1992 where Company contributions have gradually increased from an initial 3% to a target rate of 12% by 2025.

Research from the US[1] shows that auto enrollment plans (even those where individuals can opt-out) increases savings for 84% of the targeted population.

Other countries have followed this precedent and plan to introduce similar legislation ensuring workers are enrolled to a company pension plan – with minimum levels of contribution.

The table below provides a snapshot of countries which have announced auto enrollment plans to be effective in the next few years.

The bigger debate remains whether these measures go far enough to provide adequate financing for retirement. Whilst auto enrollment can be considered a good start and contribution escalations, such as those seen in Australia and more recently the United Kingdom, can help encourage adequate levels of retirement saving, maintaining one's standard of living in retirement is unlikely through auto enrollment alone.

Therefore, the key consideration for employers is to be aware of an international trend for adoption of auto enrollment, to ensure they remain compliant and continue to manage their cost base. Further as shown by US experience employers are, as part of their Financial Wellness strategy, adopting auto enrollment for supplemental plans to encourage higher saving rates amongst their employees to improve retirement readiness.

An overview of countries expected to launch automatic enrollment:

Country	Proposed Launch	Overview
Lithuania	January 2019	• Auto enrollment for employees under age 40 • Employee contributions of 4% • State contribution of 2%
Denmark	January 2018 (implementation has been deferred)	• Employee contributions only • 0.25% of qualifying salary, rising to 2% by 2025
Ireland	2020	• Design finalization scheduled for Q1 2019
Poland	January 2019	• Employee contributions of 2% of qualifying salary • Employer contributions of 1.5% of qualifying salary

[1] *Building Financial Futures publication*

In the Spotlight – the Basics of Global DC Oversight

The U.S. has long been used to fiduciary requirements on benefit arrangements since the passing of the ERISA legislation in 1974. Benefit managers will be very familiar with its guiding principles, requirements and recommendations that have been supported by various DOL and IRS determinations. Similarly, the U.K. has had its own advanced requirements for pension trustees, with raising governance standards remaining a key priority for The Pensions Regulator.

Multinationals have, for the last two decades, been working to limit their defined benefit (DB) exposure outside of their headquarter countries. Many have implemented a global standard to close new DB plans and many have ceased all accruals in plans where legally allowed. The move to DC arrangements was seen as the way to reduce risk. As a result, governance in the sense of what was intended by ERISA and other similar legislation – has been left to the local benefit leads to manage.

However, the risk on DC plans is not as simple as ensuring design is in line with market with no DB exposure. Multinationals (and regulators) are increasingly becoming aware of the need to look at best practices in global DC governance while avoiding overloading the system with unnecessarily complex/detailed reviews. Global benefit committees should be asking some of the following questions related to their DC plans:

- Do we know the basic details of what plans we have out there (design, number of participants, assets under management, investment options, etc.)?
- Do we have global minimum standards of governance we want implemented irrespective of local requirements?
- Are we exposed to non-compliance risks?
- Could we leverage our scale better (as we do with other benefit arrangements)?

Companies and/or committees should not be concerned about this being too onerous an exercise – focusing on the basics for an initial phase will help prioritize future efforts. The process flow could be as simple as the following:

1. Determine the key areas you'd like to investigate
2. Gather data on what plans you have, including data on the key areas above
3. Develop a global checklist and strategy around desired best practices and desired governance (no need to reinvent the wheel here – this can tie into existing global benefits governance processes)
4. Perform a gap analysis against this (note: some country exceptions will be required; for example, some countries do not allow tax-effective employee contributions or matching structures)
5. Determine desired changes to plans to close the gaps (likely a tiered approach)
6. Confirm the ongoing governance and oversight model to track changes, compliance and decisions

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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	