International Update

Recent Developments in Foreign Public and Private Pensions

April 2018

Europe

Belgium Introduces Supplemental Pension Program for Self-Employed Persons

On February 8, the Belgian parliament passed a law (Pensioenovereenkomst voor Zelfstandigen, or POZ) that introduces a voluntary second-pillar pension program for self-employed persons who are not company directors. The program is effective July 1 and shares many of the same rules as the voluntary second-pillar program (Individuele Pensioentoezegging, or IPT) already available to employed persons and to self-employed persons who are company directors. (In addition to participating in the POZ or IPT, all self-employed persons can participate in the main voluntary second-pillar program [Vrij Aanvullend Pensioen voor Zelfstandigen, or VAPZ], which has different contribution limits and tax/investment rules.) The POZ will supplement the first-pillar social insurance program by covering approximately 450,000 self-employed persons who are not eligible to participate in the IPT, including household workers, caregivers, notaries, craftsmen, and traders. According to the government, the aim of the new law is to harmonize pension regulations and encourage self-employed persons to save more for retirement.

As with the IPT, insurance companies and pension funds will administer the POZ, and contributions will be paid in the form of premiums. Participants will be able to deduct 30 percent of paid premiums from their personal income taxes if they comply with the 80 percent rule, which says that an individual's total pension from the first and second pillars must not exceed 80 percent of his or her average salary in the last three years of employment. Participants will be required to pay an insurance tax of 4.4 percent on their premiums. Upon retirement, the government will tax pensions at a favorable rate of 10 percent (not including provincial taxes).

Other key provisions of the POZ include:

- *Investments*: Participants can choose to invest in Branch 21 or Branch 23 funds. Branch 21 (life insurance) funds provide capital protection and guaranteed rates of return, whereas Branch 23 funds do not provide capital protection and their rates of return vary depending on investment performance. (Participants who invest in Branch 23 funds can choose from multiple funds with varying degrees of risk.)
- *Benefits*: To qualify for a POZ benefit, the self-employed person must receive or be eligible to receive a first-pillar social insurance pension. The full first-pillar pension is paid at the normal retirement age of 65 (rising to 66 in 2025 and to 67 in 2030) if the insured has 45 years of coverage; a partial pension may be paid with less than 45 years of coverage. The early pension is paid at age 63 with 41 years (rising to 42 years in 2019) of coverage.

In Belgium, self-employed persons are excluded from the public first-pillar pay-as-you-go social insurance program for employed persons and are instead covered by a special first-pillar program with similar rules.

Sources: *Social Security Programs Throughout the World: Europe, 2016*, U.S. Social Security Administration, September 2016; "Het Sociaal Statuut der Zelfstandigen: Pensioen," Sociale Zekerheid Zelfstandige Ondernemers, February 2017; "Belgium Overhauls Second Pillar Pensions for Self-Employed," IPE.com, February 6, 2018; "New Belgian Legislation on Second Pillar Pension Scheme for Self-Employed Persons Approved," Loyens Loeff News, February 20, 2018; "Nieuwe Mogelijkheid tot Extra Pensioenopbouw voor Zelfstandigen zonder Vennootschap," Vandelanotte, March 15, 2018; "De Pensioenovereenkomst voor Zelfstandigen (POZ): Wat Mag u Verwachten?" Kapitale Vragen, March 29, 2018; "Nieuw Pensioenvehikel voor Zelfstandigen zonder Vennootschap (wet van 18 februari 2018) in het Staatsblad van 30 maart 2018," LegalNews.be, March 31, 2018.

Spain Amends Rules for Private Pensions

On February 9, Spain's government amended its rules for private pension plans to decrease the maximum management and deposit fees that financial companies can charge for plan administration and to allow earlier withdrawals from most plans. By making private pension plans less costly and more flexible for participants, the government is seeking to encourage greater savings in the plans. Although private pension plans have existed in Spain for over 30 years, the assets held in these plans are low relative to other

affluent countries. (In 2016, Spain had private pension assets equal to 14 percent of gross domestic product, which was well below the 50 percent average for the Organisation for Economic Co-operation and Development's 35 member countries.)

The key provisions of the rule changes include:

- *Lowering the maximum management fees for certain pension funds*. Effective April 10, the maximum annual fees are: 0.85 percent of a participant's holdings for pension funds invested entirely in fixed-income instruments, 1.5 percent for pension funds with at least 30 percent of their assets invested in equities and guaranteed funds, and 1.3 percent for pension funds with more than zero but less than 30 percent of their assets invested in equities and guaranteed funds. Previously, the maximum management fee was 1.5 percent for all pension funds regardless of their asset allocations.
- *Lowering the maximum deposit fee*. On April 10, the maximum fee financial companies can levy on new contributions to private pension plans dropped from 0.25 percent to 0.20 percent.
- *Allowing earlier withdrawals for most private pension plans*. Effective January 1, 2025, participants in employer-sponsored pension plans (if the plan rules allow direct withdrawals), individual and association pension plans, and various other retirement savings vehicles will be allowed to withdraw funds from their accounts after the funds have been deposited for at least 10 years. Currently, participants must wait until reaching the normal retirement age (currently age 65 and six months for most plans) to make withdrawals unless there are special circumstances, such as a serious illness or long-term unemployment. (The normal retirement ages for private pension plans are typically the same as that for the public contributory old-age pension.)

Spain's private pension plans are voluntary and supplement the country's public contributory and noncontributory old-age pensions. To qualify for a contributory pension, an individual must have reached age 65 and six months (gradually rising to age 67 by 2027) and have at least 15 years of contributions, including two years in the 15 years before retirement. An individual can claim a reduced contributory pension as early as age 61 and six months if he or she meets certain contribution requirements and other qualifying conditions. The noncontributory pension is paid to individuals who have reached age 65, have resided in Spain for at least 10 years since age 16 (including the two years before retirement), and have household income below certain limits.

Sources: *Social Security Programs Throughout the World: Europe 2016*, U.S. Social Security Administration, September 2016; Real Decreto 62/2018; "El Gobierno rebaja las comisiones a los planes de pensiones y permitirá rescatarlos antes," RTVE, February 9, 2018; "Spain," IBIS eVisor News, March 20, 2018; "Entra en vigor el decreto que obliga a bajar comisiones en pensiones, pero ¿a qué productos afecta?" *El Economista*, April 2, 2018.

United Kingdom Increases Auto-Enrollment Contribution Rates

On April 6, the minimum contribution rate for workers automatically enrolled in qualified workplace pension plans under the auto-enrollment (AE) program increased from 2 percent (split equally among employers and employees) to 5 percent of covered earnings (2 percent is paid by employers and 3 percent by employees). Introduced in October 2012, the AE program is intended to promote long-term retirement savings—especially among low-income households—and reduce the financial burden on the public pension system from population aging. According to a July 2017 report issued by The Pensions Regulator, the proportion of eligible employees saving into a workplace pension plan rose from 55 percent to 78 percent from 2012 to 2016, and participants' savings totaled 87.1 billion pounds (US$122.7 billion) in 2016.

By law, employers must enroll all eligible employees into a qualified workplace pension plan and make contributions on their behalf unless the employees are already members of a pension plan that meets certain criteria established by law. This mandate applies to workers aged 22 or older up to the state pension age (SPA)—currently 65 for men and 64 and six months for women (increasing to 65 by November 2018), and gradually increasing for both sexes to 66 by 2020 and to 67 by 2028—with annual earnings of at least 10,000 pounds (US$14,083). Contributions are paid on annual covered earnings of 6,032 pounds (US$8,495) up to 46,350 pounds (US$65,274). An employee automatically enrolled in a workplace pension plan can opt out within one month of enrollment; participation is voluntary for employees younger than age 22 or older than the SPA up to age 75.

The AE program has been implemented gradually, with coverage initially limited to large employers (those with at least 120,000 employees) and then incrementally extended to all employers by May 2017. Minimum contribution rates are being phased in

according to the following schedule: 1 percent each for employers and employees (October 1, 2012, to April 5, 2018); 2 percent for employers and 3 percent for employees (April 6, 2018, to April 5, 2019); and 3 percent for employers and 5 percent for employees (beginning April 6, 2019). In December 2017, the Department for Work and Pensions recommended that several changes be made to the AE program by the mid-2020s, which included lowering the starting age to 18, removing the lower earnings limit, and extending coverage to self-employed persons.

The AE program supplements the single-tier state pension (STP) program for workers retiring on or after April 6, 2016. STP provides a full flat-rate benefit at the SPA with at least 35 years of paid or credited contributions; a partial benefit is paid with at least 10 but less than 35 years of contributions. A deferred pension is also possible beyond the SPA. Additional means-tested benefits provide a safety net for low-income pensioners.

Sources: "United Kingdom," *International Update*, October 2012; *Social Security Programs Throughout the World: Europe 2016*, U.S. Social Security Administration, September 2016; "Automatic Enrolment–Commentary and analysis: April 2016-March 2017," The Pensions Regulator, July 2017; "AE Review: Welcome Reforms Not Due Until Mid-2020s," Pensions Expert, December 17, 2017; "Government Publishes Ambitious Plans to Give Millions a More Financially Secure Retirement," The Pensions Regulator press release, December 18, 2017; "Auto-enrolment Reaches 1m Employers," FTAdviser, February 19, 2018; "UK Workers Face Mandatory Pension Contribution Increase," IPE.com, March 27, 2018; "United Kingdom," IBIS eVisor Compliance Alerts, March 29, 2018.

The Americas

U.S. Social Security Administration Releases Social Security Programs Throughout the World: The Americas, 2017

In March, the U.S. Social Security Administration (SSA) released *Social Security Programs Throughout the World: The Americas, 2017*, the fourth volume of a four-volume series. This volume provides a cross-national comparison of the social security systems in 37 countries in North and South America. It summarizes the five main social insurance programs in those countries: (1) old age, disability, and survivors (OADS); (2) sickness and maternity; (3) work injury; (4) unemployment; and (5) family allowances. The other regional volumes in the series focus on the social security systems of countries in Europe, Asia and the Pacific, and Africa. Changes made since SSA released the 2015 volume include:

- *New country*: Suriname.
- *New benefits*: Argentina (universal minimum old-age pension), the Bahamas (national health insurance), Canada (family caregiver benefit), Colombia (social assistance medical benefits), Ecuador (unemployment benefit), El Salvador (mandatory individual account old-age benefits), Honduras (OADS mandatory individual accounts and employer-liability cash maternity benefit), Paraguay (medical care subsidy), and Venezuela (food basket).
- *Major reforms to existing benefits*: Argentina (OADS and family allowances), Canada (family allowances), Colombia (OADS, and sickness and maternity), Cuba (sickness and maternity), El Salvador (OADS), Honduras (family allowances), Paraguay (OADS, sickness and maternity, and work injury), Peru (OADS, and sickness and maternity), and Uruguay (OADS, and sickness and maternity).
- *Contribution rate increases for OADS programs*: Antigua and Barbuda, Chile, Costa Rica, Dominica, El Salvador, Nicaragua, and Trinidad and Tobago.
- *Contribution rate decreases for OADS programs*: Ecuador.
- *Retirement age increases*: Antigua and Barbuda, Dominica, Guyana, Jamaica (only for women), and Saint Vincent and the Grenadines.
- *New administrative organizations*: Bolivia (sickness and maternity, work injury, and family allowances) and Peru (sickness and maternity).

Source: *Social Security Programs Throughout the World: The Americas, 2017*, U.S. Social Security Administration, March 2018.

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