Social Security

# International Update:

Recent Developments in Foreign Public and Private Pensions

August 2014

## Europe

### *Spain*

On August 1, the Council of Ministers approved a system that will permit the General Social Security Treasury (TGSS) to bill employers directly for their social security contributions instead of the employer calculating the amount that the employer and the employee must pay. The system was recommended by the Commission to Reform Public Administration (in January) to simplify, speed up, and improve the collection process. According to the government, companies will save about €63.4 million (US$85 million) a year in administrative expenses because the new rules should eliminate many calculation errors and reduce the number of fines imposed on employers. The system is expected to begin operation in the last quarter of 2014.

Once the system is implemented, each month the TGSS will send a bill to each employer with the contribution amount for each employee based on individual earnings, bonuses, exemptions, and deductions (based on what the employer has reported to the TGSS). Employers will be able to transmit the contributions electronically. Initially, the new rules will apply to the general social security system, which covers employees in industry, commerce, and services according to 11 occupational classes. Later on (no timeline has been specified), the rules will extend to the special systems for public-sector employees, military personnel, self-employed persons, seamen, and coal miners.

Employees contribute 4.7 percent of covered earnings and employers contribute 23.6 percent of covered earnings for old-age, survivors, and disability insurance; sickness and maternity/paternity benefits; and work injury benefits. The minimum monthly earnings used to calculate contributions are €753 (US$1,008) and the maximum are €3,597 (US$4,817). The government provides an annual subsidy.

**Sources:** *Reforma de las Administraciones Públicas,* Comision para la Reforma de las Administraciones Públicas, el 1 de enero de 2014; "La Seguridad Social Calculará por la Empresa Cuánto Debe Cotizar Cada Trabajador," eleconomista.es, el 2 de junio de 2014; " El Gobierno Aprueba el Proyecto de Ley que Regula la Facturación Directa de la Seguridad Social a las Empresas," Consejo de Ministros, el 1 de Agosto de 2014; *Social Security Programs Throughout the World: Europe, 2014,* U.S. Social Security Administration (forthcoming).

## Americas

### *Canada*

Effective July 1, a new law requires certain employers in Quebec to provide voluntary retirement savings plans (VRSP) for their employees. The law was passed in December 2013 to encourage workers to save more for retirement. Until now, more than 2 million workers in Quebec (compared with a labor force of 4.3 million) do not have any type of occupational pension plan. The federal government is encouraging this type of plan—which it calls pooled registered pension plans (PRPPs)—throughout the country. To date, a number of other provinces have introduced PRPPs, have passed PRPP legislation, or are considering them.

The law defines plan administrators of qualified VRSPs as insurance companies, trust companies, and investment fund managers who have the ability to administer services to large groups of people and have expertise in retirement and financial products; the Quebec government approves and supervises those companies. Administrators may offer up to five different types of investment plans with varying degrees of risk; for persons who do not choose a type of plan, a default life-cycle plan is provided, according to the member's age. Administrative fees are limited to 1.25 percent of average assets for the default option and 1.5 percent for the other investment options.

According to the law, employers who do not already provide another type of qualifying pension plan must set up a VRSP plan for all their employees. An employer that offers another type of plan that does not incorporate all employees must either change the rules so that all employees are eligible or set up a VRSP. Mandatory employer participation is being phased in according to the following company sizes:

- 20 or more employees by 2016;
- 10 to 19 employees by 2017;
- 5 to 9 employees, sometime after 2018 (a specific date has not yet been announced.)

The law requires employers to enroll all employees in a VRSP who are aged 18 or older and have been with the company for at least 1 year. Employees may opt out, but employers must ask the employee to opt in every 2 years.

In addition, the law contains a number of rules related to contributions to a VRSP, which include the following:

- Employees may determine their own contribution rate. For those who do not choose, the default contribution rates are beginning at 2 percent of gross salary until the end of December 2017, rising to 3 percent in 2018, until reaching 4 percent in January 2019.
- Employer contributions are voluntary. There are separate tax advantages for both employees and employers.
- All contributions are subject to an annual ceiling of Canadian $24,270 (US$22,222) or 18 percent of the member's earned income in the previous year, whichever is lower.

Funds may be withdrawn at age 55, in the case of job loss, reduced life expectancy, a move abroad, or a physical or mental disability. Members may choose to transfer the funds to another type of qualified pension plan, receive variable payments from the plan, or purchase a life annuity.

**Sources:** "Canada, Compliance Alert," IBIS Advisors, April 30, 2014; "Comparison of Group RRSP, TFSA, SPP (Quebec) PRPP and VRSP," Standard Life Assurance Company of Canada, May 2014; " Federal Minister Advocates for PRPPs to be Introduced in Every Province," PRPP Newsroom, May 28, 2014; "Voluntary Retirement Savings Plans (VRSP)," Desjardins Insurance, June 2014.

# Africa

## *Nigeria*

On July 1, the President signed the Pension Reform Act 2014 into law. It replaces the Pension Reform Act 2004—the law that created the Contributory Pension Scheme (CPS), the system of mandatory individual accounts for public- and private-sector workers. Among the major changes that the new law makes are increasing contribution rates, providing the National Pension Commission (PenCom) with more power to regulate and enforce the rules, imposing stricter penalties on pension industry participants, and broadening the rules regarding pension fund investment. No implementation date has been announced.

The new law maintains the basic structure of the CPS (employer and employee contribute to a retirement savings account (RSA) with a pension fund administrator (PFA) of the worker's choice) and raises the monthly contribution rates for employers and employees from 7.5 percent each to 10 percent and 8 percent of the employee's earnings (including basic salary, housing allowance, and transport allowance), respectively. The minimum rate for employers who choose to pay both the employer and employee contributions is 20 percent of an employee's earnings. Employers are also required to set up a temporary RSA for employees who fail to open an RSA within 3 months of starting employment.

Measures of the 2014 law also provide a better framework for PenCom to regulate and enforce the rules. For example, under the 2004 law, PenCom could revoke a PFA's license, but was not permitted to take preventative action against administrators. The new law provides PenCom with the authority to take action against licensed administrators before the PFAs expose pension fund assets to more risk.

In addition, PenCom is permitted to establish a pension protection fund that serves as a guarantee for CPS contributors. The fund will be financed by 1 percent of earnings from public-sector employees, an annual levy paid by the PFA (rate to be determined by PenCom), and a portion of income from pension protection fund investments.

Under the new law—

- Penalties for such crimes as mismanaging or diverting pension funds are harsher than under the 2004 law. Once the new law is implemented, persons who are convicted of those types of crimes will go to prison for at least 10 years, pay large fines, or both.
- The rules for pension fund investment will be broadened to include national development, such as infrastructure and real estate and other types of instruments approved by PenCom.
- The waiting period for employees to access their accounts in the event of job loss is reduced from 6 months to 4 months before age 50. A previous rule remains the same; an employee retiring before age 50 may withdraw a lump sum up to 25 percent of funds in his or her individual account after a minimum of 6 months following retirement.
- Employees whose employer operates a closed PFA are permitted to choose any PFA. The 2004 law limited those workers to their employer's PFA and allowed all other workers a choice.
- Workers in private-sector companies with 15 or more employees are required to have an individual account (under the 2004 law, workers in companies with 5 or more employees were required to do so); participation is voluntary for the self-employed and employers with fewer than 3 employees. All public-sector employees continue participation under the mandatory system.

Current coverage under the CPS is low. After 10 years of operation, only about 6 million individuals out of an estimated labor force of more than 50 million are accountholders. Total assets under management are about 4.3 trillion naira (US$26.6 million).

**Sources:** *Social Security Programs Throughout the World: Africa, 2013,* U.S. Social Security Administration, August 2013; *Pension Reform Act 2014,* June 2014; "Nigeria Tax Alert," Price/Waterhouse/Coopers, July 2014; "President Jonathan Signs Nigeria's Pension Reform Bill 2014," *Voice of Nigeria*, July 1, 2014; "Pension Act 2014: Another Milestone in Pension Industry," *Daily Independent*, July 8, 2014; "Pension Reform Act 2014, Issues and Matters Arising," *Business Day*, July 23, 2014.

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