International Update

Recent Developments in Foreign Public and Private Pensions

December 2018

Europe

Poland Approves Law Creating New Occupational Pension Plans

On November 19, the Polish president approved a law that introduces new defined contribution occupational pension plans called Employee Capital Plans (Pracownicze Plany Kapitałowe, or PPKs). The law is effective January 1, 2019, and the first PPKs will become operational in July 2019. Employers will be required to offer a PPK to their employees unless they already offer (and continue to offer) a qualified pension plan through the voluntary Employee Pension Program (Pracownicze Programy Emerytalne, or PPE). According to the government, the new law is intended to increase retirement savings and is expected to cover around 11.5 million workers.

Key details of the new law include:

- *Phase-in:* Employers will be required to offer a PPK to their employees starting in July 2019 (for employers with more than 250 employees), January 2020 (for employers with 50 to 250 employees), July 2020 (for employers with 20 to 49 employees), or January 2021 (for all other employers).
- *Enrollment:* All employees aged 19 to 55 with at least 3 months of service will be automatically enrolled in their employer's PPK but can opt out. Those who choose to opt out will be automatically reenrolled every 4 years. Employees aged 56 to 69 will only be enrolled at their request.
- *Contributions:* Employers will contribute 1.5 percent of gross wages and employees will contribute 2 percent; additional voluntary contributions of up to 2.5 percent from employers and 2 percent from employees will be possible. Employees with total income less than 1.2 times the monthly minimum wage will contribute 0.5 percent of gross wages. (The monthly minimum wage will be 2,250 zloty [US$595.75] in 2019.) The government will provide a one-time grant of 250 zloty (US$66.19) plus an additional 240 zloty (US$63.55) per year to all PPK participants.
- *Investments:* Each employer will choose, in consultation with trade union or employee representatives, a financial institution to manage its PPK assets. Assets will be invested in life-cycle funds that adjust the participants' portfolios to an age-based risk profile.
- *Fees:* Financial institutions may charge PPK participants an annual administrative fee of up to 0.5 percent of net assets under management. An additional 0.1 percent may be charged if certain performance standards are met.
- *Withdrawals:* Upon reaching age 60, a participant may withdraw up to 25 percent of the account balance as a lump sum with the remainder paid as programmed withdrawals over at least 10 years. Early withdrawals before age 60 will be allowed under certain conditions, including if the participant, a spouse, or a dependent child becomes seriously ill.
- *Survivor benefits:* If the participant dies, 50 percent of the account balance will be paid to the widow(er) and the rest to other eligible survivors.

In addition to the PPE and PPK, Poland's pension system consists of a public notional defined contribution program and voluntary privately managed individual accounts.

Sources: "Auto Enrolment PPK Law Just Awaits President's Signature," *Mercer*; "Employee's Capital Pension Scheme—Updated Draft of New Regulations Has Been Published," PwC Poland, May 30, 2018; *Social Security Programs Throughout the World: Europe, 2018*, U.S. Social Security Administration, September 2018; "The Biggest Pension Reform in Years," *Warsaw Business Journal*, September 4, 2018; "Ustawa o PPK Podpisana. Podsumowanie Najważniejszych Założeń PPK," pzu.pl, November 19, 2018; "Employee's Capital Pension Scheme—The Bill was Published in the Journal of Laws," PwC Poland, December 5, 2018.

Sweden Increases Investment Flexibility for Pension Buffer Funds

On November 28, Sweden's parliament passed a law, effective January 1, 2019, that modifies the investment rules for the country's four main pension buffer funds (AP1, AP2, AP3, and AP4). Buffer funds help smooth fluctuations during periods when pension contributions are insufficient to cover pension disbursements from the earnings-related notional defined contribution (NDC) pension program. (Two other buffer funds exist: a smaller AP6 buffer fund that invests solely in private equity, but receives no contributions and pays no benefits; and an AP7 fund that manages the default investment option for the country's mandatory individual account program.) Collectively, the four main buffer funds managed 1,412 billion kronor (US$155 billion) in assets at the end of 2017.

The new investment rules are designed to improve returns among the four main buffer funds and include:

- An increase in the investment ceiling for illiquid investments (those not easily converted to cash, such as infrastructure holdings) from 5 percent to 40 percent of portfolio assets; the new ceiling also includes real estate, which is not restricted under the current rules. In addition, buffer funds will not be required to sell illiquid investments to maintain the ceiling.
- A reduction in the minimum portfolio allocation to interest-bearing securities (those with low credit and liquidity risk, such as government and highly rated corporate bonds) from 30 percent to 20 percent.
- The elimination of a requirement to designate a specific portion of fund assets to be managed by external managers (10 percent under current rules).
- The introduction of a requirement that buffer funds manage assets in a "sustainable" manner by assessing how well their portfolios would fare under a range of adverse climate-change scenarios.

Sweden's public pension system consists of a means-tested minimum guarantee pension, pay-as-you-go notional accounts, and mandatory individual accounts. Quasi-mandatory occupational pension plans, based on collective agreements covering 90 percent of employees, supplement the public system. There are also voluntary private pension plans.

Sources: "Sweden," *International Update*, U.S. Social Security Administration, November 2011; "Sweden: AP Fund Project Runs Out of Steam," *IPE Magazine*, September 2016; "AP Funds Set for 40% Illiquid Cap as Government Relaxes Mandates," IPE.com, July 14, 2017; "Setting Sweden's Buffer Funds Loose," *IPE Magazine*, September 2017; *Orange Report: Annual Report of the Swedish Pension System 2017*, Swedish Pension Agency, 2018; "Swedish Parliament Approves Buffer Fund Investment Freedoms Bill," IPE.com, November 30, 2018; "Sweden Gives Its Four Buffer Funds More Investing Flexibility," *Chief Investment Officer*, December 4, 2018.

The Americas

Barbados Initiates Special Payments for Certain Pensioners

On November 16, Barbados's government announced that it would make special payments to old-age pensioners who are holding government debt. The government started making the first payments of up to B$20,000 (US$10,000) the following week, and it expects to make additional payments by March. The special payments are intended to replace income that many pensioners lost because of a government debt-restructuring program that ended on October 5. (Barbados's public debt as a share of gross domestic product is around 175 percent, the fourth highest ratio in the world.) Under the debt-restructuring program, the government converted outstanding debt instruments (e.g., treasury bills, treasury notes, and debentures) into bonds that have longer maturity periods (typically 15 years) and pay a lower interest rate (initially 1 percent a year versus 7 percent a year previously). According to the Barbados Association of Retired Persons, around 3 percent of Barbados's residents aged 60 or older held government debt totaling B$373 million (US$187 million) as of September 11.

Other key details of the special payments program include:

- *Qualifying conditions*. To receive one or more special payments, an individual holder of government debt must have been aged 60 or older and receiving an old-age pension on September 1.
- *Payment amounts and schedule*. The government will compensate each qualified pensioner for up to B$250,000 (US$125,000) of his or her government debt holdings. The cash payment covering the first B$20,000 of debt holdings was recently made; the cash payment to be made in March will cover the next B$30,000 (US$15,000) of debt holdings; and the remaining B$200,000 (US$100,000) of debt holdings will be converted into a 4-year bond that provides monthly payments (with the first payment to be issued on April 30). There are no special payments for any debt holdings above B$250,000.

Barbados's public pension system consists of a social insurance program and a social assistance program. To qualify for an old-age pension under the social insurance program, an individual must have reached age 67 and have at least 500 weeks of credited or paid contributions, including at least 150 weeks of paid contributions. (Contributions are credited for each contributory week the insured receives a social insurance sickness, maternity, or work injury benefit and under certain other conditions.) The social insurance pension can be claimed as early as age 60 or deferred until age 70. (The pension is reduced by 0.5 percent for each month it is claimed before the normal retirement age and increased by 0.5 percent for each month it is deferred.) To qualify for the social assistance old-age pension, an individual must be aged 67 or older, not qualify for the social insurance old-age pension, and have at least 12 years (citizens) or 15 years (permanent residents) of residency in Barbados since age 40 (or at least 20 years since age 18).

Sources: "A Guide to Benefits," National Insurance and Social Security Scheme, 2016; "World Population Prospects: The 2017 Revision," United Nations, Department of Economic and Social Affairs, Population Division, 2017; *Social Security Programs Throughout the World: The Americas, 2017*, U.S. Social Security Administration, March 2018; "Barbados Braced for Tough Measures to Clear Debt Burden," *Financial Times*, June 5, 2018; "Give Us a Break," *Barbados Today*, September 22, 2018; "Barbados Pensioners Show Concern in Face of Debt Restructuring," *Business News Americas*, September 25, 2018; "Bajan PM Eases Squeeze for Pensioners," *Stabroek News*, November 15, 2018; "BARP Relieved," *Barbados Today*, November 22, 2018; "Central Bank Repaying Pensioners," Nation News, November 23, 2018.

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