International Update

Recent Developments in Foreign Public and Private Pensions

March 2018

Europe

Ireland Announces Five-Year Pension Reform Strategy

On February 28, the Irish government released A Roadmap for Pensions Reform, a five-year pension reform strategy aimed at addressing key challenges to retirement security in Ireland. The new strategy outlines six reform areas, including changing the pay-as-you-go public pension program (the State pension) to make it more transparent, fair, and sustainable, and implementing a supplementary retirement savings program in which workers not covered by a private pension will be automatically enrolled. According to the government, only about one-third of private-sector workers have occupational pensions, which contributes to low private retirement savings. Unless reforms are made, the government forecasts an increase in State pension expenditures during the next 40 years as the number of pensioners doubles (the ratio of working-age individuals to pensioners is expected to decline from 4.9 to 2.3 over this period).

The new strategy's key proposals include:

- Replacing the yearly average approach for determining entitlement to the contributory State pension with the Total Contributions Approach (TCA), effective 2020. Under the yearly average approach, the full contributory State pension is paid to individuals with an annual average of at least 48 weeks of contributions over their entire working lives; a partial benefit is paid to individuals with an annual average of 10 to 47 weeks of contributions. As a result, an individual with a short career history (as little as 10 years of continuous work) may qualify for a full pension, while an individual with a longer career history but with significant gaps may only receive a partial pension. Under the TCA, the full pension will be paid to individuals with at least 40 years of contributions and reduced proportionally for those with fewer than 40 years. (Certain caregivers who are not in covered employment will continue to be eligible for credited contributions under this new approach.)
- Maintaining the full contributory State pension at 34 percent of average earnings and linking future increases to changes in the consumer price index and/or average earnings. (Currently, benefits are adjusted during the annual budget process.)
- Maintaining the scheduled increases in the State pension age from the current 66 to 67 in 2021 and to 68 in 2028, with no further increases prior to 2035. From 2035 onwards, changes will be linked to increases in life expectancy.
- Examining alternative approaches to funding the State pension to ensure sufficient funds are available, including a process where contribution rates and benefit levels are actuarially reviewed on an annual basis to ensure the program's long-term sustainability. (Currently, social insurance rates are set as part of the annual budget process.) A working group has been established and will publish a consultation paper on alternative funding approaches in late 2018.
- Implementing a state-sponsored supplementary retirement savings program by 2022 in which all workers above a certain age and without existing private pension coverage would be automatically enrolled. Workers could opt out of the system after enrollment, and voluntary participation would be available for low earners, self-employed persons, and workers with existing private pension coverage. According to the Roadmap, the contribution rate for the new system could be as high as 14 percent of earnings, with 2 percent paid by the government and the remainder split evenly between employees and employers. The government will conduct a public consultation in the second quarter of 2018 to finalize the details.
- Adopting the European Union's latest Directive on Institutions for Occupational Retirement Provision (IORP II) by the January 2019 deadline. The adoption of these regulatory standards is expected to improve the sustainability of Ireland's occupational

pensions by granting the Pension Authority greater oversight of pension plan operations and enhancing the governance requirements for pension plan trustees.

Other proposals discussed in the new strategy include strengthening the funding requirements for defined benefit (DB) pension plans (over 26 percent of DB plans do not meet existing standards), introducing higher contribution rates and retirement ages for public-sector pensions, and creating new incentives for individuals to work beyond the normal retirement age (such as higher benefits for those who defer claiming their State pensions past the normal retirement age).

In addition to the contributory State pension, Ireland has occupational pensions provided by employers, voluntary personal savings, and a noncontributory means-tested State pension for residents ineligible for the contributory benefit.

Sources: "A Roadmap for Pensions Reform 2018-2023" and "Government Announce Major Changes to Pensions in Ireland in the 'Roadmap for Pensions Reform 2018-2023'," Republic of Ireland, Department of Employment Affairs and Social Protection, February 28, 2018; "Pension Reform Plan Wins Broad Backing from Business Community," *Irish Times*, March 1, 2018; "Roadmap for Pension Reform Issued in Ireland," mercer.com, March 1, 2018.

Turkey Implements New Pension Fund Management Rules

On January 1, Turkey's government implemented new rules that cap the portion of a pension company's portfolio an asset management company can oversee at 40 percent. (Previously, a single asset management company could oversee a pension company's entire portfolio.) Under these rules, a pension company must reassess the apportionment of its portfolio in the first two months of each year based on the portfolio's net value at the end of the preceding year. By introducing these rules, the government is effectively requiring each of the 18 pension companies that administer Turkey's Private Pension System (Bireysel Emeklilik Sistemi, or BES) to hire at least three different asset management companies to handle its investments. The government first announced the rules on June 20, 2017, and it expects them to spur more competition and better performance among asset management companies. According to the Organisation for Economic Co-operation and Development (OECD), Turkey's pension funds delivered a net real rate of return of 0.9 percent from 2015 to 2016, which was the fifth lowest among 26 OECD-member countries (and below the average of 2.7 percent).

BES is a private retirement savings system that consists of a voluntary program and an auto-enrollment program. The voluntary program launched in 2003 and is open to all individuals aged 18 or older regardless of employment status. Under this program, participants contract directly with pension companies to establish their individual accounts and determine their contribution rates. Introduced at the beginning of 2017, the auto-enrollment program requires all Turkish employers (both in the public- and private-sectors) to enroll their citizen employees younger than age 45 in private pension plans; employees can opt out of the program within two months of being notified of their enrollment. Under this program, employers select pension plans and collect contributions on behalf of their employees, and employees must contribute at least 3 percent of covered earnings (employer contributions are voluntary). To encourage participation in both BES programs, the government matches 25 percent of participant contributions. For auto-enrollment participants, the government also contributes 1,000 liras (US$262.47) after two months of participation and 5 percent of the account balance at retirement (if the account balance is used to purchase an annuity paid over at least 10 years). Under both programs, participants can claim their retirement benefits at age 56 with at least 10 years of contributions, and can choose to receive a lump-sum payment or purchase an annuity. As of February 23, the voluntary program had 6.94 million participants with 79.8 billion liras (US$20.9 billion) in total assets, and the auto-enrollment program had 3.92 million participants with 2.2 billion liras (US$577 million) in total assets.

Sources: "Turkey", *International Update*, U.S. Social Security Administration, September 2016; "Turkey: Mandatory Enrollment in Company Retirement Plans as of January 1, 2017," Willis Towers Watson, September 19, 2016; *Pension Funds in Figures*, Organisation for Economic Co-operation and Development, May 2017; "Bireysel Emeklilik Sistemi, Otomatik Katılım Uygulama Esasları Hakkında Sektör Duyurusunda (2016/30) Değişiklik Yapılması Hakkında Sektör Duyurusu (2017/2)," Undersecretariat of Treasury, June 20, 2017; "There's A Big Shake Up Coming to Turkey's Pension Industry," Bloomberg, November 15, 2017; "Basic Indicators of Private Pension System of Turkey" and "Basic Indicators of Auto Enrollment Of Turkey," Pension Monitoring Center, February 23, 2018; "BES'te yeni dönem başladı," *Dünya*, March 2, 2018; "BES'te yüzde 60 rekabeti," *Vatan*, March 3, 2018.

The Americas

Québec (Canada) Adopts Law Expanding the Québec Pension Plan

On February 22, Québec's National Assembly passed a law that expands the Québec Pension Plan (QPP) by introducing a new component (the additional plan) to the current program (the base plan). (The QPP is an earnings-related pension program that covers employed and self-employed workers in the province.) The law largely follows the framework of a 2016 federal law expanding the Canada Pension Plan (CPP) and will be phased in gradually from 2019 to 2025. (The CPP covers employed and self-employed workers in every province except Québec; the CPP and QPP share many of the same program rules, with minor differences in areas such as contribution rates and benefit levels.) According to the provincial government, the QPP expansion is intended to improve retirement security for future generations, maintain intergenerational fairness, and strengthen the program's long-term financial sustainability.

At present, employers and employees each contribute 5.4 percent of covered payroll or earnings, respectively, to the QPP base plan. The minimum annual earnings used to calculate contributions are C$3,500 (US$2,721.25), and the maximum annual earnings used to calculate contributions (the Maximum Pensionable Earnings, or MPE) are C$55,900 (US$43,462.30). (The MPE is adjusted annually according to changes in the average industrial wage.) The QPP old-age pension (base plan) generally replaces one-quarter of a worker's average monthly covered earnings during the entire contribution period.

Starting January 1, 2019, the additional plan will supplement the base plan, and its key features will include:

- *Contribution rates:* Employers and employees will contribute a combined 0.3 percent of covered payroll or earnings, respectively, in 2019 (gradually increasing each year until reaching 2.0 percent in 2023). (Contributions are calculated using the same minimum and maximum amounts as the base plan.) Contributions are split equally among employers and employees; self-employed persons pay both portions. In addition, starting in 2024, employers and employees must contribute 4 percent of payroll or earnings, respectively, on earnings above the MPE up to a new upper earnings limit (the Additional Maximum Pensionable Earnings, or AMPE), which will equal 107 percent of the MPE in 2024 and 114 percent of the MPE from 2025 onwards.
- *Benefit levels*: The additional plan is expected to gradually increase the generosity of the QPP old-age pension, bringing the total replacement rate of the pension (base plan plus additional plan) up to around one-third of a worker's average monthly covered earnings.
- *Adjustment mechanism*: To ensure the QPPs long-term financial sustainability, the law requires increases in contribution rates if the system becomes out of balance.

Québec's public pension system consists of the earnings-related QPP and the federal Old-Age Security (OAS) and Guaranteed Income Supplement (GIS) programs. The QPP old-age pension is paid at the normal retirement age of 65 if the insured has at least one valid annual contribution; a reduced pension is possible from age 60 to 64, and a deferred pension (for an increased benefit) is possible up to age 70. OAS is a universal pension financed through general revenue and is paid to individuals aged 65 or older with at least 10 years of residence in Canada since age 18. Low-income OAS pensioners are eligible for the income-tested GIS.

Sources: "Changes to the Québec Pension Plan," Retraite Québec, no date; Bill 149: An Act to Enhance the Québec Pension Plan and to Amend Various Retirement-Related Legislative Provisions, 2017; "Expansion of the Québec Pension Plan," mercer.com, November 2017; *Social Security Programs Throughout the World: The Americas, 2017*, U.S. Social Security Administration, March 2018.

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