International Update

Recent Developments in Foreign Public and Private Pensions

May 2018

Europe

Netherlands Announces Effective Date for New Occupational Pension Rules

On February 5, the Dutch government announced the effective date for new occupational pension rules that will allow pension providers to automatically transfer the total contributions of certain participants (those who have accrued rights to an annual pension of at least €2 [US$2.42] but less than €474.11 [US$572.68, as of 2018]) to another pension provider after employment termination. In addition, providers will be able to cancel the pension rights of participants who are entitled to annual pensions of less than €2. The provisions will become effective on January 1, 2019.

According to the government, the rules aim to improve retirement savings among workers eligible for these so-called small pensions, while reducing administrative costs for pension providers. A recent analysis by Statistics Netherlands (Centraal Bureau voor de Statistiek or CBS)—the agency responsible for compiling national statistics—found that there were around 4.5 million small pensions in 2016. Among the seven pension providers in sectors with the shortest (often part-time) employment contracts, 75 percent of plan participants were not active contributors, and among these participants, 85 percent had accrued rights to small pensions.

Under the current rules, a participant with accrued rights to a small pension has 2 years following employment termination to transfer his or her contributions to a new pension provider. If he or she fails to do so, the provider may offer a lump-sum payment to purchase the participant's pension rights. (Lump-sum payments are taxed as income.) The participant must accept the offer if it is received within the 6 months following the 2-year period after employment termination; if the offer comes after those 6 months, the participant can reject the offer. Under the new rules, such lump-sum payments will only be possible if the participant does not have a new pension provider 5 years after the employment termination.

The Dutch pension system consists of a first-pillar basic state pension that covers all residents and persons working in the Netherlands, a second pillar of quasi-mandatory occupational pensions, and a third pillar of voluntary private pensions. Around 90 percent of second-pillar occupational plans are defined benefit plans, and around 10 percent are defined contribution plans.

Sources: "Afkopen van een Klein Pensioen: Doen?" aegon.nl, no date; "Wet Waardeoverdracht Klein Pensioen," 2017; "Besluit van 5 Februari 2018 tot Vaststelling van het Tijdstip van Inwerkingtreding van de Wet Waardeoverdracht Klein Pensioen," 2018; "Nieuwe Regels Voor Afkoop van een Klein Pensioen," De Autoriteit Financiële Markten, January 15, 2018; "De 5 Meest Relevante Vragen bij de Wet Waardeoverdracht Klein Pensioen," Willis Towers Watson, January 31, 2018; "Netherlands, UK Take Opposite Views on Small Pension Pots," IPE.com, April 24, 2018.

European Commission Issues the 2018 Pension Adequacy Report

On April 30, the European Commission (EC) released the 2018 edition of the *Pensions Adequacy Report*, its triennial publication examining how pension systems in the European Union (EU) prevent old-age poverty and provide income throughout retirement. The two-volume report, which includes assessments of the 28 EU member countries, acknowledges past efforts made to ensure adequate pensions, but recommends that further steps be taken to make pensions more sustainable. Volume 1 of the report contains the EC's main findings and recommendations, while Volume 2 includes a profile of each EU country that summarizes the country's pension system, describes recent pension reform trends, assesses characteristics of current and future pension adequacy, and identifies opportunities for addressing pension challenges. A set of background statistics complements each country profile.

The report's key findings include:

- *Old-age poverty has remained a significant risk in recent years, especially among women and the oldest old (those aged 75 or older).* About 17.3 million (or 18.2 percent) of persons aged 65 or older in the EU were at risk of poverty or social exclusion in 2016, a figure that had not changed much since

2013. Around 20 percent of women aged 65 or older were at risk of poverty or social exclusion compared to 15 percent of men in the same age group. The risk of old-age poverty or social exclusion also increases with age: more than half of those at risk were aged 75 or older.

- *Life expectancy increases have continued to outpace increases in the length of working lives.* Although the share of persons aged 55 to 64 in the labor force grew by 5.1 percentage points from 2013 to 2016 (from 50.2 percent to 55.3 percent), the average time spent in retirement relative to the time spent in employment rose to 51 percent; based on current trends, this ratio is projected to reach 53 percent by 2060.
- *Income inequality among older persons has continued to increase despite efforts to counter this trend.* Even as many EU member countries implemented reforms to improve the pension adequacy of lower income retirees, income inequality increased in 16 member countries and poverty depth increased in 19 member countries from 2013 to 2016. Persons with significant career gaps (due to caregiving, unemployment, and other reasons) and persons in non-standard employment or self-employment continued to be at higher risk of having inadequate retirement income.
- *Minimum income benefits have remained vital for many pensioners despite falling take-up rates.* In most member countries, the share of persons aged 65 or older receiving minimum income benefits fell slightly from 2013 to 2016. Despite this drop, however, these benefits were still an important source of income for many retirees, particularly women.

The report recommends that EU member countries:

- *Reduce pension inequalities among men and women, and among different job types.* On average, pensions are 37 percent lower for women than men because of lower salaries and shorter careers linked to caregiving responsibilities. In addition, persons who work in non-standard jobs or are self-employed usually have less opportunity to accrue pension rights. The report suggests that member countries close these gaps through labor market and pension reforms, such as pension credits for periods of caregiving.
- *Promote longer working lives through greater social investments and additional pension adjustments.* To help workers remain employed and productive longer, the report recommends that member countries invest more in education and health care programs for children and working-age people. The report also suggests that member countries create stronger incentives to work longer by adjusting statutory retirement ages to reflect life expectancy gains, changing pension benefits and tax systems to reward longer careers, and introducing more flexible retirement options.
- *Expand the use of occupational pensions to improve retirement income adequacy.* The report notes that occupational pension coverage is low across the EU, and recommends that member countries expand participation through mandates, automatic enrollment, tax and financial incentives, or other means.
- *Pursue joint efforts at the EU level.* The report recommends that member countries work together to develop policies that are consistent with the EU's principles on gender equality, social protection, and old-age income. It states that the continued monitoring and analysis of pension systems is needed to improve pension systems and ensure their adequacy and sustainability.

Sources: Pensions Adequacy Report 2018—Current and Future Income Adequacy in Old Age in the EU (Volume 1) and Pensions Adequacy Report 2018—Current and Future Income Adequacy in Old Age in the EU (Volume 2), European Commission, April 26, 2018; Press release, European Commission, April 30, 2018.

The Americas

Uruguay Allows Older Individuals to Leave Mandatory Individual Account Program

As of April 1, certain individuals who were aged 50 or older on April 1, 2016, can end their participation in Uruguay's mandatory individual account program and transfer their account balances to the public pay-as-you-go social insurance program. Uruguay's government approved the reform in December, and will gradually extend it to all individuals aged 50 or older (called "cincuentones" locally) by 2020. Since 1996, Uruguay has had a mixed social security system that consists of the social insurance program administered by the Social Security Bank (Banco de Previsión Social or BPS) and the mandatory individual account program administered by four private pension management companies (AFAPs). The social insurance

program covers most employed and self-employed persons, while the individual account program covers only those born after April 1, 1956, with monthly earnings greater than 53,374 pesos (US$1,871.97). (Voluntary coverage under the individual account program is available for workers born on or before April 1, 1956, and those with monthly earnings up to 53,374 pesos.) By allowing older workers and retirees to opt out of the mixed system, the government aims to increase the retirement income of many in this group through higher social insurance pensions. In 2017, an AFAP estimated that up to 45.6 billion pesos (US$1.6 billion) of the 419.1 billion pesos (US$14.7 billion) held in individual accounts could be transferred to the social insurance program because of the reform.

Other key details of the reform include:

- *Opt-out requests must be submitted within certain timeframes and are irrevocable.* A participant has 90 calendar days to opt out of the individual account program after consulting with BPS. The consultations provide participants with estimates of their retirement benefits before and after opting out, and are available during certain periods according to a participant's age as of April 1, 2016: from April 1, 2018, to March 31, 2019, for those aged 56 or older (including current pensioners); from April 1, 2019, to March 31, 2020, for those aged 53 to 55; and from April 1, 2020, to March 31, 2021, for those aged 50 to 52. Decisions to leave the individual account program cannot be reversed once they have been processed.
- *Account balances are transferred to a public trust fund after leaving the individual account program.* After a participant opts out of the program, his or her account balance is withdrawn from the relevant AFAP and deposited into a trust fund overseen by BPS, the Ministries of Labor and Economy, and the trust fund manager. The trust fund is intended to help finance the social insurance program, and its assets can only be invested in Uruguayan government bonds, certain other fixed-income securities, and local deposit accounts.
- *Accrued pension rights under the social insurance program are adjusted after transfers are made.* The BPS adjusts the social insurance pension rights of those opting out of the individual account program to reflect all contributions paid under the mixed system. (Individuals with records of higher monthly earnings may need to pay additional contributions for periods back to 1995.) Under the mixed system, insured persons contribute 15 percent of their gross monthly covered earnings up to 53,374 pesos to the social insurance program and 15 percent of their earnings above 53,374 pesos and up to 160,121 pesos (US$5,615.88) to the individual account program; voluntary contributions are possible to either program for earnings above 160,121 pesos. Employers contribute 7.5 percent of their gross monthly covered payroll up to 160,121 pesos to the social insurance program only.

Sources: "Valores actuales," Banco de Previsión Social, no date; Ley 19.590, 2017; "BPS recibirá US$1.600 millones de AFAP por traspaso de cincuentones," *El Observador*, June 21, 2017; "Decreto reglamentario Ley 19.590, 2018; *Social Security Programs Throughout the World: The Americas 2017*, U.S. Social Security Administration, March 2018; "BPS atiende desde hoy a cincuentones que quieran desafiliarse del régimen de AFAP," *El Observador*, March 23, 2018; "Fideicomiso de cincuentones podrá invertir como una AFAP en deuda local y externa," *El Observador*, March 23, 2018; "Nueva ley desafiliación AFAP cincuentones," Banco de Previsión Social, March 23, 2018.

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